

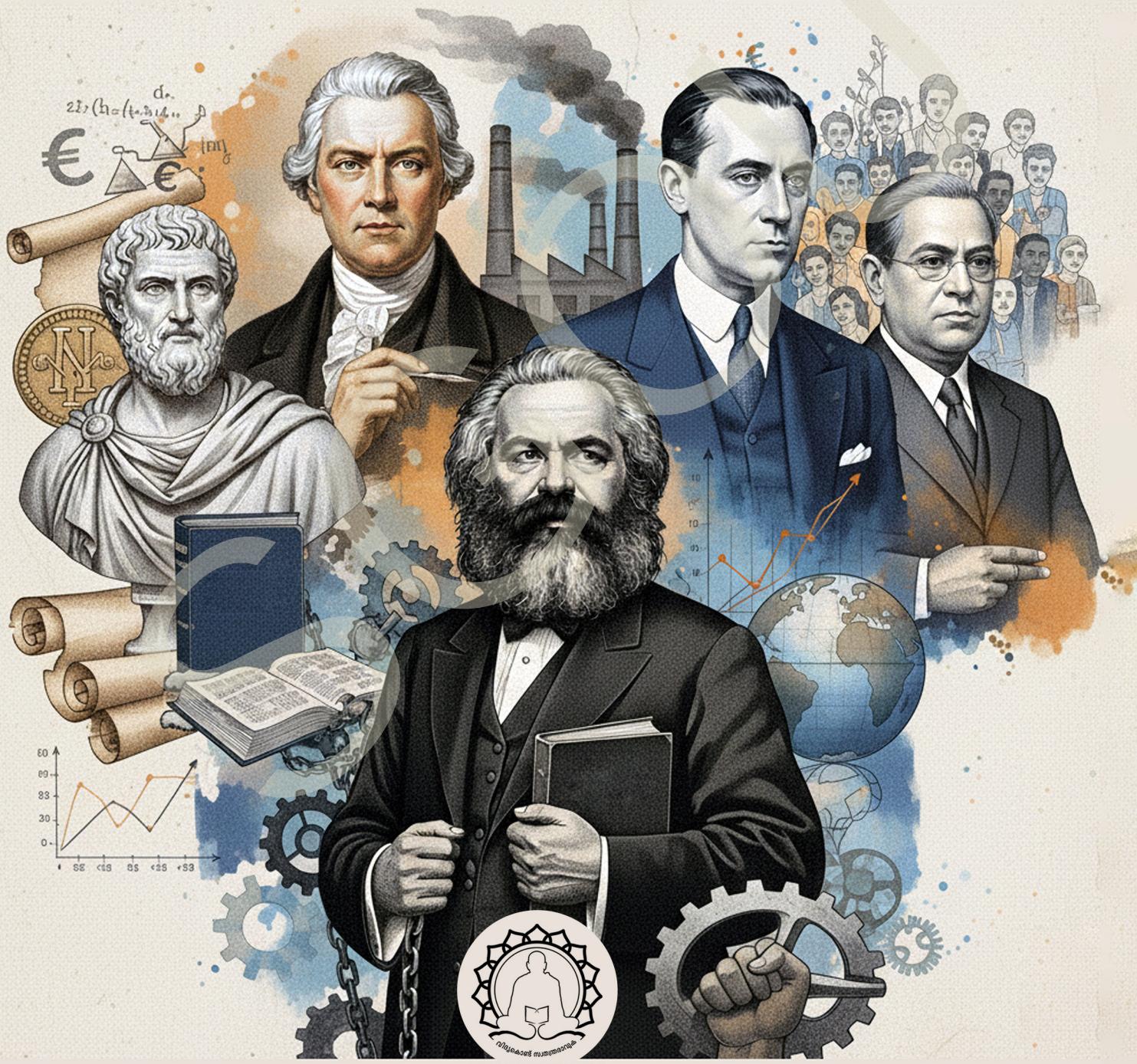
# DEVELOPMENT OF ECONOMIC THOUGHT

COURSE CODE: B21EC03DE

Discipline Specific Elective Course

Undergraduate Programme in Economics

Self Learning Material



SREENARAYANAGURU  
OPEN UNIVERSITY

## SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

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Access and Quality define Equity.

# Development of Economic Thought

Course Code: B21EC03DE

Semester - V

**Discipline Specific Elective Course  
Undergraduate Programme in Economics  
Self Learning Material  
(With Model Question Paper Sets)**



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Semester- V

Discipline Specific Elective Course  
Undergraduate Programme in Economics

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# MESSAGE FROM VICE CHANCELLOR

Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed "blended format," a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The university aims to offer you an engaging and thought-provoking educational journey. The undergraduate programme in Economics is designed to be on par with the high-quality academic programmes offered at state universities throughout the country. The curriculum incorporates the latest methodologies for presenting economic ideas and concepts. It stimulates students' interest in developing a deeper comprehension of the discipline. The curriculum encompasses both theoretical concepts and historical evidence. Suitable emphasis is placed on India's experiences with economic transformation. This would aid learners in preparing for competitive examinations, should they choose to take them. Upon successfully completing the programme, we anticipate that students will be well-equipped to handle key areas within the economics discipline. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university's student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Regards,  
Dr. Jagathy Raj V. P.

01-08-2025

# Contents

<b>Block 01</b>	<b>Early Development of Economic Thought</b>	<b>1</b>
Unit 1	Ancient Economic Thought	2
Unit 2	Scholasticism	16
Unit 3	Mercantilism, the French Enlightenment and the Physiocrats	23
<b>Block 02</b>	<b>Classical Theories</b>	<b>39</b>
Unit 1	Economic Thoughts of Adam Smith	40
Unit 2	Contributions of Ricardo and Say	47
Unit 3	Utilitarianism and Malthus	54
<b>Block 03</b>	<b>Utopian Socialists and Marx</b>	<b>61</b>
Unit 1	Forms of Socialism	62
Unit 2	Karl Marx	70
Unit 3	Higher Capitalism	79
<b>Block 04</b>	<b>Towards System Building</b>	<b>88</b>
Unit 1	Marginalist Revolution	89
Unit 2	Contributions of Marshall	96
Unit 3	Keynes	104
<b>Block 05</b>	<b>Indian Economic Thought I</b>	<b>114</b>
Unit 1	Economic Ideas of Ancient India	115
Unit 2	Early Indian Economic Thinkers	123
Unit 3	Gandhian Economics	138
<b>Block 06</b>	<b>Indian Economic Thought II</b>	<b>145</b>
Unit 1	Dr. B.R. Ambedkar	146
Unit 2	Economic Thought of Sree Narayana Guru	154
Unit 3	M.N. Roy	166
<b>Model Question Paper Sets</b>		<b>174</b>



# Early Development of Economic Thought



# Ancient Economic Thought

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ get an insight into the ancient economic thoughts
- ◆ identify the different economic thoughts prevailed in ancient period
- ◆ comprehend on thoughts developed by the Greeks, the Romans, and the Hebrews

### Prerequisites

Economic thought is the systematic, chronological, and critical study of the development of economic ideas. It involves analysing how and why certain economic theories emerged, tracing their evolution, and evaluating their relevance across different historical periods. This field of study is crucial for a deeper understanding of economic science. Why do we study economic thought? It is to provide a clear realisation of economics' status as a social science. It reveals the origins of various economic theories, showing that current ideas often have roots in earlier periods. By understanding past thought, economists can better assess new developments and avoid repeating past errors.

The study of economic thought highlights the continuous contribution of economic ideas throughout history and enables a critical examination of how old doctrines apply to contemporary issues. This historical knowledge satisfies intellectual curiosity while also providing a practical benefit by reducing the likelihood of future mistakes in policy or theory.

### Keywords

Hebrew, Roman, Greek, Idea of State, Division of Labour, Interest

# Discussion

## 1.1.1 Ancient Economic Thoughts

The foundations of economic thought can be traced to ancient civilisations, where ideas about wealth, labour, and commerce were intertwined with philosophy and ethics. In ancient Greece, figures like Plato and Aristotle were pioneers in analysing economic life within a social and political framework. In ancient India and China, economic principles were integral to statecraft and moral philosophy. The Arthashastra, a detailed treatise by Kautilya in ancient India, provided a blueprint for a managed State economy. It covered administration, taxation, trade, and market regulation, underscoring the king's duty to ensure public welfare. Similarly, ancient Chinese thinkers like Confucius focused on economics through the lens of social order. He emphasised a stable agricultural base and a balanced social hierarchy, believing a harmonious society was a prerequisite for economic prosperity. These early economic ideas demonstrate that economic activity was not seen as a separate discipline, but rather as an essential component of how societies were structured and governed. The beginnings of the science of economics and economic institutions are often traced back to the Hebrew, Greek, Roman times. In the present unit, we will discuss on economic thoughts developed by Greek, Romans, and Hebrew.

### 1.1.1.1 Economic Thoughts of Hebrew

The economic ideas of the Hebrews are found in the Old Testament. The start of economics as a science is often linked to their time. Their society had ideas like private property. These ideas are also part of modern capitalism. The Hebrews were an ancient civilisation. They lived around 2500 B.C. Some scholars think Western Civilisation began with them. Division of labour, market, exchange, money etc., were the institutions of those times. The philosophers of those times were real founders of all social theories even though their writings were in a scattered form.

The economic philosophy of the Hebrews was simple. The society in which they lived was also a simple one. Economic problems were never studied separately. Economics, Politics, Ethics and Philosophy were interconnected. But religion and ethics were given greater importance. Economic life was controlled by priests. They gave importance to agriculture. The Hebrews had definite ideas on subjects such as interest, agriculture, property, taxation etc.

- a. **Interest:** The Mosaic Law banned the practice of taking interest or usury among the Hebrews themselves. This rule did not apply to foreigners. The law especially ban collecting interest from the poor, as they borrowed money for basic needs, not for business. Later, during the time of King Solomon, charging a low rate of interest became acceptable. Loans were secured with a pledge, and there were clear rules for this process.
- b. **Just Price:** The Hebrews were very strict about ensuring fair trade. They had laws against using false weights and measures and selling adulterated goods.

They also strongly banned monopolies and speculation, particularly raising prices to make unfair profits. To keep prices fair, they set limits on the profits of retail shopkeepers. In times of food shortages, they also prohibited the hoarding of food grains and did not allow them to be exported. The concept of a just price for them meant correct weight, competitive pricing, and a reasonable profit margin.

- c. **Labour and Wages:** The Hebrews realised the dignity of labour. Wage workers were common. The Hebrews did not lay down rules for regulating the relation between the employer and employee. The chief regulations were concerning mercy and justice to them. Payments were made in kind.
- d. **Agriculture:** Hebrews gave preference to agriculture. A Hebrew maxim runs as follows, “Although trading gives greater profit, there may be loss in a moment. Therefore, never hesitate to buy land”. This shows that how agriculture had become the supreme occupation. At that time the purpose of lawgivers was to fix the people in agricultural life which was a settled one. There was a tendency on the other hand to disregard trade and the mercantile community. Perhaps it is for this reason that Hebrews did not enter into commerce and manufacture to any great extent.
- e. **Seventh and Jubilee Year:** There was a very peculiar institution of Seventh and Jubilee year among the Hebrews. The Hebrews left their land fallow in the seventh year after cultivating it for six years. This was done with the object of preserving the fertility of the soil. The slaves serving for six years were freed in the seventh year. In this year all debts should be cancelled. The Jubilee year was another peculiar institution of the Hebrews. The Jubilee year was the fiftieth year. According to this provision the land sold to someone was to be returned to its owners in the 50<sup>th</sup> year. In those days, land was the main form of wealth. They tried to prevent concentration of wealth and the acquisition of land of small holders by owners of large estates. By the institution of Seventh and Jubilee year the Hebrews desired to prevent inequality in wealth.
- f. **Money:** The Hebrews seemed to have understood the functions of money. Money was used mainly in the form of bullion. There was no question of stamped money.
- g. **Sabbath:** The Sabbath was the cornerstone of Hebrew Economic thought. It was their weekly day of rest, relaxation and good living. It was enjoyed by the masters of the house and his family as well as the slaves and the servants. According to Spiegel, “the institution of the weekend was a social invention that has no parallel in the civilisation of Greek, Rome or other ancient culture”.
- h. **Property:** In those days, land was the main form of property. Wealth was measured in lands, slaves, talents, silver, and other precious metals. The owner of a plot of land was the owner of all resources above and below the surface of land. According to the Law of Inheritance, the first claim on property went to the eldest son. If there was no son it went to the daughter and in the absence of a daughter it might go to the close relatives like brothers, uncles etc.

- i. **Trade:** In those days only surplus corn was sold in the market. The Hebrew wives were craft women who used to spin wool and flax. Commerce flourished in the reign of King Solomon. He made successful voyages to distant lands, including India.
- j. **Taxes:** Taxes did not exist in the Hebrew economy. Labour service was utilised for the construction of bridges, roads and other public utility services. Customs and toll tax were also collected. The toll tax was known as a tribute realised from every male for the maintenance of temples. Hebrew laws helped the dependents, fatherless and widows. The corner portion of the fields and vineyards were available for the poor.

On the whole the economic life of Hebrews was very simple. Their life was dominated by the priestly class. Religion, law, ethics, philosophy and economic ideas were bound together. Their educational system was very much influenced by religion and ethics.

### 1.1.1.2 The Greek Economic Thought

Do you know who Plato and Aristotle were? They were famous Greek thinkers, with Aristotle being Plato's student. They were pioneers in many fields, not just economics. However, despite their genius, the ancient Greeks did not contribute much to the growth of economic ideas as a separate science. While the Greeks were the first to develop some economic theories, these ideas were scattered. They came up as 'incidental observations' within their larger works on philosophy and politics. As scholar Alexander Gray noted, "theorising on economic matters first explicitly emerges" in their writings.

The Greeks did not see economics as a distinct field of study. Their ideas on the subject were not separated from politics and ethics. Their society was also based on a rigid caste system. Masters did not respect the labour of slaves, and people lacked the freedom to choose their jobs. This lack of incentive meant that economic activity was not a major focus. Despite these limitations, Greek ideas still played a role in modern economic thought. Plato was one of the first to consider the economic side of a society. However, it was Aristotle who truly laid the groundwork for economics as a science. Economist Eric Roll called Plato "the first of a long line of reformers" and Aristotle "the first analytical economist."

#### Economic Ideas of Plato (427-347 BC)

Plato, a Greek philosopher born into an aristocratic family in Athens, was a student of Socrates. He went on to found the Academy, where he taught mathematics and philosophy. His most notable economic ideas are found in his famous works, *'The Republic and The Laws'*. Plato was one of the first thinkers to pay attention to the economic aspects of society. According to economist Eric Roll, Plato tried to systematically explain the principles of a society and the origins of a city-state, while also creating a plan for an ideal social structure. For Plato, economics was not a separate field of study but a branch of ethics and politics.

**a. Origin of the State:** Plato traced the origin of the state to economic considerations. Plato said “a state arises out of the needs of mankind. No one is self-sufficient. All of us have many wants”. The partners and helpers of the gathering to supply the necessary commodities to satisfy human wants is called as the State. In Plato’s ideal state there were two classes, the rulers and the ruled. The rulers were the king and warriors and the ruled were artisans and unskilled workers. The members of the ruling class must be set apart from early childhood and they should be educated in philosophy and the arts of war because they will have to protect the state against foreign attack. At the age of thirty they will have to pass an examination. This examination selects the future philosopher king and those who cannot pass are concerned with general administrative duties.

**b. Division of Labour:** Plato’s main economic contribution was his idea of the division of labour. He saw this as the foundation for a well-organised society. Plato argued that a city-state is formed because people have essential needs like food, clothing, and shelter. To meet these needs, society must have different professions, such as farmers, weavers, and builders. He believed that if each person specialised in the job they were best suited for, goods would be produced more easily, in greater quantity, and with better quality.

However, Plato’s concept of the division of labour was limited. He focused on the division of jobs between different trades but did not think about dividing a single trade into smaller tasks, as is done in a factory today. Also, he did not consider the need for a larger market to support this specialisation. This makes his idea different from that of Adam Smith. For Smith, the market size determines the division of labour, while for Plato, the division of labour creates the market. Additionally, Plato saw differences in skill as the reason for the division of labour, but Smith believed that the division of labour itself leads to differences in skill and talent. Unlike Smith, who saw the benefits of specialisation going mainly to employers, Plato viewed it as beneficial to the entire society.

**c. Size of Population:** The problem of population was also analysed by Plato. The size of population in his state was assumed on the basis of the best results of division of labour. He provided a careful regulation of population to maintain stability in the economy. The right number of populations suggested by Plato for a state was 5040. Only such a number provided opportunity for everyone to be familiar with all the other persons and help the economy to achieve self-sufficiency. It also helps to reap maximum productive efficiency. If the number showed a decreasing tendency, the state should offer prizes to encourage the growth of population. But if the number exceeds 5040 new colonies must be established.

**d. Money:** Plato recognised the value of money as medium of exchange. He did not favour the idea of allowing gold and silver to be used by the common men. Instead, he suggested the use of domestic coins for payment of wages and other transactions. He wanted the state to have a common Hellenic currency for the use of ambassadors, travellers, visitors etc.

- e. **Interest:** Plato prohibited interest taking for loans, but later on, he permitted interest taking as a penalty for delayed payment.
- f. **Value:** Plato considered value as an inherent quality of the commodity. A man should not attempt to raise the price, but simply ask the value of the commodity.
- g. **Agriculture:** Like the Hebrews, the Greeks too considered agriculture as the most desirable occupation.
- h. **Riches (Wealth) and Poverty:** Plato criticised both riches and poverty. He believed that wealth made people careless, while poverty led to inefficiency. He felt that great wealth and happiness could not coexist because the rich often spent their money unjustly. To address this, Plato proposed an ideal system for property ownership. He suggested that only farmers and artisans should be allowed to own property, while rulers and administrators should not. He recognised that societies were often split into two opposing parts viz; the rich and the poor which were always in conflict. Plato considered slavery a permanent part of civilization. In his work '*The Laws*', he stated that slaves should be treated with kindness. He also believed that foreigners captured in war should be made slaves. In his ideal city-state, slaves made up about one-third of the population and performed most of the economic work.
- i. **Communism:** Plato's ideas on communism are a well-known but often misunderstood part of his philosophy. In his ideal state, he proposed that property be owned collectively. His goal was to get rid of the problems that came with the caste system. However, his ideal state was not a communist state in the modern sense. His aim was to remove class conflict, but he did not believe in equal opportunities for all. He divided society into two main classes: the rulers (guardians and auxiliaries) and the ruled (artisans). The rulers were to be highly educated in philosophy and the arts of war. According to Professor Haney, Plato's communism did not support absolute equality; instead, it recognised authority and class differences.
- j. **Education:** Plato believed that both boys and girls should receive the same education, an idea that remains important today. His economic ideas, while groundbreaking for his time, show he was a product of his era. He was the first thinker to link economics to ethics, seeing it as a tool for a more moral society. Plato recognised the division of labour as a way to improve production, but he did not grasp some of its benefits that later economists would, like the development of specific skills or the reduction of waste. Ultimately, he is best understood not as a strict economist but as a social reformer who used economic concepts to achieve a peaceful and ethical society.

### Economic Ideas of Aristotle

Aristotle, a student of Plato and tutor to Alexander the Great, is considered the first analytical economist. He is credited with laying the groundwork for the science of economics, even though he did not write a specific book on the subject. His scattered ideas on private property, usury, and the just price were highly influential and became a source of key concepts for medieval thinkers. While Aristotle was Plato's student,

they had significant disagreements on major topics like the state, private property, and communism. Aristotle was a more practical and scientific thinker who used inductive reasoning, unlike Plato's more deductive and radical approach. Aristotle's logic was less imaginative and more grounded, making his ideas more logical and systematic than his teacher's. His most important economic ideas are found in his works, '*Politics*' and '*Ethics*'.

- a. **Idea of state:** According to Aristotle, the state exists because of human needs. He explains its origin by starting with the household, which is formed to meet a family's wants. Many households then form a village, and a group of villages eventually becomes a state. He believed that humans are naturally social beings, so the state is a natural outcome of people living together. The state's purpose is to promote a good life for its citizens. Thus, Aristotle saw the state as having both economic and political roots. In Aristotle's ideal state, there would be two main classes, the rulers and the ruled. The ruling class included soldiers, statesmen, magistrates, and priests. The ruled were farmers, craftsmen, and labourers. The rulers would change their roles based on age. For instance, a person would be a soldier when young, a statesman in middle age, and a priest in old age.
- b. **Private property:** While Plato supported communal ownership, Aristotle strongly advocated for the institution of private property. He argued that people take better care of what they own personally, a concept summed up by the saying, "what is everybody's business is nobody's business." Aristotle believed private property was superior to public property for five key reasons, it promotes progress because people are more productive when they work on their own affairs; it promotes social peace by preventing conflicts over shared resources; it is supported by practice, as historical experience shows it works better; it provides personal pleasure from ownership; and it encourages philanthropy, as private owners can share their wealth with others.

He further believed that private property encourages good conduct and generosity. He was against placing limits on how much private property a person could own. Instead, he argued for controlling population growth to prevent poverty, which he saw as the root cause of crime and social unrest. Aristotle also introduced an important ethical dimension, he felt that owners of private property had a public duty to act as trustees for society, an idea that later resonated with Mahatma Gandhi's philosophy.

- c. **Scope of economics:** The word economics is of Greek origin and it means management of the household. Aristotle developed the theory of economics while discussing the elements of household management. There were two elements, namely, economics and chrematistics, the former, concerned with the art of consumption of wealth in the satisfaction of wants and the later with the art of acquiring wealth either by making money or by exchange.

Aristotle identified two types of economic exchange, natural and unnatural. Natural exchange aims to satisfy human wants, while unnatural exchange is for monetary gain alone. He explained this distinction using the example of a shoe. A shoe can be used for its proper purpose, wearing or for exchange. The first use, which he called economy proper or value-in-use, is natural.

The second use, for profit, is a part of chrematistics or value-in-exchange. Aristotle believed that while barter, swapping goods is a natural form of chrematistics, the pursuit of money for its own sake is unnatural. He argued that this is because a person will continue to seek wealth even after their basic needs are met. This early distinction laid the foundation for the concepts of value-in-use and value-in-exchange, which were later popularised by Adam Smith.

- d. **Money:** Aristotle's theory of money explains "what money is and what money does". Aristotle explained the necessity of money while Plato explained about only one important function of money namely medium of exchange, Aristotle explained the other functions of money, namely, store of value and measure of value. Aristotle advocated a non-communist society. In such a society there would be barter, then the difficulties of barter would result in the introduction of money. He believed that money came into existence through legislations.
- e. **Interest:** According to Aristotle interest taking was the most unnatural of all the methods of getting wealth, said Schumpeter. Money served only as a medium of exchange; it cannot be regarded as productive. As one piece of money could not produce another, interest was unjust. Money had no business to increase from hand to hand. In those days money was borrowed by the poor persons for consumption purposes and therefore interest taking was considered unjust.
- f. **Slavery:** Aristotle's views regarding division of labour, inheritance, population and slavery were more or less similar to that of Plato. He supported the institution of slavery. He divided slaves into natural slaves and legal slaves. The natural slaves were inferior to others, both in body and mind. Those conquered in war were treated as legal slaves.

### **Aristotle's Criticism of Plato's Communism**

Aristotle did not fall in line with Plato in so far as the community of property was concerned. Under common ownership of property, people will not look after it carefully as it will be under private ownership. To him ownership of property was a natural instinct of man. Aristotle had a new idea that property should be private, but the use of it should be common. Thus, Aristotle modified Plato's theory of Communism. He did not accept the extreme individualism of the Greeks. He wanted more and more goods under common use without affecting individual proprietary rights.

Aristotle defined monopoly as a position in a market of a single seller. He condemned it as unjust. Aristotle laid the foundation of the science of Economics. He may be rightly called 'the first analytical economist'. He adopted inductive method to explain the origin and growth of the city state. His ideas on private property are valid even today. In the field of exchange also he laid the foundation for the distinction between value-in-use and value-in-exchange. Moreover, his treatment of money is the best part of his economic thought. On the whole, Aristotle's contribution to the development of economic thought was more important and his ideas developed in his 'Ethics' exerted greater influence on the writers of the Middle Ages.



### 1.1.1.3 Economic Ideas of Romans

The contributions of Romans to the development of economic thought is very little. Their main field of interest was jurisprudence and their writings were very much influenced by Greek thought. The Greeks were thinkers, keen and analytic, whereas Romans were men of action, warriors and statesmen. The Greeks left a philosophy which deeply affected the ethics and economics of later thinkers but the Romans built institutions which affected law and politics.

Roman economic ideas can be gathered from three sources, namely, the jurists, the philosophers and agricultural writers. The Roman jurists were original thinkers and the laws express the best Roman economic thought. The chief writers were Cicero, Seneca and Pliny. These philosophers praised agriculture and condemned usury. The agricultural writers like Cato, Columella and Varro dealt with many economic aspects. While praising agriculture they regarded it as the salvation of Rome.

- a. **Views on Agriculture:** The Romans were mainly interested in the improvement of agriculture. Agriculture was their chief occupation. They favoured small scale farming. Cato had written more on the technical aspects of agriculture. Cato regarded an agricultural estate of 150 acres of Olive groves and 62 acres of vineyards as the ideal one. Varro advised crop growing and stock breeding. Agriculture was viewed not as an industry run for profit, but as a problem of domestic economy.
- b. **Money and Interest:** Formerly, the barter system was prevalent, but later bimetallism, that is, coins of bronze and silver was adopted. At the same time Pliny favoured barter because to him, gold was the cause of the ruin of mankind. Roman jurists recognised the importance of money as medium of exchange. They treated money just like a commodity whose value was more or less changeable and essential to its function. The Romans strongly condemned usury and money lending. But there was no legislation to prevent this. In the city of Rome, the usual rate of interest was 4 to 8 percent.
- c. **Division of Labour:** Cicero laid emphasis on division of labour, as it had several advantages. Writers like Hutcheson and David Hume referred to Roman writers in their discussion of division of labour. They recognised geographical division of labour.
- d. **Commercial Regulations:** The Roman State interfered with economic matters and commercial regulations. Fines were imposed on merchants who had stored up food grains in the expectation of high prices. Goods were inspected by the authorities, and the entire quantity was confiscated if fraud was detected. The exportation of precious metals was banned.
- e. **Labour:** The Romans condemned slave labour on grounds of inefficiency. They attached more value to hired labourers than to slaves and advocated that hired labourers should be used, in place of slaves to do the work in unhealthy regions and they should be assigned more important jobs on projects employing slave labour.

f. **Value:** The Romans regarded utility should be the criterion for determining exchange value. Some commodities have greater value than their price. According to them price was determined by the forces of demand and supply. However, they did not develop more about value.

g. **Natural Order:** The Roman jurists were the original thinkers of laws. They made a distinction between human law and natural law, which had much influence on medieval and later thought. Their 'jus civile' was a national law applicable to Roman citizens, while 'jus gentium', the body of law common to different nations, gives the idea of natural law, that is to say, the idea of a body of law, which being common to all people is 'natural' to them. This idea laid the foundation stone for Smith and Physiocrats.

h. **Private Property:** The Roman ideas on property also influenced the development of economic thought. The Romans discarded the communal ownership of property. The jurists defined individual rights on property and individuals are free to dispose of their property. Aristotle had limited the right of property; while the Roman law of private property showed unrestricted individualism which later provided the basis for the institution of capitalism.

It can be concluded that the Romans added little to the stream of economic thought. The reason was that Rome produced very few social thinkers. They approached social questions from the political point of view rather than the economic.

## Recap

- ◆ Economic Thought is a subjective study of economic ideas
- ◆ Ancient economic thought can be traced to the Hebrews, Romans, and Greeks
- ◆ In ancient times, economics was not a separate field of study; it was linked with politics, ethics, and religion
- ◆ Hebrews lived in a simple, agriculture-based society
- ◆ Priests controlled economic life
- ◆ Prohibited charging interest to fellow Hebrews, especially the poor
- ◆ Laws against false weights, monopoly, and speculation were strict
- ◆ Valued labour and paid workers, often in kind
- ◆ Land was the primary form of wealth, and special rules existed to prevent wealth concentration

- ◆ Sabbath - a weekly day of rest for all people, including slaves
- ◆ Plato believed the state originated from economic needs
- ◆ Plato advocated for the division of labour to improve production and social organisation
- ◆ Suggested an ideal population size of 5,040 to maintain stability
- ◆ Condemned both poverty and extreme wealth
- ◆ Proposed communism for the ruling class (guardians) to prevent class conflict and corruption
- ◆ Aristotle is considered the first analytical economist
- ◆ Aristotle argued against Plato's communism and strongly supported private property, believing it was more productive and promoted social peace
- ◆ Aristotle made a key distinction between economics (household management) and chrematistics (wealth acquisition)
- ◆ Aristotle identified money's functions as a medium of exchange, store of value, and measure of value
- ◆ Condemned charging interest, as he believed money itself was unproductive
- ◆ The Romans made few original contributions to economic thought
- ◆ Romans were more focused on law, politics, and practical matters
- ◆ Roman ideas are mainly found in writings on jurisprudence and agriculture
- ◆ Roman economic ideas included strong emphasis on agriculture as the primary occupation
- ◆ Recognition of money's role as a medium of exchange
- ◆ Laws against merchants hoarding food to raise prices
- ◆ Condemnation of usury (money lending at high interest)
- ◆ The concept of private property, which heavily influenced later capitalist ideas

## Objective Questions

1. Who is considered the first analytical economist?
2. What was the main economic occupation of the ancient Hebrews?
3. According to Aristotle, what is the most unnatural way to acquire wealth?
4. What ancient institution did Plato propose for the ruling class to prevent class conflict?
5. Who believed private property was superior to public property because it was more productive?
6. What was the Hebrew law regarding charging interest to fellow Hebrews?
7. Which Greek philosopher believed the state originated from the needs of mankind?
8. What did the Romans primarily contribute to economic thought?
9. According to the Hebrews, what was the primary form of wealth?
10. Which Greek philosopher made a distinction between economics and chrematistics?
11. What was a unique Hebrew institution where land was left fallow and debts were canceled every seventh year?
12. What institution did both Plato and Aristotle support, which was common in the ancient world?
13. What concept of just price did the Hebrews enforce?

## Answers

1. Aristotle
2. Agriculture
3. Charging interest
4. Communism
5. Aristotle
6. It was prohibited
7. Plato
8. Very little; they focused on law, and their ideas on private property influenced later thought
9. Land
10. Aristotle
11. The Seventh and Jubilee Year
12. Slavery
13. Correct weights, competitive prices, and reasonable profits

## Assignments

1. Compare and contrast the economic views of Plato and Aristotle. Discuss their ideas on private property, the state, and the role of money.
2. Analyse the economic thought of the ancient Hebrews. Explain their ideas on interest, the just price, and the purpose of the Seventh and Jubilee Year.
3. Elucidate on the contributions of Romans to the field of economics.

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# UNIT

## Scholasticism

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ understand scholasticism
- ◆ familiarise with the basic elements of Christianity
- ◆ comprehend on the contributions of Thomas Aquinas

### Prerequisites

Scholasticism was a dominant intellectual movement that flourished in the universities of Europe from roughly the 12<sup>th</sup> to the 16<sup>th</sup> centuries. It represented a sophisticated system of thought that sought to reconcile Christian theology with the philosophical traditions of antiquity, particularly the works of Aristotle. Scholastics did not see faith and reason as opposing forces. Instead, they used logic, dialectical reasoning, and systematic analysis to explore and clarify religious doctrines. Their primary method involved carefully examining texts, raising questions, and then providing reasoned answers to resolve apparent contradictions.

Though it may not be considered a modern science, Scholasticism was the foundation of medieval intellectual life. It produced some of the most influential thinkers of the era, such as St. Thomas Aquinas, and laid the groundwork for later philosophical and scientific inquiry by establishing a rigorous method of inquiry and debate

### Keywords

Christianity, Church, Aristotle, Thomas Aquinas, Division of labour, Just Price, Trade, Usury

## Discussion

### 1.2.1 Scholasticism in the Later Middle Ages

Scholasticism may be defined as a system of thought which combined the teachings of Christianity, the dictates of Church and the philosophy of Aristotle. But it cannot be called a science for it did not seek to explain the causes and effects of a phenomena. It simply sought to apply theological teachings and the rules of conduct laid down by the church to existing conditions.

There are perhaps six main characteristics of Scholasticism:

- i. An acceptance of the prevailing Catholic rules.
- ii. An acceptance of Aristotle as a greater thinker than Plato.
- iii. The recognition that Aristotle and Plato disagreed about the notion of universals, and that this was a vital question to resolve.
- iv. Given prominence to dialectical thinking and syllogistic reasoning.
- v. An acceptance of the distinction between 'natural' and 'revealed' theology.
- vi. A tendency to dispute everything at great length and in minute detail, often involving word-play.

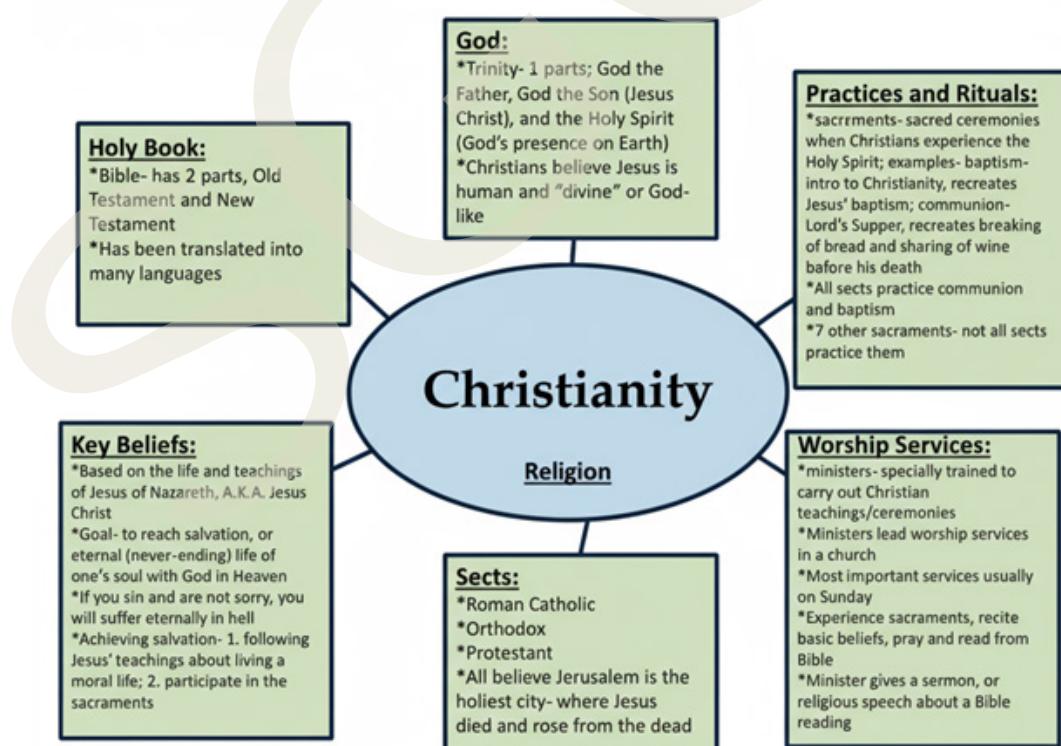


Fig 1.2.1 Elements of Christianity

### 1.2.1.1 St. Thomas Aquinas (1225-1374 A.D.)

St. Thomas Aquinas had been called the Prince of Scholastics. He was the most important single writer who was responsible for the development of medieval thought. It was he who with infinite pains strove to weld the teachings of the Bible and Aristotle into a harmonious body of thought.

#### Economic Ideas of St. Thomas Aquinas

- a. **Just Price:** The most important contribution of Thomas Aquinas was Just price (Justum Pretium). This doctrine was based upon the concept of value. He recognised time and place utility. Just price was associated with utility or usefulness of the commodity. It was, however, believed that the exact determination of price was not possible. However, just price was subject to variations due to market fluctuations. One could charge a high price either because he had improved the commodity in some way or because of the risk he took in transporting it from one place to another. Hence charging of a higher price was justified if the seller was likely to incur a loss.

The Medieval School believed that value should be equal to costs including the expenditure on labour. Selling of a defective thing was considered as fraud. In short, value was absolute and based on cost. The value thus fixed was not market price and was independent of the estimate of buyer or seller. 'Just price' was similar to that of the present 'fair value'. Thus, Aquinas distinguished between 'Just price' and 'market price'.

- b. **Usury:** Lending money for earning more wealth was considered as the worst form of earning money. Like the Hebrews, the Medieval church of fathers also prohibited the taking of interest. A high rate of interest was treated as the exploitation of the poor as there was absence of opportunities for the profitable investment of capital. But the lender was entitled for a compensation if the principal amount was not returned within the stipulated time.

Several factors were responsible for their belief against usury. Mainly Aristotle's argument influenced Aquinas to condemn usury. Usury had been condemned by Aristotle because he regarded money as barren. Aquinas made use of the doctrine of Roman law. According to this, goods were of two kinds: Consumptibles and non-consumptible, i.e., goods which were not consumed in use. He put money in the first category and stated that "to demand interest in addition to the return of loan was to seek an unnatural and unjust gain". The early condemnation of usury rested on the authority of the Bible and Aristotelian doctrine. In the hands of Aquinas, the objection to usury became much more deep.

- c. **Property:** St. Aquinas followed Aristotle regarding private property. There are two views, firstly, the power of acquiring and secondly, the way of spending it. The power of acquiring the property gives the rights on individual. Private property leads to an increase in the production of wealth.

The method of using the property was much more important than the right of ownership. According to Aquinas the estate, a private property which was legitimately acquired should be distributed among the largest possible number of people and for the support of the poor also.

- d. **Trade:** Trade was considered to be unnatural and to him it meant a fall from the state of grace. But still he recognised it as a necessary evil and considered it legitimate. Aquinas argued that God himself admitted that there should be trade in the world as he had distributed resources differently among different countries. However, trade should be carried on only for the benefit of the public. Trade guilds had framed rules to check fraudulent commercial practices. The merchants should not turn a means to an end by selling the things he purchases for an abnormal profit. Speculators and middle men were also condemned.
- e. **Division of Labour:** Division of labour was accepted to be a necessary condition in the efficient performance of economic activity. This school regarded every profession as necessary and noble provided it led to public service.
- f. **Economic Functions of the State:** The state was regarded as a great private economy to which the independent domestic economy idea was applied. The main source of the income of the state were the estate which included buried treasure, reversion of property to the king in the absence of the its owner, etc. Taxes in the modern sense did not exist in those days. The state was to perform the following functions: “the maintenance of population, and provision for the poor, the establishment of safe and free roads” (Haney). A system of weights and measures and a special coinage was also emphasised. Aquinas believed that by money the king could purchase food for his subjects, in times of war. The king possessed the entire monetary control and many laws were passed to prevent counterfeiting and clipping. The circulation of foreign coins were forbidden.

In the whole, St. Thomas Aquinas made a great impression in economic thought. He codified the ideas and made definite improvement upon them. His ideas about private property, trade, wages, division of labour, usury etc., were greatly improved from that of his predecessors and his theory of ‘just price’ was a definite contribution he made to economic thought.

## Recap

- ◆ Scholasticism was a medieval system of thought
- ◆ Scholasticism combined Christian teachings with the philosophy of Aristotle
- ◆ Scholasticism applied theological rules to existing conditions

- ◆ Scholasticism accepted prevailing Catholic rules
- ◆ Scholasticism viewed Aristotle as a greater thinker than Plato
- ◆ Scholasticism focused on resolving the disagreement between Aristotle and Plato over universals
- ◆ Scholasticism emphasised dialectical thinking and syllogistic reasoning
- ◆ Scholasticism accepted the difference between 'natural' and 'revealed' theology
- ◆ Scholasticism involved long, detailed debates on various topics
- ◆ St. Thomas Aquinas (1225-1374 A.D.) was a Dominican priest and philosopher
- ◆ St. Thomas Aquinas aimed to combine Christian beliefs with the philosophy of Aristotle
- ◆ Aquinas created the idea of a just price
- ◆ Just price was based on a good's usefulness and its cost, not just on market demand
- ◆ St. Thomas Aquinas was against usury, which is lending money for interest
- ◆ St. Thomas Aquinas believed this was an unnatural and unfair way to make money
- ◆ St. Thomas Aquinas supported private property because it encouraged people to work hard. He also believed that wealth should be used to help the poor
- ◆ Aquinas trade as a necessary evil. It was only acceptable if it benefited the public
- ◆ Aquinas believed the state had economic duties. These included taking care of the poor, building roads, and controlling money

## Objective Questions

1. What system of thought combined Christianity, Church dictates, and Aristotle's philosophy?
2. Which two thinkers disagreed on the notion of universals?
3. Who was called the Prince of Scholastics?
4. What was St. Thomas Aquinas's most important economic contribution?
5. What did Aquinas believe was the basis for Just price?
6. What economic practice did Aquinas condemn as an unnatural and unjust gain?
7. What type of property did Aquinas believe increased the production of wealth?
8. What did Aquinas consider to be a necessary evil that was legitimate only for the public's benefit?
9. What concept was accepted as necessary for the efficient performance of economic activity?
10. What were the main functions of the state according to Aquinas?

## Answers

1. Scholasticism
2. Aristotle and Plato
3. St. Thomas Aquinas
4. Just price (Justum Pretium)
5. The utility or usefulness of the commodity
6. Usury (lending money for interest)
7. Private property



8. Trade
9. Division of labour
10. Maintenance of population, provision for the poor, and establishment of safe roads.

## Assignments

1. Define Scholasticism and explain its six main characteristics based on the text.
2. Explain the economic ideas of St. Thomas Aquinas. Discuss his views on Just price, usury, property, and trade.
3. Compare and contrast St. Thomas Aquinas's concepts of Just price and market price. How did his view on value influence this distinction?

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## UNIT

# Mercantilism, the French Enlightenment and the Physiocrats

## Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ identify the features of Mercantilism
- ◆ comprehend on Physiocrats
- ◆ familiarise on Jacques Turgot

## Prerequisites

Mercantilism was a major economic theory that dominated European countries from the 16<sup>th</sup> to the 18<sup>th</sup> centuries. It is often considered the first comprehensive school of economic thought, marking a significant change from the feudal economic system of the Middle Ages. This was not a single, unified theory but a set of practices and beliefs used by governments to boost their power and wealth. The central idea of mercantilism was that a nation's wealth and power were measured by its accumulation of bullion, or gold and silver. To achieve this, countries focused on maintaining a favourable balance of trade, meaning they exported more goods than they imported. This was done through a variety of protectionist policies, such as tariffs on imported goods and subsidies for domestic industries.

Mercantilism directly fuelled the age of colonialism. Colonies were crucial to the system, serving two main purposes viz, they provided the mother country with cheap raw materials like timber and cotton, and they acted as a guaranteed, or captive, market for the finished products from the colonising nation. This system was later heavily criticised by classical economists like Adam Smith in his work *The Wealth of Nations*. Smith argued that mercantilism was a flawed system that ultimately hurt global prosperity by restricting free trade and competition.

## Keywords

Accumulation of Gold, Wealth, Population, Balance of Trade, State Monopolies, Natural Order

### 1.3.1 Mercantilism

The core belief of mercantilism was that a nation's wealth and power were best measured by its accumulation of gold and silver. To achieve this, countries focused on maximising exports and minimising imports, creating a favourable balance of trade. Governments played an active role in the economy by imposing tariffs, granting monopolies, and subsidising key industries to protect domestic producers and ensure a steady inflow of bullion.

#### 1.3.1.1 Main Ideas or Characteristics of Mercantilism

- a. **Wealth:** The core goal of the mercantilists was to make their country strong. They believed a nation's strength was directly linked to its wealth, especially in the form of precious metals like gold and silver. For them, gold was the ultimate source of wealth and power. This led to their famous slogan: '*more gold, more wealth, and more power*'. All economic activities were focused on this central idea of accumulating wealth. As scholar Alexander Gray noted, mercantilist nations saw themselves in a race against each other, a race they could not afford to lose.

The mercantilists' focus on precious metals seems to have been influenced by earlier civilizations. In ancient Greece and Rome, and throughout the Middle Ages, power was often equated with accumulating treasure. The explorer Christopher Columbus famously said, "Gold is the most precious of all commodities. Gold constitutes treasure, and he who possesses it has all he needs in this world, as also the means of rescuing souls from purgatory and restoring them to the enjoyment of paradise". This highlights the immense value placed on gold.

The great importance given to precious metals by mercantilists can be attributed to several factors:

- i. **Gold as a primary form of wealth:** In the 16<sup>th</sup> century, gold and silver were the most useful and widely accepted forms of wealth.
- ii. **Rise of Absolute Monarchy:** With the emergence of strong, centralised governments, money became essential for a stable system of taxation.
- iii. **Funding Wars:** Money was critical for financing wars. It was said that three things were needed for war: money, more money, and still more money.
- iv. **Trade:** Mercantilists believed that trade and commerce depended on a plentiful supply of money.

v. **Exchange Economy:** Money was necessary for the development of a more complex exchange economy.

vi. **Money as Capital:** In that era, money was often seen as synonymous with capital.

Thus, the mercantilists highly valued money, and given the circumstances of their time, their focus on gold was justified. Economist John Maynard Keynes noted that the mercantilists understood the important role of money in the economy and studied how its quantity affected prices and employment.

**b. Foreign Trade:** The Mercantilist theory of foreign trade is known as the balance of trade theory. The aim of this theory was to get large amount of precious metals. Foreign trade was considered to be the only source for getting gold and silver. They believed that all those nations which did not possess their own gold and silver mines could become rich after getting gold and silver from foreign countries through trade. Sir Thomas Mun, the greatest representative of Mercantilist declared that, “foreign trade ought to be encouraged, for, upon it hinges the great revenue of the King, the honour of the kingdom, the noble profession of the merchant, the supply of our poor, the improvement of our lands and means of our treasure”.

The mercantilists insisted that the value of export should always be greater than imports. In short, they advocated a favourable balance of trade. Hence, they encouraged exports and discouraged imports. “Export more, import less and collect the balance in the form of gold and silver”, was the essence of this theory. Accordingly, every exporter was considered to be a close friend of the state and every importer as an enemy. However, the mercantilists theory of foreign trade has no validity in modern times. If every nation exports more, there would be an end to international trade. Further, the mercantilists did not distinguish between particular balance of trade and general balance of trade. By general balance of trade, we mean balance of the country’s trade with other countries and particular country. Further, the mercantilists were ignorant of the fact that favourable balance of trade cannot be maintained for ever because if gold comes into a country more and more, there would be inflation. Thus, the mercantilist theory of foreign trade is not in line with modern views in this respect.

**c. Belief that Wealth is Static:** At the heart of mercantilism was the belief that wealth was static. As gold was rare, it was seen that there is only a limited supply. So, importing more from one nation than it exported meant it was losing wealth. In other words, one nation could only benefit at another’s expense.

**d. Commerce and Industry:** The mercantilists considered commerce and industry as the most important branches of the national economy. They wanted to increase the national productive efficiency by means of regulation of industry and commerce. They believed, that commerce and trade were the most productive occupation and agriculture was the least productive. Further, as they believed that manufacturing industries were more closely connected with commerce, they must receive all attention from the government. However, it should not be misunderstood that the mercantilists regarded agriculture as less productive compared to commerce. They thought that agriculture did not contribute directly to the strength of the country.



**e. Population:** Mercantilists encouraged large population for making the nation militarily strong and for increasing its productive capacity. They believed that cheap and abundant supply of labour would keep the cost of production low. This would enable a country to sell its commodity at a lower price in the international market. According to Davenant, “People were the real strength of a country”. The mercantilists even encouraged immigration because they would bring wealth and enrich the country.

**f. Natural Resources:** The mercantilists wanted to utilise all the natural resources to the maximum extent so as to produce more, export more and import less. They also attached importance to agriculture in order to solve the food problem. Colonies were developed to supply the required raw materials. Further, the colonies were not allowed to export directly to foreign countries. All the commodities should be exported to the mother country only.

**g. Wages and Rent:** The mercantilists discussed the problems of production only. So, they did not give much importance to the problems of distribution, especially to wages and rent.

**h. Interest:** No unanimity existed among the mercantilist writers on the subject of interest. Sir Thomas Mun, a famous mercantilist writer favoured interest taking for the loans on the ground that lending helped the poor and young merchants. It also led to the employment of the savings of the widows. Thomas Mun and his followers said that the rate of interest would be high or low depending upon the industrial conditions of the country.

**i. Taxation:** The views of the mercantilists on taxation were interesting because they were more scientific and ahead of their time. Broadly speaking the mercantilists favoured a multiple tax system based on the principle of each should pay according to the benefits received from the state.

**j. Theory of Value:** Regarding value, both subjective and objective approaches existed. Prior to the mercantilists, value was regarded as an intrinsic quality possessed by a commodity, it depended upon the utility of the commodity. Value was thus considered to be different from price. By the end of the mercantilist period, market value was recognised. Scarcity also determined the value of a commodity. According to the mercantilists the normal value of a commodity depended on the cost of production.

**k. Factors of Production:** Mercantilists recognised three important factors of production, namely, land, labour and capital. Here we can quote Sir William Petty's saying “Labour is the father and active principle of wealth as land is the mother”. The Mercantilists emphasised the cultivation of agricultural waste lands so that food production might increase and the country might become self-sufficient and imports might be reduced.

**l. Commercial Regulation:** Mercantilists believed that commercial regulations were essential for maximising social welfare. Commercial laws were passed to restrict the import of food materials. But no regulation was applied to the import of raw materials because they were required for the industrial development of

the country. The state supported the export industries and shipping which would secure a favourable balance of trade.

**m. Role of State:** The mercantilists regarded the state as the supreme power for controlling the activities of the people. State was the master and its citizens, the servants. The mercantilists believed that state intervention was necessary to solve the problems of the society. They believed that for securing success in wars a strong nation was required. Nearly, all the mercantilist writers believed that since the total economic resources of the world were limited, the economic policy must be framed in such a manner as to increase the power of the state. As a result they suggested the policy of protection. The state policies were shaped according to this idea. Special acts were passed to encourage exports and the development of industries. Protection was given to the industries because their main objective was to maintain a favourable balance of trade.

**n. Land Banking Schemes:** Mercantilists ideas regarding money gave rise to the establishment of Land Banking Schemes. Land Bank Schemes were introduced by Chamberlin and Barbon.

**o. Occupation:** Mercantilists believed that merchants were the most profitable members of the society. To them occupation was productive only if it increased wealth of a country.

**p. Reliance on Colonies:** Colonists relied on their colonies not only for raw materials but to ensure a net transfer of wealth and gold. In the long-term, this helped finance further expansion across the globe. More importantly, it helped the mother nation become self-reliant.

**q. State Monopolies:** The State had a monopoly in the fact that it was the only nation able to supply to its colonies. So, it was only able to import or export to the mother country. This was because its mother nations relied on it for raw materials, whereby they were converted into final goods and sold back at a profit. The result was a net transfer in gold from the colonies, to the colonists.

**r. Trade Barriers:** Many empires enforced a ban on trade between its colonists, as well as that of other empires. For instance, when Britain had control over India, it was banned from trading with other colonies such as Australia or Canada. At the same time, many nations imposed tariffs to make imports more expensive and uncompetitive. The aim was to suppress imports coming into the country, without completely eliminating the goods that it needs. However, nations managed to secure key resources from their colonies in order to ensure self-sufficiency.

Mercantilism was a form of protectionism common among European seafaring nations from the 16<sup>th</sup> to 18<sup>th</sup> centuries, during the Age of Discovery. It was especially popular in countries like Spain, Britain, France, and Portugal, which were expanding their global reach.

### 1.3.1.2 Examples of Mercantilism

- i. **British Navigation Act 1651:** In 1651, the British government under Oliver Cromwell passed a law that banned foreign ships from carrying goods to or from any of its colonies. All trade had to be done by British ships, which had to be owned by a British citizen and have a British captain and a mostly British crew.
- ii. **Colbertism:** Named after Jean-Baptiste Colbert, France's First Minister of State from 1661 to 1683, this refers to the mercantilist policies he put in place. Colbert introduced tariffs, encouraged public works, and established the French merchant navy to boost exports.
- iii. **East India Company:** In 1600, the British government created the East India Company, a state-backed monopoly aimed at profiting from trade in Asian markets, particularly the spice trade in the East Indies. Although it was privately owned, it was granted monopoly powers until the British government took them back in 1813. The company paid the British government in exchange for exclusive trading rights, which not only brought gold back to Britain but also helped establish a strong and lasting trade route with its colonies.
- iv. **Arbitristas of Spain:** The Arbitristas were Spanish reformers worried about their country's decline. They were concerned that Spain was becoming too dependent on its colonies for resources, while its own people and local businesses were suffering from imports. They suggested stricter import regulations and tax subsidies for farmers to boost domestic business while continuing to export goods from the colonies.

### 1.3.1.3 Factors Shaping Mercantilism

Mercantilism emerged due to a combination of economic, political, religious, and cultural changes in Europe from the 15<sup>th</sup> to 18<sup>th</sup> centuries.

1. **Economic Factors:** The economic system was shifting from a domestic, agricultural-based model to an exchange economy centered on industry and trade. This change altered the socio-economic foundation of the Middle Ages.
2. **Political Factors:** The decline of feudalism led to the rise of powerful, centralized nation-states like England, France, and Spain. Each nation aimed to be stronger than its rivals. This competition fuelled a desire to regulate economic and political activities to build a strong state.
3. **Religious Factors:** The Reformation Movement challenged the authority of the Roman Catholic Church, which had previously controlled many political and economic aspects of society. This shift created an environment for new economic ideas.

4. **Cultural Factors:** The Renaissance brought about a new way of thinking. People began to focus more on worldly life rather than a heavenly one, which made money and material wealth more important in daily activities.
5. **Scientific Factors:** Key inventions like the compass and the printing press made new discoveries possible. The compass enabled easier navigation, leading to the discovery of new countries, raw materials, and markets. The printing press helped spread these new ideas and knowledge.

### Critical Evaluation and Decline of Mercantilism

Mercantilism faced strong criticism, especially from the late 17th century onward. The most powerful critique came from Adam Smith in his 1776 book, *The Wealth of Nations*, which dedicated a significant portion to refuting mercantilist ideas.

Key criticisms are the followings.

- ◆ **Overemphasis on Gold:** Mercantilists gave too much importance to gold and silver, ignoring other valuable commodities.
- ◆ **Neglect of Agriculture :** They overly valued commerce while underestimating the importance of agriculture and other industries.
- ◆ **Flawed Trade Beliefs:** They were wrong to think that a favourable balance of trade was the only way to achieve prosperity.
- ◆ **Zero-Sum Game Misconception:** Their belief that one nation's gain was necessarily another's loss was incorrect.
- ◆ **Vague Concepts:** Their ideas on 'utility' and 'value' were abstract and not well-defined.
- ◆ **Imperfect Theories:** Their understanding of capital and interest was incomplete.

Mercantilism ultimately declined as new economic realities emerged. The policy of promoting power was replaced by a policy of promoting plenty, influenced by Smith's teachings. The growth of banking made large amounts of gold less essential. The Industrial Revolution demonstrated that real wealth came from factories, machinery, and efficient production, not just gold. It became clear that all nations could prosper simultaneously through competition and advancements in science and technology.

### 1.3.2 French Enlightenment and the Physiocrats

Physiocracy is the name for the economic principles and policies that emerged in France in the mid-18th century. Also known as the Agricultural System, Physiocracy was led by thinkers called Physiocrats. They are seen as the founders of economic science because they were the first to create a cohesive theoretical system. The term physiocracy means Rule of Nature. Physiocracy was a direct reaction against mercantilism. The Physiocrats believed that mercantilist policies had harmed nations. They were the first group of economists in the truest sense of the word. This influential

French school of thought, led by François Quesnay and Anne Robert Jacques Turgot, believed in a natural order that governs the universe. Their focus on agriculture gave their ideas the name agricultural school.

### 1.3.2.1 Factors Leading to the Rise of Physiocracy

France in the 1750s was ripe for physiocratic ideas due to several economic, political, and social factors. Physiocracy was a revolt against French mercantilism, which, under Finance Minister Jean-Baptiste Colbert, focusing on state control, protectionism, and the accumulation of bullion (precious metals). This led to the neglect of agriculture and excessive government regulation. The Physiocrats provided the theoretical basis to argue that these policies were bad for a nation's progress. The French tax system was also deeply unfair. The nobility and clergy, who owned most of the land, were exempt from direct taxes, while the poor were burdened with heavy taxes. The government was also in financial trouble due to unnecessary wars and the extravagant lifestyles of King Louis XIV and XV. French farmers were heavily exploited by landlords and the government. Their markets were restricted because mercantilism favoured industrial goods. Meanwhile, Britain was undergoing an agricultural revolution, showing that it was a mistake to focus on trade at the expense of farming. This led to a shift in attention toward agriculture in France. Politically and philosophically, a new emphasis on the individual over wealth also played a role. Thinkers argued that human beings should be the central focus of study. As Eric Roll noted, the Physiocrats ushered in an era of "schools and systems in Economic Thought." Unlike the mercantilists who focused only on foreign trade, the Physiocrats understood the connections between various economic activities. In essence, they were reformers.

### 1.3.2.2 Key Ideas of the Physiocrats

The Physiocrats contributed three major theoretical ideas:

1. The concept of Natural Order
2. The concept of Net Product
3. The Circulation of Wealth (Tableau Économique)

#### 1. Natural Order

The Physiocrats had a strong belief in the natural order, which they defined as the providential, universal, and unchangeable order created by God for the welfare of humanity. They believed that humans' duty was to discover and live by these natural laws. In their view, a society governed by these laws was an ideal one, while a society with man-made laws was imperfect.

This concept of natural order had three features:

1. It aimed to secure happiness for people
2. It sought to increase people's rights without restricting their liberty
3. It stood in opposition to mercantilism

The idea of a natural order led to the practical result of laissez-faire (let it be) policy, which meant minimal government interference in economic affairs. They believed that individual interests were in harmony with the interests of society as a whole. However, this idea was criticised for being vague and for ignoring the fact that individual interests do not always align with those of society.

## 2. Net Product

The Physiocrats' concept of net product was central to their philosophy. They believed that agriculture was the only source of true wealth because it was the only sector where nature worked alongside man to produce a surplus, or a net product. A net product is the excess of what is produced over what is consumed. They considered commerce and industry to be unproductive because these sectors only modified existing goods and did not create a new surplus. In industry and commerce, the wealth produced was believed to be equal to the wealth consumed, making them unproductive in the Physiocratic view. This idea of a net product was important for the development of economic analysis, as it introduced the fundamental concept of an economic surplus that would be important in later theories.

## 3. The Circulation of Wealth

After establishing that agriculture was the source of all wealth, the Physiocrats turned to the problem of how this wealth circulates among the different classes of society. They were the first to systematically analyse the problem of distribution. Quesnay famously illustrated this idea in his *Tableau Économique*, a diagram showing the flow of money and goods between the three classes of society. Turgot described this circulation as “the very life of the body politic, just as the circulation of blood did of the physical.”

The *Tableau Économique* is a model based on a social structure where landlords own the land and farmers, known as the productive class, cultivate it. The net product or surplus created by the farmers supports both the sterile class (manufacturers and artisans) and the proprietary class (landlords). The model assumes that prices remain constant, the harvest is 100%, and the expenses of the productive and unproductive classes are equal. In short, the *Tableau* explains how the net product circulates among the three classes and how it is reproduced each year.

The *Tableau* has several flaws. It is surprising that the landlords, who are not productive, enjoy two-fifths of the national income. This is because the Physiocrats greatly revered landowners, placing them above the farmers. They considered property the foundation of the natural order, believing that God intended for farmers to be the first to dispense wealth, which was seen as a major error on their part. Another mistake was their failure to recognise the value of all labour. To the Physiocrats, only nature produced wealth, not the workers themselves.

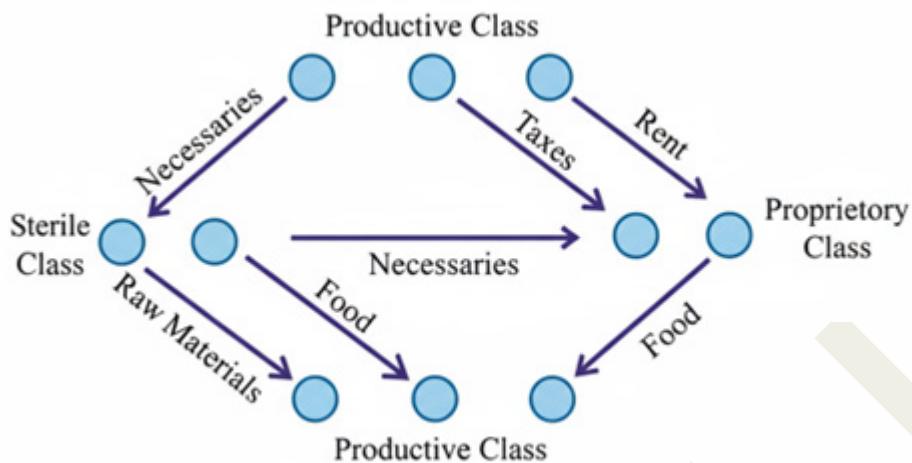


Fig 1.3.1 Circulation of Wealth Among the Three Classes of people

### 1.3.2.3 Practical Ideas of the Physiocrats

The Physiocrats' practical ideas were focused on production rather than value. They linked a commodity's value to its usefulness, but they did not differentiate between value and price. Quesnay, for instance, stated that "What is called value is price."

- Interest:** The Physiocrats distinguished between money and capital. They believed interest on capital was justified, particularly for loans used for agricultural purposes, because these loans were considered productive.
- Population:** They supported a large population, believing it would increase consumption, which in turn would lead to greater production and wealth.
- Taxation:** Their tax theory was tied to the net product. They advocated for a single tax on agriculture since they believed it was the only sector that produced a surplus. This idea was criticised because it would limit government revenue and ignore other potential sources of wealth.
- Private Property:** Physiocrats were strong believers in private property. They argued that landlords deserved a share of the surplus (2/5) because they made the land available for cultivation. They also believed it was the landlord's duty to bring new land under cultivation and protect the farmers.
- Trade:** They considered exchange, including industry and commerce, to be unproductive. Consequently, they believed that foreign trade did not create real wealth and was even seen as an evil. However, they did not oppose all foreign trade, only advocating for the exchange of goods a country could not produce or had in excess. This led to their support for free trade.
- Functions of the State:** In the Physiocrats' ideal natural order, the state's role would be minimal. Its main functions would be to protect the country,

and individual life, liberty, and property. They believed that government interference was the root cause of France's problems. They also thought the state should provide universal education and undertake public works.

#### 1.3.2.4 Critical Evaluation of Physiocracy

Physiocracy is to be viewed as a French revolt against mercantilism. While mercantilists focused on gold, Physiocrats emphasized real wealth in the form of raw agricultural produce. Mercantilists aimed to maximise exports, but Physiocrats largely viewed foreign trade as an evil. While mercantilists believed in regulating trade, Physiocrats advocated for freedom of trade and industry. Despite these merits, the Physiocrats were wrong to consider only agriculture productive. Commerce and industry are equally important and productive as they also create utility. Their classification of labour as productive and unproductive was a major flaw. The greatest weakness in their doctrine was the lack of a clear theory of value. Their idea of a single tax on agriculture was also flawed as it put a heavy burden on a single class.

However, the Physiocrats also made several important contributions:

1. They placed economics on a scientific footing.
2. They focused on economic development, realising agriculture's role in creating surplus for capital formation.
3. They were the first school to analyse capital and its formation.
4. They understood the interdependence of different classes in an economy.
5. They insisted on a limited role for the government.
6. They advocated for direct taxes over indirect taxes.
7. Finally, they are credited with helping to lay the intellectual groundwork for the French Revolution.

#### 1.3.3 Anne Robert Jacques Turgot(1727-1781)

After Quesnay, Turgot was the most famous Physiocrat. He was born in Paris in 1727 and helped spread Physiocratic principles by presenting them in a structured way. As the Intendant of Limoges, he introduced reforms by removing trade restrictions. Later, as finance minister, he established free trade for grain within France, abolished taxes, and suppressed guilds, demonstrating Physiocracy in action. Turgot's ideas are found mainly in his two works, '*Eloge de Gournay*' and '*Reflexions Sur La Formation et Distribution des Richesses*'. The '*Eloge*' is a strong statement on laissez-faire and contains the classic Physiocratic idea that agriculture is the source of all revenue and that all taxes are paid by landowners. In '*Reflexions*', he further highlights the superiority of agriculture.



He also discussed the iron law of wages, arguing that labourers have little bargaining power and are paid only a subsistence wage. Farmers, however, are in a better position because they receive more than just subsistence. He believed that land is the only true source of wealth. The book is divided into 100 sections and covers topics like the division of labour, money, capital, and interest. He concluded that land revenues were the only proper source for taxes and believed that interest rates should not be regulated.

Turgot differed from other Physiocrats in several ways. While he agreed that agriculture yields a net product, he also introduced elements of a subjective theory of value. He also foresaw that land owners would eventually cease to be cultivators and would become wage-earners. Turgot also believed that land ownership was a result of occupation and public utility, not of divine origin. He also recognised the value of movable property and capital, proving the validity of interest, unlike other Physiocrats.

Turgot was a highly influential member of the school, and his book "Reflexions" is considered a classic in social economics. Though he drew inspiration from others like Cantillon, Hume, Gournay, and Quesnay, his work, along with theirs and Adam Smith's, marks a significant milestone in the development of economic science.

## Recap

- ◆ The main goal of mercantilism was to make a nation strong
- ◆ They believed a nation's strength came from having a lot of gold and silver
- ◆ The slogan was 'more gold, more wealth and more power'
- ◆ To gain wealth, nations needed a favourable balance of trade by exporting more and importing less
- ◆ Governments actively controlled the economy through tariffs, monopolies, and subsidies
- ◆ Mercantilists saw commerce and industry as the most important economic activities
- ◆ They believed wealth was static, meaning one nation's gain was another's loss
- ◆ They encouraged a large population for cheap labour and a strong military
- ◆ Mercantilist policies led to the development of colonies to supply raw materials
- ◆ Famous examples include the British Navigation Act of 1651, Colbertism in France, and the East India Company

- ◆ The Tableau Économique is a model showing how a society's net product, or surplus, circulates
- ◆ Tableau Économique assumes three social classes - the landlords, the productive class (farmers), and the sterile class (manufacturers and artisans)
- ◆ The Physiocrats believed only agriculture was productive, as it was the sole source of a net product
- ◆ The Physiocrats saw industry and commerce as unproductive because they didn't create new wealth
- ◆ The Physiocrats advocated for private property and a limited role for the government, summarised by their policy of *laissez-faire* (let it be).
- ◆ They proposed a single tax on agriculture, as it was the only sector that produced a surplus
- ◆ Turgot, a key Physiocrat, refined these ideas
- ◆ He supported free trade and recognised the importance of capital and interest, which differed from some of his peers
- ◆ Physiocracy was a revolt against mercantilism, emphasising real wealth (from land) over gold and free trade over government regulation

## Objective Questions

1. What was the main measure of a nation's wealth for mercantilists?
2. What economic practice did mercantilists encourage to increase gold and silver?
3. Who coined the term Mercantilism?
4. What did mercantilists believe was static and limited?
5. What was the name of the British legislation that banned foreign ships from carrying goods to and from its colonies?
6. What is the main purpose of the Tableau Économique?
7. According to the Physiocrats, what was the only source of net product?

8. Which two classes were considered unproductive by the Physiocrats?
9. What economic policy did the Physiocrats advocate for to limit government interference?
10. What was the name of the single tax system they proposed?
11. In the Tableau Économique, who owned the land but was not part of the productive or sterile class?
12. Which key economic concept, a major contribution of the Physiocrats, was later developed into the idea of economic surplus?

## Answers

1. The accumulation of gold and silver
2. Maximizing exports and minimizing imports
3. Adam Smith
4. Wealth
5. The British Navigation Act 1651
6. The Tableau Économique explains how the net product circulates among the three social classes and is reproduced each year
7. Agriculture
8. The sterile class (manufacturers and artisans) and the proprietary class (landlords)
9. Laissez-faire
10. A single tax on agriculture
11. The proprietary class, or landlords
12. The concept of 'net product' or 'product-net'

## Assignments

1. Analyse the core belief of mercantilism that wealth is static.
2. Discuss four reasons why they attached such high importance to precious metals.
3. Describe the role of foreign trade and colonies within the mercantilist system.
4. Explain the Physiocrats' concept of natural order and its practical implications for government policy.
5. Analyse the key differences between the economic philosophies of Mercantilism and Physiocracy.
6. Describe the three main classes in the Tableau Économique and explain how wealth was believed to circulate among them.
7. Discuss the economic ideas of Turgot.

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# Classical Theories





# Economic Thoughts of Adam Smith

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ familiarise with the major contributions of Adam Smith
- ◆ comprehend on Adam Smith's concept of division of labour
- ◆ know the relationship between value, wages, profit, and capital in Smith's economic theory
- ◆ describe the principles of laissez-faire and the harmony of interests

### Prerequisites

The foundation for modern economic thought was laid by Classical School of Economics, which emerged in the late 18<sup>th</sup> and early 19<sup>th</sup> centuries. This school promoted the principles of free markets, competition, and minimal government intervention, ideas that continue to influence economic policy today. At the forefront of this movement was Adam Smith, widely known as the father of economics. His landmark work in 1776, *The Wealth of Nations*, transformed our understanding of markets, trade, and economic growth.

Smith's economic philosophy was built on the idea that individuals, when motivated by self-interest, can unintentionally contribute to society's overall prosperity through voluntary exchange and competition. His concept of the division of labour explained how specialization in tasks increases productivity, leading to greater efficiency and economic progress. He also explored the nature of value, wages, profit, and capital, laying the groundwork for future economic theories. A strong supporter of laissez-faire policies, Smith argued that limiting government interference allows the market to function efficiently, with the invisible hand guiding resources toward their most productive use. However, he

also acknowledged the state's important role in providing public goods, upholding justice, and ensuring national defence. His ideas on the harmony of interests suggested that individuals pursuing their own gain could, without meaning to, benefit society as a whole.

## Keywords

Division of Labour, Value, Wages, Profit, Interest, Capital, Laissez-Faire, Free Market, Productivity, Specialisation

## Discussion

### 2.1.1 Adam Smith

Born in 1723 in Kirkcaldy, Scotland, Adam Smith grew up surrounded by a world dominated by trade and craftsmanship. Raised by his mother after his father's death, he showed early intelligence and enrolled at the University of Glasgow at just 14. There, he was heavily influenced by philosopher Francis Hutcheson, who emphasised morality and free markets. Smith later attended Oxford but found its teaching uninspiring, preferring to read widely on his own. He returned to Glasgow as a professor, where his engaging lectures on political economy earned him a reputation as a great thinker. His life took a key turn when he tutored the Duke of Buccleuch on a tour of Europe, where he met leading intellectuals like Voltaire and François Quesnay. Observing different economic systems, he refined his ideas on national wealth and the government's role in economic affairs. In 1776, he published his revolutionary book, *The Wealth of Nations*, which argued that free markets, competition, and labour specialisation drive economic prosperity.

#### 2.1.1.1 Major Contributions of Adam Smith

##### a. Division of Labour

Adam Smith presents the division of labour as central to economic production and included the concept in the opening chapter of *The Wealth of Nations*. While others before him, like Bernard Mandeville and Joseph Harris, had discussed the concept, Smith's unique contribution was in emphasising it as the primary engine of economic progress. As economist Joseph Schumpeter noted, "nobody, either before or after Adam Smith, ever thought of putting such a burden upon division of labour." Smith saw it as a form of social cooperation, where production is broken into specialised tasks. His famous example of a pin factory illustrated this perfectly, a single worker might make only 20 pins a day, but a team of workers, each performing one of 18 distinct tasks, could produce up to 4,800 pins. This highlighted how specialisation leads to greater efficiency and national prosperity.

Smith identified several benefits from division of labour. They are increased productivity through specialisation, faster production from breaking down tasks, skill enhancement from repetitive practice, resource optimisation by reducing waste, and overall economic growth. However, there are downsides viz., a loss of job satisfaction as workers feel disconnected from the final product, labour immobility that makes it hard for workers to switch roles, and potential for monotony and mental fatigue. Smith also noted that the division of labour is limited by the extent of the market i.e., larger markets allow for more specialization and the availability of capital needed for large-scale production.

#### **b. Capital**

Adam Smith viewed capital as a crucial driver of national wealth, as it was directly linked to the expansion of the division of labour. He divided capital into two types. Fixed capital, such as machinery and infrastructure that is used for long-term production, and circulating capital, including raw materials and wages, which are consumed in the production process and need constant replenishment.

Smith outlined four main ways capital is used viz., acquiring raw materials, manufacturing them into finished goods, transporting them to markets, and distributing them to consumers through retail. He argued that capital accumulation comes from individuals' savings, famously stating that "Parsimony, and not industry, is the immediate cause of the increase of capital." He also noted that profit was the main motivation for both saving and investment, and that a decline in interest rates would encourage entrepreneurs to seek loans, thus increasing capital availability. Despite his clear insights, Smith's work contained a contradiction, as he sometimes emphasised labour as the source of wealth while at other times highlighting the importance of capital, leading to different interpretations of his philosophy.

#### **c. Theory of Value**

Adam Smith's analysis of value began with the distinction between value in use and value in exchange. Value in use is a commodity's utility or usefulness while value in exchange is its purchasing power. He highlighted this with the famous "diamond-water paradox," where water, essential for life, has a low exchange value, while diamonds, with little practical use, have a very high one. Smith was more interested in what determined a commodity's exchangeable value, which he explored through two theories.

His Labour Theory of Value stated that the value of a good is determined by the amount of labour required to produce it, arguing that the real price of an object is the 'toil and trouble of acquiring it.' However, he also proposed a conflicting Cost of Production Theory of Value, suggesting that a commodity's value is determined by the combined costs of labour, land, and capital used in its production. Smith did not fully reconcile these two perspectives, leaving an unresolved contradiction in his work.

#### **d. Wages**

Adam Smith explained wage determination primarily through the forces of supply and demand in the labour market. The supply of labour, he argued, is influenced by

the cost of living; if wages fall too low, workers cannot survive, and the labour force declines. On the demand side, wages depend on the amount of capital employers have to hire workers. Smith believed that in a growing economy with rising capital, the demand for labour would increase, leading to higher wages. In a stagnant economy, wages would fall, potentially below subsistence levels.

Smith also mentioned an idea that later became the Wages Fund Theory, which suggests that a fixed portion of capital is set aside for wage payments. He did not, however, develop this theory in detail. Later classical economists like David Ricardo and John Stuart Mill expanded on this, arguing that wages are determined by the ratio of this capital fund to the number of workers. While his wage theory lacked a perfect framework, Smith's insights on market forces, capital accumulation, and economic growth were foundational for later discussions on labour and wages.

#### e. Profit and Interest

Adam Smith's understanding of profit and interest was foundational but somewhat intertwined. He defined profit as the return on an entrepreneur's capital investment, while he saw interest as the portion of that profit paid to a lender for the temporary use of their capital. Smith noted that the rate of profit in an economy was influenced by competition and general economic conditions. When the economy was strong and competition was high, profits tended to be low because rising wages due to high demand for labour took up a larger share of the economic output. Conversely, in a stagnant economy, lower competition and falling wages allowed businesses to retain a higher share of the output as profit. He also linked profit directly to the state of the labour market. When wages rose, the capitalists' share of income i.e., profit, would fall, and when wages fell, capitalists could secure higher profits.

#### f. Laissez Faire

Adam Smith was a fervent supporter of economic liberty and the policy of laissez-faire. He believed that this hands-off approach to the economy would increase a nation's prosperity. Smith was sceptical of government and its officials, arguing that they were often inefficient, negligent, and prone to mismanagement and corruption. He even suggested that government employees should be paid based on their work to increase efficiency. In his view, a free market, without state interference, would naturally regulate itself for the benefit of all.

#### g. The Role of Limited Government

Despite his support for laissez-faire, Adam Smith did not advocate for a complete absence of government. He envisioned a government with a clear and limited set of responsibilities. He argued that the state should focus on three main duties viz., defending the nation, administering justice such as enforcing property rights and contracts, and providing public works and institutions that private businesses could not profitably supply such as roads, bridges, and universal education. Smith believed the government had a duty to provide these public goods, which are essential for supporting commerce and ensuring the smooth functioning of markets.

Smith also saw a specific role for government in providing national defence, which he considered a classic public good. The benefits of public goods are shared by all, and no one can be excluded from them, so it must be funded through taxes. Furthermore, he emphasised the importance of a legal framework for enforcing contracts, which he called the foundation of trust in economic relationships. This limited but crucial role for government was designed to support the 'invisible hand,' not replace it, and reflected a balanced approach where state intervention was measured and purposeful.

## Recap

- ◆ The division of labour increases productivity and efficiency but can also lead to job dissatisfaction and intellectual stagnation
- ◆ Capital, which is key to production, is categorised as either fixed or circulating
- ◆ Examples for fixed capital - machinery, circulating capital-wages
- ◆ Smith's value theory includes both the Labour Theory of Value and the Cost of Production Theory
- ◆ Wages are determined by the supply and demand of labour
- ◆ Factors such as cost of living and the availability of capital impact wage levels
- ◆ Profit is the return on capital investment, and interest is the portion of profit paid for a loan
- ◆ Higher wages reduce profits and lower wages lead to big profits
- ◆ Smith was a strong advocate of laissez-faire, believing that economic liberty and minimal government interference would benefit the nation
- ◆ Smith also supported a limited government that performs specific functions like national defence, justice, and providing public goods and education

## Objective Questions

1. What term refers to the separation of tasks in the production process?
2. What type of capital includes machinery and infrastructure?

3. What does Smith's Labour Theory of Value suggest determines the value of goods?
4. According to Smith, what is a key determinant of wages?
5. What is the price determined by the forces of demand and supply?
6. What did Adam Smith define profit as?
7. What does the invisible hand refer to?
8. What public good did Smith emphasise the government's responsibility to provide?

## Answers

1. Division of labour
2. Fixed capital
3. Amount of labour used to produce the good
4. Demand and supply of labour
5. Market price
6. Return on capital investment
7. Market forces guiding self-interest for societal benefit
8. National defence

## Assignments

1. Explain Adam Smith's concept of the division of labour.
2. Discuss the advantages and disadvantages of the division of labour as outlined by Smith.
3. How does Smith categorise the use of capital in production processes?

4. Discuss the Labour Theory of Value and the Cost of Production Theory of Value.
5. What factors determine wages, according to Adam Smith?
6. Explain the relationship between profit and interest in Adam Smith's theory.
7. What are the key functions of government according to Smith?

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## Contributions of Ricardo and Say

# UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ get aware of the contribution of Ricardo
- ◆ identify different types of rent
- ◆ understand Say's economic ideas
- ◆ differentiate between productive and unproductive labour in Say's economic framework

### Prerequisites

David Ricardo is a prominent figure in classical economics, renowned for his rigorous and systematic approach to economic theory. His most significant contributions, which remain central to modern economics, include the theory of rents, the labour theory of value, and the distribution of income among different social classes. His theory of comparative advantage laid the foundation for the concept of free trade, arguing that all nations benefit from international trade by specialising in the production of goods where they have a relative efficiency advantage. Though some of his ideas were controversial, Ricardo's work profoundly influenced economic thought in the 19<sup>th</sup> century and beyond, notably shaping the work of Karl Marx.

Another key figure, Jean-Baptiste Say, was deeply influenced by Adam Smith and the French Physiocrats. Say was a strong advocate for individual liberty and a free market with minimal government interference. He believed that the government's primary duty was to protect life, liberty, and property, not to intervene in economic activities. His focus was on creating an environment where individuals could freely pursue their own interests, which he believed would lead to greater prosperity for society as a whole.

## Keywords

Labour Theory of Value, Rent, Say's Law, Supply and Demand, Productive Labour, Unproductive Labour, Market Equilibrium, Production

## Discussion

### 2.2.1 David Ricardo

David Ricardo, born in London in 1772, interestingly, began his career not in academia but on the stock market. His early financial success gave him the freedom to pursue his intellectual interests. Ricardo is most famous for his theory of comparative advantage, which showed that even if one nation is more efficient at producing all goods, both nations can still benefit from specialising and trading. This groundbreaking idea became the theoretical basis for international trade. In addition to trade, Ricardo is known for his theory of rent, which argued that the value of land is determined by its productivity relative to the least productive land in use. This concept highlighted how landowners could benefit from economic growth without necessarily contributing to production. Ricardo also made significant contributions to the theory of value, suggesting that the value of a good is determined by the labour required to produce it, an idea that later influenced Marxist thought.

### 2.2.2 Contributions of David Ricardo

#### a. Labour Theory of Value

The labour theory of value, developed by David Ricardo, states that the value of a good is determined by the amount of labour needed to produce it. Ricardo argued that for reproducible goods, a commodity's value is determined by its production cost, specifically the quantity of labour embodied in it. He acknowledged, however, that this theory had limitations when goods required different amounts of time to produce or when capital-to-labour ratios varied. He noted that a producer using more capital would need to charge a higher price to earn the same profit as a producer using less capital, which showed that prices were not always strictly proportional to embodied labour.

Ricardo also distinguished between non-reproducible commodities, whose value is determined by scarcity e.g., rare art, and reproducible commodities, whose value is determined by labour. For Marx, the labour theory of value went beyond a simple pricing model; he used it to argue that only labour creates value and that capitalists exploit workers by extracting a surplus value, profit which is then reinvested.

#### b. Theory of Rent

Ricardo's theory of rent, developed in 1817, sought to explain why land prices and corn prices rose during the Napoleonic wars. He defined rent as the payment to a landlord for "the use of the original and indestructible powers of the soil." He argued

that rent is a producer's surplus or a differential gain that arises from two key factors: the scarcity of land and the differences in land fertility.

The theory is based on several assumptions viz. rent arises from differences in fertility, the law of diminishing marginal returns applies to land, the supply of land is fixed from a societal standpoint, and that land has no cost of production, making all of its return a surplus.

Ricardo distinguished between two types of rent:

- Scarcity Rent:** This occurs when land has only one use e.g., growing corn, and the supply of land is fixed. The price of land is entirely determined by demand. Ricardo argued that high corn prices caused the demand for land to rise, pushing up its price, not the other way around.
- Differential Rent:** This arises from the varying fertility of different plots of land. As population and demand for food increase, less fertile land is brought into cultivation. The more fertile plots of land earn a surplus or rent because they produce more output at the same cost as the least fertile, marginal land. The marginal land earns no rent.

### Ricardo's Theory of Differential Rent

Ricardo's theory of differential rent explains how rent arises from the varying fertility of land. The table illustrates this by showing four plots of land, all the same size and with the same production cost of Rs. 100. Let us assume the demand for wheat is high enough that the first three plots are being cultivated, and the market price is Rs. 5 per kilogram.

Table 2.2.1 Calculation of Differential Rent

Grade of Land (Same Size)	Total Produce and Its Value	Cost of Production	Rent	Status of Land
1 <sup>st</sup>	$40 \text{ kg} \times \text{Rs. } 5 = \text{Rs. } 200$	Rs. 100	Rs. 100	Above-marginal Land
2 <sup>nd</sup>	$30 \text{ kg} \times \text{Rs. } 5 = \text{Rs. } 150$	Rs. 100	Rs. 50	Above-marginal Land
3 <sup>rd</sup>	$20 \text{ kg} \times \text{Rs. } 5 = \text{Rs. } 100$	Rs. 100	Nil	Marginal (or No Rent Land)
4 <sup>th</sup>	$15 \text{ kg} \times \text{Rs. } 5 = \text{Rs. } 75$	Rs. 100	Rs. -25	Below-marginal Land

The most fertile plot (1st Grade) produces 40 kg, resulting in a total value of Rs. 200 ( $40 \text{ kg} \times \text{Rs. } 5$ ). After subtracting the Rs. 100 cost, this plot earns a surplus, or rent, of Rs. 100. The second-grade plot, being less fertile, produces 30 kg, with a total value of Rs. 150. This yields a rent of Rs. 50 (Rs. 150 - Rs. 100). The third-grade plot, which is the least fertile land in use, produces just enough (20 kg) to cover its production costs, so it earns no rent. This is known as the marginal or no-rent land. The first two

plots, which earn a surplus, are called intra-marginal land. The fourth plot, which is not profitable to cultivate at the current market price, is considered below-marginal land.

This example clearly shows that rent is a surplus that arises from the greater productivity of more fertile land compared to the marginal land in use.

Ricardo concluded that rent is not a determinant of market price; rather, price is determined by the costs of production on the marginal or no-rent land. He also noted that population growth would likely increase rent, as demand for food would push cultivation onto less fertile land. Conversely, improved farming methods or better transport that allowed for cheaper imports could lower rent by making the cultivation of marginal domestic land unnecessary.

### 2.2.3 Jean Baptiste Say

Jean-Baptiste Say was born in Lyon, France, in 1767. His early career as a businessman and journalist gave him a practical understanding of economics that shaped his later contributions. Heavily influenced by Adam Smith, Say is most famous for his Law of Markets, which states that “supply creates its own demand.” He argued that the act of producing goods generates the income necessary to purchase other goods. For example, a shoemaker who sells shoes creates income that can then be used to buy other products. In this view, money is just a medium of exchange, and the economy’s primary driver is production itself, not consumption.

Say was a strong believer in the free market’s ability to correct itself. He argued that any oversupply or general glut of goods would be temporary and would be corrected through natural price adjustments. He rejected the idea of a persistent glut, claiming that such problems were usually caused by external factors like government interference or monetary manipulation. Say also strongly advocated for the protection of private property, which he saw as the foundation of economic development because it provides individuals with the motivation to invest and produce. His ideas on free markets and limited government remain foundational to classical economics, even though they have faced criticism from later economists, particularly John Maynard Keynes.

J.B. Say distinguished between productive and unproductive labour based on their contribution to a society’s material wealth.

**Productive Labour:** This is defined as labour that results in the creation of a tangible good that adds to the material wealth of society. It includes activities like manufacturing, agriculture, and construction. For example, a tailor who makes a coat is engaged in productive labour because he creates a new, material product. This new wealth can then be exchanged, benefiting both the producer and the community.

**Unproductive Labour:** This refers to labour that provides services or intangible benefits without creating material wealth. Examples include actors, musicians, and clergymen. While these services can provide pleasure or spiritual guidance, they do not add to the stock of a society’s material goods. Say argued that such labour represents a loss to the community as a whole because it consumes resources without creating new wealth. However, he acknowledged that an individual could gain wealth from

unproductive labour, but that wealth would be a transfer from another individual, not a net gain for society.

Say also noted that both types of labour could be wasteful if they were mismanaged. A farmer who uses more resources than necessary, or a government that spends on non-productive projects, is creating waste that depletes a society's material wealth.

## Recap

- ◆ Ricardo's Labour Theory of Value posits that a good's value is determined by the labour used to produce it
- ◆ He divided goods into reproducible and non-reproducible categories
- ◆ Marx later expanded, arguing that capitalists exploit workers by extracting surplus value
- ◆ According to Ricardo, rent is a payment to the land lords for the use of the original and indestructible power of the soil
- ◆ Ricardo's Theory of Rent states that rent arises from land scarcity and varying fertility
- ◆ Rent can be divided into scarcity rent and differential rent
- ◆ Rent is a surplus, not a production cost
- ◆ Say championed individual liberty and minimal government intervention, believing the state's role is to protect property and liberty
- ◆ Say's Law of Markets argues that production creates its own demand
- ◆ He believed that market forces naturally correct temporary oversupply issues
- ◆ Say also differentiated between productive labour which creates material wealth
- ◆ Unproductive labour which provides services without creating new wealth

## Objective Questions

1. What determines the value of goods in the labour theory of value?
2. Which economist divided commodities into non-reproducible and reproducible goods?

3. According to Marx, who extracts surplus value from labour?
4. What is the source of rent in Ricardo's theory?
5. What leads to differential rent according to Ricardo?
6. What is the name of the theory that says "supply creates its own demand"?
7. According to Say, what does the act of producing goods create?
8. What role does the government have, according to Say?
9. Which type of labour creates material wealth?
10. What is the result of unproductive labour?
11. According to Say, what causes temporary oversupply in the market?
12. What is the outcome of unproductive labour?

## Answers

1. The amount of labour required to produce it
2. David Ricardo
3. The capitalist
4. Differences in land fertility and scarcity
5. Differences in land fertility
6. Says Law of Markets
7. Income for other goods
8. Protect life, liberty, and property
9. Productive labour
10. No increase in material wealth
11. Government interference
12. No increase in wealth for society

## Assignments

1. Explain the labour theory of value as proposed by David Ricardo.
2. What is Ricardo's theory of rent?
3. Explain the role of government in Say's economic theory.
4. Discuss Say's Law of Market.
5. How does Say differentiate between productive and unproductive labour?
6. Give examples of productive labour and explain how it contributes to societal wealth.

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# UNIT

## Utilitarianism and Malthus

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ discuss Malthus's theory of population and its implications
- ◆ comprehend on utilitarianism
- ◆ identify the connection between utilitarianism and Malthus contributions

### Prerequisites

In the early 19<sup>th</sup> century, the world was struggling with issues of population growth, economic development, and the balance between free trade and protectionism. During this time, Thomas Robert Malthus emerged as influential thinker whose ideas continue to resonate in contemporary economic discussions. The work, although shaped by the circumstances of their time, provides important insights into the relationship between population, resources, and the role of government in shaping markets.

Thomas Robert Malthus, born in 1766 in Surrey, England, is best known for his Theory of Population, which he developed in response to the growing concerns about poverty and overpopulation. Malthus believed that population tends to grow exponentially, while the resources needed to sustain it such as food grow at an arithmetic rate. This imbalance, he argued, would eventually lead to widespread poverty, famine, and social unrest. His theory suggested that population growth must be controlled. While controversial, Malthus' ideas had a profound impact on later economic theories, particularly those related to the limits of growth, sustainability, and resource management.

## Keywords

Population Growth, Preventive Checks, Positive Checks, Food Supply, Poverty, Utilitarianism

## Discussion

### 2.3.1 Malthusian Population Paradigm

Thomas Robert Malthus (1766–1834) was an English economist and demographer best known for his work *An Essay on the Principle of Population*, first published in 1798. This work laid the foundation for population studies and argued that population growth would inevitably overtake food production, leading to widespread scarcity and hardship. Malthus' ideas emerged as a response to the optimistic views of thinkers like William Godwin and Marquis de Condorcet, who believed that society could achieve progress and equality through reforms. He challenged this view, and pointed out that population growth follows a natural law that ultimately limits economic and social advancement. Malthus' theory was developed in the context of the late 18th and early 19th centuries when Europe was experiencing rapid population growth, and concerns about resource availability were becoming more prominent. His work was not just a theoretical argument but also a practical response to social and economic conditions, particularly the effects of poverty and food scarcity in England. Over time, his ideas have significantly influenced discussions on population control, economic policies, and environmental sustainability. Malthus' primary argument was that population growth occurs at a much faster rate than food production, which leads to an inevitable crisis. According to his theory, population increases in a geometric progression (doubling every generation, e.g., 1, 2, 4, 8, 16, etc.), whereas food supply increases only in an arithmetic progression (increasing incrementally, e.g., 1, 2, 3, 4, 5, etc.). This mismatch, he argued, would create a situation where the food supply becomes insufficient to sustain the growing population.

To maintain balance, Malthus suggested that certain checks operate to control population growth. He classified these into two categories.

- 1. Preventive Checks:** These include measures that reduce birth rates and slow population growth. Malthus emphasised moral restraint, encouraging people to delay marriage and have fewer children. He believed that education and social awareness could help people control their family size voluntarily. Preventive checks also included societal norms and cultural practices that discouraged large families, particularly among the poor.
- 2. Positive Checks:** When preventive checks fail to slow down population growth, nature imposes positive checks that increase the death rate. These include famine, disease, war, and poverty, which Malthus saw as inevitable consequences of overpopulation. He argued that these checks act as natural mechanisms to reduce the number of people when resources become scarce.

Malthus believed that these checks ensured that population growth remained in balance with the available food supply. However, he also pointed out that human suffering was an unavoidable part of this process, as famines, epidemics, and social conflicts would continue to arise whenever the population exceeded the food supply.

One of Malthus' most controversial arguments was his perspective on poverty and social welfare. He believed that providing financial aid or food to the poor would worsen the population crisis by encouraging them to have more children. In his view, assistance programmes, such as the English Poor Laws, only postponed the inevitable suffering caused by overpopulation. Instead of helping the poor, he argued that such policies made matters worse by increasing dependency and reducing the motivation to work and practice self-restraint. Malthus proposed that governments should avoid direct relief measures and instead promote policies that encouraged self-reliance, education, and smaller families. He saw moral restraint, particularly delayed marriage, and responsible family planning, as the most effective way to prevent poverty and starvation. His ideas influenced later economic policies, particularly those that favoured laissez-faire capitalism and limited government intervention in social welfare.

While Malthus' ideas were widely influential, they also faced significant criticism. One of the main arguments against his theory was that he underestimated the potential for technological progress. Critics pointed out that advancements in agriculture, mechanisation, and trade could significantly increase food production, allowing societies to support larger populations. The Industrial Revolution, which introduced new farming techniques, irrigation systems, and crop improvements, proved that food production could expand beyond Malthus' predictions. Another criticism came from Karl Marx and socialist thinkers, who argued that Malthus' theory ignored the role of economic inequality in resource distribution. Marx believed that poverty was not caused by overpopulation but by the exploitation of the working class by the wealthy elite. He saw Malthus' ideas as a justification for economic oppression, as they discouraged social welfare programmes that could help the poor escape poverty. Additionally, 20th-century scholars like Ester Boserup challenged Malthus' assumption that food production could only grow arithmetically. Boserup argued that necessity drives innovation—whenever populations increase, societies develop new technologies and farming methods to meet their needs. This idea was supported by the Green Revolution in the mid-20th century, which introduced high-yield crops and advanced agricultural techniques that significantly increased global food production.

Despite these criticisms, Malthus' theory continues to be relevant in discussions on population and resource management. Many modern concerns, such as climate change, environmental degradation, food security, and overpopulation, reflect Malthusian ideas. Countries experiencing rapid population growth, particularly in parts of Africa and South Asia, continue to face challenges related to food scarcity, poverty, and resource depletion. Malthus' arguments have also influenced population control policies in various countries. For instance, China's one-child policy, implemented in 1979, was partly based on the fear that uncontrolled population growth would lead to food shortages and economic instability. Similarly, global efforts to promote family planning, contraception, and reproductive health services align with Malthusian principles of preventive checks. Furthermore, environmentalists and ecologists often cite Malthusian

concerns when discussing sustainable development. The increasing demand for water, land, and energy has raised questions about how long the planet can support its growing population. The concept of carrying capacity, which refers to the maximum population that Earth can sustain, is closely related to Malthus' ideas.

Thomas Robert Malthus' theory of population remains one of the most significant contributions to economics and demography. His argument that population growth outstrips food supply has shaped discussions on poverty, social policies, and resource management for over two centuries. While technological progress and economic development have disproven some of his more pessimistic predictions, his core ideas about the relationship between population growth and resource availability continue to influence modern debates on sustainability, development, and global food security. Malthus' work serves as both a warning and a lesson. It highlights the importance of responsible resource management, innovation, and population control to ensure a stable and prosperous future. While many of his solutions were criticised for being harsh and pessimistic, his emphasis on planning and foresight remains relevant in addressing today's global challenges.

### 2.3.1.1 Malthus and Utilitarianism

The Malthusian population theory, a cornerstone of classical economics, was developed and promoted by the Utilitarians, despite the striking differences between Malthus and his followers. While Malthus was a friend of the Utilitarian David Ricardo, he held different views on social policy, philosophy, and economic methodology.

Interestingly, the Utilitarians were often more Malthusian than Malthus himself. For example, John Stuart Mill advocated a stricter population theory than Malthus in his later works. The Utilitarians, known for their strict logic, accepted this theory with surprisingly little critical analysis. Only a few like Francis Place or William Cobbett voiced opposition, but their critiques were not fundamental. It took a non-Utilitarian, Nassau Senior, to truly dissect and find flaws in the Malthusian doctrine.

The following presents several points to help explain this peculiar relationship between Malthus and the Utilitarians:

- ◆ **Philosophical Differences:** Malthus was a religious man, while the Utilitarians were agnostics. Although both believed in maximising human happiness, Malthus saw the population problem as a part of a divine plan. He believed that the adversity caused by population pressure was a necessary stimulus for human effort and exertion. For the Utilitarians, the problem was simply a practical issue to be solved.
- ◆ **Solutions to the Population Problem:** Due to his beliefs, Malthus opposed Neo-Malthusian solutions like birth control. He feared that removing the pressure of population growth would lead to human indolence. He believed that the struggle against this pressure was essential for human character.
- ◆ **Methodological Differences:** Malthus was an empiricist, who relied on observations, while the Utilitarians, like Ricardo, favoured an abstract-deductive approach, or geometrical reasoning, as Malthus called it. This made their wholehearted adoption of his theory even more contradictory.

## Recap

- ◆ Malthus believed population growth outpaces food production, leading to scarcity and hardship
- ◆ Population grows geometrically, while food supply grows arithmetically
- ◆ Preventive checks, e.g., moral restraint and positive checks, e.g., famine, disease balance population growth
- ◆ Malthus argued against social welfare, fearing it worsened overpopulation
- ◆ Critics of Malthus highlighted technological progress and inequality
- ◆ Malthusian ideas influence modern discussions on population, food security, and environmental sustainability
- ◆ The Malthusian population theory was a core component of classical economics
- ◆ The Utilitarians, known for their rigorous logic, accepted Malthus's theory with little critical analysis
- ◆ Malthus was a religious empiricist, while Utilitarians were agnostic logicians
- ◆ Malthus saw population pressure and adversity as a divinely-ordained stimulus for human exertion and character development.
- ◆ Utilitarians viewed it as a practical problem to be solved
- ◆ The first significant critique of Malthus's theory came from the non-Utilitarian Nassau Senior

## Objective Questions

1. Who is known for the theory of population that argues population growth will outpace food production?
2. What progression does Malthus say population growth follows?
3. Which type of checks did Malthus believe could slow down population growth?
4. What was Malthus's primary philosophical difference from the Utilitarians?

5. Which non-Utilitarian economist was the first to critically dissect Malthus's theory?
6. What was Malthus's main reason for opposing birth control?
7. What term did Malthus use to describe the abstract-deductive reasoning of Utilitarians?

## Answers

1. Malthus
2. Geometric progression
3. Preventive checks
4. He was religious, while they were agnostic
5. Nassau Senior
6. He feared it would lead to human indolence
7. Geometrical reasoning

## Assignments

1. Explain Malthus' theory of population growth.
2. Discuss Malthus' views on preventive and positive checks to control population growth.
3. Analyse the complex relationship between Thomas Malthus and the Utilitarians.

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# SGOU Utopian Socialists and Marx





# Forms of Socialism

## UNIT

### Learning Outcomes

After reading this unit, the learner will be able to:

- ◆ familiarise with socialism
- ◆ identify different forms of socialism
- ◆ explain the utopian socialism

### Prerequisites

Imagine a small, friendly town with a beautiful apple orchard. In a traditional system, that orchard might be owned by a single family, who could sell the apples at a high price, making them a luxury for most people. In a socialist system, that same orchard would be owned by the whole community. Everyone would share in the work of tending the trees and harvesting the fruit, and everyone would get a fair share of the apples. It would not matter if you were a wealthy merchant or a humble farmer; the resources, in this case, the apples and the orchard belong to all.

This is the core idea of socialism, common ownership of resources and the means of production. It is about maintaining a common pool of resources so that they are managed for the collective good, rather than for individual profit. This is especially important because many resources, like land, water, or even a public park, are scarce and not everyone has the same ability to access them. By making them common property, socialism aims to ensure they are available to all members of society, from the rich to the poor.

# Keywords

Socialist Critics, Utopian Socialists, Labour Theory of Value, Theory of Surplus Value

## Discussion

### 3.1.1 Socialism

Socialism is a political and economic system where the community collectively owns and controls the means of production and wealth. Its main goal is to create a more equal and just society. Socialism argues against the idea that free markets alone can solve societal problems, instead advocates for the collective ownership of resources to meet the needs of all people. Under this system, everyone works for the common good, and wealth is distributed to ensure everyone has equal access to resources for a good life. This approach often involves nationalising key industries, implementing progressive taxation, and relying on democratic decision-making. The state also plays a significant role in providing social services like healthcare and education.

The evolution of socialism is a continuous process shaped by various social, economic, and political factors. Early ideas of a more equal society can be traced to pre-industrial thinkers like Thomas More and Robert Owen. The Industrial Revolution of the 18<sup>th</sup> and 19<sup>th</sup> centuries spurred Karl Marx and Friedrich Engels to criticise capitalism and advocate for a classless, communist society. In the 20<sup>th</sup> century, the Russian Revolution of 1917 established the first socialist state, the Soviet Union, which became a model for the ideology. Post-World War II, many European socialist parties adopted a welfare state model. While socialism declined after the fall of the Soviet Union, it has seen a recent revival in the 21<sup>st</sup> century due to growing awareness of economic inequality.

As a political ideology, socialism is viewed differently across the political spectrum:

- ◆ The leftist perspective sees socialism as a way to redistribute wealth from the rich to the poor to achieve social, economic, and political equality.
- ◆ The rightist perspective views it as a threat to individual liberty and free markets due to excessive government intervention.

From an economic standpoint, socialism focuses on the collective ownership of resources, with government management and limited private participation. While proponents argue this can reduce poverty and inequality, opponents believe it can stifle innovation and economic growth by removing incentives for investment. Socialism as an economic system is primarily classified into two forms:

- ◆ **Market Socialism:** This system combines both public and private ownership of resources. The government closely regulates prices and policies, but market forces still have a role to play.

- ◆ **Planned Socialism:** In this model, the government has tight control over the entire economy. It allocates resources and sets production goals based on a central plan, with market forces having a negligible role.

### 3.1.2 Different Forms of Socialism

Socialism is not a single, monolithic ideology but a broad term including many different forms, each with distinct political ideologies and economic strategies.

1. **Democratic Socialism:** Democratic socialism advocates for a socialist economic system that is established and maintained through a democratic political framework. Unlike revolutionary forms of socialism, it seeks to achieve its goals, such as social ownership of the means of production, through peaceful and gradual means like elections and political reforms. It aims to expand public services, strengthen workers' rights, and increase social equality, often within a mixed economy that includes both state-owned and private enterprises. This ideology places a strong emphasis on economic democracy, where workers and communities have greater control over economic decisions.
2. **Libertarian Socialism:** Libertarian socialism is a highly decentralised and anti-authoritarian form of socialism that emphasizes individual liberty, free association, and direct democracy. It fundamentally rejects the idea of a centralised state as a vehicle for social change, arguing that state control can lead to new forms of oppression. Instead, proponents advocate for collective ownership through decentralised, voluntary, and non-hierarchical organisations like worker cooperatives and communes. This form of socialism seeks to abolish both the state and capitalism, viewing them as inherently coercive and incompatible with individual freedom.
3. **Fabian Socialism:** Fabian socialism, named after the Fabian Society in Britain, is a gradualist school of thought that believes in making slow, incremental changes to the existing capitalist system to achieve socialist goals. The name itself is inspired by the Roman general Fabius, known for his patient and delaying military tactics. Fabians seek to reform society through careful, evidence-based policy and legislation rather than through violent revolution. They have historically worked to influence public opinion and infiltrate existing political structures to introduce social reforms, such as the establishment of public health services and welfare programs.
4. **Revolutionary Socialism:** In contrast, revolutionary socialism maintains that a social revolution is a necessary prerequisite for the transition from a capitalist to a socialist society. It argues that the capitalist state is an instrument of the ruling class and cannot be reformed from within. The goal is to seize political power through mass movements of the working class and dismantle the existing state apparatus. This is not always defined as a violent insurrection, but rather as a fundamental and swift seizure of power that enables the establishment of a new, socialist society.
5. **Eco-Socialism:** Eco-socialism is a modern form of socialism that integrates socialist principles with a strong commitment to ecological sustainability. It argues that capitalism's inherent drive for limitless growth and profit is a primary

cause of environmental degradation, climate change, and social injustice. Eco-socialists believe that a sustainable and equitable future requires the social ownership of the means of production and a planned economy designed to meet human needs while respecting planetary boundaries. This school of thought posits that genuine environmental justice is impossible without dismantling the capitalist system.

6. **Marxism:** Marxism, founded by Karl Marx and Friedrich Engels, is perhaps the most influential and famous school of thought within socialism. It offers a comprehensive socio-economic analysis of class relations and social conflict. At its core, Marxism argues that all of history is a story of class struggle between the owners of capital, the bourgeoisie and the working class, the proletariat. Marx predicted that the inherent contradictions of capitalism would inevitably lead to a proletarian revolution, resulting in a classless society and the collective ownership of all productive resources.
7. **Anarchism:** Anarchism, as a political philosophy, rejects all forms of hierarchy and authority, including the state. As a form of socialism, it believes that a socialist society can only be achieved by abolishing the state entirely, as it is viewed as an oppressive and unnecessary institution. Anarchist-socialists emphasise individual autonomy and voluntary association, arguing that a stateless society would naturally evolve into a system of cooperative, self-governing communities where resources are managed collectively.
8. **Syndicalism:** Syndicalism is an ideology that focuses on the role of labour unions as the primary vehicle for revolutionary social change. It advocates for workers to use direct action, such as general strikes, to seize control of the economy and the means of production from the capitalist class. Syndicalists envision a post-capitalist society organised around federated industrial unions, where workers' councils, rather than a centralised state, manage the economy. It is a form of revolutionary socialism that places a strong emphasis on the power of organised labour.

### 3.3.3 Utopian Socialism

Utopian socialism is a form of socialism which advocates an ideal society which is free from the characteristics of capitalism. The ideology was evolved as a response to Industrial revolution and French revolution. Major thinkers of Utopian socialism were Charles Fourier, Robert Owen, Frenchmen Henri de Saint-Simon, and Étienne Cabet.

Utopia is a concept of a perfect society where all the unwanted aspects of the present society are eradicated. The word, utopia is taken from the name of the book, '*Utopia*' written by Thomas More. In a utopian society, the life of people is devoid of any conflicts and competitions so that the society lives in harmony without any painful experiences. It is interesting to point out that the painful experiences in life are a part of the realistic version of life that everyone has to endeavor. The utopian society is an ethical society. Thinkers who believed in achieving the society were coined as utopian socialists. The word 'utopian' was not used by the thinkers themselves. But there are accounts that Friedrich Engels and Karl Marx have used the term.

When considering the contributions to utopian socialism, Thomas More can be considered the first person with works under utopian socialism. His book named '*Utopia*' described about the society having ideal nature. Robert Owen is another utopian socialist who have really contributed much to bring a utopian society. He was a businessman who was pro-employee. His major pro employee business decisions include lesser working hours, education institutions for children of workers, housing facilities and so on. He used his profit to better the living conditions of the workers of his textile industry. His works, '*A New View of Society*' in 1813 and *An Explanation of the Cause of Distress which Pervades the Civilised Parts of the World* in 1823 were regarding his ideas of the ideal society. Owen is considered not merely a thinker. He practiced his ideas. His textile mill in Lanark is considered a great example co-operative community in factory set-up. Hence this factory set-up was considered a model factory. It was visited by many factory owners and some of the ideas were recreated by others. Owen introduced the same co-operative culture in the agricultural sector too where he started collective farming. These initiatives made him the chairman of the trade union federation in Britain in 1843.

Charles Fourier (1772-1837) was an important Utopian Sociologist. In order to eliminate the issues created by industrialisation, Fourier had completely opposed the industrial revolution. For him, industrialisation paved the way for unstable life conditions for the workers. The development of factories during the time of industrialisation and the profit making goal of individual industrialist were seen as vicious. Fourier considered following a life on the track of passion is more important than doing mechanical and monotonous works in a factory. He explained this by pointing out the famous example of pin making by the Adam Smith. Adam Smith used the pin-making process to explain the skill formation and division of labour. Fourier considered this division of labour to concentrate on working of a particular work alone as monotonous and mechanical. So, as a solution to this, Fourier introduced the concept of small communities where they have all the facilities for livelihood and recreation. The facilities imagined by Fourier were workshops, libraries, opera houses, etc. As per Fourier, in this small community, there would be enough possibilities to offer for satisfying everyone's passion. The remuneration system in the community offer no wages, but the profits will be shared among the people. A community having all these characteristics was named as phalanxes by Fourier.

## Recap

- ◆ Socialism is an economic and political system where the community owns and controls the means of production and wealth
- ◆ The primary goal of socialism is to create a more equal and just society
- ◆ Socialism involves nationalising industries, using progressive taxation, and having the state provide social services like healthcare and education

- ◆ Early ideas of socialism came from thinkers like Thomas More and Robert Owen
- ◆ Karl Marx and Friedrich Engels criticised capitalism and advocated for a classless society
- ◆ Socialism is classified into Market Socialism with public and private ownership and Planned Socialism with total government control
- ◆ Utopian Socialism - advocated by thinkers like Robert Owen and Charles Fourier, aimed to create a perfect society free from capitalist problems
- ◆ Robert Owen, a businessman, created a model factory with better working conditions for his employees
- ◆ Charles Fourier opposed industrialisation and proposed small, self-sufficient communities called phalanxes where work was based on passion

## Objective Questions

1. What is the main goal of socialism?
2. Who were two key thinkers who criticized capitalism during the Industrial Revolution?
3. What is the main difference between market socialism and planned socialism?
4. Who wrote the book 'Utopia'?
5. What was the name of the self-sufficient communities proposed by Charles Fourier?
6. Which form of socialism believes in achieving goals through slow, incremental changes?

## Answers

1. To create a more equal and just society
2. Karl Marx and Friedrich Engels
3. Market socialism allows some private ownership and market mechanisms; planned socialism involves full government control of resources and production
4. Thomas More
5. Phalanxes
6. Fabian Socialism

## Assignments

1. Explain socialism. Discuss the different forms of socialism
2. Elucidate on marxism, and its connection with socialism
3. Critically examine the ideas of utopian socialism

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## Karl Marx

# UNIT

### Learning Outcomes

After learning this unit, the learner will be able to:

- ◆ get aware of the contributions of Karl Marx
- ◆ comprehend on Hegelian dialectics
- ◆ familiarise with Marx's *Das Kapital*

### Prerequisites

Karl Marx (1818–1883) was a German philosopher, economist, and revolutionary whose ideas laid the foundation for communism and socialism. While he is best known for his critiques of capitalism, his work was profoundly shaped by the philosophy of G.W.F. Hegel, particularly Hegel's concept of dialectics. Hegel's dialectics described a process of intellectual evolution through a contradictory process between opposing sides. Marx adopted this method but applied it to material and economic conditions, creating what is known as dialectical materialism. This approach became central to his analysis of history and society.

Marx used this framework to develop his most famous work, *Das Kapital*, where he sought to uncover the economic laws governing capitalism. In this masterpiece, he presented his theories of exploitation, arguing that the capitalist system inherently exploits the working class by extracting surplus value, the difference between the value of a worker's labour and the wages they receive. This introduction will explore how Marx's application of Hegelian dialectics to economics formed the basis of his groundbreaking theories on capitalism and exploitation.

## Keywords

Historical Materialism, Class Struggle, Labour Theory of Value, Surplus Value, Exploitation, Capitalism, Proletariat, Bourgeoisie, Socialism

## Discussion

### 3.2.1 Karl Marx

Before Karl Marx, socialist thinkers were either utopians, collectivists, or reformers. However, none of them formulated a distinct economic theory that could challenge the existing system. Their ideas lacked widespread appeal and were often labelled as middle-class socialism rather than true working-class socialism. With Marx, socialism evolved from an idealistic concept into a scientific theory supported by economic arguments. He analysed current economic conditions, predicted future developments, and demonstrated the inevitability of socialism through logical reasoning rather than emotional appeal. His contributions marked a transition from utopian to scientific socialism.

Karl Heinrich Marx was born on May 5, 1818, in Trier, Germany, into an upper-middle-class Jewish family. His parents were later converted to Christianity. He studied at the Universities of Bonn and Berlin, and his father encouraged him to pursue an academic or government career. However, Marx chose journalism as a means to engage in political activism. He began editing the *Rheinische Zeitung* but had to leave due to government censorship. In 1843, he wrote *Introduction to the Critique of Hegel's Philosophy of Right*, which laid the foundation for his materialistic interpretation of history. Expelled from Germany, Marx moved to Paris, where he edited the *Deutsch-Französische Jahrbücher*. This publication introduced key Marxist ideas, including class struggle and revolution. After being expelled from Paris, he relocated to Brussels, where he deepened his study of political economy and met Friedrich Engels, his lifelong friend and collaborator. Their combined efforts shaped Marxist thought.

Marx participated in the 1848 Revolution in Germany but was expelled again. In 1850, he settled in London, where he spent the rest of his life. He died on March 14, 1883. His major works include *Introduction to a Critique of Hegelian Philosophy of Right* (1843), *The Poverty of Philosophy* (1847), *A Contribution to the Critique of Political Economy* (1859), *Das Kapital* (1867). The first volume was published during his lifetime; the other two were published posthumously by Engels in 1885 and 1894. Marx's ideas were shaped by various social, economic, and political conditions, including the reactionary political environment of Germany, the industrial revolution and working conditions in England, and the influence of French political philosophy and revolutionary traditions.

Marx's theories revolve around economics, history, and class struggle. His key concepts include:



- 1. Materialistic Conception of History:** The economic structure of society determines its social and political systems. History is driven by economic factors rather than ideals or morality.
- 2. Class Struggle:** Society has always been divided into conflicting classes. Throughout history, one class dominates while another is oppressed. This struggle drives social change.
- 3. Theory of Value:** The value of a commodity is determined by the amount of labour required for its production.
- 4. Surplus Value:** Workers produce more than they are paid in wages. The difference, called surplus value, is taken by capitalists, creating exploitation and class conflict.
- 5. Capitalist Crisis:** Capitalists seek to maximise surplus value, leading to unemployment, economic crises, and worsening conditions for workers.
- 6. Concentration of Wealth:** Capitalism eventually leads to wealth being concentrated in fewer hands. This fuels resentment among the working class and sets the stage for revolution.

Let us discuss some of the key ideas.

### 3.2.1.1 Materialist Interpretation

Marx's materialism is not about physical matter but about the relationship between humans and their environment. He opposed idealism, which emphasised spiritual and abstract ideas. Instead, he argued that people's material conditions shape their consciousness and beliefs. Social classes emerge based on economic conditions, such as Slave Society with Masters vs. Slaves; Feudal Society with Lords vs. Serfs; and Capitalist Society with Capitalists vs. Workers. Each new generation inherits and modifies the existing means of production. As economic conditions change, social institutions and ideologies also evolve. Marx believed that history follows a definite sequence, leading to an inevitable revolution and the establishment of socialism.

According to Marx, people's way of thinking is primarily shaped by how they live. This, in turn, influences the broader social, political, and spiritual processes. Marx believed that non-economic factors have only a small impact on historical change. He criticised philosophers like Hegel for focusing only on the 'spirit' and 'consciousness' of individuals, while ignoring the actual conditions that affect people's lives. Marx's focus was on the masses, not on individual freedom. He argued that society is divided into classes with conflicting interests. He famously said, "In so far as millions of families live under economic conditions of existence that divide their mode of life, their interests and their criteria from those of other classes and put them in hostile contrast to the latter, they form a class."

In Marx's view, people's social class is determined by their economic status, which is shaped by how they earn a living. For example, in a slave society, the main classes are masters and slaves; in feudal society, it is lords and serfs; in capitalist society, it is

capitalists and wage earners. When a new generation enters society, it inherits tools of production created by previous generations. These tools evolve and improve over time. Development, therefore, follows patterns shaped by past generations and the methods they used to produce goods. As production methods change, institutions and ideas evolve. Marx called this process “negation,” where old institutions are challenged and replaced by new ones.

To understand historical events in a given region, a historian must study the economic systems and social structures of the time. Marx and Engels were pioneers in using historical materialism to analyse social change, but applying this method was a challenge. They believed that, just like understanding natural laws, people could use knowledge of social laws to serve their own interests. However, achieving freedom from class oppression is a long and difficult process.

Marx and Engels envisioned a future where people would control the forces that had previously shaped history. Engels described this future as a time when men, with full consciousness, would understand and shape their own history. Dialectical materialism, the philosophical foundation of Marxism, emphasises that:

1. The foundation of any society is its economic system, and it can only be understood in its historical and social context.
2. History is a record of constant change, shaped by class struggles. Class conflict is essential for the development of history.
3. Knowledge of society can be used to change it as human knowledge advances.

Marx argued that traditional, narrow approaches to understanding society were inadequate. To truly understand social phenomena, one must consider all aspects of society, its institutions, ideologies, behaviours, and pressures. By taking an integrated view of these factors, we can explain historical events.

Marx was one of the first to scientifically examine the economic system in its entirety. His work influenced later economists like John Maynard Keynes, who developed macroeconomics. However, while Keynes focused on equilibrium in economics, Marx focused on the development of society as a whole, emphasising change and conflict.

Marx also contributed to the search for truth in knowledge. He believed that theories should be true and practical, grounded in the realities of life. Unlike earlier philosophers, who considered their knowledge absolute, Marx emphasised that theories should be tested and verified against real-world conditions. He argued that the study of history should not just be about recounting past events but about understanding the forces that shape the present and future. Historical materialism is thus not only useful for understanding the past but also for guiding the future. However, accurately predicting the future requires a deep understanding of society and its dynamics.

### **3.2.1.2 Labour Theory of Value**

Karl Marx analysed labour in two key aspects, its natural form and its social significance. In its natural form, labour is a fundamental part of human existence,

focused on producing and acquiring goods that satisfy human needs. This results in commodities with use-value, meaning they have practical utility. However, use-value alone does not determine the overall value of a commodity; labour requires natural resources to create value.

Labour also has a social dimension. The total labour of individuals in a society contributes to the production of all necessary goods. This means that individual labour is integrated into the larger social labour system, ensuring that different use-values are produced and exchanged within society.

In a capitalist economy, commodities have two types of value:

- 1. Use-value:** The practical utility of a commodity.
- 2. Exchange-value:** The value assigned to a commodity in the market, determined by the amount of labour involved in its production.

According to Marx, exchange-value is derived from abstract labour, meaning the socially necessary labour time required to produce a commodity under normal production conditions with average skill and efficiency. Thus, labour has both qualitative (type of work) and quantitative (amount of time spent) significance.

Different types of labour skilled and unskilled can be measured in terms of the simplest form of human labour. Skilled labour produces goods with a higher exchange-value than unskilled labour, but ultimately, all labour can be reduced to a common measure.

Marx identified two key difficulties in the exchange process:

- 1. Dual nature of commodities:** A commodity has both use-value (for the buyer) and exchange-value (for the seller). Before a commodity becomes useful, it must be exchanged, transferring ownership while keeping its material form unchanged.
- 2. Need for a universal equivalent:** To facilitate exchange, a universally accepted commodity mostly money is required. Money serves as the crystallisation of exchange-value, representing the labour embodied in commodities.

### 3.2.1.3 Theory of Surplus Value

One of Marx's most significant contributions to economics is the Theory of Surplus Value. In a wage system, a worker is separated from the full value of their labour because they receive only wages, while the capitalist keeps the surplus. The capitalist pays wages to acquire labour power but retains control over the goods produced.

The value of labour, like any commodity, is determined by the labour time required to produce the worker's basic necessities. However, workers always produce more than the value of their wages. This excess production is called surplus value, which benefits the capitalist. For example, if a worker works 10 hours a day but produces enough to cover their wages in only 5 hours, the remaining 5 hours generate surplus value for the

capitalist. This surplus labour increases the wealth of capitalists while workers receive only a subsistence wage.

Capitalists increase surplus value by:

1. **Extending working hours:** Increasing the number of hours workers labour beyond what is required to produce their wages.
2. **Reducing necessary labour time:** Lowering the time needed to produce workers' necessities, thereby increasing surplus labour. This can be done through industrial advancements, reducing wages, or employing cheaper labour such as women and children.

### 3.2.2 Karl Marx and Hegelian Dialectics

Dialectics is a philosophical method that uses a contradictory process to advance an argument. Plato used dialectics as a method of dialogue, most famously through the character of Socrates debating with his interlocutors. In these debates, Socrates would challenge the views of his opponents, and through this back-and-forth process, the interlocutors would refine their ideas and arrive at more sophisticated positions. This method allowed Plato to argue against less developed views and in favour of more advanced ones.

The 19<sup>th</sup>-century philosopher G.W.F. Hegel also used a dialectical method, but he applied it to concepts rather than people. The opposing sides in his work are contradictory ideas or definitions. For example, in his work on logic, different definitions of a concept oppose each other. This contradictory process leads to a progression from less sophisticated to more sophisticated views, which Hegel used to build his arguments. He considered this method the core of his philosophy and applied it in all his major works, including *'Phenomenology of Spirit* and *Science of Logic*'.

While acknowledging Plato's influence, Hegel criticised his dialectical method for being limited. He argued that Plato's approach could not move beyond skepticism or a state of nothingness. According to Hegel, when a contradiction is reached in Plato's method, it simply leads to the conclusion that the initial premises are false, leaving a void. A new premise must then be arbitrarily introduced. Because Hegel believed contradictions are an essential part of reason, he thought this approach was a dead end. He argued that Plato's dialectics could only produce approximate truths and fell short of being a true science.

### 3.2.3 Das Capital and Theories of Exploitation

In *Das Kapital*, Karl Marx analyses how the capitalist system functions, focusing on its inherently exploitative nature. He argues that the system is designed to generate profit by extracting surplus value from workers. This exploitation is not a moral failing of individual people, but a fundamental characteristic of the system itself.

## Key Concepts in Marx's Analysis

- ◆ **Surplus Value:** The core of Marx's theory. It is the difference between the value a worker creates through their labour and the wages they are paid.
- ◆ **Capitalists (Bourgeoisie):** The class that owns the means of production, the factories, tools, and raw materials.
- ◆ **Workers (Proletariat):** The class that must sell its labour power to the capitalists in order to survive.

Marx explains the process of exploitation through a series of unequal exchanges and profit generation.

1. **Unequal Exchange:** The capitalist pays the worker a wage, but the value of the goods the worker produces is much greater than that wage. The worker is thus forced to sell their labour power to the capitalist at a price below its true value.
2. **Profit Generation:** The capitalist keeps this difference, or surplus value, as their profit. This surplus value is the very source of capitalist wealth.
3. **Systemic Inequality:** This process creates a cycle of inequality. The capitalist class accumulates wealth, while the working class remains impoverished, creating a fundamental conflict within society.

Ultimately, Marx's critique of capitalism highlights this exploitative relationship and its inevitable consequences. He believed these inherent contradictions would eventually lead to a series of crises and, ultimately, the collapse of capitalism, to be replaced by a socialist society.

## Recap

- ◆ Dialectics is a philosophical method that uses a contradictory process to advance an argument
- ◆ Plato used dialectics as a dialogue between people, like Socrates and his opponents
- ◆ Hegel used dialectics with contradictory ideas or concepts. He saw this method as the core of his philosophy
- ◆ Hegel criticised Plato's method for being limited and unable to move beyond skepticism
- ◆ In *Das Kapital*, Karl Marx used dialectics to analyse capitalism
- ◆ Marx argued that capitalism is an inherently exploitative system

- ◆ The core of Marx's theory is surplus value, the difference between the value a worker creates and the wage they are paid
- ◆ Marx identified two main classes: the capitalists (bourgeoisie), who own the means of production, and the workers (proletariat), who sell their labor
- ◆ Capitalist profit is generated by keeping the surplus value created by workers
- ◆ Marx believed this process leads to a permanent cycle of inequality and conflict between the two classes

## Objective Questions

1. Who is the ancient Greek philosopher associated with dialogue-based dialectics?
2. Which German philosopher applied dialectics to concepts instead of people?
3. What is the core concept of Marx's theory of exploitation?
4. According to Marx, what class owns the means of production?
5. What is the source of capitalist profit, according to Marx?
6. In which book did Karl Marx analyse the capitalist system?

## Answers

1. Plato
2. Hegel
3. Surplus value
4. Bourgeoisie (or Capitalists)
5. Surplus value
6. Das Kapital

## Assignments

1. Compare and contrast the dialectical methods of Plato and Hegel.
2. Explain Karl Marx's theory of exploitation as presented in *Das Kapital*.
3. Analyse how Marx's work on capitalism is influenced by Hegelian dialectics.

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# Higher Capitalism

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ familiarise with hypercapitalism
- ◆ comprehend imperialism as the highest stage of capitalism
- ◆ identify the relationship between values and well-being

### Prerequisites

In its fundamental form, capitalism is an economic system centered on private ownership and free markets, where competition and self-interest drive innovation and wealth creation. While celebrated for its ability to generate prosperity, it is also critiqued for fostering inequality and a potential for social and environmental neglect. The present unit goes beyond this basic framework, exploring how capitalism has evolved into more advanced and complex stages, fundamentally altering the global landscape. The evolution has witnessed the formation of imperialism, as Lenin considered it as the final stage of capitalism. Hypercapitalism, a pervasive form where market logic and commercial values have expanded to govern nearly every facet of human existence, from social interactions to individual identity.

### Keywords

Hypercapitalism, Imperialism, Monopoly, Parasitism, Competition, Self interest

## Discussion

### 3.3.1 Capitalism

Capitalism is an economic system where the means of production such as factories, land, and resources are privately owned and operated for profit. It is built on a foundation of several core values and principles:

- ◆ **Competition:** Businesses compete with each other to attract customers by offering better products, lower prices, or new innovations. This competition is seen as a key driver of efficiency and progress.
- ◆ **Self-Interest:** Individuals are motivated by their own economic self-interest to work, save, and invest. This pursuit of personal gain, when guided by a free market, is believed to ultimately benefit society as a whole.
- ◆ **Private Property:** The right to own and control private property is a fundamental pillar of capitalism. This provides individuals and businesses with the security to invest and build wealth.
- ◆ **Free Markets:** Supply and demand determine prices and production levels without significant government intervention. This system is believed to allocate resources in the most efficient way possible.

In its ideal form, capitalism is praised for its ability to promote innovation, create wealth, and improve living standards. It encourages risk-taking and entrepreneurship, leading to new technologies and services that can benefit society. However, capitalism also has its critics. They point to issues like economic inequality, where wealth becomes concentrated in the hands of a few, and a tendency to prioritise profit over social and environmental well-being.

### 3.3.2 The Transition to Hypercapitalism

While traditional capitalism has been the dominant economic system for centuries, a new, more extreme form has emerged, hypercapitalism. This term describes an economic and cultural system where market values and commercial logic have expanded into nearly every aspect of human life. Hypercapitalism is not just about a bigger economy; it's a qualitative shift. It is a system where there is an intense focus on consumerism, constant growth, and the commodification of everything. In this environment, every activity from social relationships to personal identity can be turned into a transaction or a marketable asset.

Key characteristics of hypercapitalism include:

- ◆ **Intense Consumerism:** There is a relentless pressure to consume, driven by sophisticated advertising and a culture that equates happiness and success with material possessions. The goal is no longer just to satisfy needs, but to create desires that can be endlessly fulfilled through purchasing.

- ◆ **Commodification of Life:** Areas of life that were once non-commercial, such as healthcare, education, and even personal relationships, are increasingly governed by market principles. For example, social media influencers monetise their friendships and daily lives.
- ◆ **Financialisation:** The economy becomes dominated by financial markets and speculative activities rather than the production of goods and services. Wealth is created through financial instruments and transactions, often with little connection to the real economy.
- ◆ **Erosion of Social Bonds:** Hypercapitalism can weaken social connections by promoting individualism and competition over community and cooperation. People are encouraged to see themselves as individual brands competing for attention and resources.

This shift from capitalism to hypercapitalism is often seen as being driven by technological advancements, globalisation, and a decline in government regulation.

### 3.3.2.1 Understanding Imperialism as the Highest Stage of Capitalism

The late 19<sup>th</sup> and early 20<sup>th</sup> centuries were marked by a series of wars, from the Sino-Japanese War of 1894 to the First World War in 1914. These conflicts revealed a significant shift in global power dynamics, a struggle among the “Great Powers” for economic dominance and control of the world’s resources. As Lenin articulated in his work, *Imperialism, the Highest Stage of Capitalism*, this era was not simply a change in foreign policy. Instead, it represented a fundamental transformation in the very nature of capitalist production.

Lenin defined imperialism as the monopoly stage of capitalism, a higher form of capitalism. This means that capitalism had evolved into a global system of financial control and colonial oppression. A few powerful, advanced countries used their economic and military strength to exploit the vast majority of the world’s population. Lenin identified five key features that characterise this new stage:

- ◆ **Monopolies:** The concentration of production and capital had become so advanced that monopolies began to play a dominant role in economic life.
- ◆ **Finance Capital:** Bank capital and industrial capital merged, creating a financial oligarchy that controlled the economy.
- ◆ **Export of Capital:** The export of capital became more important than the export of commodities.
- ◆ **International Monopolist Associations:** Capitalist associations began to form and divide the world among themselves.
- ◆ **Territorial Division of the World:** The division of the entire world among the major capitalist powers was complete.



Separately, these features might seem like a matter of degree, but together, they represent a qualitative transformation. Free competition, the hallmark of early capitalism, was being replaced by its opposite, monopoly. This was not a temporary or accidental change; it was the logical culmination of capitalism's internal contradictions.

### 3.3.2.2 Monopoly - The Logical Outcome of Capitalism

Monopoly is a direct and inevitable result of capitalist production. The two fundamental conditions of capitalism, the social division of labour and the private ownership of the means of production create the perfect environment for competition to thrive. This competition forces capitalists to innovate, produce on a larger scale, and exploit labour more efficiently to reduce costs. Naturally, the more efficient, better-equipped producers eliminate the weaker ones. The ultimate end of this process is a single, dominant victor. However, this process is not smooth or linear. Competition exists across different industries and within various national and local markets. The drive to achieve a global monopoly in one sector, conflicts with the drive to dominate local economies. This creates a series of intense conflicts and antagonisms. This tendency towards monopoly, while a natural law of capitalism, does not lead to a peaceful, utopian transition. Instead, it intensifies competition on a higher, more destructive scale. When competition among sellers is eliminated by a monopoly, competition among buyers is only intensified. This leads to increased antagonisms within the economy and society, which can eventually lead to social revolution or war.

The concentration of capital ultimately gives rise to finance capital, a new category of capital formed when monopolistic industrial firms and monopolistic banks merge. This new entity transcends the limitations of its parts, allowing a small group of financial oligarchs to dominate an entire country's economy. The attainment of monopoly also leads to another critical development, the export of capital. Because monopolies can stabilise prices and limit production to meet a specific demand, they often find themselves with surplus capital they cannot reinvest within their own sphere. This capital is then exported to other parts of the world, leading to two distinct types of international monopolies:

- ◆ **Horizontal monopolies:** Monopolies that bring a single industry under international control.
- ◆ **Vertical monopolies:** Monopolies that control a series of industries, from raw materials to final products.

These processes accelerate the territorial partitioning of the world into 'spheres of influence' by rival imperialist powers. By the end of the 19th century, this territorial division was largely complete. Any further expansion could only occur at the expense of other powers, inevitably leading to inter-imperialist war. Simultaneously, the state power within advanced capitalist countries grew stronger, acting as a tool to protect and promote the interests of its own finance capitalists on the global market. Political leaders openly declared that the state's role was to safeguard the interests of financiers, even if it meant violating the sovereignty of other nations. This new reality transformed international relations, subordinating the majority of states to a handful of financially rich powers.

### 3.3.2.3 Imperialism - The Highest and Final Stage of Capitalism

Lenin argued that monopoly finance capitalism was the 'highest' stage of capitalism not because it was the most perfect, but because it had exhausted its potential for further evolutionary development. This conclusion was rooted in the work of Marx, who showed that a social form of production can only develop productive forces up to a certain point before its relations of production become a fetter on further progress.

Marx identified two phenomena characteristic of the culminating phase of capitalism, parasitism and the partial recognition of the social nature of production. Lenin demonstrated that these features had become dominant in the monopoly finance stage.

- ◆ **Parasitism:** With the rise of joint-stock companies, the capitalist owner becomes a mere owner or money capitalist who profits without being actively involved in production. This creates a new financial aristocracy of rentiers, speculators, and nominal directors who live off the labour of others. This complete separation of ownership from the production process is the essence of parasitism.
- ◆ **Socialisation of Production:** Joint-stock companies represent the “abolition of capital as private property within the confines of the capitalist mode of production itself.” Production becomes a social enterprise run by associated producers, while ownership is alienated and separated from the process. This creates a fundamental contradiction where the social character of production is in conflict with the private appropriation of its results.

This internal contradiction signals that no further development of capitalist relations is possible without a fundamental social revolution. The system becomes ‘moribund’ or ‘decaying,’ not in the sense that it can not grow, but that its growth becomes increasingly uneven and stagnant, especially in countries richest in capital.

### 3.3.2.4 Imperialism and the Social Roots of Labour Opportunism

Lenin's analysis of imperialism as a “dying” stage of capitalism did not mean he believed socialism would automatically follow. Rather, he argued that the very conditions of imperialism created new challenges for a revolutionary overthrow of the system. Drawing on the work of Marx and Engels, Lenin explained how imperialism created a privileged stratum within the working class. Engels had observed that England's industrial monopoly in the 19<sup>th</sup> century allowed its capitalists to reap immense profits, a portion of which was used to grant concessions to a ‘small, privileged, ‘protected’ minority’ of skilled workers. This “labour aristocracy” became bourgeois in its outlook and acted as a social base for opportunism within the labour movement.

This privileged stratum, which included factory workers and members of the large trade unions, enjoyed a relatively comfortable position and were seen as model working men. This made them more receptive to forming alliances with capitalists and more susceptible to national pride and chauvinism. The concessions they received were at the

expense of the working class as a whole, both in their own country and in the oppressed nations abroad.

In the imperialist era, this phenomenon became even more pronounced. The super-profits extracted from colonies and oppressed nations provided the material basis for bribing a significant portion of the working class in the advanced countries. This created a split within the working class, fostering a new kind of social opportunism. These 'bourgeoisified' sections of the proletariat provided a social foundation for opportunist and reformist parties, which advocated for gradual change and opposed revolutionary struggle.

Lenin's analysis showed that imperialism was not only the economic culmination of capitalism but also the source of its political decay. The struggle against imperialism, therefore, had to be a struggle against this opportunistic trend within the labour movement itself.

### 3.3.2.5 Values, Wellbeing and Impact

The fundamental argument against hypercapitalism is that its core values primarily those of material success, competition, and self-interest are in direct opposition to the values that truly foster human well-being. Psychological research, distinguishes between two main types of values. Extrinsic values are focused on external rewards like financial success, image, and power. In contrast, intrinsic values are centered on internal satisfaction, such as personal growth, meaningful relationships, and community contribution.

Research consistently shows that a strong focus on extrinsic values is linked to lower levels of psychological health and happiness. People who prioritise money and status tend to report higher rates of anxiety and depression, feeling a sense of emptiness because external rewards offer only temporary fulfillment. Conversely, those who prioritise intrinsic values report greater satisfaction, stronger social bonds, and a deeper sense of purpose. Hypercapitalism, with its relentless advertising and promotion of social comparison, actively encourages a cultural environment where extrinsic values are paramount, creating a paradox where a society that is materially rich may be poor in terms of well-being. This hyper-focus on financial gain and external rewards has profound negative impacts on society beyond individual well-being. It fuels environmental degradation as businesses pursue profit without regard for sustainable practices. The system also exacerbates social and economic inequality, concentrating wealth among a few and leaving many behind, which can lead to a more divided society. Additionally, it contributes to an erosion of empathy as success is measured by financial gain, potentially weakening social cohesion. In essence, hypercapitalism is more than just an economic system; it is a powerful cultural force that shapes our values, influencing our actions.

## Recap

- ◆ Capitalism is an economic system based on private ownership, competition, and self-interest
- ◆ Hypercapitalism is a more extreme form of capitalism
- ◆ It expands market logic into all areas of life, including social relationships
- ◆ Hypercapitalism's key features include intense consumerism and the commodification of life
- ◆ Financialisation and the erosion of social bonds are also part of hypercapitalism
- ◆ Lenin defined imperialism as the monopoly stage of capitalism
- ◆ Imperialism's features include monopolies, finance capital, and the export of capital
- ◆ Imperialism's also includes international associations and the territorial division of the world
- ◆ Lenin argued imperialism was the final stage of capitalism
- ◆ Capitalism's internal contradictions lead to monopoly and conflict
- ◆ Imperialism created a privileged labour aristocracy in advanced countries
- ◆ Extrinsic values focus on external rewards like money and status
- ◆ Intrinsic values focus on internal satisfaction and relationships
- ◆ A focus on extrinsic values is linked to anxiety and depression

## Objective Questions

1. Which economic system is based on private ownership and free markets?
2. What is the more extreme, modern form of capitalism?
3. What is the term for turning non-commercial things into marketable assets?

4. What type of values are focused on external rewards like wealth and status?
5. What type of values are focused on inner satisfaction?
6. Who defined imperialism as the monopoly stage of capitalism?
7. What form of capital is created by the merger of bank and industrial capital?
8. What is the term for the split in the working class created by imperialism?
9. What is the final stage of capitalism, according to Lenin?
10. What is a system that has market values in nearly every part of life?

## Answers

1. Capitalism
2. Hypercapitalism
3. Commodification
4. Extrinsic
5. Intrinsic
6. Lenin
7. Finance
8. Aristocracy
9. Imperialism
10. Hypercapitalism

## Assignments

1. Compares and contrasts the core values of traditional capitalism with those of hypercapitalism. Analyse how the shift from a free-market system to one dominated by consumerism and financialisation has impacted societal norms and individual well-being.
2. Choose one contemporary social issue and analyse it using the concepts of commodification and the erosion of social bonds
3. Write a critical review of a modern company or industry through the lens of hypercapitalism. Discuss how its business model embodies the principles of intense consumerism and financialisation.
4. Elaborate in detail about imperialism

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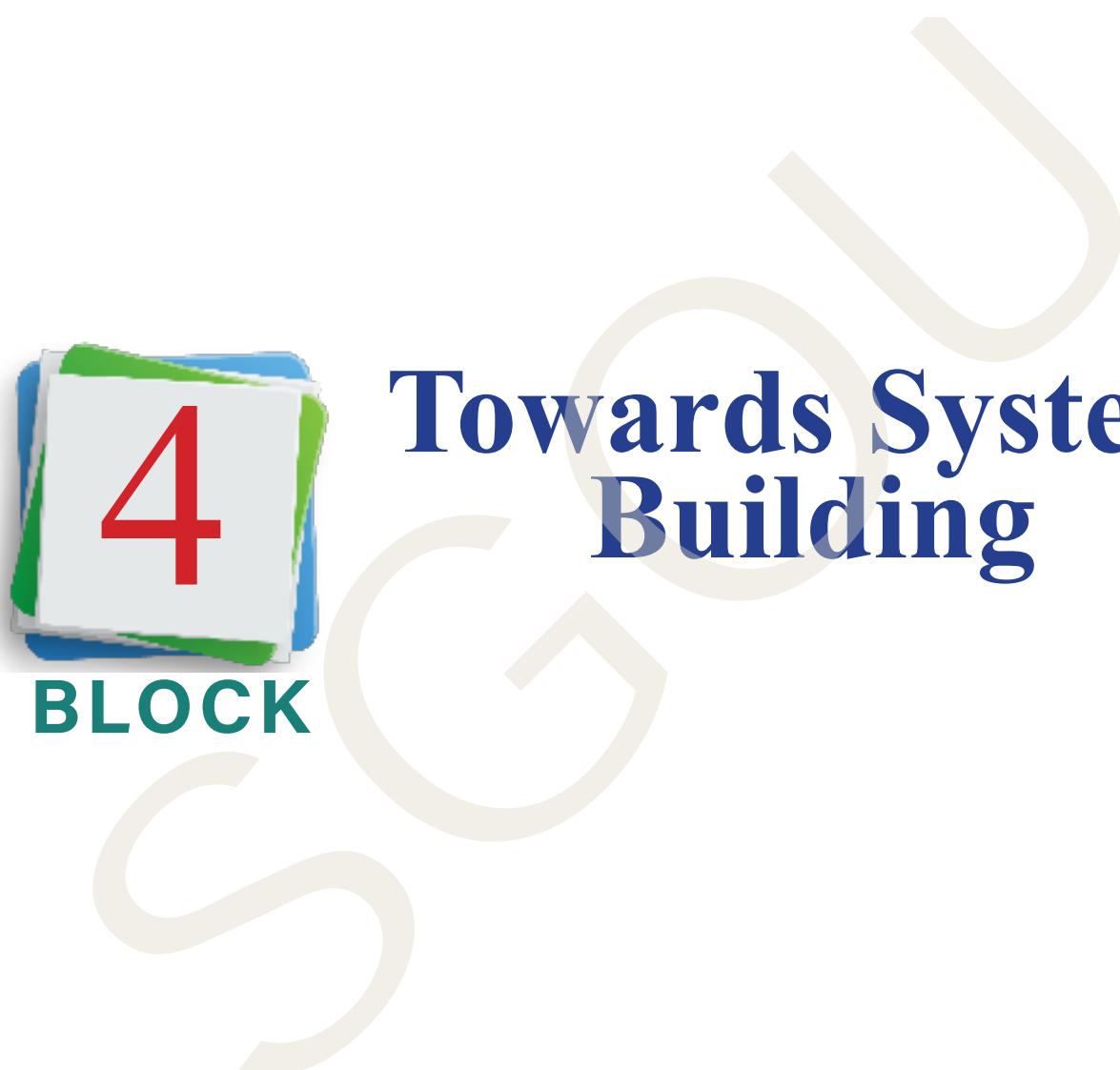
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# Towards System Building





# Marginalist Revolution

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ explain the idea of marginal revolution
- ◆ familiarise with Gossen's laws of Economics
- ◆ discuss the ideas of Walras

### Prerequisites

Every day, individuals and societies make decisions about what to buy, how much to spend, and how to allocate their limited resources. To understand these choices, economists study the satisfaction or benefit, known as utility, that we derive from consuming goods and services.

Consider the example of eating pizza. The first slice provides immense satisfaction because of high hunger levels. The satisfaction gained from the second slice, while still positive, is less than the first. As more slices are consumed, the additional satisfaction from each slice becomes progressively smaller until it may even become zero or negative. This fundamental principle, where the extra utility decreases as we consume more of the same thing, is called marginal utility.

The Marginalist School of economics, which gained prominence in the 19th century, built its theories on this concept. Economists from this school argued that the value of a good or service is not inherent but is based on its ability to satisfy a person's wants, particularly at the margin, i.e., the additional satisfaction from consuming one more unit. This concept helps explain the paradox of value, where a life-sustaining good like water has a low price due to its abundance and low marginal utility, while a non-essential good like a diamond has a high price because of its scarcity and high marginal utility.

## Keywords

Subjective Value, Marginal Utility, Gossen's Law, Equi-Marginal Utility

## Discussion

### 4.1.1 Evolution of Marginalist Revolution

The Marginal Revolution marked a pivotal shift in economic thought, serving as the origin of the neoclassical approach and a rejection of classical economics. Unlike the classical economists who relied on an objective theory of value based on production costs, the marginalists introduced a subjective theory of value centered on the analytical concept of marginal utility. This revolution laid the groundwork for the neoclassical theory of value, which eventually superseded the classical theories of Adam Smith, David Ricardo, John Stuart Mill, and Karl Marx.

The establishment of this new paradigm unfolded over a long period and can be divided into three key phases. The first phase, from 1871-1874, saw the independent and simultaneous development of the diminishing marginal utility concept by the pioneers of the Austrian, British, and French schools viz. Carl Menger, William Stanley Jevons, and Léon Walras, respectively. The second phase, from 1890-1894, was characterised by the establishment of the marginal productivity theory of distribution by economists like John Clark and Knut Wicksell. The third and final period, from 1934-1947, represented a revival and consolidation of marginalist ideas with the introduction of ordinal utility and the formalisation of the neoclassical theory of value by economists such as John Hicks and Paul Samuelson.

The marginalist school was fundamentally different from its classical predecessor. While classical economists focused on the broad problems of production and an objective view of value, marginalists concentrated on the optimal use of scarce resources to satisfy human wants from a subjective, consumer-centric perspective. They introduced the crucial idea of equilibrium, seeing it as a state where prices and quantities are simultaneously determined across all variables. In their approach, prices directly reflect scarcity relative to consumer preferences. This framework also viewed income distribution as a specific case of price theory. The most significant contribution of the marginalists was undoubtedly the concept of Diminishing Marginal Utility. This crucial characteristic of demand was identified by the so-called 'Marginalist Trio', Jevons, Menger, and Walras who collectively earned the school its name.

#### 4.1.1.1 Gossen's Laws and The Foundation of Marginal Economics

Herman Heinrich Gossen was one of the forerunners of the Marginalist school. His ideas were actually the foundation of Marginal school of thought. His ideas did not receive any attention during his lifetime and was reconsidered only when Leon Walras took it forward to understand the marginal concept in economics. His main findings can be summarised as three laws of economics.

**Gossen's First Law or Law of Diminishing Marginal Utility:** It is the basic concept of diminishing marginal utility. It states that increasing consumption of a good results in a smaller additional satisfaction for the consumer. Gossen's idea has been discussed by numerous scholars like Jeremy Bentham, Daniel Bernoulli, Nassau William Senior, W.F. Lloyd, etc.

**Gossen's Second Law or Law of Equi-Marginal Utility:** It discusses the equi-marginal principle, when we have a given budget (Gossen uses time) an individual will maximise his utility when he allocates his expenditure among different commodities so that he receives the same amount of satisfaction from the last unit of each good consumed. Gossen also uses two side-by-side diagrams to illustrate Law of equi marginal utility.

Gossen's Second Law can be more generally stated that the consumer will equalise marginal utilities weighted by price, or, if money is being used, until he obtains the same amount of satisfaction from the last unit of money spent upon each commodity i.e., equality of the ratio of marginal utilities to the ratio of prices,

$$\text{i.e., } MU_a/P_a = MU_b/P_b \text{ for any two goods a, b.}$$

This is one of the most important contributions of Marginal Revolution to economics.

**Gossen's Third Law:** The third law of Gossen deals with the value of a good only when the demand for it exceeds supply. Gossen states that as marginal utility decreases with consumption of additional units of a good, a good can only have positive marginal utility i.e., value if the supply of the good is less than what is needed for the satisfaction of the consumer. He applied these laws to all kinds of economic activities.

He also introduced a concept of disutility theory of labour supply later elaborated by William Stanley Jevons. The guiding principle of Gossen's economic thought was the maximisation of utility philosophy. From his philosophical base of utilitarianism, Gossen concluded that the market exchange outcome also maximised social utility. This was later criticised by Leon Walras. Gossen thus set the stage for marginal revolution in economics that was later taken up by the Austrian School.

#### 4.1.1.2 Walras and the Marginal Utility of General Equilibrium

The French economist Leon Walras has been termed by Joseph Schumpeter as the greatest of all economists. Walras was one of the leading economists of the Marginal School. Most of his ideas got published in his book '*Elements of Pure Economics*'. Walras is widely and rightfully regarded as the father of general equilibrium theory. His book sets the stage for discussions on General equilibrium theory. He begins with the idea of a two-commodity pure exchange model where demand-supply dynamics is understood through the concept of utility maximisation. Walrasian General equilibrium theory is called 'comprehensive' because it takes into account different kinds of economic activities and factors i.e., exchange, production, consumption, capital formation, and money.

Walrasian analysis was based on markets in which prices are determined by the forces of supply and demand without conflict, which Walras meant by the term 'free competition'. Another fundamental building block of Walras's general equilibrium model is his idea of marginal utility and the maximisation of total utility by all economic agents. Those concepts provided a motive for economic behaviour and a condition of equilibrium. Instead of confining the marginal utility theory to the operation of consumption and of simple exchange, Walras went far beyond the work of other economists by analysing consumer behaviour in multiple markets of a variety of participants undertaking different economic functions. In his model of consumer behaviour, Walras assumed that the utility a consumer derives from any commodity is independent of the amount he or she consumes of other commodities. For him, utility can be measured in numbers and that each individual's demand for a commodity is a function of the prices of all commodities. A consumer efficiently maximises total utility by buying the quantity of each commodity that makes the utility received from the expenditure of a unit of money on it equal for every commodity purchased.

Walrasian model of production actually shows how the demand for factors of production is actually an indirect demand for goods. His analysis of production was first based on fixed technology, but later modified to understand production with flexible technology. In his theory of capital, Walras incorporates capitalisation of future earnings and presents a theory of saving and credit. Walras developed the first macroeconomic savings function. He presented a model of processes by which capitalists transfer their money savings to entrepreneurs through purchasing stocks and bonds and analysed those processes in the working of credit markets. Walras showed how the capital goods that the entrepreneurs produce are priced and employed in the best possible ventures. He also constructed a model of the determination of the rate of net income generated by the use of capital goods, and of the determination of the market and equilibrium rates of interest.

Walras also saw money playing a crucial role in ensuring future services and thus saw it as a desired good in a general choice situation. His analysis was not based on static conditions, but was based on a continuous market and a growing economy. Walras influence in economics spread from US to Russia and he collaborated with his student Vilfredo, Pareto. They later became the main economists of the Lausanne School.

Modern microeconomic analysis is based on the ideas of Walras. In his book, Walras defined pure economics as the theory of determination of prices under a system of free competition. Walras developed a thesis that became a central idea in the study of welfare economics, namely that free competition tends to generate a maximum good for the entire society. Some of the features of competitive markets according to Walras are maximisation of utility by economic agents, the setting of prices that equalises supply and demand and the free will of the consumer.

## Recap

- ◆ The Marginal Revolution marked a shift from Classical to Neoclassical economics, emphasising subjective value and marginal utility
- ◆ Gossen introduced key marginalist concepts, including diminishing marginal utility and the equi-marginal principle
- ◆ Marginalist theory established the law of demand, linking price to diminishing marginal utility
- ◆ Menger's theory of production distinguished between consumer goods and higher-order goods
- ◆ The Austrian School emphasised time, uncertainty, and spontaneous order in economic processes
- ◆ Walras pioneered general equilibrium theory, integrating utility maximisation, factor markets, and capital formation in a competitive economy

## Objective Questions

1. What is the aim of economics according to Leon Walras?
2. Why is Walrasian General Equilibrium theory called comprehensive?
3. How did Walras define pure economics?
4. What does the Walrasian model of production show?
5. What is Gossen's first economic law?
6. Who put forward the preliminary ideas of the marginalist school?
7. Give the mathematical representation of Gossen's Second Law.

## Answers

1. Creation of social wealth
2. Because it takes into account different kinds of economic activities and factors- exchange
3. Walras defined pure economics as the theory of determination of prices under a system of free competition.
4. Walrasian model of production shows how the demand for factors of production is actually an indirect demand for goods.
5. Gossen's First Law is the basic concept of diminishing marginal utility.
6. Gossen
7.  $MUa/Pa = MUb/Pb$

## Assignments

1. What is Marginal Revolution, and how did it change economics?
2. Discuss Gossen's contributions to Marginal analysis.
3. Elucidate Walras' contribution to economic theory?

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# Contributions of Marshall

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ analyse the importance of Marshallian economic thought
- ◆ evaluate the concept of the law of diminishing marginal utility
- ◆ familiarise with the concept of consumer surplus

### Prerequisites

Demand and supply are the two terms in economics that you might have come across. The entire economic system runs on the basis of demand and supply of goods and services. Marshallian economic analysis, especially the demand-supply tools used to explain the operation of economies has remained popular in mainstream economics. The neoclassical economics is largely based on Marshallian principles. Marshallian ideas actually laid the foundation of Neo-Classical economics. Marshall studied mathematics, philosophy, ethics, metaphysics and economics. Most of his contributions was in the field of economics. His specific interest was in understanding the principles of microeconomics. Individual decision making was his subject of interest. He approached this question with a scientific bent of mind. He was an exemplary teacher who changed the way that economics was taught by applying it to real world situations. Marshall wanted to humanise economics because he believed that every person sought own, or at least children's best interest. Marshall's most important contributions to economics are the concept of supply and demand, the law of diminishing marginal utility and the idea of consumer surplus.

## Keywords

Neo-Classical economics, Demand, Supply, Short run, Long run, Equilibrium, Diminishing Marginal Utility, Consumer Surplus

### 4.2.1 Alfred Marshall

Alfred Marshall's (1842-1924) contributions to the Neo-classical school were extensive and transformative, synthesising key economic theories from the classical school with the new subjective approach of the marginalists. His intellectual journey culminated in a body of work that profoundly influenced the direction of economic thought. Marshall's first significant contributions to economic literature were two essays published in a single volume in 1879: *The Pure Theory of Foreign Trade* and *The Pure Theory of Domestic Values*. However, it was his magnum opus, the *Principles of Economics*, published in 1890, that cemented his legacy and became the leading reference text for economics students for generations to come.

Marshall embarked on a detailed analysis of equilibrium in foreign trade and logically progressed to a comprehensive theory of internal prices, in his *Principles of Economics*. He argued that value in exchange is determined by the equilibrium between the forces of supply and demand. This core Marshallian analytical framework is built upon the concept of equilibrium, which he explored in both the short and long run. The demand function in his analysis is always derived from individual preferences, linking his work directly to the subjective utility theory of the marginalist school.

He was born in London and came from a modest bourgeois family. The second son of a Bank of England clerk, he received his education at Merchant Taylors, a non-residential private school. From an early age, Marshall demonstrated a strong aptitude for mathematics, a skill that would prove foundational to his later work. With financial support from an uncle, he enrolled at St. John's College, Cambridge University, in 1862, to pursue the Mathematical Tripos, a rigorous mathematics examination. In 1865, he achieved the distinguished rank of 'Second Wrangler', the second-highest score on the exam. After a brief period as a substitute teacher in Bristol, Marshall was elected as a fellow of St. John's at the end of 1865. He then spent several years as a tutor before being appointed as a lecturer in moral sciences at St. John's in 1868.

During this period, Marshall's intellectual interests evolved significantly. He shifted away from pure mathematics and developed a keen interest in moral philosophy, ethics, and metaphysics, which ultimately led him to economics. Beginning in 1867, he undertook a deep analysis of John Stuart Mill's *Principles of Political Economy* and became profoundly engaged with the political and economic debates of the era. Marshall's study of economics expanded to include the works of classical economists like Adam Smith and David Ricardo, whose ideas heavily influenced his own. He began to translate his economic thinking into diagrams and curves, a practice that would become one of his most lasting contributions. By his own account, around 1869-70, while working on a treatise on foreign trade that was never published, he introduced his



now-famous supply-and-demand diagram in its modern form, with price on the vertical axis and quantity on the horizontal axis. This diagram became the fundamental stepping stone for the entire field of microeconomics.

After marrying Mary Paley, Marshall resigned from his position at Cambridge and joined Bristol University College. Together, in 1879, they authored *The Economics of Industry*, which became a widely used textbook. In the same year, Marshall privately printed his two smaller works, *Pure Theory of Foreign Trade* and *Pure Theory of Domestic Values*, for circulation among fellow economists. These works contained his groundbreaking diagrams, introducing the famous Marshallian 'offer curves' in the first and the demand-and-supply diagrams and the theory of consumer's rent in the second. In 1880, due to ill health, Marshall resigned from Bristol to recuperate in Palermo, Sicily. It was there that he began writing what would become his most famous work, the *Principles of Economics*, a project that would take him more than a decade to complete. The Marshalls returned to England in 1882, teaching at Bristol for another year before Alfred was appointed to Oxford University in 1883, where he served for two years. In 1885, he was elected Professor of Political Economy at Cambridge University, a position he held for a very long time. Marshall also lent his expertise to several British parliamentary commissions from 1886 to 1899, advising on a range of topics, including trade, currency, poverty, and local finance. He served on the labour commission from 1891 to 1894 and authored a significant paper on economic policy and trade in 1903, which was later published in 1908.

One of Marshall's key innovations was the introduction of different market periods to explain how supply adjusts to changes in demand over time. In the market period, the quantity of goods available for sale is fixed, so supply cannot respond to demand shifts. In the short period, while the production capacity of an industry remains fixed, firms can adjust output levels and input prices to balance marginal cost (MC) and marginal revenue (MR), thus ensuring profit maximisation. In the long period, capital goods such as factories and machinery can be altered, allowing firms to fully adjust their production levels for long-term profitability. Finally, in the very long period, all factors, including technology, population, and consumer habits, are subject to change, influencing both the supply and demand sides of the economy. Marshall believed that, over the long run, supply is the most important factor in determining prices, as it can be more easily adjusted to meet changes in demand.

#### 4.2.2 Law of Diminishing Marginal Utility

People consume goods to gain utility, and as they consume more of the same good, the additional satisfaction or marginal utility they receive from each extra unit of the good decreases. This principle plays a crucial role in understanding consumer behaviour and demand.

Marshall's approach to utility was additive, i.e., total utility is obtained by summing the individual utilities from different goods. His utility function can be expressed as follows.

$$U = f_1 q_A + f_2 q_B + f_3 q_C + \dots + f_n q_N$$

This function assumes that the utility received from consuming a specific good, such as good A, depends only on the quantity of that good and not on other goods. Marshall's theory assumes that utility can be measured using the price system. If an individual is willing to pay ₹ 2 for an additional unit of good A and ₹ 1 for an additional unit of good B, then good A must provide twice the utility of good B.

#### 4.2.2.1 The Principle of Diminishing Marginal Utility

The Law of Diminishing Marginal Utility states that as an individual consumes more units of a particular good, the marginal utility, additional satisfaction from each extra unit decreases. This principle is based on Gossen's First Law and is fundamental in explaining why demand curves slope downward. Marshall formulated the equilibrium condition for utility maximisation, known as Gossen's Second Law. This states that consumers allocate their spending so that the last rupee spent on each good yields the same marginal utility. Mathematically, the ratio of marginal utility to price should be equal for all goods, revealing the marginal utility of money ( $MU_M$ ).

$$MU_A = P_A \cdot MU_M$$

Here,  $MU_A$  = Marginal utility of good A (the additional satisfaction from consuming one more unit of A),  $P_A$  = Price of good A, and  $MU_M$  = Marginal utility of money (the additional satisfaction from spending one more unit of money).

The equation states that the marginal utility of a good ( $MU_A$ ) is equal to the product of its price and the marginal utility of money. This means that the value derived from the last unit of good A must be proportional to its cost in terms of money.

#### 4.2.2.2 Demand and the Law of Diminishing Marginal Utility

Alfred Marshall's theory provides a clear explanation for the downward-sloping demand curve, which illustrates why people demand more of a good as its price falls. This relationship is primarily driven by the law of diminishing marginal utility. This law states that as an individual consumes more of a specific good, the extra satisfaction or marginal utility gained from each additional unit decreases. Consequently, consumers are only willing to purchase larger quantities if the price is lower, as each subsequent unit is less valuable to them. The down-ward sloping demand curve is shown below.

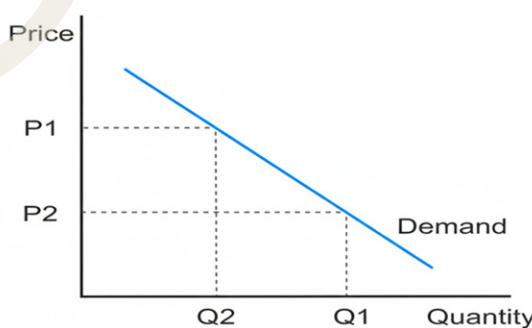


Fig 4.2.1 Demand Curve

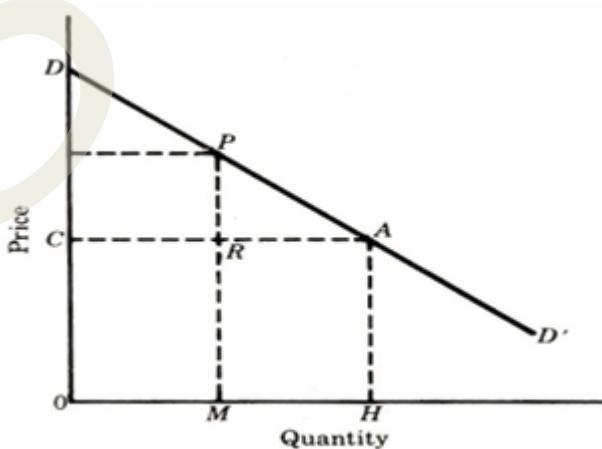
Two distinct but interconnected effects contribute to this price-quantity relationship: the substitution effect and the income effect. The substitution effect occurs when the price of a good, say good A, decreases, making it relatively cheaper compared to its alternatives. As a result, consumers will substitute other goods with good A, increasing its quantity demanded. The income effect, on the other hand, is a change in purchasing power. A drop in price effectively increases a consumer's real income, allowing them to buy more of the good whose price has fallen or to purchase more of other goods.

For most products, which economists call normal goods, both the substitution and income effects work in tandem to increase the quantity demanded when the price falls. However, for inferior goods, the income effect works in the opposite direction; as a consumer's real income increases, they tend to buy less of these cheaper, lower-quality products and opt for superior alternatives. In very rare circumstances, the income effect can be so powerful that it overwhelms the substitution effect, leading to a phenomenon known as a Giffen good. In these unusual cases, when the price of a good drops, consumers buy less of it, and when the price rises, they buy more, resulting in an unusual upward-sloping demand curve.

### 4.2.3 Consumer Surplus

Alfred Marshall introduced the concept of consumer surplus, which measures the difference between what a consumer is willing to pay for a good and what they actually pay in the market. This idea is based on the law of diminishing marginal utility, which states that as consumers purchase more of a good, its marginal utility decreases, and they are willing to pay less for additional units. Marshall argued that while consumers pay a single market price for all units of a good, they would have been willing to pay higher prices for the earlier units due to their greater utility. The difference between their total willingness to pay and their actual expenditure is called consumer surplus. It represents the extra benefit or monetary gain that consumers receive when purchasing a commodity.

Let us examine the concept of consumer surplus with the help of a diagram.



**Fig 4.2.1 Consumer Surplus**

In the figure,  $DD'$  is the demand curve, which shows how much consumers are willing to pay for different quantities of a good.  $OC$  is the market price, and at this price, consumers buy  $OH$  quantity. The  $OM^{\text{th}}$  buyer would have been willing to pay  $MP$  but actually pays only  $MR$ , so their individual consumer surplus is  $RP$ . Total consumer surplus is represented by the area  $CDA$ , which is the difference between what consumers were willing to pay ( $ODAH$ ) and what they actually paid ( $OCAH$ ).

## Recap

- ◆ Alfred Marshall synthesised Classical and Marginalist economic theories, contributing significantly to Neoclassical economics
- ◆ Key works include *Principles of Economics* (1890) and *Economics of Industry* (1879), introducing demand-supply diagrams and equilibrium analysis
- ◆ Born in London (1842), excelled in mathematics, studied at Cambridge, and shifted from mathematics to economics
- ◆ Utility theory based on additive utility functions, Gossen's Second Law for utility maximisation, and marginal utility of money (MUM).
- ◆ Law of Diminishing Marginal Utility explains downward-sloping demand curves and consumer behaviour
- ◆ Introduced Consumer Surplus, showing the difference between willingness to pay and actual price

## Objective Questions

1. What was Alfred Marshall's major work that changed the course of economic history?
2. Define Law of Diminishing Marginal Utility?
3. What is Consumer Surplus?
4. Name the two effects that influence demand when the price of a good decreases?
5. State Gossen's Second Law?
6. What is the main idea behind Marshall's additive utility function?

7. What is the income effect in demand analysis?
8. What is the substitution effect in demand analysis?
9. Define marginal utility of money?
10. Write the key assumption in Marshall's utility function?

## Answers

1. Principles of Economics (1890)
2. Marginal utility decreases as consumption of a good increases
3. Difference between willingness to pay and actual price paid
4. Substitution effect and income effect
5. Consumers allocate spending to equalise marginal utility per dollar across goods
6. Total utility is the sum of utilities from individual goods.
7. Lower price increases real income, allowing more purchases
8. Consumers buy more of a good when it becomes cheaper relative to substitutes
9. Additional satisfaction from spending one more unit of money
10. Utility from a good depends only on its quantity, not on other goods

## Assignments

1. What are the major contributions of Alfred Marshall in the field of economics?
2. How did Marshall's early education and career influence his later work in economics?
3. What is the Law of Diminishing Marginal Utility, and how does it affect consumer behaviour?
4. Define Consumer Surplus and explain how it is calculated.

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# Keynes

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ comprehend the key contributions of John Maynard Keynes to economic thought
- ◆ explain the main principles of Keynesian economics
- ◆ identify the key assumptions of Keynesian and classical economic theories

### Prerequisites

The Great Depression of 1929 revealed the fundamental flaws in classical economics, which was based on the premise that markets are inherently self-regulating. This theory held that economic downturns were temporary and that forces of supply and demand would naturally restore full employment and economic balance. However, the Depression plunged the global economy into a prolonged crisis marked by mass unemployment, widespread poverty, and a sharp decline in consumer spending, proving that the market was not automatically correcting itself. As consumer demand plummeted, businesses were forced to cut production and lay off workers, which in turn further reduced spending, creating a vicious cycle of economic contraction that classical theory could not explain.

In direct response to this crisis, John Maynard Keynes developed a new economic framework known as Keynesian economics. He rejected the classical idea of a self-correcting market, arguing that economies could remain trapped in a downturn for an extended period. Keynes attributed economic depressions to under-consumption, where a decline in overall spending leads to reduced investment and job losses. When businesses anticipate low profits, they cut production, which causes unemployment to rise, further decreasing consumer

spending and perpetuating the negative cycle. According to Keynes, this cycle would not be resolved on its own.

To break this cycle, Keynes argued for decisive government intervention through fiscal and monetary policies. He believed that public spending, particularly on large-scale public works projects, could directly inject money into the economy, creating jobs and boosting incomes. This increase in income would lead to a rise in aggregate demand, prompting businesses to increase production and hire more workers, thereby stimulating the economy. Keynesian economics challenged the traditional laissez-faire approach by demonstrating that government action is essential for stabilising the economy during a crisis, establishing a new paradigm that has influenced policy for decades.

## Keywords

Great Depression, Keynesian Economics, Classicism, Aggregate Demand, Fiscal policy

## Discussion

### 4.3.1 John Maynard Keynes

John Maynard Keynes (1883–1946), one of the most influential economists of the 20th century, fundamentally reshaped economic thought with his work, *The General Theory of Employment, Interest, and Money*. The ideas presented in this book sparked the Keynesian Revolution, a major shift toward a new economic paradigm often referred to as New Economics. Keynes is widely considered the father of modern macroeconomics, a field dedicated to the study of the economy as a whole.

He was born in 1883 into a family of significant intellectual distinction. His father, John Neville Keynes, was a notable economist, and his mother served as the mayor of Cambridge. Growing up in this intellectually stimulating environment, Keynes went on to study economics at Cambridge University under the guidance of renowned economists like Alfred Marshall and Arthur Pigou. Ironically, despite his later fame, Keynes didn't excel in his economics exams, famously remarking that his examiners "presumably knew less than I did." After his studies, he briefly worked in the British civil service before returning to Cambridge to further develop his economic theories.

Keynes's influence extended beyond academic circles and into practical economic policy, particularly during times of crisis. He worked at the India Office and later served in the British Treasury from 1915 to 1919. As the principal representative of the Treasury at the Paris Peace Conference after World War I, Keynes strongly disapproved of the harsh economic penalties imposed on Germany. In a significant act of dissent,



he resigned and wrote *The Economic Consequences of the Peace* (1919), in which he warned of the negative effects of the Treaty of Versailles.

The Great Depression of the 1930s deeply influenced Keynes's economic ideas. At the time, classical economic thought, which followed the laissez-faire principles of economists like Adam Smith and David Ricardo, was unable to explain the widespread unemployment and prolonged economic downturn. Keynes challenged this prevailing view by introducing the concept that government intervention was not just desirable but necessary to stabilise the economy and stimulate demand.

Keynes rejoined the British Treasury in 1940 and played a key role in financing the war effort. He was instrumental in the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Keynes authored several important books, including *Indian Currency and Finance* (1913), *The Economic Consequences of the Peace* (1919), *A Tract on Monetary Reform* (1923), *The End of Laissez-Faire* (1926), *A Treatise on Money* (1930), *The General Theory of Employment, Interest, and Money* (1936) his most influential work, and *How to Pay for the War* (1940).

### 4.3.2 General Theory and The Background of Keynesian Economics

“You have to know that I believe myself to be writing a book on economic theory which will largely revolutionise nor, I suppose at once, but in the course of the next ten years-the way the world thinks about economic problem.”, Keynes wrote to Bernard Shaw in 1935.

Keynesian economics evolved mainly after the Great depression of 1929. Lasting a decade from 1929 until the start of World War II, it was the longest and deepest economic downturn in the history of the United States and the modern industrial world. The crisis began in the U.S. and swiftly spread globally, marked by a catastrophic drop in industrial production, soaring unemployment, and severe hardship for families, which even led to a decline in marriage rates (Bernanke).

This period was punctuated by a series of financial crises, beginning with the 1929 stock market crash that ended the Roaring Twenties. This was followed by multiple regional and national banking panics between 1930 and 1933, culminating in the complete collapse of the commercial banking system. The downturn hit its lowest point in March 1933, when President Roosevelt declared a national banking holiday. While sweeping financial reforms and a subsequent economic recovery followed, this was interrupted by a double-dip recession in 1937. Full economic output and employment were not restored until the start of the Second World War.

During the Great Depression of the 1930s, existing economic theory was unable either to explain the causes of the severe worldwide economic collapse or to provide an adequate public policy solution to jump-start production and employment. British economist John Maynard Keynes spearheaded a revolution in economic thinking that overturned the then-prevailing idea that free markets would automatically provide full employment, that is, that everyone who wanted a job would have one as long as workers

were flexible in their wage demands. The main plank of Keynes's theory, which has come to bear his name, is the assertion that aggregate demand measured as the sum of spending by households, businesses, and the government is the most important driving force in an economy. Keynes further asserted that free markets have no self-balancing mechanisms that lead to full employment. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability.

The Keynesian Revolution was a fundamental reworking of economic theory concerning the factors determining employment levels in the overall economy. The revolution was set against the then orthodox economic framework, namely neoclassical economics. John Maynard Keynes analyse the reasons for the Depression and suggest ways to overcome it. Keynes stated that inadequate demand could lead to extended periods of high unemployment. An economy's total output of goods and services is a combination of four components viz. consumption, investment, government purchases, and net exports (the difference between what a country sells to and buys from foreign countries). If there should be an increase in output, it should be the result of the increase of any one of these components. Whenever there is a slowdown in the economy people start spending less and thereby the demand slows down.

For example, during economic downturns like the COVID-19 pandemic uncertainty often reduces consumer confidence, causing them to decrease their spending. This reduction in spending by consumers will cause less investment spending by businesses. As there is lesser demand from consumer, firms too face a contraction of sales. Now, the task of increasing output rests with the government. According to Keynesian economics, state intervention is most essential to moderate the booms and busts in economic activity, otherwise known as the business cycle.

Keynes emphasised the importance of Aggregate Demand for economic growth. Keynes asserted that free markets have no self-balancing mechanisms that lead to full employment. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability. Aggregate Demand is influenced by both public spending (government expenditure) and private spending (household and business consumption and investment). Sometimes, private sector decisions can lead to economic problems, such as reduced consumer spending during a recession. To correct these market failures, the government should intervene by increasing public expenditure. This is why Keynesian economics supports a mixed economy, where the private sector drives growth but the government plays a regulatory role.

According to Keynes, prices and wages are rigid, they do not adjust quickly to changes in supply and demand. This can lead to shortages and surpluses, especially in the labour market, causing unemployment. In the short run, both expected and unexpected changes in Aggregate Demand have a major impact on real output and employment, rather than on prices. Because prices do not adjust immediately, fluctuations in consumption, investment, or government expenditure affect output levels.

Keynes also introduced the concept of the multiplier effect, which means that an increase in government spending leads to a larger overall increase in output and income.

If the fiscal multiplier is greater than one, a one-rupee increase in government spending will generate more than one rupee in total economic output. This shows how even a small change in income can have a significant impact on economic growth.

What distinguishes Keynesians from other economists is their belief in activist policies to reduce the amplitude of the business cycle, which they rank among the most important of all economic problems. Rather than seeing unbalanced government budgets as wrong, Keynes advocated so-called countercyclical fiscal policies that acted against the direction of the business cycle. For example, Keynesian economists would advocate deficit spending on labour-intensive infrastructure projects to stimulate employment and stabilise wages during economic downturns. They would raise taxes to cool the economy and prevent inflation when there is abundant demand-side growth. Monetary policy could also be used to stimulate the economy for example, by reducing interest rates to encourage investment. The exception occurs during a liquidity trap, when increases in the money stock fail to lower interest rates and, therefore, do not boost output and employment.

Keynes argued that governments should solve problems in the short run rather than wait for market forces to fix things over the long run, because, as he wrote, “In the long run, we are all dead.” This does not mean that Keynesians advocate adjusting policies every few months to keep the economy at full employment. In fact, they believe that governments cannot know enough to fine-tune successfully.

Even though his ideas were widely accepted while Keynes was alive, they were also scrutinised and contested by several contemporary thinkers. Particularly noteworthy were his arguments with the Austrian School of Economics, whose adherents believed that recessions and booms are a part of the natural order and that government intervention only worsens the recovery process.

Keynesian economics dominated economic theory and policy after World War II until the 1970s, when many advanced economies suffered both inflation and slow growth, a condition known as ‘stagflation’. Keynesian theory’s popularity reduced then because it did not have a proper policy response for stagflation. Monetarist economists, who believe in controlling money supply to manage an economy, questioned the ability of governments to regulate the business cycle with fiscal policy and argued judicious use of monetary policy. They believe that essentially controlling the supply of money to affect interest rates could alleviate the crisis.

The Keynesian economic thought started to receive renewed attention during the financial crisis of 2007-08. The response of most of the governments to the crisis was based on Keynesian ideas. Keynesian economic thought became the most important set of ideas that economies found practicability in applying during the time of crisis. The financial crisis was an opportunity for economists to incorporate the role of the financial system into Keynesian analysis.

### 4.3.3 Keynesianism Versus Classicism

The core debate between Keynesian and Classical economics centers on a fundamental question: how does an economy operate, and what role, if any, should the government

play? Classical economists, like Adam Smith and J.B. Say, were firm believers in laissez-faire, the idea that free markets are self-regulating and operate best without government interference. In contrast, John Maynard Keynes, shaped by the experience of the Great Depression, developed a new school of thought that championed active government intervention to manage economic fluctuations.

## Key Differences

- Focus of Economic Study:** Classical economists were primarily concerned with the distribution of national income - how wages, profits, and rent are divided among different social classes. Keynes, however, shifted the focus to the level of national income, output, and employment. He sought to understand the causes of widespread unemployment and economic crises, not just how existing income was shared.
- Micro vs. Macro Approach:** Classical economics used a microeconomic approach, analysing individual markets in isolation. Keynesian economics, on the other hand, adopted a macroeconomic approach, studying the economy as a whole. Keynes pioneered the concept of general equilibrium to illustrate how all sectors of the economy are interconnected.
- Say's Law vs. Aggregate Demand:** Classical theory relied on Say's Law, which posited that "supply creates its own demand" and that production would automatically generate enough income to be sold, preventing prolonged unemployment. Keynes rejected this, arguing that aggregate demand, total spending in the economy is what determines employment levels. He introduced the concept of marginal propensity to consume to demonstrate that not all income is spent, meaning a lack of demand can lead to a business slowdown and job losses.
- Unemployment:** Classical economists believed that unemployment was a temporary issue that the market would naturally fix. Keynes, in a departure, showed that unemployment can persist indefinitely if demand remains low. His work laid the foundation for the idea that government intervention is necessary to stabilise the economy during a recession.
- Short-Run vs. Long-Run:** Classical economists focused on the long-run equilibrium of the economy, trusting that market forces would eventually solve all problems. Keynes famously countered this with his quote, "In the long run, we are all dead," emphasising the urgent need for short-term solutions to address unemployment and stimulate demand immediately.
- Saving vs. Spending:** Classical economists encouraged saving, believing it would be funneled into investment and economic growth. Keynes, however, warned that during a downturn, excessive savings can reduce aggregate demand, leading to less investment and more unemployment. He advocated for higher spending to boost demand and get the economy moving again.
- Wages and Employment:** Classical economists like Arthur Pigou argued that cutting wages would reduce production costs, lower prices, and ultimately boost demand and employment. Keynes disagreed, arguing that

lower wages would reduce workers' incomes and spending, worsening the crisis instead of resolving it.

8. **Money and Interest Rates:** Classical theory saw interest rates as the sole mechanism for balancing savings and investment. Keynes introduced the concept of liquidity preference, arguing that interest rates are determined by the demand and supply of money. He showed that even low interest rates may not spur investment if businesses have a pessimistic outlook.
9. **Static vs. Dynamic Analysis:** Classical economists used static analysis, assuming a stable and unchanging economic system. Keynes brought dynamic elements into economic theory, such as expectations and uncertainty, to explain how these factors influence investment decisions and economic fluctuations.
10. **Government Spending and Budget Deficits:** Classical economists promoted a balanced budget. Keynes, by contrast, advocated for deficit spending - government borrowing - during economic downturns. He argued this fiscal policy would inject money into the economy, boost demand, and create jobs.
11. **Money Supply and Inflation:** Classical economists adhered to the Quantity Theory of Money, which states that an increase in the money supply directly leads to inflation, assuming full employment. Keynes argued that in an economy below full employment, increasing the money supply would boost production rather than just raising prices, though he acknowledged inflation could occur if there were supply bottlenecks.
12. **Role of Government:** This is the most significant difference. Classical economics supported a laissez-faire approach with minimal government intervention. Keynes called for an active government role in managing the economy through policies like public works programmes and demand management to prevent recessions and maintain stability.

## Recap

- ◆ Keynes' most influential work, *The General Theory*-introducing concepts like aggregate demand, the multiplier effect, and the importance of government spending
- ◆ Aggregate Demand-Total spending in the economy drives output and employment
- ◆ Keynes argued that during recessions, governments should increase spending to boost demand and reduce unemployment
- ◆ Keynes exposed flaws in classical economics, leading to the rise of Keynesian ideas as a solution to great depression

- ◆ Classical Economics - believes in free markets, self-regulation, and minimal government intervention (e.g., Adam Smith, David Ricardo)
- ◆ Say's Law-Classical idea that “supply creates its own demand,” which Keynes rejected, arguing demand drives economic activity
- ◆ Keynes prioritised short-term solutions to unemployment and recessions, famously stating, “In the long run, we are all dead”
- ◆ Keynes advocated for deficit spending during recessions and raising taxes during booms to stabilise the economy
- ◆ Classical-Free markets, long-term equilibrium, absence of government intervention
- ◆ Keynes-Government intervention, short-term, demand management
- ◆ Keynesian economics dominated post-world war II economic policy and saw a revival during the 2007-08 financial crisis

## Objective Questions

1. Who is considered as the father of macroeconomics ?
2. What is Keynes' most famous work?
3. Why did Keynes advocate for government intervention?
4. What is the multiplier effect?
5. What is the main difference between Keynesian and Classical economics?
6. What is Say's Law?
7. What is fiscal policy?
8. What is wage rigidity?
9. What event influenced Keynes' economic ideas the most?
10. What was the Keynesian Revolution?

## Answers

1. John Maynard Keynes
2. *The General Theory of Employment, Interest, and Money*
3. To address market failures and stabilise the economy during recessions
4. An increase in government spending leads to a larger overall increase in economic output
5. Keynesian economics supports government intervention, while Classical economics believes in free markets
6. “Supply creates its own demand”
7. Government use of spending and taxation to influence the economy
8. Wages and prices do not adjust quickly to changes in supply and demand
9. The Great Depression of the 1930s
10. A shift in economic thought emphasising government intervention to manage demand

## Assignments

1. Explain the main ideas of Keynesian Economics in your own words.
2. What is the difference between Keynesian and Classical economics?
3. What is the multiplier effect? How does it work in Keynesian economics?
4. Why did Keynes argue that wages and prices are rigid? How does this relate to unemployment?
5. What was the impact of the Great Depression on Keynes' economic theories?
6. How does Keynesian economics justify government intervention during a recession? Provide examples.

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# Indian Economic Thought I



# Economic Ideas of Ancient India

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ know what the Arthashastra is
- ◆ identify Kautilya's ideas on governance and economy
- ◆ recognise the value of ancient wisdom today

### Prerequisites

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

### Keywords

Kautilya, Arthashastra, Varta, Husbandry, Welfare State



## Discussion

### 5.1.1 Contributions of Kautilya and Ancient Wisdom

Chanakya, also called Kautilya or Vishnugupta, (flourished 300 BCE), was a Hindu statesman and philosopher, wrote a classic treatise on polity, *Arthashastra*, “The Science of Material Gain”, a compilation of almost everything that had been written in India up to his time regarding *artha* (property, economics, or material success). He was born into a Brahman family and received his education at Taxila, now in Pakistan. He is known to have had knowledge of medicine and astrology, and it is believed he was familiar with elements of Greek and Persian learning introduced into India by Zoroastrians. Some authorities believe he was a Zoroastrian or at least was strongly influenced by that religion. Chanakya became a counselor and adviser to Chandragupta (reigned 321–297 BCE), founder of the Mauryan Empire of northern India, but lived by himself. He was instrumental in helping Chandragupta overthrow the powerful Nanda dynasty at Pataliputra, in the Magadha region.

- 1. Wealth:** The concept of wealth as held by Kautilya was very wide in its scope. To him, wealth included money, commodity, the acquired wealth, public or private property, precious metals, the accumulated wealth, negotiable and transferability and the power of appropriation. He also included labour and forest produce in wealth. To him, “wealth is to be acquired grain by grain, as learning is to be acquired every moment. Acquisition of wealth is always beneficial if it is acquired for the sake of a good wife, a son or a friend or for giving away in charity”. Thus, Kautilya justified wealth which was earned through proper means, and also he thought that accumulation of wealth was a safe method for protecting the people against famines.
- 2. Varta:** Ancient thinkers used the word Varta to mean the science of national economy. Kautilya included agriculture, animal husbandry and trade in Varta. According to Mahabharata, Varta was the roof of the world, a thing which was most essential for economic stability. It was necessary for the King to learn about the essentials of national economy from scholars and specialists in order to discharge his functions successfully as a ruler.
- 3. Agriculture and Animal Husbandry:** Agriculture and animal husbandry formed the important components of Varta. These were regarded as the basic sources of new wealth. Agriculture was given the pride of place among the occupations adopted by the people. The art of agriculture reached a high degree of perfection and our ancient scholars well understood the minutest details of agricultural techniques. They have mentioned in their books, rotation of crops, intensive and extensive cultivation,

large and small scale farming, use of fertilizers, crop diseases and their eradication, irrigation by rivers and tanks, cattle farming, seed selection, evils of the fragmentation of holdings etc. To them the largest source of State income was land revenue. In those days the State and the community were responsible for the development of agriculture for which the waste lands were to be cleared. The value of the land was determined on the basis of its fertility. The fair prices of agricultural produce were fixed by the state to save cultivators from the clutches of traders.

4. **Labour:** The ancient sages appreciated the dignity of labour. Manu and Kautilya have dealt with the methods for the regulation of wages and the settlement of disputes between employers and workers. Kautilya did not recommend slave labour. But hired labour was there. Kautilya had laid down a code of labour discipline. For instance, he suggested that a wage worker, who abandoned his work before the term had expired, was to pay the whole amount of stipulated wages to his employer and a fine to the King. On the other hand, if an employer dismissed a workman whom he had hired before the expiration of the term agreed upon, he must pay the full amount of wages stipulated and a fine to the King, unless the workman was to blame.
5. **Trade:** Gold and bullion was regarded as a means of producing wealth. Trade was the sum of industrialised capital. Kautilya devoted a good deal of attention to the problems of trade such as regulation and development of trade by the state and the different taxes to be levied on the commodities that entered into trade. He even advocated state trading in certain commodities through departmental agencies. Kautilya advised, the state to build rest houses and store houses for the caravans of traders for whom police escorts were recommended. Also, trade was approved only when the supplies of commodities were left over after satisfying local needs.
6. **Value:** Regarding value, the ancient thinkers of India seemed to have some ideas on value which are relevant to modern times. We should take the value of each commodity according to time and place but there can be no value (price) of that which is incapable of being exchanged. Again, whatever one pays for obtaining a thing must be taken to be the cost. The value is determined by the easiness, or otherwise of obtaining, and also by the inherent utility of it (Shukracharya).
7. **Population:** The ancient thinkers had no fear of growing population. Population could not grow beyond a reasonable limit owing to the high death rate due to constant wars between small states more deaths and loss of life occurred due to the inadequate medical facilities. Kautilya recommended that the king should establish colonies for facilitating immigration.
8. **Slavery:** In Ancient India, a slave was treated as a member of family, and was not asked to do a degrading work. A slave was a hereditary domestic servant who could not use his personal earnings and could not own property. But economically he was better than a hired labourer. Slaves could not be employed by Buddhist monks. In ancient India all slaves were as good as others and hence Megasthenes wrote that slavery was unknown in ancient India.

**9. Welfare State:** The ancient Indian writers had a clear idea of the welfare state. According to Shukracharya, "the state is a tree of which the king is the root and the counselors are the main branches, the commanders are the lesser branches, the armies are blossoms and flowers, the people are the fruits and the land is the seed". To Kautilya, the state was to promote the economic welfare of the people and fully regulate its economic life. The state had to give subsidies for the development of trade; agriculture irrigation, mines, cattle welfare etc.

Kautilya's concept of state is founded on Industrial edifice. According to him, there are guiding principles for the state, the state should undertake those industries which help directly in making the nation self-sufficient and self-reliant, and e.g., gold, silver, diamonds and iron and other metals should be in the charge of the state. Then, the activities related to farming, spinning and weaving, arts and crafts should be left to the individuals and the right of the ownership should be recognised. Finally, the state should see that the activities relating to production, distribution and consumption are carried out efficiently and in accordance with the rules framed by it. The duties of men, women, saints and sages, lords and the kings used to be clearly defined so that their observance may help in achieving the objective.

The private people can also undertake the production of goods under the supervision of the State. In addition to the above function, the State regulated the wages and working condition of workers, and helped the farmers in times of calamities.

**10. Public Finance:** Taxation was one of the most important sources of revenue of the state. It was known as 'rajkar'. The rate of tax was determined in accordance with the dictates of Hindu religion. Land Revenue was an important source of taxation in ancient India. The early writers have described the features of a good tax system. The tax system should be such as not to prove a great burden to the public. The king should act like the bee which collects honey without inconveniencing the plant. Taxes were the remuneration for the services rendered by the king as a public functionary for providing internal security to his subjects. Kautilya suggested forced loans for meeting deficit budgets.

He divided income from taxes into the following three kinds:

- a. Income from taxes on commodities produced in the country.
- b. Income from taxes on commodities produced in the capital and
- c. Income from taxes imposed on imports and exports.

The usual import tax was 20 per cent which varied from time to time in case of precious stones and rare commodities. Heavy taxes were imposed on the importation of luxury goods. The policy of the state was to discourage the import of luxury goods and those which were harmful for the welfare of the State. Kautilya suggested an-efficient machinery for audit.

Two principals were followed in connection with the realisation of taxes:

- a. A tax should be levied once a year, and should not prove burdensome and
- b. Taxes should be levied according to the ability to pay.

Sources of revenue included taxes on land, forests, monopoly and property, customs and excise duties, fines, profits of state, factories and crown monopolies, from manufacture and sale of saffron, salt, intoxicants, trade in horses, fine wool and elephants and port dues, road tolls, fruit and tree tax etc.

Similarly public expenditure included public administration, defence, salaries of ministers, Government departments, maintenance of national store houses and granaries and acquisition of valuable-ornaments, gems and precious stones. Whatever amount was left unused, was deposited either with the treasury or the war chest.

11. **Town Planning and Social Security:** Town planning included the re-orientation of main roads and streets and the subdivision of city areas. The villages were grouped together from the point of view of economic necessities and for national defence. The metropolitan city was established after a detailed and careful planning, and due emphasis was laid on the maintenance of sanitation and prevention of fire. Kautilya believed that it was the prime duty of the state to set up charitable institutions and poor houses. Further, the state should protect the weak and the aged, to provide jobs to the unemployed.
12. **Private Property:** Ancient economic thinkers supported the institution of private property, both movable and immovable. The right in land was transferable and saleable. As revealed by ancient law books, the following eight sources of property were recognised in those days—gift, conquest, inheritance, partition, purchase, gain of agriculture and trade, discovery and seizure. The owner of land on which a treasure was discovered, could get the large share of it, not the whole of it.
13. **Justification on Interest:** Though interest was justified in ancient India, no interest was allowed on the mortgaged property. The rate of interest was also varied from class to class depending upon the purpose for which money was borrowed, economic resources of the borrower etc. The same were the considerations for charging compound rate of interest. Thus, interest in those days was part of profit. If a loan made in kind or money was to be returned in kind, interest did not exceed half of the money value of the original capital.
14. **Consumption and Production:** For consumption purposes, family was regarded as an economic unit. Consumption should have four ideas, namely, Dharma, Artha, Kama, and Moksha. The individual was subordinate to the family or the community. As far as production was concerned, the four agents of production namely, land, labour, capital and organisation were recognised. Land was considered as the main source of wealth.

The importance of labour was also duly recognised. “An employer not-taking work from his labourer, or an employee not doing his employer’s work, should be fined”. The ancient writers believed that the accumulated wealth, earned through hard labour was sufficient for a man’s life. The high rate of interest prevailed in the economy was

due to shortage of private capital. So the state was asked to provide cash and kind to the farmers and cash to the industrialists.

### Critical Estimate of Economic Ideas by Kautilya

The ancient thinkers did not regard economics as a separate discipline. The study of economics was combined with the study of religion, ethics, philosophy, law, politics and public administration. According to Kautilya, the study of four sciences namely, philosophy, ethics, economics and politics was combined together and was essential for the salvation of individual. The economic teaching emphasised a moral life. The concept of welfare state was the kernal of the ancient Indian economic thought. The state was responsible for the economic prosperity of the people. Finally, economic life as well as thought in ancient India was governed by moral sanctions and religious ideals. The social equilibrium was maintained by the system of 'Varnashram' a system of mutual checks and balances emphasizing the virtues of hard work.

## Recap

- ◆ Chanakya was an ancient Indian statesman and philosopher who was also known as Kautilya and Vishnugupta
- ◆ Kautilya wrote the *Arthashastra*, a classic book on economics and politics
- ◆ Kautilya defined wealth to include money, goods, property, and even labour and forest produce
- ◆ Believed wealth should be acquired through proper means and used for the good of society
- ◆ Kautilya used the term Varta to refer to the science of national economy, including agriculture, animal husbandry, and trade
- ◆ Gave high importance to agriculture and believed the state should support its development
- ◆ Kautilya's ideas on labour included regulations on wages and a code for employer-employee relations
- ◆ Kautilya recommended that the state regulate trade, levy taxes, and even engage in state trading of some goods
- ◆ The king's happiness was believed to be in the happiness of his subjects, reflecting the idea of a welfare state
- ◆ Kautilya advocated for state functions like public administration, defence, and providing social security

- ◆ Supported private property and believed in a tax system that was not burdensome to the people
- ◆ The ancient economic ideas of India were combined with moral and religious ideals

## Objective Questions

1. By what other name was Chanakya known?
2. What is the name of Kautilya's classic treatise on economics and polity?
3. What ancient term was used to mean the science of national economy?
4. According to Kautilya, what was the largest source of state income?
5. What was the usual import tax rate suggested by Kautilya?

## Answers

1. Kautilya or Vishnugupta
2. *Arthashastra*
3. Varta
4. Land revenue
5. 20 percent

## Assignments

1. Examine Kautilya's concept of wealth and its acquisition.
2. Analyze the economic functions of the state as described by Kautilya.
3. Discuss Kautilya's ideas on public finance.

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# Early Indian Economic Thinkers

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ identify the contributions of Dadabhai Naoroji and R C Dutt
- ◆ know the drain theory
- ◆ distinguish between the ideas of Ranade and Gokhale
- ◆ get an insight into the contributions of M N Joshi

### Prerequisites

The late 19th and early 20th centuries saw the rise of a group of pioneering Indian economic thinkers who provided a foundational critique of British colonial rule. These intellectuals, including Dadabhai Naoroji, R.C. Dutt, M.G. Ranade, Gopal Krishna Gokhale, and G.V. Joshi, used data and rigorous analysis to expose the exploitative nature of the British administration.

They were among the first to argue that India's growing poverty was not a natural state but a direct result of British policies. Their collective work dismantled the myth of a benevolent empire by highlighting key issues such as the drain of wealth from India to Britain, the heavy burden of taxation, and the deliberate suppression of Indian industries. Their economic theories laid the intellectual groundwork for the Indian nationalist movement, providing a powerful economic argument for self-rule and independence.

### Keywords

Dadabhai Naoroji, R C Dutt, Ranade, Gokhale, Joshi, Drain of Wealth, National Income, Home Charges

## Discussion

### 5.2.1 Dadabhai Naoroji

Dadabhai Naoroji (1825-1917) was an Indian scholar, merchant, and politician who was a founding member of the Indian National Congress. Born to a Parsi family in Navsarai in the then Bombay Presidency, now modern-day Gujarat, Naoroji's major contribution to the Indian independence movement was his 'Drain of Wealth' theory, a detailed analytical study of how the colonial rulers of the subcontinent plundered India's economic resources and shattered its industrial capacity. The theory was most lucidly demonstrated in his 1901 work *Poverty and Un-British Rule in India*. Naoroji was also the first Asian Member of Parliament in the British House of Commons from 1892 to 1895, representing the London constituency of Finsbury Central.

Naoroji's, witnessing the wealth of Britain during his first visit in 1855 prompted him to develop his economic analysis. Founded on a masterful analysis of the data produced by the Empire, Naoroji used the British imperial state's own data to prove its historical impoverishment of the subcontinent by mapping Indian net profit alongside different ventures being undertaken by the British Raj. He calculated that there were six major factors to the drain of India's wealth, which he likened to a 'vampirism' that resulted in a yearly loss of approximately £30-40 million with only £250,000's worth of capital injected back into India per annum.

These six factors were; the Raj was a foreign colonial government, not a representational one; there was a lack of immigration into India (which, coupled with the lack of capital, stymied the development of any industrial capacity); the major and miscellaneous expenses of the British army and its colonial civil infrastructure was borne by India and not supported by taxes from the metropole; India's resources had been plundered in the name of free trade, and most income earners were foreign nationals which exacerbated the existing tremendous loss of capital.

The following points highlight the contributions of Dadabhai Naoroji.

#### 1. National Income of India

Naoroji was not satisfied with the official estimates regarding the national income of India during the British rule. 'The Indian Economist' was the only journal which gave such knowledge in those days. Naoroji regarded this information regarding the country's prosperity as insufficient and misleading. He pointed out that unless complete information about the average annual income per head and 'The requirements of labourer to live in working health and not as a starved beast of burden' was supplied every year, it was useless to make unsounded statement that India was progressing.

On the basis of the official data, Naoroji himself calculated the per capita income for the years 1867-70. It was only Rs. 20 only. On the other hand, the basic requirements of an ordinary labourer, as calculated by him was about Rs. 34. The high and middle

classes get a larger share, while the poor masses did not get enough for their basic necessities of life. It was in this context of growing disparities of income that Naoroji spoke of two Indians, one the prosperous and the other the poor. The prosperous India was the India of the British and the foreigners, while the poor India was the India of the Indians.

But while calculating the per-capita income, Naoroji had equally apportioned the value of agricultural produce and manufactures among all the people without taking care of the actual number of persons employed in agriculture, industries and other professions. Though the method adopted by Naoroji was criticised by F.C. Danvers, Dr. V.K.R.V. Rao, an employee of India office, had supported the method and paid a great tribute to him as a statistician. While replying Danver's criticism as to how people were able to live with Rs. 20 per annum when their actual expenditure was Rs. 34, Naoroji said, "As the balance of income every year available for the use of people of India did not suffice for the works of the year, the capital wealth of country is drawn upon, and the country goes on becoming poorer and poorer and more and more weakened in its capacity of production."

Another criticism was that Naoroji did not include the items like railway wealth, government stock, house property, trade profit, salaries, non-agricultural income etc. in the calculation of total income of the country. Replying to this criticism, Naoroji maintained that mere movement of goods by the railways did not add to the existing wealth of the country. The railways in no way increased the material wealth of the country. Regarding the Government stocks, he believes that it did not increase the material wealth of the country. For example, the interest paid on a government bond was made from the revenue of the country.

In the same way, house property and internal trade did not create material production. He opined that the profits of India's foreign trade were enjoyed by England. Regarding the payment of salaries and pensions, Naoroji argued that these were paid out of the revenue of the country.

## 2. Taxation, Military Expenditure and Public Department

A glaring example of exploitation of Indian resources and discrimination of the Indians is the taxation policy adopted by the British Government. While in England, taxes constituted 8 per cent of the income, in India, it was about 15 per cent. He criticised the then Indian Government for abolishing the duties on cotton imports from Manchester as it was harmful to the newly established Indian factories. According to Naoroji, the main cause of India's poverty was the excessive expenditure on European services and interest paid on public debts. In 1870 itself, Gladstone admitted that India was 'too much burdened.' In 1893, he said that the military expenditure of India was alarming. So, Naoroji suggested that the military expenditure should be limited and England should pay her share for the maintenance of British army in India and for other military services. In the case of railways, Naoroji argues that the entire benefit was enjoyed by the Britishers, and the burden of foreign debts was borne by India.

### 3. Drain Theory

Naoroji was famous as an economist for his 'Drain Theory'. He developed this theory to explain the conditions of poverty in India. The drain theory emphasised the fact that the management and institutions of British India were prone to a mechanism of economic drain. Naoroji felt that under the British rule, India had the costliest administration in the world. It had a disastrous effect on the Indian economy. Naoroji estimated that the drain which was to the tune of 3 million pounds in the beginning of the 19th century increased to 30 million pounds at the end of the last century.

Naoroji collected a lot of statistical data to prove his drain theory. He examined the imports and exports between 1835 and 1872 and pointed out that the value of exports was greater than that of imports by 500 million pounds. The drain would have been greater, if interest had been calculated on the amount. No country could bear such a drain upon its resources without sustaining serious injury.

Naoroji felt that the former rulers who plundered India's wealth by their invasions now and then, were now better than the British rulers. He 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 civilisation, progress and what not covers up the wound."

There are two ways of drain, internal drain and external drain. Internal drain, i.e., through the transfer of purchasing power by means of taxation, interest payments and profits from poor classes/regions to the rich classes/ regions. External drain, i.e., through un required exports which produced no equivalent returns in the form of imports. The dynamics of the process of external drain is functionally related to a net transfer of funds, with its adverse effects on India's terms of trade. Thus, 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 drain of wealth under British took place especially in several ways as given below.

- i. Large remittances were made by European officials of their savings in India.
- ii. Large remittances were made in the form of salaries and pensions.
- iii. India had to pay for government expenditure in England also.
- iv. Non-official Europeans made remittances from their business profits in India.

Let us see the major constituents of drain of wealth from India.

- a. **Home Charges** - The central component of the drain was a category of expenses known as Home Charges, which represented the cost of Britain's administration of India. These charges were expenditures incurred in England by the Secretary of State on India's behalf. Before the Indian Mutiny of 1857, they accounted for 10-13% of India's average revenue. However, after the Mutiny, this proportion skyrocketed to 24% by the late 19th century and

reached as high as 40% of the Central Government's total revenue in the early 20th century.

- b. Dividends to the East India Company's Proprietors:** Even after the Charter Act of 1833 stripped the East India Company of its commercial functions, the British government ensured that the company's stockholders continued to receive an annual dividend of £630,000, paid directly from India's revenues. This arrangement continued for forty years and included interest on a £4.5 million loan raised to redeem the company's stock. This was widely seen as an unjust tribute, a point even conceded by critics like Dr. Anstey.
- c. Interest on Public Debt:** A significant portion of India's public debt was a result of wars fought by the British, both within and outside of India, as well as accumulated Home Charges. A large sum of approximately £44 million was added to this debt to cover the costs of suppressing the Mutiny, an expense unjustly debited to India. The debt continued to multiply due to events like the redemption of East India Company stock, famines, and the Anglo-Afghan Wars. As a result, India was burdened with a massive interest liability. Anstey's argument that most of this debt was for productive public works is countered by the fact that a large part of it was due to the costs of India's own conquest.
- d. Guaranteed Interest on Railways and Irrigation:** The British government guaranteed a fixed rate of interest on capital invested in Indian railways and irrigation projects, which placed a substantial and guaranteed financial burden on Indian revenues, averaging millions of pounds annually.
- e. Civil Expenditure:** This included various administrative costs such as the maintenance of the India Office in England, which was established to manage British interests. India was uniquely charged for this and other imperial expenses, such as diplomatic missions to Persia and China, even though these ventures served broader British interests. These charges were considered unjust and a clear form of economic drain.

The money which had gone out of India to England came back as British capital. Foreigners had monopolised trade and industry. This has additionally resulted in the drain of wealth. Thus, the drain became continuous and it had affected capital formation in India. J.S. Mill opined that, "it was an extraction of the life-blood from the veins of national industry which no subsequent introduction of nourishment is furnished to rescue." Naoroji quoted F.J. Shore, J.B. Norton, Robert Knought, Sir George Campbell, Colonel Band Smith and many others who had written to the Government that India was getting from bad to worse; and the poverty of the country and its people had gone up to 'an extent almost unparalleled'. Naoroji himself wrote, "Even an ocean if it lost some water every-day which never returned to it, would be dried up in time, under similar conditions, wealthy England even would be soon reduced to poverty."

Naoroji suggested the following measures to remove India's poverty and to reduce the drain:

1. Indians and Englishmen should be paid equal salary for the same type of job. Regarding the Britishers employed in India and the Indians employed in England, he suggested that a fair and reasonable apportionment between the two should be made.
2. Britishers were getting high salaries and so they should not be paid any pension.
3. No country could invade India through the sea and so she should not be charged for the maintenance of the India navy.
4. Indians should be given due representation in the government and foreign capital should come but not the foreign capitalist who took everything from India.

#### 4. Criticism of British Administration

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, Indians were denied their due share in the administration of the country. If India did not progress under the Englishmen, there was no justification for their existence here'.

Naoroji was the first economic thinker who provided the pattern of economic thought for modern India. As he emphasised the material concept of wealth and the circulation of national income, we can say that he had been considerably influenced by the physiocratic school. He was the first Indian to calculate the per-capita and national income. He believed that the economic phenomena were linked with the moral, social and political factors. The inductive method predominated his writings. His main contribution was the Drain theory. He gave a picture of the Indian economy in a realistic sense.

### 5.2.2 R.C. Dutt

Romesh Chunder Dutt is considered a national leader of the Pre-Gandhian era and was a contemporary of Dadabhai Naoroji and Justice Ranade. Better known as R.C Dutt, he was a civil servant, a political and economic thinker, and writer, a Bengali Literature personality, he is renowned for both his professional and literary careers.

Sir Romesh Chunder Dutt was born in Calcutta on August 13, 1848. He had his early education in Bengali schools in Calcutta and in the districts around. He was born into a family already famous for its academic and literary attainments. In 1866, Dutt completed the University of Calcutta's First Arts examination from Presidency College, coming second in order of merit and earning a scholarship. He travelled to England in 1868, accompanied by Surendranath Banerjee and Behari Lal Gupta, while still a B.A. student and qualified for the Indian Civil Service. Dutt began an illustrious career in the Indian Civil Service and in Indian politics in the year 1871, as the Assistant Magistrate of Alipore to start off. Towards the end of his career, he was the Division

Commissioner of Orissa, the highest position reached by any Indian ever. His service as a civil servant was praised by all levels of government, including Lieutenant Governors and Governors General. While serving as the Commissioner of Orissa, he retired from the Indian Civil Service in 1897 at the relatively young age of 49. After his retirement, he was able to devote his time entirely to public activities and writing, which became a more fruitful portion of his career.

R.C. Dutt's economic proposals were a direct response to the problems caused by British colonial policy in India, particularly his observation that poverty, not a lack of food, was the primary cause of famines. He argued that the British economic system had systematically impoverished the Indian people, and his recommendations were aimed at reversing this trend and fostering self-sufficiency.

He proposed lowering land taxes. Dutt called for a significant reduction in land revenue, proposing a cap of 20%. He argued that this revenue should be reinvested directly into agricultural development, rather than extracted from the peasantry. He advocated for the removal of unfair excise duties that hindered indigenous industries. His goal was to promote the revival of traditional Indian manufacturing and crafts. Dutt recommended lowering the interest rates on India's national debt to alleviate the significant financial pressure on the country's economy. He suggested cutting excessive military expenditures and redirecting those funds toward more productive investments, such as infrastructure and social welfare programs. A major part of his agricultural strategy was to invest in irrigation systems to boost crop yields and make Indian agriculture more resilient to droughts. Dutt was critical of the British Raj's disproportionate focus on building an extensive railway network at the expense of agricultural and industrial development. He proposed a more balanced approach. He emphasised the critical need for greater Indian representation in legislative bodies, arguing that this was essential for fairer and more just policymaking. According to Dutt, encouraging small scale, local industries was crucial for creating employment and fostering economic self-sufficiency across the country.

### 5.2.3 Mahadev Govind Ranade

Mahadev Govind Ranade, (1842 – 1901), was a judge of the High Court of Bombay, a noted historian, and an active participant in social and economic reform movements. During his seven years as a judge in Bombay, Ranade worked for social reform in the areas of child marriage, widow remarriage, and women's rights. After his appointment as instructor of history at Elphinstone College, Bombay (1866), he became interested in the history of the Marathas. The publication of his '*Rise of the Maratha Power*' followed in 1900.

Ranade has been called the father of Indian economics for urging the British government to initiate industrialisation and state welfare programs. He was an early member of the Prarthana Samaj which sought to reform the social customs of orthodox Hinduism. He regularly voiced views on social and economic reform at the annual sessions of the Indian National Social Conference, which he founded in 1887. Ranade inspired many other Indian social reformers, most notably the educator and

legislator Gopal Krishna Gokhale, who carried on Ranade's reform work after his death. His economic ideas are:

**1. Method and Scope of Political Economy:** After a careful study of the economic systems of various European countries, Ranade believed that inductive or historical method was the best. In his words, "The method to be followed is not the deductive but the historical method which takes into account the past in its forecast of the future; relativity and not absoluteness, characterises the conclusion of the economic science". While the classical economists believed in the universal application of economic laws, Ranade considered economic laws were only relative. In other words, he believed in the doctrine of relativity.

Ranade criticised Adam Smith, David Ricardo, Malthus, James Mill and Meculloch for their absolutism and assumptions. He said that their ideas were applicable only to a static society. He held the view that in India, institutions like family and caste were more powerful than the individual in the determination of his economic position. Wealth was not the only thing to be aimed at.

He said that the traditional assumptions of economic theory were true only for England. Being influenced by the ideas of Adam Muller and List, Ranade emphasised the many sided development of productive powers. Further he suggested that the study of theory and practice should go side by side. "Theory" says Ranade, "is only relation to proximate causes".

**2. Economic Education:** Ranade emphasised the importance of economic education in promoting the wealth of a nation. He said, "The nation's economic education is of far more importance than the present gain of its individual members, as represented by the quantity of wealth measured by its value in exchanges. In a sound and normal condition, all the three departments of national activity must be fully developed. Commerce and manufactures are, if possible, more vital in their bearing on education, on the intelligence, and skill and enterprise of the nation, than agriculture."

**3. Economic Development:** Ranade held that economic development was a complex phenomenon and it had many interrelated causes. It was connected with economic institutions. Thus, economic development of India depended on economic, social and political institutions. It was the duty of the state, to direct and channelise the activities of individuals and institutions, towards a well determined goal. In India, since the private initiative was meagre, the state should undertake measures for the industrial development of the country. "The State", said Ranade, "is now more and more recognised as the national organ for taking care of national needs in all matters in which individual and cooperative efforts are most likely to be so effective and economical as national effort. To relegate them to the simple duty of maintaining peace and order is really to deprive the community of many of the advantages of the social union".

**4. India's Poverty:** Dutt and Naoroji believed that poverty of India was the result of the British rule. Ranade believed that mass poverty had been there in India even before the British rule. Ranade thought that India inherited

poverty from the past generations, which had increased on account of foreign rule. According to Ranade, the main causes for poverty were the predominance of agriculture, backward state of industries, lack of credit facilities, and defective land policy.

Predominance of agriculture was due to the economic policy of the government, which encouraged the production of raw materials to be transported to England. Industries were in a backward state due to their inability to face severe foreign competition. Also, the credit system was highly unorganised and banking facilities were inadequate. Lastly, the land policy was also defective because the assessment of revenue was highly arbitrary.

In order to eradicate poverty and to make India economically prosperous, Ranade made certain suggestions. He wanted a balanced and well-planned development of agriculture, industry and commerce. He thought that without reducing the number dependents on agriculture, there could not be agricultural development. He advocated state action in order to promote large scale farming. Thus, Ranade opposed the laissez-faire policy of the state and believed that the state should play an active role in removing poverty and promoting the welfare of the state.

In order to absorb the surplus agricultural population, Ranade suggested the establishment of agro based industries by the state. Further, he advocated changes in land policy to serve the interests of the cultivators. He suggested a liberal land policy and a permanent Ryotwari system. Fifty percent of the profit from land should go to the cultivators and the farmers might be allowed to pay their tax in kind, if it was convenient for them. Further he advocated re organisation of credit system and formation of committees of capitalists to finance agriculture.

Ranade opposed the policy of free trade because it was harmful to the local industries. So, he advocated a policy of protection to the Indian industries. Not only that, he wanted the government to follow a positive policy for promotion of industrial development of India. The indigenous resources should be utilised to produce commodities in state factories. For the proper utilisation of resources of the various regions, Ranade suggested the redistribution of population. He advocated a balanced redistribution of population by sending people from thickly populated areas to sparsely populated areas.

Ranade occupies a significant place in the history of economic thought. In order to make economic studies more realistic and meaningful Ranade suggested the study of economic problems in the national context. He was really a national economist. He has been characterised by Sir J.C. Coyajee as an economic relativist and by Prof. D.G. Karve as the first economist who suggested planning. Many of Ranade's suggestions were put into practice. His suggestion for re organisation of credit system led to the establishment of land mortgage banks. His advocacy of many sided economic development and state action helped to a great extent in the eradication of poverty.

Besides being an eminent economist and able historian, he was a leader of thought and great patriot. We may conclude in the words of Prof. Karve, that Ranade was, "a great man, a fervent patriot, a religious reformer, a leader of thought, a guide of men, an able historian, an eminent economist and the prophet of liberal India."

## 5.2.4 Gopal Krishna Gokhale

Gopal Krishna Gokhale, (1866 - 1915), was a social reformer who founded a sectarian organisation to work for relief of the underprivileged of India. He led the moderate nationalists in the early years of the Indian independence movement. In 1902 Gokhale resigned as professor of history and political economy at Fergusson College, Pune, to enter politics. As an influential and respected member of the Indian National Congress, Gokhale advocated moderate and constitutional methods of agitation and gradual reform. In addition to his political activities, Gokhale's deep concern with social reform led him to found the Servants of India Society (1905), whose members took vows of poverty and lifelong service to the underprivileged. He opposed the ill treatment of untouchables, or low caste Hindus, and also took up the cause of impoverished Indians living in South Africa. His contributions are:

- 1. Indian Finance:** With regard to Indian Budget, Gokhale held the view that, it should be passed item by item. In such a case, people having sound knowledge of Indian conditions would get an opportunity to express their opinion on various items of expenditure. Suggestions made by non official members should be referred to a committee of control. Gokhale was not in favour of surplus budgets. He held the view that a policy of surplus budget was unsound. He believed that a surplus budget would demoralise even the most conscientious government for resorting to wasteful expenditure. He thought that a succession of surplus budgets would make the government indulge in extravagant expenditure.

He thought it would be, "Specially true of countries like India where public revenues are administered under no sense of responsibility, such as exists in the West, to the governed." Gokhale was against using the budget surpluses for repaying the debt incurred for the construction of Railways. As the railways were a commercial undertaking, it should meet its debt commitments from its own income and not from the proceeds of taxation. The finances of the local bodies and provinces were poor. So Gokhale suggested an equitable distribution of tax revenue between the central and provincial governments and local bodies. So, he suggested that land revenue, excise and revenue from forests might be given to the provinces. Opium, salt, customs, post and telegraphs might be given to the Imperial government. The quinquennial revenue settlement might be given to the local bodies.

- 2. Decentralisation of Power:** Gokhale was an advocate of decentralisation of power. He suggested the creation of panchayats at the village level and then local boards and district councils. He suggested the creation of a council of members in the provinces to assist the Governors. He held that the provincial legislation should discuss important matters relating to finance and the budgets. The British Government decided to increase the duty on salt to meet the deficit arose as a result of the annexation of Burma. Gokhale opposed this as it would place a heavy burden on the poor. Again, the government removed the 5 percent import duty on textiles and imposed excise duty on Indian cotton goods. Gokhale attacked these two measures.

3. **Land Revenue:** Gokhale suggested certain reforms in land revenue system also. He suggested that in the Ryotwari areas, where the cultivators paid revenue directly to the government, the revenue should not be more than 20 percent of the gross produce.
4. **Public Expenditure:** Gokhale was highly critical of large increase in public expenditure. He pointed out that India's monetary resources were mis spent in extending northern and north eastern frontiers and in using troops for imperial purposes. He charged that the British government was looking after the interests of British traders and it did not bother about the Indian tax payer. So, he emphasised the need for controlling public expenditure in India.

A Royal Commission was appointed in 1895, "to enquire into the administration and the management of the military and civil expenditure, and the apportionment of charges between the government of the United Kingdom, and of India for the purposes in which both are interested." Gokhale was one of the non official witnesses of this commission. He divided his evidence into 3 parts viz. the first one dealing with the machinery of control, the second with the progress of expenditure, and the last portion dealing with the division of charges between England and India. Gokhale pointed out that in England and other countries, public expenditure was controlled by tax payers. But in India, there was no popular control over the public expenditure. The Indian tax payers had no voice over this matter. With regard to progress of expenditure, Gokhale expressed the view that ever since the transfer of power from the East India Company to the crown, there was a tremendous growth of public expenditure.

Gokhale suggested the following remedies to check the growth of public expenditure:

- i. The expenditure should be incurred with a spirit of economy. It should not be allowed to exceed the normal revenue except under conditions of war, famine etc.
- ii. Military expenditure should be cut down and the size of the army should be maintained to the extent of Indian requirements.
- iii. More number of Indians should be employed in public services. Indians should be paid salaries at same rate as were being paid to the Englishmen.
- iv. The audit should be made independent. The audit report should be laid before the parliament so that effective criticism of the financial administration maybe possible.
5. **Education:** Gokhale stated that an illiterate nation could not make any progress. So, educational facilities should be extended to all sectors in the country. The expenditure on education must be an imperial charge. Education must receive same attention as army and railways.

## 5.2.5 Narayan Malhar Joshi

Narayan Malhar Joshi also known as Nana Saheb Joshi, co-founded the All India Trade Union Congress in 1920. He was a member of the Bombay Provincial Congress Committee, and was a prominent member of the People's Volunteer Brigade (P V B). He presided over a public meeting of the P.V.B organised by the Bombay Provincial Congress Committee on 12th April 1942. He resigned as the president of P V B on September 11, 1942. He also established an organisation called the Social Service League. Joshi was, undoubtedly, a firm supporter of the Quit India Movement, and one can see the reflection of this in his resignation as the president of the P V B, which surfaced on September 11, 1942. After a long career as a social and political leader and activist, he died at the age of 76 on 30 May, 1955.

The All India Trade Union Congress (AITUC) was formed in 1920, as a development of these trends towards union formation all over India. Many people realised that there was a need for a central organisation of labour, to coordinate the works of the trade unions all over India. Bal Gangadhar Tilak, N.M.Joshi, B.P.Wadia, Dewan Chamanlall, Lala Lajpat Rai, Joseph Baptista were some of the eminent personalities with this goal. The formation of the International Labour Organisation ( ILO ) in 1919 acted as a catalyst for it. It was felt that there should be a national organisation of the trade unions whose nominees could be chosen to represent the Indian labour in the ILO.

The modern Indian working class arose in consequence to the development and growth of factories and industries in India from the second half of the nineteenth century. An exact estimate of the total population of the working class is difficult to arrive at, but N. M. Joshi, on the basis of the 1931 census, calculated 'the labouring class at 50 million out of which roughly 10 percent were working in the organised industry'. The number increased significantly after independence and this was largely due to the exposition of the modern manufacturing industries in various sectors and also because of the growth of the public sector utilities, corporations and government offices.

## Recap

- ◆ Dadabhai Naoroji, a founding member of the Indian National Congress, was a scholar, merchant, and politician
- ◆ Dadabhai Naoroji developed the "Drain of Wealth" theory to explain how the British were impoverishing India
- ◆ Naoroji was the first Asian to become a Member of Parliament in the British House of Commons
- ◆ Dadabhai Naoroji calculated that Britain drained £30-40 million from India yearly, while returning very little

- ◆ The drain of wealth occurred through factors like a foreign government, lack of capital investment, and foreign nationals holding high-paying jobs
- ◆ Naoroji also estimated that India's per capita income was only Rs. 20, which was less than what a labourer needed to survive
- ◆ Dadabhai Naoroji criticised British taxation and military spending, arguing that India bore an unfair burden
- ◆ According to Naoroji, the drain of wealth happened through both internal and external means
- ◆ R.C. Dutt was a contemporary of Naoroji who was a civil servant and a writer
- ◆ Dutt also supported the “Drain of Wealth” theory, highlighting that India's wealth was transferred to England without an equivalent return
- ◆ He defined the drain as a unilateral transfer of wealth from India to England
- ◆ Mahadev Govind Ranade was a judge and social reformer
- ◆ Ranade believed that economic laws were not universal but relative to each society
- ◆ Ranade argued that India's poverty was due to a combination of historical factors and British rule
- ◆ Ranade advocated for the state to play an active role in industrialisation and social welfare, opposing the laissez-faire policy
- ◆ Ranade suggested that India should adopt a policy of protection for its industries
- ◆ Ranade believed in a balanced development of agriculture, industry, and commerce
- ◆ Gokhale was a social reformer and a moderate leader of the Indian National Congress
- ◆ Gokhale founded the Servants of India Society to serve the underprivileged
- ◆ Gokhale was a strong critic of the British Indian government's financial policies
- ◆ Gokhale believed the budget should be discussed and passed item by item for public scrutiny

- ◆ Gokhale opposed using tax revenue to pay for railway debts
- ◆ Gokhale advocated for the decentralisation of power through the creation of local panchayats
- ◆ Gokhale believed that land revenue in Ryotwari areas should not exceed 20% of the produce

## Objective Questions

1. Who developed the “Drain of Wealth” theory?
2. What was the title of Dadabhai Naoroji’s 1901 work on his theory?
3. What was the estimated per capita income of India in 1870, according to Naoroji?
4. What did R.C. Dutt and Dadabhai Naoroji identify as the form the drain of wealth took?
5. Which organisation did Gokhale found in 1905?
6. What was the primary cause of Gokhale’s opposition to the salt tax increase?
7. Who was N.M. Joshi, along with Bal Gangadhar Tilak, in forming the All India Trade Union Congress?
8. Which year was the All India Trade Union Congress formed?
9. Which year was the International Labour Organisation formed?

## Answers

1. Dadabhai Naoroji
2. *Poverty and Un-British Rule in India*
3. Rs. 20

4. An excess of exports over imports
5. Servants of India Society
6. Poverty
7. Co-founder
8. 1920
9. 1919

## Assignments

1. Analyze Dadabhai Naoroji's "Drain of Wealth" theory.
2. Compare the economic ideas of Dadabhai Naoroji and Mahadev Govind Ranade.
3. Discuss the contributions of Gopal Krishna Gokhale.

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## Gandhian Economics

# UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ know the ideology of Gandhiji as an economist
- ◆ get acquainted with the views of Gandhiji on different economic concepts
- ◆ identify the relevance of Gandhian ideology in the modern life

### Prerequisites

Gandhian ideology is the set of religious and social ideas adopted and developed by Mahatma Gandhi, first during his period in South Africa from 1893 to 1914, and later in India. Gandhian philosophy is not only simultaneously political, moral and religious; it is also traditional and modern, simple and complex. It embodies numerous Western influences to which Gandhiji was exposed, but is rooted in ancient Indian culture harnessing universal moral & religious principles. The philosophy exists on several planes the spiritual or religious, moral, political, economic, social, individual and collective. The spiritual or religious element, and God, is at its core. Human nature is regarded as fundamentally virtuous. All individuals are believed to be capable of high moral development, and of reform. Gandhian ideology was not on idealism, but on practical idealism. Gandhian philosophy is a double edged weapon. Its objective is to transform the individual and society simultaneously, in accordance with the principles of truth and non-violence. Gandhiji developed these ideologies from various inspirational sources viz. Bhagavad Geeta, Jainism, Buddhism, Bible, Gopal Krishna Gokhale, Tolstoy, John Ruskin, among others.

## Keywords

Decentralisation, Cottage Industries, Khadi Industry, Village Sarvodaya

## Discussion

### 5.3.1 Gandhian Economics

Gandhian economics is a unique and ethical economic philosophy that prioritises self-sufficiency, decentralisation, and social justice over the conventional goals of industrialisation, capital accumulation, and relentless growth. Unlike Western economic models, which often treat the economy as a purely mechanical system, Gandhi's vision was deeply rooted in the well-being and moral development of society as a whole. He believed that economic activities should be guided by moral values, simplicity, and sustainability, with the ultimate purpose of serving human needs rather than being dictated by the pursuit of profit. His ideas were a direct response to the exploitative colonial economy and the dehumanising effects of industrial capitalism he witnessed.

At the core of his philosophy was Sarvodaya, meaning "the welfare of all." This principle asserted that economic prosperity should not be limited to a select few but should uplift every member of society. To achieve this, Gandhi envisioned a self-reliant and decentralised economic structure with villages as the primary economic units. He believed that self-sufficiency at the village level would combat unemployment and poverty while fostering a more equitable and sustainable economy. His philosophy also emphasised non-exploitation, promoting fair wages, ethical production methods, and harmony between humans and nature. Gandhi's ideas were not merely theoretical; he actively put them into practice in his ashrams, where residents engaged in manual labour, cottage industries, and sustainable agriculture, reinforcing the dignity of physical work.

#### 5.3.1.1 Ideas of Gandhian Economics

##### a. Village Sarvodaya or Regeneration of Villages

A central tenet of Gandhian economics is Village Sarvodaya, a philosophy focused on the upliftment and regeneration of rural communities. Gandhi saw the village as the soul of India, believing that true progress could only be achieved by revitalising rural life, not by concentrating on urban industrialisation. His concept of Gram Swaraj or village self rule was based on the idea of a self-sufficient, democratically governed village, free from external exploitation. In his view, a strong nation could only be built on a foundation of strong, self-reliant villages.

Gandhi envisioned a village centric economy where local communities produced their own food, clothing, and necessities, thereby reducing dependence on urban centres or foreign imports. He was a strong advocate for cottage industries, particularly Khadi

production, as a means of generating employment and fostering self-reliance. To achieve self-sufficiency, villages would focus on sustainable agriculture and indigenous crafts. Gandhi argued that this decentralised production model would prevent economic power from being monopolised by a few industrialists. He viewed large scale industrialisation as harmful because it relied on mechanisation that displaced human labour, leading to widespread unemployment and exploitation.

Beyond economic self-sufficiency, Gandhi also stressed the importance of cleanliness and hygiene in villages. He promoted the idea that well maintained and orderly living conditions were essential for the health and well-being of residents. His efforts included promoting basic education and skills training through a system called Nai Talim, which integrated productive work with academic learning. He also advocated for Panchayati Raj, a system of local self governance where village councils had the autonomy to make decisions for their communities. Socially, Village Sarvodaya was founded on equality, with a strong opposition to caste based discrimination. He encouraged the wealthy to act as trustees of their wealth, using their resources for the betterment of society. Although some have criticised his vision as impractical in a modern industrial world, its relevance is evident today in movements for sustainable development, organic farming, and government initiatives like MGNREGA and KVIC.

### **b. Decentralisation**

Decentralisation is a core pillar of Gandhian economics, advocating that economic and political power should be distributed among local communities rather than concentrated in a central authority. Gandhi believed that a centralised system was a source of exploitation, inequality, and corruption. He saw his vision of self-sufficient villages as the antidote, where local people controlled their own governance and production, reducing their dependence on the state and large corporations.

Gandhi was critical of an industrial system that concentrated wealth in the hands of a few while leaving millions in poverty. He proposed a decentralised economic structure where small scale industries and local crafts such as weaving, pottery, and handicrafts would provide employment and keep wealth circulating within the community. The Khadi movement was a perfect example of this principle, as it encouraged people to produce and wear hand spun cloth, reducing their reliance on British made textiles. Politically, Gandhi envisioned Panchayati Raj, a system of village self rule where local communities would make decisions about their resources and administration. He was suspicious of state power and believed that true democracy could only exist when people had direct control over their lives. Although modern challenges like globalisation and urbanisation have made pure decentralisation difficult, Gandhi's ideas continue to influence discussions on sustainable development, microfinance, and community driven economic models.

### **c. Village Republics**

Gandhi's concept of village republics, or Gram Swaraj, was the ultimate expression of his vision for a self-sufficient and harmonious India. He envisioned each village as an independent economic and political unit, with full autonomy over its affairs. Gandhiji wanted the revival of ancient village communities with prosperous agriculture, industry

and small-scale co-operative. He also wanted that there should be the participation of people at all levels. He declared that the real India was to be found in villages and not in the towns and he accepted the remark that an Indian village was “a collection of insanitary dwellings constructed on a dunghill”. His desire was that every Indian village may be converted into a little self sufficient republic.

In this model, the local economy would be localised and self-reliant, with agriculture, handicrafts, and small industries providing for all of the community’s needs. He believed that this system would prevent urban centres from draining wealth and resources from rural areas. Socially, these republics would be egalitarian, with no caste based discrimination, and politically, they would be governed by the villagers themselves through Panchayati Raj.

#### **d. The Law of Bread Labour**

The Law of Bread Labour is a fundamental ethical and economic principle in Gandhian thought, asserting that every individual must earn their livelihood. This law explains that man must earn his bread by his own labour. Gandhi adopted this concept from Russian thinker T.M. Bondareff and was also influenced by John Ruskin and Leo Tolstoy. He believed that it was a moral obligation for every person to contribute physical effort to sustain themselves, rather than relying on the exploitation of others. He argued that no one had the right to consume food without having contributed to its production through physical work.

This principle was a cornerstone of his vision for social justice, as he believed that the reliance of the wealthy and intellectuals on the labour of others was a primary cause of economic exploitation and inequality. In his ashrams, including the Sabarmati and Sevagram, all residents, regardless of social status, participated in manual work like farming, spinning khadi, and cleaning. This practice was not only a means of self-sufficiency but also a spiritual exercise that cultivated humility and empathy for labourers. It was a way to break down the social divide between mental and manual work. The Law of Bread Labour led Gandhi to oppose mechanisation that displaced human labour, advocating instead for small-scale, hand-based crafts that would ensure full employment. While critics argue that this principle is impractical in modern, technology-driven economies, its core ideas about the dignity of labour and self-reliance remain relevant in movements for sustainable living and cooperative economies.

#### **e. The Doctrine of Trusteeship**

The Doctrine of Trusteeship is a profound ethical and economic principle that Gandhi proposed as an alternative to both capitalism and communism. It is based on the idea that wealth and property are not meant for personal gain but should be held in trust for the benefit of society. Gandhi rejected the capitalist drive for profit maximisation and the communist approach of violent class struggle. Instead, he proposed a middle path where the wealthy would voluntarily act as custodians of their wealth, using their resources to improve the lives of the less privileged.

According to this doctrine, businesses should operate for social welfare, not just profit. Gandhi envisioned a society where there would be a minimum and maximum

limit on income, ensuring that no one lived in extreme poverty while others accumulated excessive wealth. He proposed that excess profits should be reinvested into social causes. While this doctrine has been criticised for relying on voluntary moral action rather than structural reform, its influence is still seen today in corporate social responsibility (CSR) initiatives, philanthropic efforts, and cooperative business models. It represents a call for an economy guided by an ethic of justice and shared prosperity.

## Recap

- ◆ Mahatma Gandhi, a political and spiritual leader, developed a set of economic ideas known as Gandhian Economics
- ◆ Gandhian economic philosophy was influenced by his experiences in South Africa, as well as the writings of Tolstoy, Ruskin, and Thoreau
- ◆ Gandhian economics is based on principles of non-violence, simplicity, and decentralisation
- ◆ Gandhi advocated for cottage and village industries like the Khadi industry to promote employment and self-sufficiency
- ◆ Gandhi was against the “craze for labour-saving machinery” that leads to unemployment, but he was not against all machines
- ◆ Trusteeship suggests that the wealthy should act as trustees of their wealth for the benefit of society
- ◆ The Law of Bread Labour states that every person must perform physical labour to earn their food
- ◆ Sarvodaya means “welfare of all”
- ◆ Gram Swaraj is village self-rule, and Villages should be self-reliant
- ◆ Gandhi supported cottage industries and opposed large-scale industrialisation.
- ◆ Bread Labour requires manual work for livelihood
- ◆ Panchayati Raj is local self-governance
- ◆ Trusteeship means wealth is for all
- ◆ Gandhi rejected both capitalism and communism

## Objective Questions

1. What does the term Sarvodaya mean?
2. Which book greatly influenced Gandhi's economic thought?
3. What was the focus of the positive phase of Gandhi's economic thought?
4. What did Gandhi describe as a great sin in the context of economics?
5. According to the Doctrine of Trusteeship, who should own property?
6. What was the main purpose of the Khadi movement for Gandhi?

## Answers

1. Sarvodaya means the ideal of an upliftment of all, particularly through village regeneration
2. The book that greatly influenced Gandhi was Ruskin's *Unto This Last*
3. The positive phase focused on the ideal of Swadeshi, which means self-sufficiency and the promotion of home industries
4. Gandhi described the craze for labour-saving machinery that leads to unemployment as a great sin
5. According to the Doctrine of Trusteeship, all social property belongs to the entire society, with capitalists acting as trustees for its welfare
6. The main purpose of the Khadi movement was to serve as a symbol of India's economic freedom, unity, and equality, and to provide work for the poor

## Assignments

1. Explain Gandhi's concept of Village Sarvodaya and how it differs from a conventional, urban-centric model of economic development.
2. Describe the Law of Bread Labour and discuss its relevance in a modern, technology-driven economy.

3. Analyze the Doctrine of Trusteeship as a non-violent alternative to both capitalism and communism, and identify its strengths and weaknesses.
4. Discuss the importance of the Khadi and Village Industries movement in Gandhi's vision for India

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# Indian Economic Thought II





## Dr. B.R. Ambedkar

# UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ identify Ambedkar's view on agricultural development
- ◆ understand his contributions on nationalisation of industries
- ◆ comprehend on Ambedkar's views on tax policy

### Prerequisites

The maker and conscience keeper of modern India, pioneering social reformer, jurist, economist, author, a scholar of comparative religions, and thinker, Dr. Bhimrao Ramji Ambedkar, the principal architect of the Indian Constitution and independent India's first law minister, was a multi-faceted man who remapped the frontiers of human achievement by his sheer determination, perseverance and the will to excel against all odds.

Known largely as the father of the Indian Constitution and a leader of Dalits, Ambedkar began his career as an economist, making important contributions to the major economic debates of the day. He was, in fact, among the best educated economists of his generation in India, having earned a doctorate in economics from Columbia University in the US and another from the London School of Economics.

### Keywords

Industrialisation, Collective Farms, Surplus labour, Capacity to Pay

## Discussion

### 6.1.1 B R Ambedkar

Dr. B. R. Ambedkar was one of the first Indians to receive a formal higher education in economics. He earned his Ph.D. in economics from Columbia University and was later awarded a DSc in economics by the London School of Economics in 1923. He used his extensive training as an economist to meticulously study the social and economic issues plaguing India. His analysis was known for its incisiveness, and he consistently proposed pragmatic, policy-based solutions focused on the welfare of the general populace. Ambedkar's contributions span several key areas of economics, including monetary economics, public finance, agricultural economics, and the economic dimensions of the caste system. His strategies for India's overall economic development remain highly relevant today.

Let us see the economic contributions of Ambedkar.

#### 6.1.1.1 Contributions in Agricultural Economics

In response to the low productivity of Indian agriculture, a committee in 1917 suggested consolidating small land holdings. In his 1918 paper, "*Small Holdings in India and their Remedies*", Ambedkar argued that the state should acquire these consolidated lands and distribute them equally among the original cultivators, without any form of discrimination. He posited that land was just one factor of production and that other factors, such as capital and labour, were equally critical for efficient cultivation. He believed that the lack of capital and a surplus of labour were significant problems. To address this, Ambedkar proposed collective farming to improve productivity and industrialisation to address disguised unemployment and increase the stock of capital.

The agricultural industry, under his proposal, would be reorganised on a collective basis. The state would divide the acquired land into standard sized farms and lease them to village residents in groups of families. These collective farms would operate under specific government rules and would be cultivated without any distinction of caste or creed. This structure would eliminate the traditional roles of landlords, tenants, and landless labourers, promoting a more equitable system.

Furthermore, the state would be responsible for financing these collective farms by providing essential resources such as water, draft animals, implements, manure, and seeds. In return, the state would collect a portion of the farm's produce to cover land revenue, pay back the debenture holders, and compensate for the capital goods it supplied. This framework aimed to ensure that all villagers had a stake in agricultural production while addressing issues of land fragmentation, lack of capital, and social inequality.

His ideas about surplus labour predated Nobel laureate Arthur Lewis's dual economy model by nearly three decades. Despite the passage of time, the issue of land reforms in India remains contentious and is still an unfulfilled objective mentioned in

political manifestos to this day. Ambedkar also used his economic training to critique the caste system. In his seminal work, *Annihilation of Caste*, he argued that the caste system created a “division of labourers” rather than a genuine division of labour. By assigning occupations based on birth, the system hindered the mobility of capital and labour, which directly impeded economic development. He called untouchability an economic system worse than slavery, stating in *What Congress and Gandhi Have Done to the Untouchables* that it was “a system of uncontrolled economic exploitation.” In contemporary India, instead of dissipating with modernity, caste identity symbols are strengthening due to vote-bank politics and discriminatory government policies that leave marginalised communities at the bottom of the economic ladder.

### 6.1.1.2 Views on Hydroelectric Power

Ambedkar believed that utilising India’s water resources was essential for poverty eradication and overall economic development. He supported an all-India planning approach for water management, endorsing a scheme similar to the Tennessee Valley Authority in the USA. He was instrumental in the creation of central institutions like the Central Waterways, Irrigation, and Navigation Commission (CWINC) and the Central Technical Power Board in 1945. These institutions led to the establishment of multi-purpose projects, such as the Damodar Valley Project in 1948, which aimed to provide irrigation, generate electricity, control floods, and conserve soil.

Ambedkar also addressed indirect issues related to these projects, such as the displacement of people. He proposed a Settlement Policy stating that displaced cultivators should be fully compensated, preferably with land for land, and that the responsibility for this lay with the provincial governments.

### 6.1.1.3 Views on Industries and Welfare of Workers

Dr. Ambedkar was convinced that widespread industrialisation was essential for India’s rapid development. He argued that industrial growth would not only create large-scale employment but also produce necessary consumer goods and capital goods, thereby saving valuable foreign exchange and ensuring the efficient use of raw materials. He believed that the private sector was incapable of leading this transformation on a national scale, as its efforts would inevitably lead to monopolies and the centralisation of wealth. Therefore, he called for the government to take the lead in large-scale industrial activities in the greater interest of society and the nation. However, he suggested that small and cottage industries should remain in the private sector. Ambedkar was a strong advocate for nationalising insurance and transport, communications and believed that labourers should have the right to strike. Many of these principles were later incorporated into India’s Directive Principles of State Policy after independence.

Ambedkar’s economic philosophy held that the development of agriculture and industry were interconnected. He argued that India’s overwhelming dependence on agriculture was the primary cause of its poverty. He famously stated, “Poverty of India, to my mind, is due entirely to its being made dependent upon agriculture.” To solve this, he proposed shifting a large portion of the population from agriculture to industry. He stressed that a key prerequisite for this industrial shift was the availability of cheap and abundant electricity, which could be generated through projects like dams that also

provide irrigation for agriculture. Ambedkar's views on sectoral development showed a remarkable concern for social and gender justice, as well as the welfare of the poor. During a 1944 legislative debate, he supported lifting the ban on women working in underground coal mines, which had been imposed in 1939. This preference for industrial opportunities for women over traditional agricultural work highlighted his belief that industrialisation was the path to progress. He also insisted on equal wages for men and women.

Ambedkar believed that the development of industry required proper working conditions for labourers. He put forth a number of suggestions to ensure worker welfare. He proposed that factories should provide clean water and washing facilities, and that the government should empower factory inspectors to access all necessary information from owners. He also recommended the implementation of fire-escape provisions and a reduction in working hours for women and children. Furthermore, he endorsed several other worker benefits, including compulsory paid holidays, medical facilities, protection from involuntary unemployment, reduced working hours, housing facilities, and overtime pay. However, Ambedkar also made an exception for what he called a "cloth famine," in which case he believed factory owners could extend working hours to boost production. He advised workers not to let themselves be used as instruments of political parties.

#### **6.1.1.4 Views on Tax Policy**

In the manifesto of the Swatantrata Majdur Party (1936), Ambedkar laid out his views on taxation. He was a vocal opponent of the land revenue system and other taxes that disproportionately burdened the poor. He argued that the principles of taxation should be based on a person's capacity to pay, with taxes being progressive and with exemptions for low-income earners. He also argued for the abolition of the land revenue tax and its replacement with an income tax on agricultural income. He believed the Indian tax system was fundamentally flawed due to its high production taxes and its discriminatory nature.

Ambedkar expressed his views on taxation in the manifesto of the Swatantrata Majdurparty, 1936. He was opposed to the land revenue system and other taxes as their burden mainly fell on the poorer sections of the society. He enunciated that the principles of taxation should be based on the payer's capacity. Further, the tax should be progressive with exemptions being allowed up to a certain limit. The land revenue tax should be more flexible and inequality between different sections in tax imposition should not be allowed. Ambedkar did critique the dictions of Article 107 of the Land Revenue Code and to bring Land revenue tax in the fold of income tax. He argued that the Indian tax system if faulty due to the presence of high production tax, land revenue tax, excise duty and also it is based on the principle of Discrimination and inequality among various sections.

#### **6.1.1.5 Strategies for Overall Economic Development of India**

Ambedkar agreed with Marx's analysis of exploitation but rejected communism as an economic system. He did not believe that economics was the sole driver of human activity, pointing out that exploitation in India could also be religious or social. He was

a staunch supporter of democracy and human rights. Instead, he favoured a strong state role in driving economic development but within the framework of a constitutional democracy.

Ambedkar's detailed views on agriculture and poverty are interconnected. He believed that low agricultural productivity was a primary cause of India's poverty, and a key reason for this was the small size of land holdings. He proposed that the state should acquire all agricultural land, consolidate it into standard-sized farms, and lease it to groups of families as collective farms, without discrimination. The state would also be responsible for financing the farms. He saw industrialisation as a crucial solution for rural poverty, advocating for the transfer of surplus labour from agriculture to the manufacturing sector. This would not only increase agricultural productivity but also boost the production of capital goods.

Ambedkar's ideas on this topic had a strong affinity with Arthur Lewis's model of economic development that would emerge in the 1950s. He emphasized that India's poverty was due entirely to its being made dependent upon agriculture and that industrialisation was the only way forward. He advocated for the nationalisation of key and basic industries and supported the right to strike for workers. He believed that this approach would prevent monopolies and the centralisation of industries.

## Recap

- ◆ Dr. B.R. Ambedkar was a highly educated economist with degrees from Columbia University and the London School of Economics
- ◆ He used his economic knowledge to analyse and propose solutions for India's social and economic problems, particularly those related to caste
- ◆ Ambedkar's economic contributions are in the fields of agricultural economics, public finance, and industrialisation
- ◆ He argued for state-owned, collective farming and industrialisation to address low agricultural productivity and disguised unemployment
- ◆ Ambedkar's views on transferring surplus labour from agriculture to industry were similar to those later proposed by Nobel laureate Arthur Lewis
- ◆ He believed that the caste system hindered economic development by restricting the mobility of labour and capital

- ◆ Ambedkar supported a democratic socialist approach, favouring a significant role for the state in economic development to reduce poverty and inequality
- ◆ He advocated for the nationalisation of key and basic industries while keeping small-scale industries in the private sector
- ◆ Ambedkar also championed labour welfare, arguing for fair wages, reduced working hours, and equal pay for men and women
- ◆ He criticised the land revenue system and other taxes that disproportionately burdened the poor
- ◆ He advocated for a progressive taxation system based on a person's ability to pay

## Objective Questions

1. From which two prestigious universities did Dr. Ambedkar earn his degrees in economics?
2. What was the title of Dr. Ambedkar's 1918 paper on land holdings?
3. What was Ambedkar's key argument against the caste system from an economic perspective?
4. Name the central institution formed in connection with hydro power, with Ambedkar as the driving force.
5. What was Dr. Ambedkar's view on the nationalisation of industries?
6. According to Ambedkar, on what principle should a country's taxation policy be based?

## Answers

1. Dr. Ambedkar earned his degrees from Columbia University and the London School of Economics
2. The title of his 1918 paper was "Small Holdings in India and their Remedies"

3. He argued that the caste system was a “division of labourers” that restricted the mobility of capital and labour, thus hindering economic development
4. Central Water Ways, Irrigation and Navigation Commission (CWINC)
5. He believed the state should own and run key and basic industries
6. A country’s taxation policy should be based on the payer’s capacity to pay, not just on their income

## Assignments

1. Analyse Dr. Ambedkar’s views on agriculture and industrialisation.
2. Discuss the contemporary relevance of Dr. Ambedkar’s economic ideas.
3. Explain the key differences between Dr. Ambedkar’s and Karl Marx’s views on economic development.

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# Economic Thought of Sree Narayana Guru

## UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ understand the importance of ethical wealth creation and its role in economic sustainability
- ◆ analyze the relationship between material prosperity and spiritual growth as envisioned by Sree Narayana Guru
- ◆ evaluate the significance of industrialisation and trade in breaking caste-based economic restrictions
- ◆ discuss the relevance of Guru's economic principles in today's financial planning and sustainable development policies

### Prerequisites

Economic inequality was not simply a matter of wealth distribution during earlier times; it was profoundly tied to the rigid social hierarchy, especially the caste system. Lower caste communities were systematically barred from education, land ownership, and skilled labour, which prevented them from accumulating wealth or achieving financial stability. While political and social reforms were vital, Sree Narayana Guru realised that genuine liberation required economic empowerment.

Unlike conventional economists who concentrated on market dynamics and financial models, Guru's philosophy was human centric. He measured prosperity not by mere wealth accumulation but by its ethical application and its contribution to the well-being of the entire community. Guru firmly believed that economic progress should never compromise social justice, environmental integrity, or

moral values. By championing principles such as thrift, prudence, trade, education, and self-reliance, he established the basis for an inclusive and sustainable economy. His ideas continue to influence modern financial policies, cooperative banking systems, and Kerala's commitment to sustainable development.

## Keywords

Ethical Wealth Creation, Thrift and Prudence, Sustainable Economic Growth, Co-operative Economy, Education and Skill Development, Trade and Commerce, Collective Welfare

## Discussion

### 6.2.1 Sree Narayana Guru's Vision

Sree Narayana Guru (1856 –1928) was a remarkable social reformer and visionary whose contributions extended beyond spirituality and social reform. His teachings influenced Kerala's socio-economic development. Born into the Ezhava community, which faced severe discrimination under Kerala's rigid caste hierarchy, Guru was acutely aware that social justice and economic empowerment are inseparable. His philosophy was not solely focused on spiritual awakening but also on economic upliftment, which he saw as the key to achieving equality, self-respect, and dignity for the oppressed.

Guru's economic vision was profoundly human-centric, unlike traditional economists who analyse wealth through capital, production, and markets. He believed that true prosperity did not lie in mere material wealth but in the ethical and equitable distribution of resources. He encouraged self-reliance, education, and hard work as a way to overcome poverty and dependence on feudal structures. His ideas were not just theoretical; they were practical solutions to uplift marginalised communities who had been historically denied access to land, trade, education, and financial resources. Guru rejected the notion of wealth as an instrument of power and exploitation, instead advocating for its responsible and sustainable use for the greater social good. His emphasis on thrift, prudence, and simple living was rooted in the belief that economic well-being is achieved through hard work, ethical practices, and minimal wastefulness. His teachings continue to influence Kerala's economic model, known for its high literacy, cooperative banking systems, and focus on community-based development.

### 6.2.2 Guru's Major Works

Guru is famous for coining the slogan “One Caste, One Religion, One God for All” (*Oru Jathi, Oru Matham, Oru Daivam, Manushyanu*) to directly combat the injustices of the caste system. In a powerful act of defiance against the caste-based norms of the

time, he consecrated a Shiva temple at Aruvippuram in 1888. In another temple he built at Kalavancode, he used a mirror instead of an idol, symbolising his teaching that the divine resides within every person.

He believed in equality but cautioned against using religious conversions to incite social unrest. In response to religious conversions within the Ezhava community, he convened the All-Region Conference at the Alwaye Advaita Ashram in 1923, which is considered the first of its kind in India. In 1903, he founded the Sree Narayana Dharma Paripalana Yogam (SNP), a philanthropic society that continues to be very influential today. Following the example of SNP, Parallel organisations like yogakshmasabha, Nair Service Society, Sadhujana Paripalana Sabha etc. were formed.

Guru's work extended beyond spiritual reform into practical societal upliftment. He initiated the Sivagiri pilgrimage in 1924 to promote values such as hygiene, literacy, dedication, agriculture, handicrafts, and trade. He was a passionate supporter and re-evaluator of Advaita Vedanta, the concept of non-duality originated by Adi Shankara.

He was a brilliant writer whose works, include *Advaitha Deepika*, *Asrama*, and *Thevarappathinkangal*. He was a leading voice for universal temple access and fought against social discrimination, particularly the practice of untouchability. He also supported the Vaikom agitation, a movement aimed at gaining access for all people to the roads surrounding the temples.

Let us discuss his economic contributions in details.

### 6.2.3 Economic Empowerment as a Path to Social Liberation

Sree Narayana Guru was a pioneer in linking economic empowerment directly with social justice. He realised that political and social reforms alone were not enough to liberate oppressed communities. Unless they had financial independence, they would remain vulnerable to discrimination and exploitation. His philosophy, therefore, connected economic progress with human dignity, arguing that true equality was impossible without financial security.

His approach was holistic. While promoting spirituality and social harmony, he also urged marginalised communities to actively participate in economic activities, thereby breaking free from their traditional roles of servitude. Unlike many reformers who focused only on religious awakening, Guru believed that social change required economic tools, education, land ownership, business opportunities, and skill development. One of Guru's most progressive ideas was his rejection of caste-based professions. He urged people to seek jobs that would bring them economic stability and social respect, rather than being trapped in traditional caste-imposed roles. This was a revolutionary concept at a time when lower-caste communities were expected to perform only menial jobs with no chance for upward mobility. He encouraged them to become entrepreneurs, merchants, educators, and professionals, proving that wealth and knowledge were not exclusive to the privileged classes. His famous slogan, "One caste, one religion, one God for all," had strong economic implications, calling for equal opportunities in trade, education, and labour. He saw economic independence as the true path to self-respect,

arguing that people shouldn't have to depend on charity or patronage for survival. His message was clear economic empowerment must come from within, through education, hard work, and self-reliance.

## 6.2.4 Values of Thrift and Prudence

Sree Narayana Guru not only revolutionised spiritual and social thought but also contributed in shaping economic behaviour of people. He firmly believed that financial discipline, thrift, and prudence were essential for a sustainable life. Unlike many traditional economists who focused solely on market forces, production, and trade, Guru's vision was deeply rooted in ethical principles, self-discipline, and long-term stability. He recognised that true economic empowerment was not about simply accumulating wealth, but about gaining financial wisdom, practicing responsible consumption, and achieving self-sufficiency. He encouraged communities to avoid extravagance, invest in skill development, and plan for the future.

His teachings were especially relevant for the economically weaker sections of society, who often fell into debt traps due to societal pressures and unsustainable spending habits. Guru's emphasis on thrift, simple living, and self-reliance indirectly shaped Kerala's socio-economic culture, which later found expression in co-operative banking, community development, and high social investment in education and health.

### a. The Concept of Thrift

According to Sree Narayana Guru, thrift was not about being deprived, but about mindful consumption and the careful use of resources. He believed that unnecessary expenses led to economic distress and social inequality, particularly among marginalised sections of society. Guru viewed extravagance as a major social evil, especially in customs like lavish weddings, religious rituals, and luxury lifestyles, which often forced poor families into financial ruin. In many traditional societies, lower-income families were pressured into spending beyond their means on expensive dowries, elaborate feasts, and prolonged religious ceremonies. These expenses were often funded through debt, trapping them financially for generations. Guru actively opposed these customs, advocating for simpler, more meaningful, and financially responsible alternatives.

He encouraged people to prioritise their needs over their wants, using money wisely on necessities like education and healthcare instead of on status-driven consumption. He also urged them to invest in productive activities, such as skill development, self-employment and local enterprise to ensure long-term financial security rather than spending on social obligations. Guru warned against borrowing for non-essential spending, as it leads to financial dependence and long-term hardship, and taught that true dignity comes from financial independence, not from trying to impress others with extravagant traditions.

### b. The Concept of Prudence

While thrift focuses on reducing waste, prudence is about making careful and sustainable financial decisions. Sree Narayana Guru saw prudence as key to long-term economic empowerment, especially for historically marginalised communities. For

centuries, lower-caste groups in Kerala were systematically denied access to wealth and financial opportunities. They were excluded from land ownership, denied high-paying jobs, and prevented from accumulating wealth. Guru understood that true economic empowerment required these communities to develop strong financial discipline and a long-term vision. He taught them to live within their means by emphasising responsible spending and discouraging unnecessary loans and impulsive purchases. He also advised them to budget and save for emergencies.

Guru believed wealth should be earned honestly and ethically, and taught that economic success was about long-term stability. He encouraged saving and investing in education for future generations and advised people to invest in long-term assets like land and productive enterprises rather than temporary luxuries. He also stressed the importance of financial literacy, ensuring that even the poorest individuals understood the value of money and savings.

## 6.2.5 Simple Living and Industriousness

Sree Narayana Guru's philosophy of simple living and industriousness was a profound economic and social strategy for liberating the oppressed, promoting self-reliance, and ensuring long-term stability. In his view, material wealth was not the ultimate goal; true happiness and freedom came from discipline, self-improvement, and making a meaningful contribution to society. His teachings on simple living were deeply connected to his spiritual and economic ideals. He saw material excess as a distraction from self-awareness and community welfare. However, his advocacy for simplicity did not mean being passive. On the contrary, Guru was a strong believer in industriousness and hard work. He encouraged individuals and communities to take charge of their economic future by engaging in meaningful labour, establishing businesses, and actively contributing to economic progress. By emphasising simplicity and hard work, Guru inspired marginalised communities to break free from caste-based restrictions, ensuring they had equal opportunities to participate in economic growth.

### a. The Concept of Simple Living

Sree Narayana Guru's concept of simple living was based on the idea that happiness and success come from inner peace and a purposeful existence, not from material possessions. He rejected the notion that wealth alone determined a person's status and instead emphasised a life of balance, moderation, and mindful consumption. His teachings encouraged people to prioritise needs over wants, urging them to avoid wasteful spending on luxuries that don't contribute to their long-term well-being. He strongly opposed social pressures, such as extravagant weddings and festivals, that forced families into financial hardship. Guru promoted financial prudence, advising individuals to manage their resources wisely, avoid unnecessary debt, and invest in productive assets like education. He believed that true happiness came from learning, spiritual growth, and community service, not from material possessions. His vision of simple living was deeply practical, helping especially lower-caste and economically disadvantaged communities achieve financial stability without falling into cycles of debt or materialism.

### **b. The Concept of Industriousness**

While Guru promoted simple living, he never encouraged idleness. He strongly believed that industriousness, or hard work, was essential for both personal and societal development. Guru recognised that many marginalised communities in Kerala, particularly the Ezhavas, were economically dependent on dominant castes, which kept them in a cycle of poverty and social subjugation. To break this cycle, Guru urged them to take control of their economic future through education, skill development, and entrepreneurship. He encouraged self-employment and entrepreneurship, seeing that traditional caste-based occupations limited economic mobility, and he urged people to start their own businesses to become self-sufficient.

He also promoted small-scale industries, believing that local enterprises were essential for community-based prosperity and that cooperative ventures could help marginalized communities build financial security. Guru strongly opposed the idea that certain jobs were reserved for specific castes and encouraged people to choose professions that provided dignity and financial independence. He also emphasised that honest labour was a spiritual act and that work should be done with sincerity and a sense of duty toward society.

## **6.2.6 Trade and Commerce in Sree Narayana Guru's Economic Vision**

Sree Narayana Guru was a visionary social reformer who understood that the true empowerment of marginalised communities required economic independence as a crucial pillar of social dignity. He actively encouraged lower-caste communities to engage in trade, commerce, and industry. His economic philosophy was not just about financial prosperity; it was about breaking caste barriers, ensuring self-reliance, and fostering social equality through economic participation. During his time, Kerala's economic structure was deeply influenced by the caste system, with upper castes controlling most businesses, trade networks, and financial resources. Lower-caste communities were largely confined to menial jobs, with little opportunity to build wealth or establish businesses. Guru directly challenged this structure, advocating for self-employment, technical education, and industrialisation as the means to achieve economic liberation.

### **a. Economic Liberation through Trade and Commerce**

Sree Narayana Guru saw trade as a powerful tool for economic liberation, allowing marginalised communities to break free from subjugation and create independent livelihoods. His philosophy was based on the idea that social empowerment was incomplete without economic freedom. He understood that in a hierarchical society, economic strength translated into respect and autonomy. By engaging in business, lower-caste communities could gain dignity rather than rely on charity. Guru supported self employment as successful lower-caste individuals could gain economic power that transcended traditional social hierarchies. Furthermore, engaging in commerce provided employment within marginalised communities, ensuring that future generations were not trapped in poverty.

### **b. The 1905 All India Industrial and Agricultural Exhibition**

One of Guru's most groundbreaking contributions to economic reform was the All India Industrial and Agricultural Exhibition, held in Kollam in 1905. This historic event was specifically aimed at introducing lower-caste communities to modern industrial techniques, business opportunities, and entrepreneurship. The exhibition was important for several reasons. It challenged caste-based economic restrictions by sending a strong message that economic progress should be open to all, regardless of caste. It promoted technological awareness by introducing new agricultural machinery and industrial tools, showing lower-caste labourers the benefits of mechanisation and productivity. The event also encouraged business and skill development, showcasing how technical education and industrial training could uplift marginalised groups.

### **c. Trade as a Means of Social Equality**

Guru understood that economic inequality was closely tied to social discrimination. The caste system functioned as an economic barrier, restricting lower-caste communities from owning land or participating in business. To overcome this, Guru promoted three key economic principles. First, he advocated for self employment over dependence, urging marginalised communities to create their own business ventures instead of relying on feudal systems or caste-based employment, as he believed that self-reliance was the true path to equality. He emphasised skill development and technical education, encouraging people to learn new skills and embrace modern business techniques rather than being trapped in hereditary professions. This approach provided economic mobility and dignity. Also he recognised that Kerala's economy needed industrialisation and business expansion to move beyond its agrarian dependence, so he encouraged investments in manufacturing, small industries, and cooperative businesses to strengthen local economies and create long-term prosperity.

## **6.2.7 Sustainable Economic Basis**

Sree Narayana Guru's economic philosophy was deeply rooted in sustainability, ethical wealth creation, and collective well-being. Unlike conventional economic models that prioritised profit and industrial growth at any cost, Guru's vision focused on balancing material prosperity with spiritual and moral values. He believed that economic success should never come at the cost of social justice, environmental sustainability, or ethical responsibility. His approach to economic sustainability was revolutionary for his time, proposing a system where progress was measured not just by financial wealth but by the overall well-being of society. He advocated for inclusive economic policies, ensuring that marginalised communities had access to education, skill development, and employment opportunities. At the same time, he discouraged wasteful consumption and irresponsible exploitation of resources, making his ideas highly relevant to modern sustainable development principles. Even today, his vision of a sustainable economic basis continues to inspire economic policies that focus on responsible consumption, fair wealth distribution, and long-term social stability. His teachings provide a powerful model for creating an economy that is both prosperous and just, ensuring that no community is left behind in the pursuit of growth.

### **a. Balancing Material and Spiritual Growth**

Sree Narayana Guru's economic philosophy was unique because it emphasised a balance between material prosperity and spiritual well-being. Unlike modern capitalist models that equate wealth with success, Guru believed that true prosperity was achieved only when financial stability was accompanied by ethical living, compassion, and a sense of community responsibility. He strongly opposed economic systems that allowed a privileged few to accumulate wealth at the expense of the majority. He argued that economic development should serve the needs of all, not just a small elite. His vision promoted an equitable society where financial resources were used responsibly, without leading to greed, social exploitation, or economic injustice. In this approach, Guru encouraged people to seek wealth ethically, teaching that prosperity should come through hard work, honesty, and fair trade. He believed that true wealth lies in uplifting others, encouraging individuals to use their wealth for the collective good, such as by supporting community projects and education. He also discouraged an obsession with luxury and excess, arguing that true contentment came from self-discipline, knowledge, and a harmonious way of life. His message remains highly relevant in today's world, where many economies face issues of wealth concentration, financial inequality, and consumer-driven stress. His vision offers a balanced perspective, ensuring that economic growth doesn't lead to social or moral decay.

### **b. Education and Skill Development**

Guru believed that education was the most powerful tool for breaking economic inequality. He saw knowledge as the true wealth of a society, ensuring that people, especially from marginalised backgrounds, could gain financial independence and social respect. During his time, lower-caste communities were deliberately denied access to education and were forced to work in low-income, caste-based professions with no opportunity for upward mobility. Guru challenged this system by advocating for schools for marginalised communities, establishing educational institutions that provided learning opportunities for those who were historically excluded. He also promoted vocational and technical training, understanding that not everyone needed a formal academic education and that skill-based learning could help individuals secure stable jobs and enter various industries. Additionally, Guru promoted financial literacy and entrepreneurial training, ensuring that people could manage their earnings, invest wisely, and build their own businesses rather than being dependent on feudal landlords or exploitative employers.

### **c. Industrialisation for Economic Independence**

Sree Narayana Guru was one of the earliest thinkers in India to emphasise the need for industrialisation as a means to achieve economic self-sufficiency. He recognised that traditional caste-based jobs limited economic growth and forced many into hereditary professions with no financial stability. He strongly encouraged the adoption of modern industries and technology, believing that India's future depended on embracing industrial advancements and ensuring people had access to modern tools, factories, and technological education. He also advocated for breaking free from caste-based professions, a radical idea at the time, which allowed lower-caste communities to enter fields like trade, manufacturing, and skilled labour that were previously restricted to

upper castes. Furthermore, he encouraged state-supported industrial growth, believing that government intervention could ensure workers were fairly treated, wages were just, and industries contributed to national progress rather than personal profit alone.

#### **d. Thrift and Resource Conservation**

Long before modern environmental movements began discussing sustainability and responsible consumption, Guru had already advocated for thrift and resource conservation as key pillars of economic success. He saw wastefulness as a major social evil, urging individuals to use resources wisely and plan for long-term stability. He promoted the efficient use of resources, encouraging people to avoid unnecessary spending and to ensure that natural and financial resources were not wasted. He also supported sustainable agriculture and water management, advocating for better irrigation techniques, soil conservation, and community farming practices to ensure long-term productivity without exhausting natural resources. Guru also warned against excessive materialism, advocating for a lifestyle of moderation where resources were used for need rather than greed. His teachings align with modern environmental movements that promote sustainable development, ethical consumerism, and climate-conscious economic planning.

#### **e. Collective Welfare Over Individual Profit**

Unlike modern capitalist models that prioritise individual profit over social welfare, Guru's economic philosophy was built on the principle of collective progress. He believed that economic policies should be structured to benefit society as a whole, ensuring that wealth was fairly distributed and economic opportunities were accessible to all. His approach included promoting cooperative business models, encouraging community-owned enterprises, fair trade systems, and cooperative banking to ensure that small businesses and workers had access to financial resources and fair wages. He also believed in wealth redistribution for social good, arguing that wealth should not remain concentrated in the hands of a few and that economic policies should ensure everyone had access to education, healthcare, and social security. Finally, Guru supported fair labour practices and worker rights, ensuring that economic growth did not come at the cost of worker exploitation.

## **Recap**

- ◆ Sree Narayana Guru's economic vision was founded on ethical wealth creation, financial prudence, and sustainable development
- ◆ He emphasized a crucial balance between material success and spiritual and moral responsibility, actively discouraging greed and exploitation

- ◆ Central to his philosophy was the belief that education and skill development were the most powerful tools for dismantling economic inequality
- ◆ Guru expected education to enable marginalised communities to achieve financial independence
- ◆ He viewed industrialisation and entrepreneurship as essential means for individuals to escape restrictive, caste-based professions and achieve economic mobility
- ◆ Guru promoted thrift and resource conservation, advocating for mindful spending and sustainable economic practices to ensure long-term stability
- ◆ He saw trade and commerce as vital tools for self-reliance, encouraging marginalised communities to engage in business and industry.
- ◆ He rejected extravagant social customs and unnecessary expenditures, promoting financial discipline
- ◆ Furthermore, his teachings encouraged businesses to prioritise collective welfare over individual profit
- ◆ This ensures that economic success benefited all members of society
- ◆ Guru's economic philosophy remains highly relevant today, influencing savings culture, ethical business practices, and responsible consumption.
- ◆ His ideas on sustainable development align directly with modern environmental policies, emphasising the responsible use of resources
- ◆ The 1905 Industrial and Agricultural Exhibition in Kollam stands as a key example of his vision
- ◆ The exhibition it helped introduce lower-caste communities to modern industrial and commercial opportunities
- ◆ He believed that true financial security came from living within one's means and investing in long-term stability
- ◆ His focus on social and economic justice played a crucial role in Kerala's transformation into a progressive and financially stable state

## Objective Questions

1. What was Guru's core principle regarding wealth creation?
2. How did Guru view industrialisation?

3. Which financial value did Guru advocate for avoiding waste?
4. What was the purpose of the 1905 Industrial and Agricultural Exhibition?
5. How did Guru believe financial independence could be achieved?
6. What did Guru promote to replace caste-based professions?
7. How did Guru define sustainable economic growth?
8. What was Guru's stance on trade and commerce?
9. How did Guru believe wealth should be used?
10. Which financial institution model reflects Guru's teachings?

## Answers

1. Ethical and collective welfare
2. As a tool for economic self-reliance
3. Thrift and prudence
4. To introduce lower-caste communities to trade and self - employment
5. Through education and skill development
6. Entrepreneurship and technical education
7. Economic growth that balances material prosperity with spiritual and moral values, without compromising social justice or the environment
8. He saw them as essential tools for self-reliance and breaking caste barriers
9. For the collective good, not for personal greed
10. Cooperative banking

## Assignments

1. Discuss the role of thrift and prudence in Sree Narayana Guru's economic philosophy and its relevance in modern financial planning.
2. Analyse how Guru's emphasis on education and skill development contributed to Kerala's economic progress.
3. Examine the significance of trade and commerce in Guru's vision of self-reliance and economic liberation.
4. Evaluate Guru's concept of sustainable economic growth and its alignment with modern environmental policies.

## Reference

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## Suggested Reading

1. Balakrishnan, P. K. (1954). *Narayana Guru*. D.C. Books.



## M N Roy

# UNIT

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ familiarise with N Roy
- ◆ comprehend on the contributions of M N Roy
- ◆ compare materialism of Marx and M N Roy
- ◆ understand on new humanism introduced by Roy

### Prerequisites

M. N. Roy was a twentieth-century Indian philosopher, political activist, and radical humanist. Born as Narendra Nath Bhattacharya, he began his career as a revolutionary seeking to overthrow British rule in India. After his attempts to secure arms failed, he travelled to the United States and Mexico, where he fully embraced socialism and changed his name to M. N. Roy. His intellectual journey led him to Moscow, where he rose to become a prominent international communist leader, meeting figures like Lenin. However, his philosophical evolution caused him to break with communism and return to India.

Roy's most profound philosophical work began during his imprisonment, where he wrote the nine volumes of the "Prison Manuscripts." In these works, he re-evaluated Marxism and developed his own philosophy, radical Humanism. He saw a crucial link between philosophy and science, arguing that an intellectual revolution must precede any social revolution. His new Humanism prioritised individual freedom and rationality, a stark contrast to his earlier Marxist beliefs. Roy's legacy is defined by his profound critique of both communism and formal democracy, his emphasis on ethics, and his vision for a radical, organised democracy rooted in the individual.

## Keywords

Radical Humanism, Prison Manuscripts, New Humanism, Individualism, Party-less Democracy

## Discussion

### 6.3.1 M N Roy

Manbendra Nath Roy, a towering figure in 20th-century Indian philosophy, began his journey not as a philosopher, but as a militant political activist. He left India in 1915 with the goal of acquiring weapons for an armed revolt against British rule. When his attempts to secure arms failed, he landed in San Francisco, California, in June 1916, where he adopted the name M. N. Roy. It was in America that Roy's intellectual path took a dramatic turn. He befriended American radicals and embarked on a systematic study of socialism at the New York Public Library. Initially, he intended to critique the ideology, but he soon found himself embracing it. His new convictions led him to Moscow in 1920, where he met Lenin and rose to become a prominent international communist leader. However, his tenure within the Communist International was short-lived, and he was expelled in September, 1929. Roy returned to India in December 1930 and was subsequently sentenced to six years in prison for his involvement in the Kanpur Communist Conspiracy Case.

Roy's true philosophical quest began during his time in prison. He used his incarceration to undertake a systematic study of "the philosophical consequences of modern science," which he intended as a re-examination and re-formulation of the Marxist ideas he had subscribed to since 1919. Over five years, his reflections in jail grew into nine rigorous volumes, known as the "Prison Manuscripts." While these manuscripts have not been published in their entirety and are currently preserved in the Nehru Memorial Museum and Library Archives in New Delhi, selected portions were released as separate books in the 1930s and 1940s.

#### 6.3.1.1 Roy's Philosophical Stance

Roy's philosophical works draw a sharp distinction between philosophy and religion. He argued that philosophical progress is impossible without abandoning orthodox religious ideas and theological dogmas. In contrast, he saw a close and essential relationship between philosophy and science. He gave a central role to intellectual and philosophical revolution, maintaining that it must precede any social revolution. Inspired by the 18th-century French materialist Holbach, Roy revised and restated materialism in light of 20th-century scientific developments. In the context of Indian philosophy, Roy's ideas align with the ancient Indian materialist traditions of Lokayata and Carvaka.

Despite being a prolific writer who edited and contributed to numerous journals, Roy was initially reluctant to write about himself. His *M. N. Roy's Memoirs*, a 627-page book, covers only a brief six-year period starting in 1915. During his imprisonment in India, his friends in Germany, most notably his future wife, Ellen Gottschalk, provided him with books he wished to read. His letters to her from jail, later published as *Letters from Jail* (1943), offer valuable insights into his reading and thought processes during those years.

Four volumes of the *Selected Works of M. N. Roy*, edited by Sibnarayan Ray, have been published. Many of his earlier works, such as *Revolution and Counter-Revolution in China*, belong to his communist phase. As he transitioned to his final humanist phase, he authored key works like *Beyond Communism*, *New Humanism – A Manifesto*, and *Reason, Romanticism and Revolution*. According to Roy, his books *Scientific Politics* (1942), *New Orientation* (1946), and *Beyond Communism* (1947) collectively narrate the development of his radical humanism, with the final ideas being fully articulated in *New Humanism*. As mentioned, his “Prison Manuscripts” became the foundation for several books published in the 1930s and 1940s, including *Materialism* (1940), *Science and Superstition* (1940), and *Science and Philosophy* (1947). *Materialism* and *Science and Philosophy* are particularly important for understanding his concept of philosophy and his specific formulations of materialism.

#### **a. Roy's Concept of Philosophy**

Roy defined philosophy as the contemplation, study, and knowledge of nature. Its purpose, in his view, is to “know things as they are, and to find the common origin of the diverse phenomena of nature, in nature itself.” According to Roy, philosophy emerges when human beings’ spiritual needs are no longer met by primitive natural religions, which personify natural phenomena as gods. The intellectually mature individual, no longer satisfied with these “nursery-tales,” is emboldened to seek the causes of natural phenomena within nature itself and to “find in nature a unity behind its diversity.” In his book *Science and Philosophy*, Roy further defined philosophy as the theory of life whose function is to solve the riddle of the Universe. He believed philosophy is born from humanity’s efforts to explain nature and understand its relationship with it.

#### **b. Roy's New Humanism: The Twenty-Two Theses on Radical Democracy**

New Humanism is the name Roy gave to the “new philosophy of revolution” he developed in the later part of his life. This philosophy is summarised in the “Twenty-Two Theses” and further detailed in his *New Humanism – A Manifesto*. The theses have both a critical and a constructive aspect. The critical part addresses the shortcomings of communism including the economic interpretation of history and formal parliamentary democracy. The constructive aspect, on the other hand, gives the highest value to individual freedom, offers a humanist interpretation of history, and outlines a vision of radical or organised democracy, along with the means to achieve this ideal.

The foundational tenet of New Humanism, as articulated in the first three theses, is individualism. Roy believed that political philosophy must begin with the idea that the individual is primary to society and that only individuals can truly enjoy freedom. According to Roy, the quest for freedom and the search for truth are the fundamental

drivers of human progress. The ultimate goal of all rational human endeavor, both individual and collective, is to attain ever-increasing freedom, and the amount of freedom available to individuals serves as the measure of social progress. Roy traced the quest for freedom back to the human being's biological struggle for existence and considered the search for truth as a natural consequence of this quest. He saw reason as a biological property that is not opposed to human will. Morality, for Roy, is rooted in humanity's innate rationality, originating from the rational desire for harmonious and mutually beneficial social relations.

### 6.3.1.2 Roy's Materialism and Marxian Materialism

Before developing his philosophy of New Humanism, Roy was a staunch Marxist. His revision of materialism was conducted within the framework of Marxism, and his critique of materialism applies to Marxian materialism wherever it aligns with traditional materialism. Roy's Physical Realism, however, differed from Marxian materialism in three key ways.

Roy insisted on delinking dialectics from materialism. He viewed the Hegelian heritage as a weak spot in Marxism, arguing that the simplicity and scientific soundness of materialism were compromised by making its validity dependent on dialectics. For Roy, "materialism pure, and simple, can stand on its own legs," and he saw no logical connection between the two.

Second, he rejected historical materialism and advocated for a humanist interpretation of history. In his view, human will is a critical determining factor in history, and he recognised the autonomy of the mental world. He argued that human will cannot be directly linked to the laws of the physical universe, and that ideas have their own objective existence governed by their own laws. He believed that the economic interpretation of history was based on a flawed understanding of materialism.

Third, Roy's materialism differed sharply from Marxian materialism in its strong emphasis on ethics. He argued that Marxian materialism wrongly dismissed the humanist tradition and, in doing so, separated materialism from ethics. He criticised the notion that an appeal to morality and justice was unscientific, stating that such a view was based on a false understanding of science.

### 6.3.1.3 Roy's Intellectual Legacy

As a former Marxist who had rubbed shoulders with Lenin and Stalin, Roy was a celebrated figure among Indian communists. However, his later renunciation of Marxism and advocacy of 'radical humanism', along with his criticism of communist doctrines, earned him condemnation from Marxists and communists. Despite this, a small group of intellectuals collaborated closely with him in drafting the "Twenty-two Theses on Radical Democracy" and *New Humanism: A Manifesto*. This group included V. M. Tarkunde, Phillip Spratt, and his wife, Ellen Roy. Some of them, such as Tarkunde and Sibnarayan Ray, remained active in the radical humanist movement and wrote extensively about him.



Among the journals he founded, *The Humanist Way* has ceased publication, but *The Radical Humanist* is still published monthly by the Indian Renaissance Institute. It has been edited by prominent figures like Tarkunde, R. M. Pal, and R. A. Jahagirdar. A. B. Shah, the founder of the Indian Secular Society, was another important intellectual influenced by Roy's ideas.

Some of Roy's later ideas are open to criticism, even from a humanist perspective. For instance, his use of the word spiritual in phrases like spiritual needs and spiritual childhood can be problematic, given that he was a materialist who did not believe in the existence of a soul or spirit. While he likely used the term in the sense of intellectual, it could be misleading. Another point of criticism is his advocacy of party-less democracy. Since freedom of association is a fundamental democratic right, citizens with similar political ideas are bound to form political parties. Preventing this would require denying this basic right, making the concept of a party-less democracy seem self-contradictory, impractical, and unrealisable.

## Recap

- ◆ Born as Narendra Nath Bhattacharya, he was a militant activist who later changed his name to M. N. Roy in San Francisco
- ◆ He became a prominent international communist leader after meeting Lenin in Moscow
- ◆ Roy was expelled from the Communist International and was later imprisoned in India
- ◆ His time in prison led him to pursue deep philosophical inquiry and re-evaluate Marxism
- ◆ He wrote nine volumes of philosophical reflections, known as the "Prison Manuscripts," while incarcerated
- ◆ Roy's philosophy sharply separated itself from religion
- ◆ He believed philosophy should be grounded in scientific knowledge.
- ◆ A philosophical revolution must precede social change
- ◆ He developed a new philosophy called New Humanism, which critiqued communism and democracy
- ◆ The foundational principle of New Humanism is individualism
- ◆ The pursuit of freedom and truth drives human progress

- ◆ Roy's materialism differed from Marx's by rejecting dialectics and historical materialism and by emphasizing ethics
- ◆ He believed ethics are rooted in human rationality
- ◆ His ideas continue to influence thinkers, and his journal, *The Radical Humanist*, is still published
- ◆ His idea of a 'party-less democracy' drew criticism for being impractical

## Objective Questions

1. What was M. N. Roy's birth name?
2. In which year did M. N. Roy leave India?
3. Where did Roy change his name to M. N. Roy?
4. Whom did Roy meet in Moscow in 1920?
5. What was the name of the legal case that led to Roy's imprisonment?
6. What did Roy write during his prison years?
7. Where are the "Prison Manuscripts" currently preserved?
8. According to Roy, what must precede a social revolution?
9. Which ancient Indian philosophical traditions align with Roy's ideas?
10. What is the title of Roy's work that summarises his "new philosophy of revolution"?
11. According to Roy, what is the central idea of the Twenty-Two Theses?
12. What did Roy reject from Marxian materialism?
13. Which publication of Roy's is still being published today?
14. How did Roy's materialism differ from Marxian materialism regarding ethics?
15. What criticism is often leveled against Roy's idea of "party-less democracy"?

## Answers

1. Narendra Nath Bhattacharya
2. 1915
3. San Francisco, California
4. Lenin
5. The Kanpur Communist Conspiracy Case
6. Nine volumes of philosophical reflections, known as the “Prison Manuscripts”
7. The Nehru Memorial Museum and Library Archives in New Delhi
8. An intellectual and philosophical revolution
9. Lokayata and Carvaka
10. *New Humanism – A Manifesto*
11. The individual is prior to society, and freedom can only be enjoyed by individuals.
12. Historical materialism and the necessity of dialectics
13. *The Radical Humanist*
14. It gives a prominent place to ethics, which he argued Marxian materialism wrongly dismissed
15. It is considered self-contradictory and impractical because it would require denying the fundamental democratic right of association

## Assignments

1. Discuss M. N. Roy’s intellectual transformation from a militant activist to a radical humanist philosopher, highlighting the key events that shaped his journey.

2. Analyse Roy's critique of both communism and formal parliamentary democracy as outlined in his "Twenty-Two Theses."
3. Examine the key differences between M. N. Roy's Physical Realism and Marxian materialism.
4. Evaluate the strengths and weaknesses of M. N. Roy's philosophical ideas, including his concepts of "party-less democracy" and the use of the term "spiritual."

## Reference

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## Suggested Reading

1. Roy, M. N. and Spratt, Phillip. *Beyond Communism* (Delhi: Ajanta Publications, 1981).
2. Roy, M. N. *India's Message* (Delhi: Ajanta Publications, 1982).
3. Roy, M. N. *Letters from Jail* ( Calcutta: Renaissance Publishers Private Ltd., 1965).
4. Roy, M. N. *Materialism* (Calcutta: Renaissance Publishers Ltd., 1951).



## SREENARAYANAGURU OPEN UNIVERSITY

### Model Question Paper (SET- A)

QP CODE: .....

Reg. No :.....

Name: .....

### SECOND SEMESTER BA ECONOMICS EXAMINATION DISCIPLINE SPECIFIC ELECTIVE COURSE

B21EC03DE - DEVELOPMENT OF ECONOMIC THOUGHT (CBCS - UG)  
2022-23 - Admission Onwards

Time: 3 Hours

Max Marks: 70

#### SECTION A

*Answer any ten questions of the following. Each question carries one mark.*

**(10 × 1 = 10 Marks)**

1. Mention any two ancient economic thoughts.
2. Name the work which contains the economic contributions of Hebrew.
3. Name the two famous contributors of Greek economic thoughts.
4. What does fixed capital refer to?
5. Name the concept used by Adam Smith to explain Theory of Value.
6. What does invisible hand refer to?
7. Define socialism.
8. Name any two major works of Karl Marx.
9. State Gossen's first law.
10. Who is regarded as the major advocate of general equilibrium theory?
11. Give the mathematical representation of the total utility function.
12. Give the other name of Chanakya.
13. Name Kautilya's classic treatise on economics and polity?
14. From which two prestigious universities did Dr. Ambedkar earn his degrees in economics?
15. Which famous slogan did Sree Narayana Guru coin to combat caste injustice?

#### SECTION B

*Answer any ten questions of the following. Each question carries two marks.*

**(10×2 =20 Marks)**

16. Write on the concept of origin of the State given by Plato.
17. State the main difference between Greeks and Romans.
18. State Malthus view on growth in population and food supply.
19. What is the vision of Adam Smith on the role of government intervention?

20. Write on scarcity rent.
21. Distinguish between democratic socialism and libertarian socialism.
22. Write on the concept, utopia.
23. What is class struggle according to Marx?
24. Why is Walrasian General Equilibrium theory called comprehensive?
25. Define the Law of Diminishing Marginal Utility.
26. What is the substitution effect in demand analysis?
27. What is Vartha?
28. What are Home Charges?
29. Name the parallel organisations of SNDP.
30. Name two major works of Ambedkar.

### SECTION C

*Write a short note on any five questions of the following. Each question carries four marks.*

**(5×4 = 20 Marks)**

31. Discuss Hegelian Dialectics.
32. Discuss Smith's Division of labour.
33. Distinguish between scarcity rent and differential rent under Ricardian theory.
34. Discuss the relationship between Malthus and Utilitarianism.
35. Explain utopian socialism.
36. Explain the evolution of marginalism.
37. What are the contributions of Alfred Marshall?
38. Discuss Keynes' view on aggregate demand and wage-price flexibility.
39. Discuss the economic ideas of Kautilya.
40. Explain the economic ideas of M N Roy.

### SECTION D

*Answer any two questions of the following. Each question carries ten marks.*

**(2×10 =20 Marks)**

41. Discuss the economic ideas of Aristotle.
42. Elucidate on the major contribution of Karl Marx.
43. Elucidate on Drain Theory of Dadabhai Naoroji.
44. Discuss the contribution of Ambedkar on economics.



## SREENARAYANAGURU OPEN UNIVERSITY

### Model Question Paper (SET- B)

QP CODE: .....

Reg. No :.....

Name: .....

#### SECOND SEMESTER BA ECONOMICS EXAMINATION

#### DISCIPLINE SPECIFIC ELECTIVE COURSE

B21EC03DE - DEVELOPMENT OF ECONOMIC THOUGHT (CBCS - UG)

2022-23 - Admission Onwards

Time: 3 Hours

Max Marks: 70

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#### SECTION A

*Answer any ten questions of the following. Each question carries one mark.*

**(10 × 1 = 10 Marks)**

1. What does Sabbath refers to?
2. Which Greek philosopher made a distinction between economics and chrematistics?
3. What was a unique Hebrew institution where land was left fallow and debts were cancelled every seventh year?
4. Define rent.
5. State Say's Law.
6. What leads to differential rent according to Ricardo?
7. What is utopian socialism?
8. What is exchange value?
9. Give mathematical representation for Gossen's second law.
10. What is consumer surplus?
11. Which economic scenario paved the way for the emergence of Keynesian economics?
12. Who propounded the Drain of Wealth theory?
13. What was the estimated per capita income of India in 1870, according to Naoroji?
14. What was the title of Dr. Ambedkar's 1918 paper on land holdings?
15. What was the philosophy developed by M.N. Roy that influenced his economic ideas?

## SECTION B

*Answer any ten questions of the following. Each question carries two marks.*  
**(10×2 =20 Marks)**

16. Distinguish between economic thought and economic history.
17. What is the mosaic law on interest?
18. What does preventive checks mean under Malthus theory of population?
19. Distinguish between productive and unproductive labour.
20. Name two significant contributions of David Ricardo.
21. How is the value of labour determined under the Theory of surplus value?
22. State dialectics.
23. Write on financial capitalism.
24. What is income effect in demand analysis?
25. What is multiplier effect?
26. Write on stagflation.
27. Write on Gopal Krishna Gokhale.
28. Write on Village Sarvodaya.
29. Give two literary contributions of Sree Narayana Guru.
30. What is Advaita Vedanta?

## SECTION C

*Write a short note on any five questions of the following. Each question carries four marks.*

**(5×4 = 20 Marks)**

31. Explain the economic ideas of Romans.
32. Discuss Malthusian Theory of Population.
33. Write on the views of Smith on interest and profit.
34. Elucidate the working of Say's Law of market.
35. Explain Aristotle's Economic Ideas.
36. Distinguish between Classical and Keynesian school of thought.
37. Explain the principle of law of diminishing marginal utility.
38. Explain the Walras's contributions in economics.
39. Discuss the contributions of Gokhale.
40. Explain Ambedkar's view on agriculture and irrigation.

## SECTION D

*Answer any two questions of the following. Each question carries ten marks.*

**(2×10 =20 Marks)**

41. Explain economic thought of Hebrew's.
42. Discuss socialism and its different forms.
43. Elucidate Gandhian Economics.
44. Elucidate the economic ideas of Sree Narayana Guru.



## സർവ്വകലാശാലാസീതം

വിദ്യയാൽ സ്വത്രത്രാക്കണം  
വിശ്വപ്രതരഥി മാറണം  
ഗഹപ്രസാദമായ് വിളങ്ങണം  
സുരൂപ്രകാശമേ നയിക്കണേ

കൂദിരുട്ടിൽ നിന്നു തെങ്ങങ്ങളെ  
സുരൂവീമിയിൽ തെളിക്കണം  
സ്നേഹദീപ്തിയായ് വിളങ്ങണം  
നീതിവെജയയന്തി പാറണം

ശാസ്ത്രവ്യാപ്തിയെന്നുമേകണം  
ജാതിഭേദമാകെ മാറണം  
ബോധരശ്മിയിൽ തിളങ്ങുവാൻ  
അതാനകേന്ദ്രമേ ജൂലിക്കണേ

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**DON'T LET IT  
BE TOO LATE**

**SAY  
NO  
TO  
DRUGS**

**LOVE YOURSELF  
AND ALWAYS BE  
HEALTHY**



**SREENARAYANAGURU OPEN UNIVERSITY**

The State University for Education, Training and Research in Blended Format, Kerala

# Development of Economic Thought

COURSE CODE: B21EC03DE



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