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History of Economic Thought

SEMESTER-VI

ECONOMICS

BLOCK- 1

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COURSE INTRODUCTION

Under the BA programme of this University, you can study Economics as a Pass or Major subject. This course entitled *History of Economic Thought* is a paper for Major subject.This course comprises of 15 units and has been divided into two blocks. The first block comprises eight units and the second block comprises seven units.

BLOCK INTRODUCTION

This is the first block of the course and comprises of eight units. The first unit of the course discusses the meaning and nature of history of economic thought. This unit will help you to understand the scope,origin and growth of history of economic thought. Apart from it this unit also explain the importance of studying history of economic thought. The second unit deliberates on the economic ideas of Kautilya's Arthasastra. Important concepts discussed in the unit include features of Kautilya's Arthasastra,the political and economic thought that prevailed in Ancient India and Kautilya's views on Economy, Wealth and Public Economics . The third unit will introduce you about the contribution of two great Indian nationalist leaders to the history of Indian economic thought viz.Naoroji and Ranade. In this unit we will discuss the Naoroji's Drain Theory and Ranade's ideas regarding poverty, industrialsation, railway investment and methodology of Economics.The fourth unit explains the economic ideas of Gandhi about consumerism, village economy, swadeshi, technology, industrialisation, doctrine of trusteeship, sarvodaya, non-violence and decentralization . The fifth unit discusses the different ideas given by the mercantilists. This unit also explains the rise and fall of mercantilism.The sixth unit will help you to acquire knowlege about the main doctrines of Physiocracy like Natural Order, Net Product, Circulation of wealth, Taxation and Trade. The seventh unit deals with the features of Classical School and Adam Smith's contribution to various fields of Economics. The eight unit discusses the Malthusian theoretical approach on population and the theory of Gluts . This unit will also help you to understand the application of Malthusian theory of population in new form in modern times.

While going through a unit, you will notice some along-side boxes, which have been included to help you to know some of the difficult, unseen terms. Again, we have included some relevant concepts in "LET US KNOW" along with the text. And, at the end of each section, you will get "CHECK YOUR PROGRESS" questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with "ANSWERS TO CHECK YOUR PROGRESS" given at the end of each unit.

UNIT 1: INTRODUCTION TO HISTORY OF ECONOMIC THOUGHT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Meaning and Nature of History of Economic Thought

1.4 Scope of History of Economic Thought

1.5 Origin and Growth of History of Economic Thought

1.6 Need and Significance of History of Economic Thought

1.7 Let Us Sum Up

1.8 Further Reading

1.9 Answers to Check Your Progress

1.10 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- understand the meaning and nature of history of economic thought
- describe the scope of history of economic thought
- explain the origin and growth of history of economic thought
- explain the importance of history of economic thought

1.2 INTRODUCTION

All of you are aware that history is the study of the past: specially the people, societies, environments, events and problems of the past. Likewise, history of economic thought is also a study of economic ideas that are constructed by our predecessors.In fact, the title "History of Economic Thought" itself implies that the subject is related to the study of the beginning of economic thoughts and its development.It deals with different economic theories and views of different thinkers from the ancient period to present day.It can be regarded as a compilation of economic theories and economic laws that are formed in different time and different

environments. It includes not only the ideas of various economists, but also the contribution of different schools of economic thought. It is to be mentioned here that a school, as far as economic analysis is concerned, is a group of thinkers or followers of a particular system of ideas.This unit is concerned with familiarizing you with the meaning, nature, scope and importance of studying history of economic thought.

1.3 MEANING AND NATURE OF HISTORY OF ECONOMIC THOUGHT

The totality of economic ideas of different great economists that have been developed from time to time constitute the subject-matter of the history of economic thought. The history of economic thought describes different views on production, distribution, value, economic growth and many other aspects of economic life of a society. It is a detailed account of development of economic ideas and its impact on economic institutions and activities of mankind. In it, we have critical analysis of the development of the economic ideas, their origin, and inter-relationship among them.

People used to think about the economic problems for their day-to-day existence. From this point of view, the history of economic thought can be regarded as old as the history of mankind.It is to be mentioned here that social environment and thinking of people are inter-related. Both of them have influenced each other. And so, people's economic ideas of a particular period are shaped by social environment. It is also characterized by time and place in which the ideas are formed.

Besides analysing economic problem, history of economic thought contains plans, programmes and speculation about institutions and their future development. It is a systematic, chronological and critical study of economic ideas and sources of these data. Prof. Haney has defined the subject in the following words: "The subject, the History of Economic Thought, may be defined as a critical account of the development of economic ideas, searching into their origin, interrelations and manifestations."

l History of Economic Thought and Economic History:

So far as the subject-matter is concerned, there exists a distinction between the history of economic thought and economic history. History of economic thought is a subjective account of economic ideas while economic history is an objective study that deals with the development of economic system in its various branches. History of economic thought is theoretical and deals with development of economic ideas whereas economic history is concerned with facts.Economic history is related to the economic life of people of a country or a community in the past. It studies agriculture, industry, production, trade and commerce and many other economic phenomena of a society. Though economic history and history of economic thought are two separate branches of study, there exists a close relationship between them in the sense that economic ideas are influenced by the environment of a society. In reality, both the economic ideas and social environment have a tendency to act and react upon each other. Therefore, least contradiction is observed between these two branches of economics.

l History of Economic Thought and History of Economics:

History of economics i.e. history of economic analysis is related to the development of the science of economics. It analyzes economics as a body of systematized knowledge. This branch has emerged only after the publication of Adam Smith's "Wealth of Nation" in 1776. Thus, the history of economics is a recent phenomenon while the history of economic thought is as old as the history of mankind. History of economics is a record of progress of economics as a science in a systematic manner.Certain laws and principles are followed in it. It studies the causal relations. History of economics is analytical in nature and objective.It is also progressive. But, history of economic thought is subjective and descriptive.



CHECK YOUR PROGRESS

Q 1: What is meant by the history of economic thought? (Answer in about 20 words)

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Q 5: Distinguish history of economic thought from economic history. (Answer in about 40 words)

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1.4 SCOPE OF HISTORY OF ECONOMIC THOUGHT

The scope of history of economic thought is very wide. It includes all the ideas related to economic life of people. Economic thinking of different writers from very early period to present time comes into purview of the subject. The economic ideas have been determined by tradition, social institutions, laws, and practices of a particular community prevailing in a particular period of time. The ideas related to production, distribution, value, trade and commerce, growth and development etc. are interpreted in the history of economic thought. Economic condition of a particular period is well reflected in economic ideas.We have to refer to the changing structure and economic history of a society to understand clearly the growth of economic doctrine. The economists have reflected the contemporary economic conditions of the society in their economic laws and doctrines.Again, it has been observed that the modern economic ideas are the refined and modified version of the old ideas.

The scope covers different time period of economic history such as Greek period, Medieval period, Roman period and Modern period. Again these periods have been subdivided into different periods like Ancient economic thought, Classical economic thought, the neo-classical Marginalist thought, Marxian thought, Austrian thought, Keynesian thought and so on. History of economic thought is a record of economic thought of these different schools.

History of economic thought also includes different approaches that are adopted by the economists from time to time in the study of economic problem. The approaches are: chronological approach, conceptual approach,

deductive approach, inductive approach, historical approach, neo-classical approach, welfare approach, institutional approach and Keynesian approach.

- **Chronological Approach:** Here, the economic ideas are analyzed in order of time for which this approach ensures continuity in economic analysis.
- **Conceptual Approach:** In this approach, emphasis has been given on the development of economic ideas.
- **Deductive Approach:** This approach aims at attaining a particular conclusion from a universal proposition.It is an abstract method.The classical economists applied deductive method. The Austrian school also adopted this approach.
- **Inductive Approach:** Inductive approach uses particular facts and examples to develop a theory. That means, it moves from specific observation to broad generalization. The institutional school followed this approach.
- **Historical approach:** This approach has given stress on the point that the method of study should be based on history. The historical school followed this approach. This approach is another version of inductive method.
- **Neo-classical approach:** Neo-classical approach aimed at improving the classical theories by modifying them.It is also known as the method of logical positivism. It advocated a synthesis of two approaches-inductive and deductive approaches.
- **Welfare approach:** This approach analyzes economics in terms of maximum social welfare. Pigou, Pareto and others followed this approach. This approach considers things in terms of 'what should be" and emphasizes on utility, demand and consumption to maximise social welfare. It is also termed as normative approach.
- **Institutional approach:** According to this approach, institutions such as habits, customs etc. are the main factors that govern human behaviour. The advocates of institutional approach give importance to group behaviour. This approach was popularised by the American economists among whom Veblen was the founder and leader.

- **Keynesian approach:** This is also known as macro or aggregative approach. The main focal point of Keynesian approach is that it deals with the problems of the economy as a whole. Keynes adopted an aggregative approach to study income, output, employment, interest and so on of the whole economy.

1.5 ORIGIN AND GROWTH OF HISTORY OF ECONOMIC THOUGHT

It is universally accepted that the nature of the history of economic thought is continuous. During a particular time period, economic ideas have been conditioned by circumstances prevailing in that period. As time and circumstances change, economic thinking of people also changes. For convenience of analysis, it is very important and essential to classify the economic thought. There are two types of classifications -one is in terms of schools of economic thought and the other is in terms of periods that are made on the basis of paradigm of economic thought.

First, we can make the classification of history of economic thought in terms of different schools of economic thought.The Greek economic thought is the origin of the history of economic thought. It is a part of Pre-Adamite thought. Besides this thought, Pre-Adamite economic thought consists of Roman economic thought, Medieval economic thought, Mercantilism and Physiocracy. The period of this thought was from approximately 427 B.C. to 1776.

Aristotle and Plato were the chief representatives of Greek economic thought. According to them economics is a subject of household management. They discussed about the importance of division of labour, property, slavery system and possibility of communism.

The philosophers Cicero, Varro and Cato represented the Roman economic thought. They favoured barter system and small-scale farming. Again, Medieval economic thought had been developed by St. Thomas Aquinas, Schoolmen and Baxter. These philosophers were against the practice of usury. They favoured moral philosophy for explanation of economic

phenomena. During the period 1500-1750, another system of economic thought known as Mercantilism developed in Europe in which Thomas Mun, William Petty and D. Hume were the most prominent. Mercantilism favoured commercial capitalism, balance of trade and gave much importance on acquisition of precious metal like gold and silver, money and commerce. It developed as a system of protection. After this, another thought - Physiocracy -had been formulated in France in the middle of the 18th century.Quesnay,Turgot and Mirabeau led the physiocratic school of economic thought.This school believed in the existence of natural law which governs the universe and gave importance on analysis of net product and the circulation of net product.

After this, there came classical economic thought which was developed in the late 18th and early 19th century. Adam Smith, Ricardo and Malthus had initially developed the classical economic thought and it continued till the writings of J.B.Say, Von Thunen and Carey. J.S. Mill is regarded as the last representative of the classical tradition.According to classical economy, market functions best with minimal government influence. They emphasised on aggregative macro analysis, free trade and policy-oriented analysis.

There arose dissatisfaction against classical system in course of time. Many critics from different schools started to criticise the classical tradition. Among them, the Nationalist critics List and Muller, Early critics Sismondi and Simon, Socialist critics Owen, Proudhon, Historical critics Roscher, Schmoller are important. They questioned the various aspects of classical economy. For example, Sismondi emphasised on the proper system of distribution. The historical school favoured historical method instead of deductive method of classical economic thought.

Cairnes, Fawcett and J.S.Mill were against the attacks of socialists, nationalists and others and they tried to reviveclassical economy in their writings. Mill rewrote many of classical ideas with minor modifications. He analysed in his own way the laws of production and distribution, stationary state etc.

After restatement of classical economy by Mill, a number of schools like the Austrian school, Mathematical school, Swedish school, Marxist school, Marginal school and Neo-classical school appeared to reconstruct economic thought. The Austrian school, led by Menger, Wieser and Bohm-Bawerk, emphasised on subjectivism and adopted deductive method of analysis. This school was developed in late 19th century.

Gossen, Walras and Pareto represented the Mathematical school.Walras contributed to general equilibrium analysis. Pareto made a significant place in history of economic thought for his contribution to welfare economics. Again, Gossen,Jevons and also Walras were famous for their contribution to Marginalist school. Marginalist school was mainly concerned with marginal analysis. It occupied the period between 1870-1936.

Wicksell and Cassel represented the Swedish school. Wicksell contributed to the theories of capital, interest, business cycle, saving and interest. Cassel contributed to price theory and determination of exchange rate.

Karl Marx is famous for his distinguishing ideas in his analysis of capitalist economy and socialist economic thought. Therefore, it is considered that he alone constituted one significant school of thought and the school is recognized as Marxian school. Then, there came the Neo-classical school led by Alfred Marshall. He combined classical economics and basic principle of Marginalism. Neo-classical school covered the period 1850-1870.

As time passed by, criticism started against the Neo-classical school of economic thought. Consequently, we have noticed other schools such as Institutional school, Welfare school and Keynesian school. Veblen was the main representative of Institutional school who advocated the importance of the study of institutions for explaining an economy.

Pigou, Pareto and Hobson were the economists of Welfare school. They described the principles and ways for maximisation of social welfare.

And last, there came the New economics constituted by J.M.Keynes. He analysed the economy in macro perspective.

The second classification of the history of economic thought is in terms of periods, i.e., the sum-total of history of economic thought can be divided into some periods. This periodisation can be done on the basis of distinct paradigm of economic thought. This criterion is suggested by Kuhn. Accordingly, there are five main periods in history of economic thought which are as follows:

- Classical Period(1776-1850)
- Neo-classical Period (1850-1870)
- Marxian Period (1843-1885)
- Marginal Revolution (1870-1936)
- Keynesian Period (1936-1946)

The above periods are classified in terms of the paradigm of economic thought only and therefore, these are not the same with historical periods which are made in terms of time.

1.6 NEED AND SIGNIFICANCE OF HISTORY OF ECONOMIC THOUGHT

A question may arise in your mind that why should we study the history of economic thought? There are two views with regard to the answer of this question. According to one group of economists, there is no need to study history of economic thought. They held the view that history of economic thought is"the history of errors." That is why, it is not necessary to give importance on studying the subject. Undoubtedly, this is not a correct opinion. Of course, there are another group who believes that one should know something of its history if he wants to possess knowledge of any economic theory.

A good number of reasons are there for justification of the study of the history of economic thought. We can summarise the reasons and significance for the study of history of economic thought as follows:

- We can rethink about the foundation of accepted theoretical economic ideas by studying history of economic thought.
- Economic thought of one period is generally based on the thoughts of

the previous period. That is, there exists continuity in the evolution of economic thought. This helps us to explain the present problems in context of the past ideas.

- By studying history of economic thought, one can understand the origin and development of economics. The nature and scope of economics and the relation of economics with other sciences can be understood by studying history of economic thought. Economics is a dynamic science. To know how the scope and nature of economics help to attain this dynamic character, we have to study history of economic thought.
- Through the study of history it is observed that the economic ideas are relative. Time, place and social environment have influenced in formation of economic ideas, Economic practices have helped to shape the economic ideas.
- It helps in our attempts to understand the achievements and failures of different writers with regard to their economic ideas. Besides, we know the merits and demerits of different theories.
- We can make critical study and comparisons among the economic theories and among the different authors by studying the history of economic thought. This will ensure impartial, reasonable and correct judgement of the theories as well as the economists.
- A comprehensive knowledge of past is necessary for minimising the probability of errors which the previous writers committed in formulating economic ideas.
- A study of history of economic thought widens our knowledge by providing insight into our ability to analyze problems.
- Ideas gathered from studying history of economic thought can help us to solve similar problems in our time.
- It provides us the chronological developments of different economic theories. Also, we know the origin and circumstances of various theories.
- It reveals the various stages of growth of the subject and the fundamental factors responsible for different types of ideas.



CHECK YOUR PROGRESS

Q 3: What is chronological approach? (Answer in about 20 words)

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Q 4: Distinguish between inductive and deductive approach. (Answer in about 40 words)

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1.7 LET US SUM UP

- History of economic thought deals with different economic theories and views of different thinkers from the ancient period to the present day.It can be regarded as a compilation of economic theories and economic laws that are formed in different times and different environments.
- History of economic thought can be regarded as old as the history of mankind since people used to think about the economic problems for their day-to-day existence in the ancient times too.
- There exists a distinction among history of economic thought, economic history and history of economics. The subject-matter is different in each of these three branches. Despite this, they are closely related to one another.
- It includes all the ideas related to economic life of people.
- Economic history of different time periods such as Greek period, Medieval period, Roman period and Modern period are covered in history of economic thought.
- In history of economic thought, the different approaches used by different schools to study economic problems are included.
- By studying history of economic thought, one can understand the origin and development of economics.

- A study of history of economic thought widens our knowledge by providing insight into our ability to analyze problems.



1.8 FURTHER READING

1) Hajela, T.N. (1999). History of Economic Thought. Delhi: Konark Publishers Pvt. Ltd.

2) Jhingan, M.L.,Girija, M. Manimekalai.& A. Sasikala. L. (2010). History of Economic Thought. Delhi: Vrinda Publications (P) Ltd.



1.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: History of economic thought is a compilation of economic theories and economic laws that are formed in different time and different environments.

Ans to Q No 2: History of economic thought and economic history are two different branches of economics. History of economic thought is a subjective account of economic ideas while economic history is an objective study that deals with the development of economic system in its various branches. History of economic thought is theoretical and deals with the development of economic ideas whereas economic history is concerned with facts.

Ans to Q No 3: Chronological approach is an approach in which the economic ideas are analyzed in order of time. For this reason, it ensures continuity in economic analysis.

Ans to Q No 4: Inductive approach uses particular facts and examples to develop a theory. That is, it moves from specific observation to broad generalization. On the contrary, deductive approach aims at attaining a particular conclusion from a universal proposition.



1.10 MODEL QUESTIONS

Short Questions (Answer in about 50-100 words)

Q 1: What is meant by history of economic thought?

Q 2: Name the schools of economic thought that are included in Pre-Adamite economic thought?

Q 3: Distinguish between history of economic thought and history of economics.

Q 4: What is a school in context of history of economic thought?

Long Questions (Answer in about 300-500 words)

Q 1: Explain the scope of history of economic thought.

Q 2: Mention any four reasons in justification of the study of history of economic thought.

Q 3: What are the approaches to the study of history of economic thought? Explain.

*** ***** ***

UNIT 2: ANCIENT INDIAN ECONOMIC THOUGHT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Kautilya

2.4 Economic Ideas of Kautilya's Arthasastra

2.5 Let Us Sum Up

2.6 Further Reading

2.7 Answers to Check Your Progress

2.8 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- know the Features of Kautilya's Arthashastra
- understand how Arthasastra provides an account of the political and economic thought that prevailed in Ancient India
- explain Kautilya's views on Economy, Wealth, and Public Economics.

2.2 INTRODUCTION

Kautilya's philosophy is based on the principles of "Sam, Dam, Dand, Bhed" (persuasion, temptation, punishment and division) as various, different and sequential means to achieve an end. The Arthasastra equates political governance with economic governance. The end is economic governance while political governance is the means. "The end justifies the means" - this is supposed to be the basis of Kautilyan and Machiavellian philosophy. Political power and material wealth, according to Kautilya, are the means and ends of governance. And good governance- political or economic- depends upon justifying the ends and means as the socio, economic and political condition.In this unit we will learn about the different contributions of Kautilya to the history of economic thought.

2.3 KAUTILYA

Kautilya (or Chanakya) was the chief minister of Chandragupta Maurya (4th century BC). His Arthasastra provides an important account of the political and economic thought that prevailed in Ancient India. Arthasastra is a combination of jurisprudence, politics and economics. Sukra defined Arthasastra as that science which describes the actions and administration of kings in accordance with the dictates of revelation and of law as well as the means of livelihood1. Kautilya distinguished six different kinds of interests: compound interest, periodical interest, stipulated interest, daily interest, and the use of a pledged article. Indeed the idea of expressing interest as a percent originated in India. Thus overall the Kautilyan system of interest seems quite elaborate, complex and even modern. In Arthashastra, there is a definite effort to formulate a wage policy based on the realistic understanding of the economic, social and political factors. The emerging policy must be just, and must be consistent with the interest of the state.

2.4 ECONOMIC IDEAS OF KAUTILYA'S ARTHASASTRA

Kautilya's Arthashastra included Kama, Artha, and Dharma (aesthetic, economic and religious aspects of worldly life) as separate from Moksa (the subject related to non-worldly life). According to modern terminology, Arthashastra is a combination of jurisprudence, politics and economics, practiced during the ancient time. Both the production and exchange have been treated in Arthashastra. The economic ideas elaborated in the Arthasastra are as follows:

- **Attitude towards Wealth:** For an individual, wealth is required for maintaining a decent life. For a country, wealth is required to maintain social structure, to provide benefits for the individuals to live a healthy life, to ensure self-sufficiency and thus to achieve salvation. The ancient Indian economist Kautilya conceived of wealth as having four qualities-material, consumable, appropriate and transferable. Accordingly, the

general attitude was that to regard material wealth not as an end in itself but as an important means to the objectives of life.

- **Consumption:** In ancient India the ideals of consumption deal with the doctrine of four ends of life, i.e., Dharma, Kama, Artha and Moksha. At that time family was regarded as an economic unit for consumption purpose. The human activities were governed by the competing claims of the psychological, economic and ethical ideals. The importance of the labour was also duly recognized. "An employer not taking work for his labourer, or an employee not doing his employer's work, should be fined". According to Kautilya. 'when a capable person other than a apostate (patita) or mother neglects to maintain his or her child, wife, mother, father, minor brothers, or widowed girls, he or she shall be punished with a fine of twelve panas'. According to the ancient writers wealth earned through hard work was sufficient for a man's life.
- **Production:** According to ancient thinkers there are four factors of production. They are land, labour, capital, and organization. Land was considered to be the source of all wealth; the significance of labour has been clearly recognized. According to Kautilya 'an employer not taking work from his labourer or an employee not doing his employers work shall be fined 12 panas. The labour which couldn't achieve its objective were considered to be unproductive. The presence of high rates of interest in law book shows that capital was scarce during those days. In case of organization, Bhraspati was of the view that the contribution of supervision in production is much more than that of labour of craftsman.
- **Agriculture:** In the ancient Indian economy agriculture and animal husbandry were given the utmost importance. These were considered to be the primary occupations of the people; the farmers had the knowledge and were practicing with considerable efficiency the various agricultural pursuits. The state endeavored hard to develop agriculture and protect agriculturists from everything that reduce their efficiency. Some important rules were as such:
  - lands prepared for cultivation should be given to tax payers only for life.

- Ø unprepared lands should not be taken away from those who were preparing them for cultivation6.
- Ø Lands would be confiscated from those who do not cultivate them and given to others
- Ø If cultivators pay their taxes easily, they may be favourably supplied with grains, cattle and money.
- Ø Agricultural scientists were to be employed on crown lands. An agricultural scientist must be possessed of knowledge of the science of agriculture dealing with the plantation of bushes and trees.

- **Trade:** For the efficient working of the markets keeping in view the general interest of the public it was necessary to ensure the trading regulation. Few aspects of trading regulation were -
  - Ø Exploiting traders were warned. Merchants who conspire either to prevent the sale of merchandise or to sell or purchase commodities at higher prices should be fined.
  - Ø Consumer's interest was protected through measures, such as prohibiting the adulteration of commodities, the imposition of distinguishing marks, the preparation of correct manifests, and the return within a specific period of the improper articles.
  - Ø Charges of the middlemen and the profits of the traders were fixed. Kautilya said that, 'the superintendent of commerce should fix a profit of five percent over and above the fixed price of local commodities and ten percent on foreign produce'.
- **Distributions:** In Ancient India the ideas of distributions deal with reducing inequality of wealth and property, harmonizing the rival claims of the individual and the community, and ensuring just wages, just rent, and just interest or profit. In those days land was considered as the basic source of all wealth for which sometimes even Kings laid down their lives. The importance of labour was duly emphasized and that labour which failed to achieve the objectives was termed as unproductive labour. In those days, in order to reduce the inequality of wealth and property rent, interest and wages were settled as follows :
  - Ø **Rent:** The ancient economic writers based the claim to rent on two

conditions: scarcity of arable land and productivity.

- **Interest:** No interest was allowed on mortgaged property. Kautilya was in favour of the regulation of the interest rate and suggested, as a general rule, 15% as the just rate of interest.
- **Wages:** The ancient thinkers recognized the dignity of labour. They also approved various incentives to ensure adequate supply of labour.

The basic principles of distributions in those days are as follows-

- Individual should get remuneration according to the principle of productivity.
- The remuneration will be based on their personal and human need of the individual.

- **Private property:** There was the presence of right to private property both movable and immovable. The right in land was transferable, saleable and of a permanent nature, but the enjoyment of this right was subject to the law of the land.
- **Public Economics:** All the states required sufficient amount of revenue to maintain the expenditures on administration, defence etc. In ancient times the main sources of revenue were: land tax, customs and excise, taxes on salt and property, fines and penalties, profit of state factories, the sale of intoxicants, the trade in horses, elephants and fine wool, port dues etc.

Tax today is stated as a compulsory payment to the government by the public, whereas in the ancient times, tax was considered only when it was collected for spending on proper occasions and for proper reasons. Tax was simply considered as a reward for the king for performing his duty towards the public. While imposing taxes, two rules were maintained by the authorities:

- A tax is imposed once in a year
- Tax should be imposed according to the taxpayer's ability to pay.

  Kautilya mentioned three kinds of incomes from taxes-

  - taxes on the commodities produced within the country
  - taxes on commodities produced in the capital and
  - taxes on imports and exports.

- **Economy:** Economy in the period of Kautilya was sustained by agriculture. Different crops like wheat, rice, and barley were cultivated. The centralised kingdoms that were emerging at this time were supported by the villagers in terms of their surplus production. There were economic exchanges in terms of gift giving, particularly to kings (bali) and priests (dana). Cattle and gold were used as a unit of currency. While gold is mentioned in some hymns, there is no indication of the use of coins. New occupation like carpentry, pottery, leather work, jewelry tanning, astrology and dying also developed.



CHECK YOUR PROGRESS

Q 1: Briefly explain the ideas of Kautilya on consumption. (Answer in around 50 words)

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Q 2: Give an account of Kautilya'sideas on land and labour. (Answer in around 20 words)

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Q 3: Mention the main problem of distribution in terms of Kautilya's ideas. (Answer in around 30 words)

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Q 4: Give a brief note on the systems of public economics during ancient India. (Answer in around 50 words)

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Q 5: Explain the concept of wealth as described by Kautilya. (Answer in around 70 words)

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2.5 LET US SUM UP

- In stark contrast to the emphasis that the Arthashastra assigns to rural (village) development, agriculture, and the textile industry, the status quo in India is that these spheres have been neglected.
- In the sphere of economic administration, India of today has much to learn from Kautilya's Arthashastra.
- Kautilya recommends severe penalties on the officials of public enterprises which incurred losses, and rewards for those who showed profits. 'Profit' was a 'must' in Kautilya's scheme of running a country's administration.
- Unlike in Kautilya's state where the king was accessible to his people every day for at least one and a half hours. Some of the ground rules and measures suggested in Arthashastra, particularly those which pertain to matters relating to budget, accounts and audit, are applicable to present day India.
- In Kautilya's state, the king could severely punish corrupt officials, however highly they might be placed.
- Kautilya demonstrated an extremely vital imperative: governance, polity, politics and progress have to be linked to the welfare of the people.
- Interestingly, closer to recent times, Abraham Lincoln said, "Democracy is for the people, by the people and of the people". The Arthashastra's resonant theme holds even truer today and it is the upholding of this principle that stands at the core of attaining development.

2.6 FURTHER READING

1) Rangarajan, L.N. (1987). *The Arthashastra (Introduction).* New Delhi: Penguin Books.
2) Sen, R.K. and Basu, R.L. (2006). *Economics in Arthashastra.* New Delhi: Deep & Deep Publications.
3) Thomas, T.(2012). *Arthashastra: The Science of Wealth.* Penguin.

2.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The starting point of the ideals of consumption, in Vedic period, was the acceptance of the doctrine of the four ends of life, namely Dharma, Artha, Kama and Moksha. Human conduct was moulded, among others, by hedonistic, materialistic and religious ideals; and the individual was subordinate to the family or the community. For the purpose of consumption, a family was regarded as an economic unit. According to Kautilya, if a person who is able to do so, does not take care of his children,wife, parents and unmarried and widowed sisters, then he should be fined.

Ans to Q No 2: Land was regarded as the source of all wealth for which sometimes even Kings laid down their lives.In so far as labour is concerned, its importance was duly emphasized. The labour that failed to achieve its objectives was termed as unproductive labour.

Ans to Q No 3: In the view of Kautilya,the problem of distribution was concerned with reducing the inequalities of wealth and property in the society, harmonizing the rival claims of the individual and the community and ensuring just wages, just rent, just interest and just profit.

Ans to Q No 4: In ancient times the main sources of revenue were: land tax, customs and excise, taxes on salt and property, fines and penalties, profit of state factories, the sale of intoxicants, the trade in horses, elephants and fine wool, port dues etc. In ancient India economist considered tax only when it was collected for spending on proper occasions and for proper reasons. Tax was simply a reward for the

king for performing his duty towards the people. Kautilya mentioned three kinds of incomes from taxes: (a) taxes on the commodities produced within the country (b) taxes on commodities produced in the capital and (c) taxes on imports and exports.

Ans to Q No 5: Anything having four qualities such as materials, consumable, appropriate and transferable is considered to be wealth in Vedic period. Kautilya used the term wealth in a wider sense which covered money, property, precious metals and even forest. According to Arthasastra wealth was not an end in itself but as an important means to the Purusarthas of life. He expressed that wealth is to be acquired grain by grain for which saving is utmost necessary. Wealth is required both for an individual and for a country. Kautilya expressed that wealth is beneficial for an individual if it is utilized properly for maintaining a good wife, son, friend, or for charity. Wealth is required for a country to maintain the social structure, the organization and institution of the country. It provides the means and opportunities for every person of the society to live a decent life by enjoying self-expression, self-fulfillment, self-realization and ultimately helps individual to achieve salvation.



2.8 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Give a brief short note on Kautilya's Arthasastra.

Q 2: What does Arthashastra equate to?

Q 3: Explain briefly the ideas of Kautilya on trade.

Essay-type Questions (Answer each question in about 500 words)

Q 1: Explain the features of Kautilya's Arthashastra.

Q 2: Explain Kautilya's views on economy, wealth, and public economics.

Q 3: According to Kautilya who required wealth and for what purposes?

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UNIT 3 : EARLY MODERN INDIAN ECONOMIC THOUGHT

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Dadabhai Naoroji

- 3.3.1 Biographical Details
- 3.3.2 Drain Theory
- 3.3.3 Criticism
- 3.3.4 Long Run Relevance

3.4 Mahadev Govind Ranade

- 3.4.1 Biographical Details
- 3.4.2 Poverty and Industrialisation
- 3.3.3 Agrarian Policy
- 3.4.4 Railway Investment
- 3.4.5 Methodology of Economics

3.5 Let Us Sum Up

3.6 Further Reading

3.7 Answers to Check Your Progress

3.8 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- know the contribution of two great Indian nationalist leaders to the history of Indian economic thought
- conceive the core content of drain theory
- know the arguments against the drain theory and its long term relevance
- understand Ranade's ideas regarding poverty, industrialsation, railway investment and methodology of economics.

3.2 INTRODUCTION

Throughout the British rule, India was mercilessly impoverished and was reduced to a country of degrading, miserable and squalid poverty. India during the British rule provides a classic example of arrested economic growth. It was not surprising therefore that Indian thinkers and leaders like Dadabhai Naoroji, R.C Dutta, Mahadev Govind Ranade and Gopal Krishna Gokhale and others would engage themselves to a study of the problem of Indian poverty, entered deep into its cause and also suggested its possible solution. In this unit we will discuss the contribution of Naoroji and Ranade in the history of Indian economic thought.

3.3 DADABHAI NAOROJI (1825-1917)

3.3.1 Biographical Details

Dadabhai Naoroji, popularly known as "The Grand Old Man of India", was a great public figure in pre-independent India. He had the distinction of being first in many things. He was the first ever Asian to become a member of the British Parliament, the first Indian to be made a Professor of Elphinston College, Bombay, the first Indian to become a member of the Royal Commission and above all, the first Indian to make the National Income Estimate.He was elected the President of Indian National Congress in 1886 and also regarded as the Father of Indian Nationalism for being the founder of Indian National Congress along with A.O. Hume and D.E. Wacha.

3.3.2 The Drain Theory

The Drain Theory was developed by the Indian nationalist thinkers basically with a view to analyse one of the main causes of poverty in India. The Drain referred to "the unrequited surplus of exports over imports which was transferred to England". The person who popularised the term 'Drain' was Dadabhai Naoroji in his book

'Poverty and Un-British Rule in India'. Naoroji attributed the poverty of India to the policy of continuous exploitation followed by the British Government.

Cause of 'The Drain': According to Naoroji, the drain of wealth from India to England took place in a number of ways as mentioned below :

- Remittances to England by European employees for the support of families and education of Children - a feature of colonial system of government.
- Remittances of savings by employees of the company, since most employees preferred to invest at home.
- Remittances for the purchase of British goods for the consumption of British employees as well as purchase by them of British goods in India.
- Government purchase of stores manufactured in Britain.
- Interest charges on public debt held in Britain (excluding interest payments on Railway loans and debts incurred for productive works).

Despite of these factors which were responsible for the drain, India had to make huge payments to England due to the commitments called 'Home Charges'. Home Charges included interest on public debt raised in England often at comparatively higher rates, annuities on account of railways and irrigation works, and payments in connection with civil departments where Europeans were employed. Home Charges also included office expenses in India for the English men working in India or working for India in England and retired there. Vera Austey, a British economist associated with London School of Economics, estimated these Home Charges at 35 million pounds annually.

Naoroji tried to prove his "Drain Theory" by presenting alot of statistical data. He examined the figures of imports and exports between the years 1835 and 1872 and pointed out that the value of

the exports exceeded that of imports by 500 million pounds. The drain would have been greater, if interest has been calculated on the amount.

3.3.3 Criticism

The Drain Theory has been criticised by some Britishwriters on the following grounds:

- Interest payments on loans for railways and irrigation works and the payment for stores cannot be described as 'Drain'.
- Critics argue that - "In so far as there were goods received or fixed asset created out of loans, to be shown against payments made, these could not simply be described as a drain".
- According to Morrison, British Capital used to construct railways, irrigation, tea plantations, and jute mills was definitely productive in the sense that this foreign capital raised national income growth possible.
- Some foreign writers opined that 'England receivesnothing from India except in return for English services rendered or English capital expended'.
- Gopal Krishan Gokhale, a nationalist leader and a professor of economics in Ferguson College, Poona, also criticised the drain theory. To him, it was not proper to thoughtlessly condemn the home charges as a drain of India's wealth.These payments were made for certain development services such as development of Railways, Tea industries, investment of capital in indigo etc.
- An Indian writer B.C. Chatterjee opined that the drain of wealth from India to Britain did not lead to increase poverty. Hear gued that the wealth in India, especially in Bengal, increased due to the good administration of the British.

Despite these criticisms, the Indian nationalist leaders were of the opinion that the drain was harmful mainly because it resulted in the depletion of productive capital. Naoroji's analysis chiefly

emphasised this aspect and in fact formed the core of his Drain Theory.

3.3.4 Long Run Relevance

Though we observe that the Drain Theory developed by Naoroji is not free from criticism, it's long run relevance cannot be denied at all. The vast amount of resources and capital flowing from India to England enabled the people of England to live a better standard of living. The drain also made possible rising investments in English Agriculture and industries after 1750. The drain provided the foundation to English economic prosperity.On the other hand, the effects of the drain on Indian economy and its people were disastrous. The drain was mainly responsible for the stagnant economy of India during the 18th and 19th centuries. Dadabhai Naoroji argued that the drain was the principal and even sole cause of India's poverty. The other nationalist leaders also opined that the drain had left harmful effects on the level of income and employment in India.

According to G.V. Joshi, the drain of resources resulted in industrial retardation in our country. He said that "no nation can stand such a drain and yet hold its own in the industrial field".R.C. Dutta established a causal relationship between the drain and the impecuniousness of the peasantry. He pointed out that the drain was mainly paid out of the land revenue.Thus, the India nationalist leaders held that the drain had a long run relevance in Indian economy. They found its long run effects mainly on income and wealth, on employment, on capital, on industrial development, on the terms of trade and on the poverty of the Indian people.



CHECK YOUR PROGRESS

Q 1: What do you mean by the drain theory? (Answer in about 40 words)

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Q 2: Mention the main issues on which Gokhale criticised the drain theory. (Answer in about 40 words)

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3.4 MAHADEV GOVIND RANADE (1852-1901)

3.4.1 Biographical Details

Mahadev Govind Ronade was born on January 18, 1842 at Nasik. He started his career as a lecturer in economics in the University of Bombay in 1864. Later on, he practised law for a few years. Then he joined the judicial service and became judge of the Bombay High Court in 1893. He was in the post till his death in 1901. Ranade was a great Indian scholar, nationalist and social reformer. As an economist, he was a champion of Indian political economy. In the year 1899, he published his great work Essays on Indian Economies and earned the respect by being referred to as 'the Father of Indian Economics'.

3.4.2 Poverty and Industrialisation

Ranade covered a wide and progressive view regarding poverty. His economic ideas are popularly known as economic nationalism. On the basis of his concept of economic nationalism he opined that not only economic factors, but also social,religious and political factors were responsible for India's poverty. He gave the following economic reasons for the poverty of India -

- Too much dependence on agriculture,
- Industrial backwardness,
- Banking and credit systems were highly disorganised and insufficient,
- Defective landpolicy.

Ranade advocated a policy of protection to the Indian industries. Thus, he opposed the policy of free trade or open market economy. According to him, economic growth in India was possible through industrialisation and active State participation only. So, he wanted the government to follow a positive policy for the promotion of industrial development in India. Further, he argued that population pressure on agriculture could be released through urbanisation and industrialisation. Urbanisation would increase the productivity of agriculture. He suggested the following measures for the development of industries in India -

- Urbanisation should be encouraged,
- State should take necessary steps for large scale farming,
- The system of territorial division of labour based on the principle of natural advantages should be discouraged and
- Means of communication should be developed.

3.4.3 Agrarian Policy

In the writings of Ranade, agrarian problem of India occupies an important place. He laid emphasis on the relationship between the peasants and the landlords and the colonial state. He was in favour of "free" peasants and investing land lords. He suggested for changes in land policy to serve the interests of the actual tillers of the soil. He opined that farmers might be allowed to pay their tax if it was convenient for them. Ranade opposed the existing semi-feudal agrarian relations in the Zamindari as well as Ryotwari areas and advocated their restructure as capitalistic agrarian form. In his time, land revenue was the most important source of public income. But,

due to the defective system there existed a huge distance between the peasants and the state. Taking this opportunity, the landlords exploited the illiterate peasants. Ranade pleaded for a permanent Ryotwari land settlement for a minimum period extending from 20 to 30 years. He also suggested for re-organisation of agricultural credit system and formation of committees of capitalists to finance agriculture.

3.4.4 Railway Investment

Though Ranade was a sharp critique of colonial economy,he praised the British for their developmental activities in India.He appreciated the British government for initiating the development of Railways in India. However, he opined that the principle of government should be that of catering to the 'Indian wants'. Instead of promoting infrastructure in the form of means of transport, state aid should be diverted to the promotion of modern manufacturing industries. In the words of Ranade, "Facilities of communication are certainly desirable advantages, but more desirable still is the capacity to grow higher kinds of produce, and develop manufacturing and industrial activities … … … A railway runs from one end of the country to the other, and leaves no permanent impression upon the face of the country".

3.4.5 Methodology of Economics

Ranade opposed the economic thought of the Classical economics in several aspects. He was a man of scientific thinking. He rejected the abstract deductive method adopted by the Classical writers. After doing a comparative study about the economic situation prevailing in various European nations he arrived at the conclusion that inductive or the Historical method was the best. Also, he believed in the "doctrine of relativity." According to him, if the law of relativity and correspondence holds good in politics and social sciences

generally, it ought to hold good equally in all subjects, including among others, the science of National Wealth or, more popularly described as, Political Economy. Thus, he opines that as the economic environments differ from time to time and from place to place, there is no universal law applicable to all the nations in the world. He also said,"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 conclusions of economic science".



CHECK YOUR PROGRESS

Q 3: Give a brief introduction to M.G. Ranade.(Answer in about 60 words)

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Q 4: What are the reasons responsible for India's poverty in Ranade's View? (Answer in about 60 words)

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3.5 LET US SUM UP

- Dadabhai Naoroji was a great public figure in pre-independent India.He was popularly known as "The Grand Old Man of India".
- Naorojiwas the first Indian who made an attempt to estimate National Income of India.
- Naoroji was famous as an economist for his "Drain Theory". He attributed the poverty of India to the British rule.

- According to Naoroji, the drain of wealth took place in a number of ways as follows -
  - Large remittance were made by British Officers for the support of family and education of children,
  - Remittances were made in the form of salaries and pensions,
  - Remittances for the purchase of British goods for the consumption of British employees as well as purchase by them of British goods in India.
  - Government purchase of stores manufactured in Britain,
  - Interest charges on public debt held in Britain.
- M.G. Ranade (1842-1901) was a great Indian scholar and nationalist leader. He was a brilliant exponent of Indian political economy.
- Ranade was the first Indian to publish a systematic work on Indian Political Economy. He was rightly called "the father of Indian Economies".
- Regarding methodology of economics, Ranade was a great champion of historical method. Also, he believed in the "doctrine of relatively".



3.6 FURTHER READING

1) Bhatia, H.L. (2007). *History of Economic Thought.* New Delhi: Vikash Publishing House.
2) Lokanathan, V. (2010). *A History of Economic Thought.* New Delhi : S Chand & Company Ltd.
3) Paul, R.R. (2008). *History of Economic Thought*. Ludhiana : Kalyani Publishers.



3.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The drain theory was developed by the Indian nationalist thinkers to analyse the main causes of poverty in India.The drain referred to "the unrequited surplus of exports over imports which was transferred to England". The person who popularised the term "Drain" was Naoroji in his book Poverty and Un-British rule in India.

Ans to Q No 2: Gopal Krishna Gokhale, professor of economics in Ferguson

College, Poona and a nationalist leader criticised the drain theory. According to him, 'Home Charges' should not be regarded as drain of India's wealth as these payments were made for certain development services such as Railways, Tea industries, Indigo industries etc.

Ans to Q No 3: M.G Ranade (1842-1901) was a great nationalist thinker. He started his career as a lecture in economics in the University of Bombay in 1864. Later on, he joined the judicial service and became judge of the Bombay High Court. As an economist, he published his great work Essays on Indian Economics in the year 1899 and earned the respect by being referred to as 'the father of Indian Economics'.

Ans to Q No 4: According to M. G. Ranade, the following reasons are responsible for India's poverty -

- Too much dependence on agriculture,
- Industrial backwardness
- Lack of efficient banking and credit system
- Defective land policy.



3.8 MODEL QUESTIONS

Short Questions (Answer in about 150 words)

Q 1: Give a brief analysis on the long run relevance of the drain theory.

Q 2: What are the factors responsible for economic drain from India to England?

Q 3: Explain briefly Ranade's views on methodology of economics.

Long Questions (Answer in about 300-500 words)

Q 1: Critically discuss the contribution of Naoroji to the history of Indian economic thought.

Q 2: Bring out clearly the contribution of Ranade to the Indian political economy.

Q 3: Explain the salient features of the economic thoughts of Indian nationalist thinkers with special reference to Naoroji and Ranade.

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UNIT 4 : GANDHIAN ECONOMICS

UNIT STRUCTURE

4.1. Learning Objectives

4.2. Introduction

4.3. Consumption Behaviour

4.4. Village Economy

4.5. Swadeshi

4.6. Technology

4.7. Industrialisation and Sale of Production

4.8. Trusteeship

4.9. Sarvodaya

4.10. Non-violence

4.11. Decentralisation

4.12. Let Us Sum Up

4.13. Further Reading

4.14. Answers to Check Your Progress

4.15. Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- know the contribution of MK Gandhi to the history of Indian Economic thought
- understand the core content of Gandhi's Economic philosophy
- know the economic ideas of Gandhi about consumerism, village economy, swadeshi, technology, industrialisation, doctrine of trusteeship, sarvodaya, non violence, decentralization etc.

4.2. INTRODUCTION

Mohandas Karamchand Gandhi (1869-1948) was a multifaceted genius. He is better known as the 'Father of the Nation' by the people of India. He was born in a rich family at Porbandar. He settled in South Africa

as a lawyer, where he fought against racial inequality and evolved a new method of political agitation, i.e. 'Satyagraha' or non-violent resistance. In July, 1914, Gandhi left South Africa forever and returned to India. After a few years he became the leader of Indian Nationalist Movement and continued with the movement till India got independence in 1947.

Gandhi was not a professional economist. But he was seriously aware of the socio-economic consequences of the British rule in India. His economic policies and theories are based on ethical foundations. It is noteworthy to mention here that Gandhi was highly influenced by Tolstoy's book, The Kingdom of God is Within You and Ruskin's Unto this Last. From the philosophy of Tolstoy, he conceived the idea of egalitarianism, simplicity and asceticism.

4.3. CONSUMPTION BEHAVIOUR

Gandhi thought that consumption led to mass production, use of heavy machineries, procurement of raw ma-terials in large quantity etc. So, he opposed consumerism and suggested for 'containment of lust' and 'wants to a limit'. He opined that production should be by masses and not mass production. His call for containment of lust is relevant in the case of rapid extraction of natural resources, causing a threat to bio-diversity and to the eco-system. According to Gandhi, causes for consumerism are-

- Multiplicity of needs and wants. Needs are ever increasing,
- Craving and lust,
- Man's power over nature,
- Desire to accumulate commodities.

In Gandhi's view, accumulation of commodities more than requirement is a sort of theft. To Gandhi, consumerism leads to certain social problems. These are-

- Mass production and over production,
- Procurement of raw materials in large quantity,
- Use of excessive energy and bulk finish production,
- Storage involving large ware houses and creation of huge wastage,

- Environmental degradation.

Gandhi suggested the following solutions to these problems:

- Voluntarily reduce wants to a genuine level,
- Renounce cravings and desires,
- Adjust wants and even undergo voluntary starvation to feed underfed millions.

Thus, according to Gandhi, the ultimate aim of man is not to accumulate wealth and enjoy luxuries of life, but to attain higher value of life and lead a simple and meaningful life. For Gandhi, simple living and high thinking should be the motto of life.

4.4. VILLAGE ECONOMY

Gandhi said, "If the village perishes India will perish too. India will be no more India. Her own mission in the world will get lost. The revival of the village is possible only when it is no more exploited. Industrialization on a mass scale will necessarily lead to passive or active exploitation of the villagers as the problems of competition and marketing come in. Therefore, we have to concentrate on the village being self-contained, mainly manufacturing for use." Thus, Gandhi was interested in developing the villages as self-sufficient units. In his scheme, village economy occupies the central place. In this setting, the basic conditions of human dignity and values are protected. There would be absence of exploitation and violence. He opposed extensive use of machinery on the ground that it led to large-scale unemployment in the country. According to him, things which can be produced in villages need not be produced in cities. The main function of cities in the production process is to serve as clearing houses for village products.

4.5. SWADESHI

Satyagraha or non-violent resistance and Swadeshi are fundamental in Gandhi's philosophy of life. He defined swadeshi as 'law of laws' ingrained in the basic nature of human beings. To him, it is a universal law. In the field

of economics, Gandhi believed that deep poverty prevailing among masses was mainly due to the ruinous departure from the path of swadeshi in economic and industrial life. Gandhi opined that one who follows the spirit of swadeshi should use only things that are produced by our immediate neighbours and serve those industries by making them efficient, and strengthen them in areas where they are found deficient. During the time of India's struggle for independence Gandhi realized that the economic salvation of India consists in encouraging and reviving indigenous industries. He found Khadi as the necessary and the most important corollary of the principle of swadeshi in its practical application to society. For him, Khadi is the sun of the village solar system. The various industries are the planets which can support Khadi. He advocated the idea of swadeshi in the spirit of universal love and service.

4.6. TECHNOLOGY

The critics of Gandhi called him as a mediaeval mystic for some of his remarks on machine and technology. He described machinery as 'great sin'. Also, in his writings, he criticized railways as an evil. So, sometimes it is said that Gandhi was opposed to the development of science and technology. But this is not true. Gandhi was not against machinery in general. According to him, "the spinning wheel itself is a machine, a little toothpick is a machine, what I object to is the craze for labour-saving machinery. Men go on saving labour, till thousands are without work and thrown on the open streets to die of starvation . . ."

Gandhi opposed destructive machinery only. He wel comed such instruments and machinery that saved individual labour and lightened the burden of millions of cottagers. For example, Gandhi encouraged the use of singer sewing machine. He offered prize money for the invention of a 'Chakra' which could be made and repaired in the villages and would produce four times the yarn spun on the traditional 'Chakra'. He was against indiscriminate multiplication of machinery only. To him, the consideration of man was supreme and that of science and technology was secondary. He

was aware of the menace of unemployment caused by extensive use of machinery. He emphasised for labour intensive methods of production as India was a labour surplus country.

4.7. INDUSTRIALIZATION AND SCALE OF PRODUCTION

Gandhi was totally against modern industrial system. He called upon the youths of India to return to villages that are neither polluted by railways nor by modernism and preserve the values of the ancient Indian civilization. He also stressed on physical and manual power. He believed in the law of bread labour, that is, everyman must earn his bread by sweat of his brow.

Gandhi was also against the concept of mechanization. He believed that by using machine-made Manchester cloth, Indians are only wasting their money. But instead if they reproduce clothes in India, they would keep their money with themselves. Further, he opined that if the cloth was made by spinning, it would also solve the problem of growing poverty of the peasantry.

According to Gandhi, "Large scale production is meant to be profit oriented and therefore, they are bad for the society. To him, large scale production may lead to concentration of wealth and power in a few hands. He recommended nationalization of some basic and key industries so that large scale production could be controlled. As he put it, "… The production process should ensure that creation should be primarily for use and not for exchange … production should be free from exploitation and violence."



CHECK YOUR PROGRESS

Q 1: Write the basic principles which laid the foundation of Gandhian economic thought. (Answer in 20 words)

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Q 2: Write briefly about the consequences of consumerism. (Answer in about 40 words)

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Q 3: What type of machines were welcomed by Gandhi? (Answer in about 40 words)

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4.8. TRUSTEESHIP

The Gandhian model of trusteeship is an innovative model of ownership and management of industrial and business organization basically deriving inspiration from the philosophy of Bhagawat Gita. As such, it is a theory based on the Indian thought and ethos. In the trusteeship theory, the owners and managers of industry are to consider their wealth and assets as belonging to God and society and not as their personal property. They are to manage and handle their assets only as trustees and would be entitled to the reasonable amount needed for their sustenance out of the earnings of the assets as their remunerations. Thus, if an individual possesses more than his proportionate share of wealth, he becomes a trustee of that surplus amount for the society.

The doctrine of trusteeship may be summarized as follows-

- Trusteeship provides a means of transforming the present capitalist order of society into an equalitarian one. It gives no quarter to capitalism, but gives the present owning class, the chance of reforming itself. It is based on the faith that human nature is never beyond redemption.
- It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its welfare.

- It does not exclude legislative regulation of the ownership and the use of wealth.
- Thus, under state-regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.
- Just as it is proposed to fix a decent minimum living wage, even so, a limit should be fixed for the maximum income that could be allowed to any person, in society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time so much so that the tendency would be towards obliteration of the difference.
- Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed.

4.9. SARVODAYA

To achieve the goal of non-violent socialism, Gandhi presented the Sarvodaya plan. Sarvodaya is a Sanskrit term meaning 'universal uplift' or 'progress of all'. The Sarvodaya plan provides the foundations on which the economic organization of the nation striving for the ideal of socialism is to be built. The objective of the Sarvodaya plan is the establishment of Sarvodaya social order on the principles of non-violence, truth, love and cooperation. The Sarvodaya scheme includes the following programmes :

- Full attention to the cultivators and the labourers,
- The cultivators would organize their own committees and labourers would form their own unions,
- All persons would receive education, whether technical or basic,
- Special attention would be provided to the development of village industries, sanitation and hygiene and,
- Economic equality and communal harmony would be established.

In other words, the basic aim of the Sarvodaya plan would be to develop the village into a complete republic.

4.10. NON-VIOLENCE

Gandhi advocated non-violence and hence his economics may be called economics of non-violence. According to this principle, social changes are to be brought about through non-violent methods. Ends and means are inseparable in life and only good means yield good results. An ideal society can be established only by adopting peaceful and non-violent means and not through hatred and war, as Marx believed. The basic features of non-violent economy are as follows :

- Absence of capitalistic exploitations,
- Decentralization of production units,
- Cheaper defence organization,
- Less inequality of income and
- Self-sufficiency of communities.

4.11. DECENTRALISATION

Gandhi was in favour of decentralized economy. He believed that in such an economy exploitation of labour would be much less than in a capitalist economy. His belief was strong in the context of Indian economy. He wanted to carry the production units to the homes of the masses, particularly in the villages. This would increase employment. According to Gandhi there are many reasons to believe that it is cheaper to produce commodity in cottage industry. Here, no separate establishment charges are required as,

- Very few tools are needed,
- No problem of storage,
- Transportation cost negligible,
- Problem of over production does not arise,
- There will be no waste of competition.



CHECK YOUR PROGRESS

Q 4: Briefly mention the views of Gandhi on Industrialisation. (Answer in about 40 words)

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Q 5: What is Sarvodaya plan ? (Answer in about 40 words)

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4.12 LET US SUM UP

- Mohandas Kamarchand Gandhi was an Indian lawyer and anti-colonial nationalist who successfully led the Indian National Movement against the British rule.
- Gandhian economic thought is based on four fundamental principles: truth, non-violence, dignity of labour and simplicity.
- Gandhi was a firm believer of the village republic, decntralisation, Sarvodya and the doctrine of trusteeship.



4.13. FURTHER READING

1) Bhatia, H.L. (2007). *History of Economic Thought.* New Delhi : Vikash Publishing House.

2) Kumarappa, J.C. (2010). *Gandhian Economic Thought.* New Delhi : SSS Prakashan.

3) Loknathan, V. (2010). *A History of Economic Thought.* New Delhi : S Chand & Company Ltd.

4) Paul R.R. (2008). *History of Economic Thought.* Ludhiana : Kalyani Publishers.

4.14. ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1 : The basic principles on which Gandhi laid the foundation of his economic thought are- truth, non-violence, dignity of labour and simplicity

Ans to Q No 2 : The consequences of consumerism are - i) Mass production and overproduction, ii) Procurement of raw materials in large quantity, iii) use of excessive energy and bulk finished products, iv) environmental degradation and, v) use of large ware houses and creation of huge wastage.

Ans to Q No 3: Gandhi welcomed such machines that saved individual labour and lightened the burden of millions of cottagers. For example, he encouraged the use of singer sewing machine. He opines, "The spinning wheel itself is a machine, a little toothpick is a machine. . ." He also offered prize money for the development of an improvised 'Charkha'.

Ans to Q No 4 : Gandhi opposed modern industrial system. He called upon the young Indian to return to villages and start small scale cottage industries in the villages. He thought that large scale production would lead to concentration of wealth and power in a few hands. He recommended nationalisation of some basic and key industries to control the large scale production.

Ans to Q No 5 : Gandhi's Sarvodaya plan is an alternative to Marxian socialism. The basic objective of Sarvodaya is to achieve the goal of non-violent socialism on the principles of truth, love and co-operation. Under Sarvodaya, special attention would be given to the development of village industries and to attain economic equality and communal harmony. Thus, the ultimate aim is to develop the village into a complete republic.

4.15 MODEL QUESTIONS

Short questions (Answer in about 150 words)

Q 1: Give a brief analysis on the Gandhi's view on village economy.

Q 2: Was Gandhi against technology? Give reasons for your answer.

Q 3: Mention the basic features of non-violent economy as prescribed by MK Gandhi.

Long questions (Answer in about 300-500 words)

Q 1: Discuss the contribution of Gandhi to the development of Indian Economic thought.

Q 2: Give an appraisal of the doctrine of trusteeship advocated by Gandhi.

Q 3: Discuss the principles of Sarvodaya and decentralisation in the light of Gandhian economic thought.

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UNIT- 5 : THE MERCANTILIST SCHOOL

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Overview of Mercantilism

5.4 Factors that led to the growth of Mercantilism

5.5 Main Doctrines of Mercantilism

5.6 Fall of Mercantilism

5.7 Let Us Sum Up

5.8 Further Reading

5.9 Answers to Check Your Progress

5.10 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- know the factors or causes which were responsible for the growth of Mercantilism
- explain the different ideas or contributions given by the mercantilists
- understand the drawbacks which lead to the fall of Mercantilism.

5.2 INTRODUCTION

Mercantilism or commercial capitalism is an economic philosophy of merchants. It was a protest against the dark medievalism and it conveyed to the world the practical economic lessons for the future development of the world and the progress of civilisation. The rise or growth of Mercantilism was caused by several factors like economic, political, cultural and religious. The mercantilists gave their opinions on different respects like state unification, state intervention, monetary system, balance of trade, growth and employment and so on. These opinions are regarded as the contribution or basic doctrines by the mercantilists.There are different drawbacks that lead to the starting of downfall of Mercantilism. Independence of some of

the European colonies and competition from other nations were some of the important factors that led to the decline of Mercantilism.In this unit we will learn about the contribution of Mercantilism to the history of economic thought and the rise and fall of Mercantilism.

5.3 OVERVIEW OF MERCANTILISM

Mercantilism also known as commercial capitalism that emerged in the European countries between 16th and 18th centuries. It refers to the economic philosophy of merchants and statesmen. It relied upon a strong state and the extensive regulation of economic activity. Bullion or treasure was seen as the key to wealth of the State, and hence foreign trade was regulated to obtain a surplus of exports over imports confining the trade of colonies to the home country, subsidizing exports.

Mercantilism was given shape and doctrine status by the writers like William Petty, Thomas Mun, James Stuart Mill, Richard Cantillon, David Hume, John Locke and others. These writers did not provide a systematic and definite thought. They did not have any set of commonly accepted ideas. However, in spite of differences, they agreed over certain basic issues of their times. The different names given to this tendency such as Mercantilism, bullionism and cameralism, indicate the same relative emphasis on its three aspects - trade, treasure and power.

5.4 FACTORS THAT LED TO THE GROWTH OF MERCANTILISM

The factors that led to the growth of Mercantilism in Europe are as follows -

- **Political Factors:** The fall of Feudalism was an important cause for the rise of Mercantilism. With the fall of feudalism, the agricultural sector was declined.This led to the rise of small scale industries. The increase of small scale industries was very much welcomed by the towns and its traders. They wanted to export the surplus of these productions. The traders and the State became dependent on each other. The state

wanted to accumulate more and more treasure in the form of gold and silver. The political organization which was loose in the past came to be replaced by a strong nation state. The need for political unity and unification of state led to the growth of Mercantilism in Europe. A typical mercantilist government started for absolutism which was taken as an essential requisite of political unity.

- **Religious Factors:** Religious factors also became important for the growth of Mercantilism. Around the beginning of the 16th century, religious and intellectual awakening among the European masses was very strong. Reformation and Protestantism spread the ideas of individualism and personal freedom. These ideas helped in the development of property and contract- rights which were essential pre-requisite for the growth of commerce and rise of an exchange economy.
- **Economic Factors:** The central fact concerning the economic factors which led to the rise of Mercantilism was the transition of feudalism to an exchange economy, towards the end of the 15th century. The feudal society was characterized by emphasis on local economic self-sufficiency, greater stress on local development of agriculture, absence of exchange economy, and exploitation of agricultural workers by the feudal lords and so on. Feudal societies were rapidly breaking up, superseded by a new economic system. The old system of agriculture was rapidly vanishing and there came about the beginning of manufacturing economy.
- **Cultural Factors:** The cultural factors were important in the growth of Mercantilism. Even more significant than the 'Reformation' of Martin Luther was Renaissance and Humanism - the movement of new light and learning which reflected the reaction against medievalism. The characteristic feature of renaissance was the development of Humanistic attitude which laid stress on the happiness of man on this earth. Humanism was based on a materialistic philosophy relating to this world as against the idealistic medieval philosophy of Heaven.
- **Scientific and Technological Factors:** The new inventions in the field of science and technology in the middle age encouraged the mercantilist

philosophies and policies. The invention of Mariner's Compass, Columbus' discovery of America, discovery of gold and silver mines and invention of printing press gave new thrust to foreign trade. Mercantilism thus grew as Commercial Capitalism in most of the European nations.

The mercantilists were the economists of dawn who for the first time made strong attempt to build up nation state under the policy of state intervention and with the development of industries, trade and commerce. The significance of mercantilists writers lie on their practical wisdom of understanding and solving the actual problems of their own times. Lord Keynes found much truth in mercantilist ideas and policies due to the practicality in their approach than that of Smith and others.

5.5 MAIN DOCTRINES OF MERCANTILISM

The basic ideas or contributions of Mercantilism in the history of economic thought can be enumerated as below-

- **Five Aspects of Mercantilism:**
  - As a system of economic unification
  - As a system of protection
  - As a system of power
  - As a monetary system
  - As a conception of state
- **Unification of State and Strengthening of Power:**

The essence of Mercantilism lies in the policy of a strong state, rich in trade and commerce, gold and silver etc. Mercantilists were of the view that political unity and increase of state power are essentially linked with economic prosperity. A strong central government is needed for the strengthening of economic, political and military power.

- **Concept of State Intervention:**

The mercantilists believed that state intervention was necessary for the proper management of state's economic affairs. During the period of Mercantilism in England, there were so many state regulations of economic activity. According to E. Lipson, the noted economic historian,

England experienced the first planned economy during the days of the Mercantilism. Mercantilists suggested that the government should play the role of a protectionist in the economy. For that, the government should increase the exports and discourage imports through the use of tariffs. During that period, the impact of Mercantilism led to some of the first instances of significant government intervention and control over the economy. At that time, most of the modern capitalist systems were established. Because of this conflict of state intervention, Mercantilism encouraged many European wars internationally, as the European powers fought over available markets.

- **As a Protectionist Monetary System:**

As a protectionist and a monetary system, Mercantilism reflected a particular attitude towards goods and money. In regards to goods, the mercantilists have a 'fear of goods' attitude and in regards to money, they exhibited 'hunger for money' attitude. The theoretical structure of Mercantilism's monetary system is based on three propositions-

- Wealth consists of money.
- Money to be used as a medium of exchange.
- Money should not be accumulated as treasure in the literal sense of a stock of valuable objects.

On the one hand, they wanted to protect the country from the bad effects of having too much of commodities and on the other hand, they wanted to accumulate more and more treasure in the form of gold and silver.

- **Balance of Trade:**

The mercantilist writers were in favor of having favorable balance of trade which required the creation of surplus of exports over imports. It stated the idea that for a country, the only way to increase gold is to have as large as excess of exports over imports. For that aggregate output must be increased to the maximum. There were short-term and long term measures for augmenting the aggregate output. Full and efficient use of country's existing human and natural resources is suggested as a short- term measure. For achieving that, some measures were provided-

- Ø Eradicating unemployment and underdevelopment,
- Ø Utilizing unused land and other natural resources,
- Ø Introducing more efficient method of production,
- Ø Transferring workers from less to more productive occupations.

In the long run, aggregate output can be increased by increasing the labor force. Assuming the age structure to be constant, the increase in the labor depends upon the growth of population.

l Growth and Development:

According to the mercantilists, state intervention in the economic life of the people was necessary for a compatible economic growth. Regarding the sectoral development, foreign trade and industry were given more importance because the growth and development of these sectors paved the way for other sectors' development.Agriculture was not given priority.

The attitude towards the role of different factors of production in the growth of the economy was different. Labor was given the primary position, land and capital were given the second and third positions respectively. According to them, growth of labour leads to the growth of national output; increment in labour force meant increase in total output. Land was regarded as useful to labor in the industrial sector, because it provided raw materials as well as subsistence to workers.



CHECK YOUR PROGRESS

Q3: What are the three aspects of Mercantilism? (Answer in about 30 words)

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Q 2: What are the characteristics of feudal society? ((Answer in about 40 words)

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Q 3: Why, according to the mercantilists, was the state intervention necessary? (Answer in about 30 words)

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Q 4: Regarding balance of trade, which principle was advocated by the mercantilists? (Answer in about 20 words)

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5.6 FALL OF MERCANTILISM

Mercantilism was a policy of national unification and a system of power, protection and monetary organization. It aimed at increasing the industrial activity of the state concerned and allowed freedom of commerce. It envisaged transformation of the feudal society into a highly developed form of commercial capitalism.

The decline of Mercantilism started when some of the mercantilist writers such as Petty, Locke, North, etc. with more liberal views attacked the economic policies as adopted by Colbert in France and by the King in England. The voice of criticism was more powerful in France. Mercantilism declined substantially with the independence of some of the colonies. Another reason for the decline of Mercantilism was competition from other nations which could manufacture same products. The main points of criticism were-

- State control of foreign trade
- Heavy taxes
- Neglect of agriculture etc.

With the publication of Adam Smith's Wealth of Nations in 1776, the criticism of Mercantilism reached its height. Smith raised many serious objections to the mercantilist ideas on trade and money.

- Mercantilist writers are regarded as misguided because-
  - Ø They considered government intervention necessary for safeguarding the economic interest of a nation and
  - Ø They were in support of constructing export surplus and restricting imports.
- The theory of favorable balance of trade was futile; the effect of increased inflow of bullion on price level of exportable goods are ignored by them.
- The mercantilists advocated the beggar-thy-neighbor policy and aimed at the policy of achieving favorable balance of trade at the cost of other countries.
- The mercantilists were narrow nationalists and their analysis lacked cosmopolitan outlook.
- Mercantilists gave undue importance on foreign trade and ignored the importance of agriculture and other occupations.
- Mercantilists stayed away from natural laws and rules. This 'natural laws or order' became the central theme of 'Physiocracy' that followed Mercantilism.
- They wrongly considered that wealth consists of gold, silver and other precious metals. They also wrongly regarded wealth as an end in itself.
- The mercantilist system lacked the understanding and involvement of automatic working of market forces.



CHECK YOUR PROGRESS

Q 5: Which sector was neglected by the mercantilists? (Answer in about 20 words)

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Q 6: 'Mercantilists writers were regarded as misguided'. Why? Mention the reasons. (Answer in about 60 words)

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5.7 LET US SUM UP

- Mercantilism or commercial capitalism is an economic philosophy of merchants. Treasure or Bullion are regarded as key to the wealth of the state.
- Its shape and doctrines are given by the writers like William Petty, Thomas Mun, J.S. Mill, David Hume and so on during the 16th and 18th centuries in the European countries.
- The rise or growth of Mercantilism was caused by several factors like economic, political, cultural and religious. The changes that were taking place at those various sectors led to the rise of Mercantilism.
- The mercantilists gave their opinions on different respects like state unification, state intervention, monetary system, balance of trade, growth and employment and so on. These opinions are regarded as the contribution or basic doctrines by the mercantilists.
- Mercantilist writers were in favor of having favorable balance of trade which required the creation of surplus of export over imports. According to them, this was necessary to increase the gold.
- There are different drawbacks that lead to the starting of downfall of Mercantilism.
- Independence of some of the European colonies and competition from other nations were some of the important factors that led to the decline of Mercantilism.
- Some of the mercantilist writers attacked the economic policies as adopted by Colbert in France and by the King in England. State controlled foreign trade, heavy taxes, neglect of agriculture are some of the drawbacks of Mercantilism.
- With the publication of Adam Smith's Wealth of Nations (1776), the criticism of Mercantilism reached its height. In this book he raised many serious objections against the mercantilist ideas on trade and money.

5.8 FURTHER READING

1) Bhatia, H.L. (2007). *History of Economic Thought.* New Delhi : Vikash Publishing House.

2) Kumarappa, J.C. (2010). *Gandhian Economic Thought.* New Delhi : SSS Prakashan.

3) Loknathan, V. (2010). *A History of Economic Thought.* New Delhi : S Chand & Company Ltd.

4) Paul R.R. (2008). *History of Economic Thought.* Ludhiana : Kalyani Publishers.

5.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The three aspects of Mercantilism are- trade, treasure and power.

Ans to Q No 2: The feudal society was characterized by - emphasis on local economic self-sufficiency, greater stress on local development of agriculture, absence of exchange economy, exploitation of agricultural workers by the feudal lords and so on.

Ans to Q No 3: According to the mercantilists, the state intervention was necessary for the proper management of society's economic affairs.

Ans to Q No 4: The mercantilists advocated the principle of balance of trade which required the creation of surplus of exports over imports.

Ans to Q No 5: The agricultural sector was neglected by the mercantilists.

Ans to Q No 6: The mercantilist writers were regarded as misguided, because-

- They considered government intervention necessary for safeguarding the economic interest of a nation, and
- They were in support of constructing export surplus and restricting imports.

5.10 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Explain the idea of 'Balance of Trade'.

Q 2: What were the main causes that led to the growth of Mercantilism?

Q 3: 'Mercantilists gave importance on trade intervention'- Explain.

Essay-type Questions (Answer each question in about 300-500 words)

Q 1: Explain Mercantilism as a protectionist and monetary system.

Q 2: Discuss the main doctrines of Mercantilism.

Q 3: Discuss the reasons that led to the fall of Mercantilism.

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UNIT 6 : THE PHYSIOCRATIC SCHOOL

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Overview of Physiocracy

6.4 Main Doctrines of Physiocracy

- 6.4.1 Natural Order
- 6.4.2 Net Product
- 6.4.3 Circulation of Wealth
- 6.4.4 Taxation
- 6.4.5 Trade
- 6.4.6 Value
- 6.4.7 Wage
- 6.4.8 Money and Interest

6.5 Let Us Sum Up

6.6 Further Reading

6.7 Answers to Check Your Progress

6.8 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- learn the work of the physiocrats
- explain the main doctrines of physiocracy that include natural order, net product, circulation of wealth, taxation and trade
- understand the strength and shortcomings of physiocracy.

6.2 INTRODUCTION

In this unit, you will be familiarized with the economic principles and policies of physiocracy. The economic thinking which had been formulated in France in the middle of the 18th century is collectively known as physiocracy. The economists who contributed to the growth of physiocratic

ideas are regarded as physiocrats. It was a reaction against Mercantilism. The physiocrats believed that the people had to suffer due to execution of Mercantile policies. So, they revolted against the Mercantilism and developed some new principles and policies. Physiocracy is also considered as the first school of economic thought. Quesnay and Turgot led the physiocratic school of economic thought. The physiocrats believed in the existence of natural law which governs the universe.

6.2 OVERVIEW OF PHYSIOCRACY

The wearing out of Mercantilism in Western European countries as a theory and as a philosophy made way for a more mature economic thinking just as commercial capitalism was yielding place to industrial capitalism. The maturing process was somewhat slow in England while France witnessed a quick sprouting of a though system which was coherent and systematic in the form of 'Physiocracy' - a thought and a philosophy that had a short but intensive life from 1756 to 1778.

Physiocracy, which means the 'Rule of Nature', was advocated by a group of French philosophers such as Francois Quesnay, De La Riviera, A.R.J Turgot, Dupont De Nemours, Mirabeau, Baudeau and Trasne etc. They held the view that the physical world or organic life is governed by a universal law of nature and this natural order is one of which god has ordained for the happiness of mankind. It was a theory of wealth, which emphasized on the agriculture. According to them, the agricultural labour is so productive that it can alone yield surplus value. Physiocrates also marked the rise of the first school of economic thought. Physiocracy can be defined as the reaction against Mercantilism. They were of the view that the mercantilist ideas and their policies were harming the society and the nation. So Physiocracy was the revolt against Mercantilism.

The socio economic conditions prevailing in France were largely responsible for the rise of physiocracy. The decline of agriculture brought about the wretched condition on the agricultural workers with the increased burden of tax in France. This created a desire for an agricultural movement.

The physiocrats came up as an attempt to save France from economic bankruptcy due to the extravagant lifestyles of the rulers like Louis XV and Louis XVI. Expensive wars and extravagant lifestyles brought an economic crisis in the country. Heavy taxes were imposed adding to the miseries of the poor people.



CHECK YOUR PROGRESS

Q 1: What was the main emphasis of physiocracy? (Answer in around 10 words)

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Q 2: Write the names of the members of physiocratic school. (Answer in around 20 words)

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6.4 MAIN DOCTRINES OF PHYSIOCRACY

In the following we are discussing the main doctrines of physiocracy-

6.4.1 The Natural Order

The physiocratic philosophy was based upon the concept of a natural order. Dupont de Nemours defined Physiocracy as 'the science of the natural order'. The concept was that 'natural order' or a system of natural-scientific, ethical and social-scientific 'natural laws' is ordained by a wise and benevolent God, the designer "of all nature and human nature; to ensure a harmonious, orderly functioning of both the non- human natural universe, and all human societies". In this natural order there was a basic interdependence of each component upon the other. Since it was designed by God, it was an eternal and unchanging phenomenon.

Some of the important characteristics of the natural order are described below-

Ø Firstly, the term 'natural order' stands in contrast to a social

order which might be the creation of man himself. However, the natural order is not equivalent to the state of nature. It includes the element of civil life. Property, security and liberty constitute the whole of the social order. The physiocrats were not against the progress of civilization, though on other consideration the very eternity of the natural order appears to imply that it was a static system.

- Secondly, the concept of natural order maintains that human society is subjected to the same laws of nature as the physical world. It therefore followed that the different sections of the society were interdependent and they must act and co-operate both for their individual interests and for the common benefit. "The natural order is merely the physical constitution which God himself has given to the universe". Therefore, it is bound to be for the good and happiness of mankind.
- Thirdly, the physiocrats believed that they knew about the content of natural order, though they did not have a unanimous answer. The knowledge of natural order must be compulsorily imported to the society through an educational system controlled by the State. And once this knowledge was acquired, everyone would act rationally and the law would then be automatically followed by all.
- Fourthly, the physiocrats were very much optimistic about natural order. It was believed that the order was able to secure the greatest amount of pleasure with the least amount of sacrifice for everyone. There was a perfect harmony of interests between individuals and between the individuals and the society as a whole.

6.4.2 Net Product

Net Product plays a fundamental role in the doctrines of physiocracy. It introduced the fundamental idea of economic surplus. Net product

is defined as the difference between the goods produced and the goods consumed in the process of production.

To them agriculture is the only sector which yields net product or surplus produce. Industry, trade and manufactures were considered sterile and unproductive.

The physiocrats considered the concept of net product both in physical and value terms. Agriculture yielding a disposable surplus over and above the necessary cost can be termed as physical surplus. The physiocrats also believed that when the price of agricultural produce in a competitive market is high, it enables the producers to reap a surplus over the cost of production. This is the net product in terms of value.

Net product depends upon the market conditions. Higher the price of the agricultural products, greater will be the net product and vice versa. The physiocrats favored free trade policy because they believed that free trade will be helpful in raising the price of agricultural goods which in return shall increase net product. As long as natural order prevails, it will ensure competition in the market to realize 'bon-prix' (proper or competitive price). Bon prix is sufficiently high to yield a surplus over cost.

The physiocrats theory of net product was based on the political assumption that only land can produce surplus. However, they failed to distinguish between the analysis of net product and the political assumption on which it was based. The physiocrats could not develop a satisfactory theory of value to explain the value surplus. The distinction between productive agriculture and unproductive industry has no rational basis. But, in spite of its limitation, the concept of net product was a great advancement over mercantilist fallacies and misconceptions about the source of wealth. Even today, the disposable surplus from agriculture is recognized as the basis for the industrialization and modernization of the economy.

6.4.3 Circulation of Wealth

With the discovery of sources of wealth and net product, the physiocrats also tried to explain the idea of circulation of wealth in an economy by drawing a simile of the circulation of blood in the human body. The physiocrats considered land as the true source of wealth. In the distribution of wealth, they consider two assumptions-

- The quality of the product circulated every year remains the same.
- The price level remains constant.

The distribution of wealth represents a circular flow of wealth among the various classes of the people in the society. The physiocrats divided the society into three classes:

- **The Productive Class:** It includes all the farmers. They work in land and extract net product from it.
- **The Proprietary Class:** All the landlords come under this category. Landlords are considered partly productive and they have a claim to the net product.
- **The Sterile Class:** It consists of manufactures and traders. It is regarded as an unproductive class, because like farmers (productive class) it does not produce net product. The net product is produced entirely by the agricultural class.

Quesnay's Tableau Economique:

The physiocrats used the Quesnay's Tableau Economique to explain the process of circulation of wealth. Economic table picturizes a closed economy in a stationary state that repeats itself in each period in a circular fashion.

The general idea conveyed by the table is that the proprietors of land contribute to production by expenses on improvement of land and by advances to maintain the cultivators. The cultivators in turn are able to produce a surplus as net product which goes to landowners in the form of rent. The landowners should make fresh

advances from these receipts. If they failed to do so then agricultural production will fall and the rent income will also reduce. The landowners divide their rent income by spending it on agricultural goods and industrial goods. Similarly, industrial sectors divide its expenses on agricultural goods for raw material and upon expenditures within the industrial sector. Agricultural sector supplies food to the landowners, and raw materials to the industries and obtain finished industrial goods from industry. In this way, year after year the circular flow is maintained.

The table refers to a society which has three million families of four persons each. The standard monetary unit of France was 'livre' and the figures are in million livres. In the previous year 600 million livres of annual advances resulted in 600 million livres of net product or rent. This amount goes to the landowner and they divide it into two expenditures of 300 million livres each on industrial and agricultural goods respectively. The amount spent on agriculture will in turn will able to produce 300 million livres. The industry divides its receipts of 300 million livres each on the industrial sector itself and in procuring raw materials from the agricultural sector.

Agricultural sector will be able to produce a net product of 150 million livres on this account. The farmers by now have received 300 million livres from the landowners and 150 million livres from the industry for the sale of the food and raw materials. Each of these amounts is divided into two halves and one part is spent on industry, 150 million livres from the earlier round and 75 million livres from the second round. The industry further divides its receipts into expenses on raw material and food and also in itself. This process continues till the farmers receive 600 million livres which enable them to extract 600 million livres from the next set of rounds. The landowners get their rent of 600 million livres which they consume away. The industrial sector pays for food and raw materials 300 million livres to agriculture and receives from landowners and

agriculture 300 million livres each for supplying finished industrial goods.

The summary can be presented as follows:

- **Landowners:**
  - Receipts: 600 million livres by way of rent
  - Expenditure: On food- 300million livres on industrial good- 300 million livres.
- **Industry:**
  - Receipts: 300 million livres from agriculture for sale of finished goods.

    300 million livres from landowners on account of sale of finished goods.
  - Expenditure: On food and raw materials from agriculture-300 million livres. Within industrial sector- 300million livres.
- **Agricultural Sector:**
  - Receipts: From landowners for sale of food- 300 million livres. From industry for sale of food- 300 million livres.
  - Expenditure: Payment to landowners as rent- 600 million livres. Payment to industrial sector for finished goods-300 million livres. Food consumption-300 million livres.

The physiocratic theory of circulation of wealth made a solid construction to the development of economic thought. The technique of dealing with the whole economy in terms of figures also laid the foundation of mathematical economics. The interdependence of different sectors provided the foundation for the input- output tables of the modern planners and analysts.

6.4.4 Taxation

The physiocrats emphasized on the imposition of a single tax that should be levied on the net product of land. The final incidence of tax should fall on the proprietors as they possess the net product which is the only surplus revenue according to the physiocrats. They

considered that industry, manufacture, trade and commerce cannot bear the burden of tax as they do not generate net product. The single tax was 30 percent of the net product and should not exceed it. The physiocrats considered that if the state appropriates more than this determined amount, it shall result in the reduction of investment in agriculture and that will slow down the pace of economic growth. According to them, the single tax would be sufficient to meet all the fiscal needs of the state. The single tax would be a direct tax that is inexpensive to collect.

6.4.5 Trade

Trade to the physiocrats was unproductive. It simply transfers wealth of equal value. The only kind of exchange that was considered to be useful was the transfer of agricultural goods from the producers to the consumer.

Physiocracy advocated free trade based on the philosophy of natural order. They considered restrictions on trade as damaging to economic growth. Freedom of trade ensures competition, established 'bon prix' (competitive equilibrium price). Increases farmers' profits, increases agricultural investments and therefore brings prosperity to all section of the society. Restrictions on the other hand result in the reduction of the country's wealth discouraging agricultural investments and lowers agricultural price.

The physiocrats came up with the policy of free trade as a reaction against the mercantilist system of protection.

Physiocracy has generally been regarded as the first school of free trade. But for them it was a laissez-faire. Foreign trade is neither necessary nor desirable and should be resorted to only when it becomes indispensable. That is why the physiocrats could not visualize the full advantages of free trade and develop a comprehensive theory on it.

6.4.6 Value

Physiocrats did not pay much attention to the problem of value mainly because they were preoccupied with the problem of net product, the circulation of wealth and single tax. It is found that they did realize the goods has utility, but they did not associate it with value in any systematic manner, because value was not inherent in goods. The value was exchange value (venale) and considered as equivalent of the market price (prix courant). It was vaguely related to demand and supply. But they were not able to gauge the exact role of demand and supply forces and the constraints which market structure imposed upon them. The physiocrats could not elaborate the concept of "prix fundamental" - a price which is like Marshallian long term price and which is determined by average cost of production and competitive set up of the market.

It appears that part of the confusion from which the physiocrats suffered in their concept of value emanated from the idea that net product was a gift of nature and partly from the fact that the realization of this surplus depended upon the market price which was to exceed cost of production. Physiocrats, therefore were not able to accommodate fully any of these elements, viz, the cost of production, the utility and the relative strength of demand and supply in an effective manner on their discussion of the price determination. And their difficulties got widened with variations in the market structures and the role of the time element etc.

6.4.7 Wage

The physiocrats followed the 'iron low' wages. According to this the peasants and the artisans were to get only the subsistence. They considered that the labourers would be ready to work at subsistence wages. But they did not mention regarding the response of labour supply to a variation in wage rates and the reason for the wages to be at the subsistence and not above or below it. The main analytical

advantage of their theory of wage was that of equating them with subsistence; the physiocrats were able to put forth the estimation of net product in a simple manner.

6.4.8 Money and Interest

The physiocrats did not contribute much to the theory of money and interest. It was clear to them that money was not equivalent to wealth though it facilitated the various economic operations. All the circulations of wealth took place through money as a medium, but there was no need to have an extra supply of it through export surplus. They also made a contribution in the field of an automatic adjustment in the supply of money through foreign trade.

The physiocrats were able to distinguish between money and capital unlike the mercantilists who considered money as capital. Capital had its origin in saving and manifested itself in the form of advances that could be recurring (working capital) or in the nature of fixed capital. The physiocrats would not allow interest on capital invested in industry because they considered it as sterile. But they allowed it on capital invested in agriculture since it was productive. However, Turgot considered that if interest on agricultural loans were permitted, money would be withdrawn from its use in other activities and would be directed towards agriculture. Further, trade loans were more risky and therefore the lender would demand an interest which would be higher than the one available from agricultural loans.

Appraisal: The physiocrats have been appropriately regarded as the real founders of economic science. The chief analytical merit of the physiocrats is its general and unified approach to the analysis of economic phenomenon. Agricultural productivity was regarded as the key factor in the determination of economic process. Tableau Economique was employed to simplify the complex process of distribution of wealth and to explain how the economic system operates.

However, the physiocrats have been criticized on the following grounds -

- The tableau method was primitive and lacked accuracy.
- The physiocrats analysed static problems of economic processes but failed to explain the dynamics.
- The declaration of the manufacturers as unproductive and sterile.

But, in spite of these shortcomings, the physiocrats attained a respectable place in the history of economic thought as it was statistically potent. The values used in the table were not imaginary but were based on facts and hence it anticipated modern economics.



CHECK YOUR PROGRESS

Q 3: What are the main contributions of Physiocracy? (Answer in about 20 words)

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Q 4: Which method was used by the physiocrates to explain the process of circulation of wealth? (Answer in about 20 words)

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Q 5: State two reasons that led to the ideas behind physiocratic thought? (Answer in about 20 words)

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6.5 LET US SUM UP

- The physiocrats came up as a reaction to the failure of the mercantilism.
- The increase in poverty and pathetic condition of the agricultural workers in France led to the physiocratic thought.
- The society should be controlled in accordance to natural order with minimum state control.
- Net product is the surplus that can be created only by the agriculture.

- Circulation of wealth is tried to be explained by the distribution of wealth among the agricultural workers or farmers, landowners and manufacturers. It forms the basis of Leontief's input- output model.
- Free trade based on the philosophy of natural order should prevail. But trade is a disdainful activity.
- Taxation should be minimized. A single tax can be imposed as an instrument of public utility.



6.6 FURTHER READING

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6.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The main emphasis of physiocracy was the agriculture.

Ans to Q No 2: The names of the members of the physiocratic school were A.R.J Turgot, Francois Quesnay, De La Riviera, Dupont De Nemours etc.

Ans to Q No 3: The main contributions of physiocracy are - natural order, laissez faire, circulation of wealth, net product, taxation, trade.

Ans to Q No 4: Method of Tableau Economique was used by physiocrates to explain the process of circulation of wealth.

Ans to Q No 5: Two reasons that led to the ideas behind physiocratic thoughts are - the increase in poverty and the pathetic condition of the agricultural workers.

6.8 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: What are the assumptions of Physiocracy?

Q 2: Name the French philosophers who contributed towards the ideas of Physiocracy?

Q 3: What are the important characteristics of Natural Orders?

Essay-type Questions (Answer each question in about 300-500 words)

Q 1: Write short notes on- a) Circulation of wealth b) Natural order c) Quesnay's Tableau Economique.

Q 2: Discuss the main contributions of Physiocratic School.

Q 3: Explain the limitations of Physiocracy.

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UNIT 7 : THE CLASSICAL SCHOOL-SMITH

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Features of Classical School

7.4 Adam Smith

7.5 Contributions of Adam Smitht owards Economy

- 7.5.1 Naturalism and Optimism
- 7.5.2 Wealth of Nations
- 7.5.3 Doctrine of Laissez Faire
- 7.5.4 Cannon of Taxation
- 7.5.5 Theory of Value
- 7.5.6 Theory of Distribution
- 7.5.7Theory of Trade
- 7.5.8 The Theory of Economic Growth and Economic Development

7.6 Views of Adam Smith on Political Philosophy

7.7 Let Us Sum Up.

7.8 Further Reading

7.9 Answers to Check Your Progress

7.10 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- learn the features of Classical School
- explain Adam Smith as an economist
- understand Adam Smith's contribution to various fields of economics.

7.2 INTRODUCTION

The Classical School of economics was developed about 1750. It lasted as the mainstream of economic thought until the late 1800's. The

leading members of the school were: Adam Smith (1723-1790), Malthus (1766-1834), Ricardo (1772-1823) and J.S. Mill (1806-1873). The economists who wrote between the periods 1750 to 1850 formed the Classical school. Adam Smith is recognized as the originator and leader of Classical school. John Stuart Mill is often regarded as the synthesizer of the school and David Ricardo should be credited with establishing the form and methods of the school.

Adam Smith's Wealth of Nations, published in 1776 can be used as the formal beginning of Classical Economics and was influenced by Mercantilist doctrines and Physiocracy. Classical economics as the predominant school of mainstream economics ends with the "Marginalist Revolution" and the rise of Neoclassical Economics in the late 1800's. In spite of the dominance of Neoclassical thought, Classical Economics has persisted and influenced modern economics. The belief in the efficacy of a "free market" is central to both classical and neoclassical ideology. The debates between Thomas Malthus and David Ricardo about policy issues such as the "Corn Laws" and the "Poor Laws" contributed to the focus and form of the school. Smith was concerned about the nature of economic growth. Malthus, Ricardo and other classical economists were concerned about the question of "distribution." One important debate among classical economists was whether there was or wasn't a "surplus" or "glut." J. B. Say [1767-1832] and Malthus were the two major protagonists in the question about the existence of a surplus and its effects on a market economy. A market Economy (capitalist economy) has the following features:

- The individual action is regulated by the forces of self interest and competition.
- The private individual organized the production with profit motive.
- Both commodities and services of productive factors are brought for sale in the market.

A market economy poses both theoretical and practical problems; in theoretical perspective the problem was to show how such an economy works, develops and responds to the needs of the society,and in the practical

side there is a problem regarding public policies.

7.3 FEATURES OF CLASSICAL SCHOOL

Some of the characteristic features of the classical economics are:

- **Economic philosophy :** The philosophical foundation of classical school presented an individualistic approach;they are concerned with different activities of the individuals. The welfare of the society depends on the welfare of each individual. The well-being of the society depends on the wellbeing of each individual. According to Adam Smith the belief in natural liberty is the result of individualism. Different classical economists came to their individualistic approaches by different means. David Ricardo, Bentham expressed their individualistic attitude on the basis of the principle of attitude.
- **Economic policy :** The system of "economic liberty" or the doctrine of "laissez faire" is the basis of classical economist towards their economic policy. Accordingly when private individual functions without any barriers, it is more efficient and competitive as compared to state control. When individuals take initiatives, they are more focused on self interest and competition with the others which results in the welfare of the society and the individual as well. The classical economist was against all kinds of restrictions on economic activities and they focus with the automatic working of the market economy.
- **Economic growth :** According to the classical economists, population growth and the capital accumulation are the necessary conditions for growth. Two forces that regulate the pace of economic development are the diminishing returns and technological improvements. Capital accumulation facilitates division of labour which is determined by the rate of profit. It helps in creating demand for labour and for fostering technological improvements whereas population, which has a tendency to grow rapidly, increases the demand for food.

  In classical period there are three types of economic growth theory-

- **Optimistic theory of economic growth:** it is related with the theory of Adam Smith. According to him there will be an ongoing process of development in a society which has no end. The development process will accumulate technological progress by making division of labour possible and by increasing wages it expands market. Therefore there is no retarding element which will result in the economic growth to continue. There are two assumptions i.e. (a) machine is considered as complimentary to labour and the labour-replacing effect of technology was neglected. (b) a constant returns to scale.
- **Pessimistic theory of economic growth:** The vision of Ricardo and Malthus were pessimistic towards the long run process of growth. According to them due to operation of the law of diminishing returns, a stationary state is reached and the process of growth comes to a deadlock.
- **Modern theory of growth:** J.S Mill refuses both the pessimistic and optimistic approaches. He took the intermediate position in the classical theory of growth. Mill doubted the optimistic attitude of those who believe in favorable effect of the technological improvements. He believed that a cultural change would occur and slacken the acquisition spirit of the society and also the growing popularity and effectiveness of moral restraint will light up the problem of overpopulation. It rejects the pessimistic approach.



CHECK YOUR PROGRESS

Q 1: Mention the philosophical foundation of classical school. (Answer in about 30 words)

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Q 2: Mention the features of market economy. (Answer in about 30 words)

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7.4 ADAM SMITH

Adam Smith (1723-1790) is the originator and the leader of the classical school. He was the first economist to write a systematic treatise on economics. He is considered to be the father of economics as he wove a canvas from what he received from his predecessors and handed over as a guide to the future generation. His reputation as the economist can be judged from his book 'An Inquiry in to the Nature and Causes of the Wealth of Nations (1776)' which is widely used even now in many fields of economics and is still published in a large number. He was a man with systematic ideas and a balanced presentation of different issues on economics; his Wealth of Nations is a contribution of comprehensive systematic study of the economy. Smith discusses both micro economics and macro economics, he attempted to explain the interrelationships of all the elements in an economic system and justify the use of free markets. Free markets advocated allowing the operation of 'natural forces'. Economic growth is dependent on the proportion of productive to unproductive labour. Productive labour is that labour that produces tangible goods that have value in exchange. Unproductive labour is not useless; it just doesn't produce tangible goods to be exchanged. His two books, 'The Theory of Moral Sentiments' and 'The Wealth of Nations', contain his version of moral and social Newtonianism with the philosophy of naturalism and optimism.

7.5 CONTRIBUTIONS OF ADAM SMITH TOWARDS ECONOMY

Adam Smith being the master of the Classical school picked up the isolated thought of his predecessors and reduced them to a consistent

harmonious and a systematic approach to the economic thought. The chief contributions in the history of economic thought are discussed below-

7.5.1 Naturalism and Optimism

Adam Smith has firm faith in the beneficial character of the natural order; he regarded the economic world as a living organism that creates itself its own indispensable organ. Naturalism is the spontaneous and natural origin of economic institutions, while optimism refers to the belief that the economic institutions so created were beneficial in their effects. This idea of naturalism is derived from the Physiocrats of France, according to whom there is a natural order which governs the physical world or life on the earth. He believes that all economical order is natural and spontaneous which are beneficial to mankind. He also praised the idea of naturalism on all the spheres of economic activity.

7.5.2 Wealth of Nations

The book 'An Enquiry into the Nature and Causes of the Wealth of Nations', generally known as 'The Wealth of Nations', is an important work of economic and social theory by Adam Smith. It was published in 1776. The book offers one of the world's first collected descriptions of what builds nations' wealth, and is today a fundamental work in classical economics. The work is the one which we have as the final culmination of his thinking. Adam Smith in his book, 'The Wealth of Nations' defined economics as 'Science of Wealth'. The book deals with the theories of division of labour, production, exchange, distribution, economic development of Europe, agriculture, taxation, fiscal policy and state interference etc. It also discusses different systems of political economy and a critical analysis of the physiocratic and mercantilist theories.

7.5.3 The Doctrine of laissez faire

Depending upon the ideas or the programmatic approach of the naturalism or natural order, Adam smith believes that there is no need for any restriction in the economic activity of the people. The doctrine of laissez faire upholds the ideas of economic liberalism. In fact Smith advocated the doctrine of laissez faire as a practical rule which should be followed by every individual. He strongly supported the ideas of free market economy and re-affirmed his faith on private entrepreneurship system. He believes that with free market mechanism there will be release of competitive forces that would result in the growth of wealth in the country over a period of time. His doctrine becomes the basis of political and economic order, and the world economy transformed from mercantilism to free market economy.

7.5.4 Canon of Taxation

Adam Smith propounded four canons of taxation. They are-

- **Canon of equity:** It implies that tax should be levied on the citizens on the basis of equality. In the words of Adam Smith "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in which the respectively enjoy under the protection of the state."
- **Canon of certainty:** It suggests that the amount of tax an individual has to pay should be known and certain and not arbitrary.
- **Canon of convenience:** The taxes should be levied in such a manner and at such a time so that it is most likely to be convenient to the tax-payers.
- **Canon of economy:** The tax should be so determined that the cost of collection of the levied tax should be the minimum possible.

7.5.5 Theory of Value

Adam Smith has adopted the theory of values on the basis of labour theory of value and the value on the cost of production. To explain his theory of value he distinguishes between value in use (utility of a commodity) and value in exchange (commodity's command over other commodity). The first one expresses the utility of particular object and the second one refers to the power of purchasing other goods. For example, water is more useful than any other product but it has less value in exchange. Similarly diamond has less value in use but it has greater value in exchange (water-diamond paradox). The determination of value is one of the central problems in the economy. Adam Smith believes that determination of labour was the central source of value. According to him,the value of things depends on the amount of labour it command in the market. He emphasized that, "labour is the real measure of the exchange value of all commodities". This is the famous labour theory of value. The theory of value based on labour was first formulated by Adam Smith and later on by David Ricardo which was used by Karl Marx for his ideas on capitalism.

7.5.6 Theory of Distribution

This is a logical consequence of the theory of value. In a civilized society, as Smith observed, there are three great constituent orders-those who live by rent, those who live by wages, and those who live by profit. Adam Smith was concerned with the determination of wages per-head, rent per acre and profit percent. He had not mentioned about the share of wages, profits and rent in the national income.

- **Rent:** He was not concerned regarding the nature and emergence of rent. Adam Smith has given a number of explanations for rent. At one place he regarded it as a monopoly

price and at another time, when he discusses commodity price, he include the rent of land as an element of cost and therefore a determinant of product price. He was clear in his ideas regarding the relationship between the interest of the land lords and the general interests of the society. There is a coincidence between interest of the landlords and the general interest of the public. The interest of the profit earners is anti-social because profits show a falling tendency as the economy progresses.

- **Wages:** Adam Smith did not develop a clear cut theory of wages, but a summary of number of wage theories. He was concerned with the two theories, i.e., the short run demand and supply theory and the long run subsistence theory. In the short period, wages are determined by demand and supply of labour. The lower limits of wages in the long run are fixed by the subsistence level. He noted that in modern times wages were the result of a contract between a worker and master where the contract was always in favor of the later. Adam Smith's sympathies were always with the labour.
- **Profit:** Smith's treatment of profit is sketchy as compared to his discussion of wage. He regarded profit as revenue from stock. Profit is a return on capital and is derived by those who are able to employ the capital in production. Adam Smith did not advance any consistent theory of distribution. This failure has a damaging effect on his theory of value. It is because of this that his theory of value remains empty and meaningless.

7.5.7 Theory of Trade

Adam Smith's theory of absolute cost advantage in international trade was evolved as a strong reaction to the restriction and protectionist mercantilist view on international trade. He upheld in his theory that the necessity of free trade as the only sound guarantee for progressive expansion of trade and increased prosperity of

nations. The free trade, according to Smith, promotes international divisions of labour. Every country tends to specialize in the production of that commodity which can be produced most cheaply. Undoubtedly the slogans of self reliance and protectionism have been raised from time to time, but the self reliance has eluded all the countries even up to the present moment. The free and unfiltered international trade can make the countries specialize in the production and exchange of such commodities in case of which, they command some absolute advantage, when compared with other countries. When countries are specialized on the basis of absolute advantage in cost, they stand to gain through international trade, just as tailor does not make his own shoes and shoe maker does not stitch his own suit and both gain by exchange of shoes and suits.

7.5.8 Theory of Economic Growth or Economic and Development

Although, economic historians pay more attention towards Smith's theory of value and distribution, Smith himself was primarily concerned with the dynamic question of growth and development. For him the analysis of value and distribution is of subsidiary importance, and are instrumental in growth of wealth of nation. Adam Smith described economic growth in terms of growth of wealth (or income) per head and adopted a materialistic definition of wealth. Wealth of a nation refers to the annual produce of land and labour of society and consists of all the material goods which can be consumed and invested. The wealth of a nation can be increased by increasing the quantity and quality of productive labour. The process of development is initiated by the employment of productive labour.

The dynamic of growth process can be understood with the help of the following propositions:-

- Ø An increase in the capital accumulation increased the demand for productive labour.
- Ø Increased demand for labour increases the wage rate above the subsistence level which in turn increases the supply of labour.
- Ø Increase in the working population enlarges the size of market and widens the scope of division of labour.

Adam smith has been rightly described as the father of political economy. His wealth of nation has become the corner stone of economic science. J.B Say has rightly remarked, "when we read this book we feel that previous to Smith, there was no such thing as political economy". Adam Smith has influenced man of practical affairs.Smith borrowed certain ideas from the Physiocrats. However Schumpeter said that the wealth of nation does not contain a single analytical idea, principle or method that was entirely new in 1776. But Schumpeter, at some other place, has described the Wealth of Nations as the most successful not only of all books on economics but, with possible exception of Darwin's Origin of Species, of all scientific books that appeared to his day. We can conclude by the word of Gravy, "It is again a tribute to the greatness of Smith that all schools of thought may trace to him their origin or inspiration".

7.6 VIEWS OF ADAM SMITH ON POLITICAL PHILOSOPHY

Adam Smith is regarded as the father of political economy and of Classical Economics. A distinctive set of views on politics can be extrapolated from the elements of both 'Theory of Moral sentiments' (1759) and his 'Inquiry into the Nature and Causes of Wealth of Nations' (1776). Smith seems to have hoped to build a comprehensive, universally-applicable theory of justice out of impartial-spectator judgments about property, contract, punishment, etc.

From his understanding of the working of economics, he thought that states could foster the productiveness of their economies only by the

rule of law, accompanied by a few limitations on banking practices, and should otherwise lift measures that restrict or encourage particular enterprises. The practical point of his treatise on economic was to urge this restrained, modest approach to economic intervention on governing officials.

Smith political views tend more generally towards a minimalist State. He didn't want the State to micro-manage the economy, and he also did not want it to promote religion or virtue. Smith gives justice priority over other virtues. He begins his lectures on jurisprudence by saying that the maintenance of justice is the first and chief design of every system of government and he brings in justice as a constraint on economic activity many tines in his 'Wealth of Nations'.

Finally Smith limits the activities of government because he considers it crucial to the development of virtue that people have plenty of room to act, and shape their feelings, on their own. Becoming a good human being is ultimately a task that each individual must take up for him or herself.



CHECK YOUR PROGRESS

Q 3: State Adam Smith's concept of naturalism. (Answer in about 40 words)

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Q 4: State the doctrine of laissez faire as provided by Adam Smith.(Answer in about 40 words)

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Q 5: What does Adam smith's canon of equity imply? (Answer in about 20 words)

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7.7 LET US SUM UP

- The Classical School of economics was developed in about 1750. Adam Smith is recognized as the originator and leader of Classical school.
- Adam Smith being the master of the school picked up the isolated thought of his predecessor and reduced them to a consistent harmonious and a systematic approach to the economic thought.
- Adam Smith believes that there is no need for any restriction in the economic activity of the people. He strongly supported the ideas of free market economy and re-affirmed his faith on private entrepreneurship system.
- Adam Smith put forward the four canons of taxation: equity, certainty, convenience and economy.
- Adam Smith's theory of absolute cost advantage in international trade was evolved as a strong reaction to the restriction and protectionist mercantilist view on international trade. He upheld in his theory that the necessity of free trade is the only sound guarantee for progressive expansion of trade and increased prosperity of nations.
- Division of labour refers to the specialization of labour in different industries or in different process within the same industry.
- Adam Smith described economic growth in terms of the growth of wealth (or income) per head and adopted a materialistic definition of wealth. Wealth of a nation refers to the annual produce of land and labour of society and consists of all the material goods which can be consumed and invested.



7.8 FURTHER READING

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7.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The philosophical foundation of classical school presented an individualistic approach; they are concerned with different activities of the individuals. The welfare of the society depends on the welfare of each individual. The well-being of the society depends on the well-being of each individual.

Ans to Q No 2: A market economy (capitalist economy) has the following features:

- The individual action is regulated by the forces of self interest and competition.
- The private individual organized the production with profit motive.
- Both commodities and services of productive factors are brought for sale in the market.

Ans to Q No 3: Adam Smith has firm faith in the beneficial character of the natural order; he regarded the economic world as a living organism that creates for itself its own indispensable organ. Naturalism is the spontaneous and natural origin of economic institutions, while optimism refers to the belief that the economic institutions so created were beneficial in there effects. He believes that all economical order is natural and spontaneous which are beneficial to a mankind. He also praised the idea of naturalism on all the spheres of economic activity.

Ans to Q No 4: The doctrine of laissez faire upholds the ideas of economic liberalism. In fact Smith advocated the doctrine of laissez faire as a practical rule which should be followed by every people. He strongly supported the ideas of free market economy and re-affirmed his faith on private entrepreneurship system. He believes that with free market mechanism there will be a setting in forces which tend to create competitive economy that results the growth of wealth in the country over a period of time.

Ans to Q No 5: Adam Smith's canon of equity implies that tax should be levied on the citizens on the basis of equality.

7.10 MODEL QUESTIONS

Short Questions (Answer in about 150 words)

Q 1: Give a brief analysis of Classical School of economics.

Q 2: Bring out clearly the concept of canon of taxation, according to Adam Smith.

Q 3: State the relevance of capital accumulation in Adam Smith's theory.

Long Questions (Answer in about 300-500 words)

Q 1: Explain the contribution of Adam Smith towards economic progress.

Q 2: Adam Smith was concerned with the determination of wages per-head, rent per acre and profit percent. Explain.

Q 3: Explain the salient features of the Classical Economy.

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UNIT 8: THE CLASSICAL SCHOOL- MALTHUS

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Malthusian Classical School

8.4 Malthusian Theory of Population

8.5 Theory of Gluts

8.6 Neo-Malthusian Approaches of Population

8.7 Let Us Sum up

8.8 Further Reading

8.9 Answers to Check Your Progress

8.10 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- discuss the Malthusian theoretical approach on population
- explain the theory of Gluts
- understand the application of Malthusian theory of population.

8.2 INTRODUCTION

In the earlier unit we have studied the features of Classical School and the contribution of Adam Smith in the history of economic thought. In this unit we will discuss the contribution of Thomas Robert Malthus, who was a pessimist in Adam Smith's school of optimism. Though he never doubted the wisdom of 'nature's Lord', as preached by his master Adam Smith, he however nourished a deep sense of pessimism about what was going on around them. In his famous book "An Essay on the Principle of Population, as it affects the Future Improvement of Society" published in 1798, Malthus maintained, "the people must comprehend that they are themselves the cause of their own poverty." Malthus, unlike his predecessors could not come with the same opinion that the fear of over population is

illusory. On the contrary, he found that population is an almost insurmountable obstacle not merely looming in the distant future but an imminent one. This unit will discuss the Malthusian theory of population, his views on the possibility of over production in a capitalist economy, and the emergence of neo Malthusianism in the 20th Century.

8.3 MALTHUSIAN CLASSICAL SCHOOL

Since the beginning of the history of human civilization, different scholars and thinkers have concerned themselves with the various questions rising around various dynamics of population studies. Different opinions have occurred regarding the size and growth of human population. A large and rapidly growing population has sometimes been supported by scholars and considered desirable as a nation's strength and wealth and as an essentially useful factor underlying technological development. On the other hand, some scholars have argued that a large population has been responsible towards the increasing poverty and such catastrophes such as wars, famines and epidemics. The size and growth of population has thus been viewed as an important factor underlying the development of any country. That is why, it is important to trace the development in the thinking of scholars and different points of views expressed by them with respect to population dynamics within the socio-economic-political context. However, until the appearance of Thomas Robert Malthus, a theoretical approach to the population studies did not exist.

The theoretical orientation emerged in the eighteenth century when the work of Malthus was published. Published in the year 1798, the book Essay on the Principle of Population can be termed as the founding base for different theoretical orientation towards the population dynamics. Thus Thomas Robert Malthus (1766-1834), an English Clergyman and economist, is the pioneer in the field of theoretical orientation on population studies. Malthus's father, a liberal English landowner and a close friend of the renowned philosopher Rousseau, educated his son until he went to Cambridge. There, Malthus was appointed a Fellow in 1793, and in 1979

he took Holy Order to qualify as a clergyman. In the year 1805 he became Professor of History and Political Economy at the East India Company College at Haileybury.In the following parts of the unit, we are discussing the Malthusian theory of population, Malthusian theory of Gluts and the emergence of neo Malthusianism in the 20th Century.

8.4 MALTHUSIAN THEORY OF POPULATION

In his book Essay on the Principle of Population,Malthus engaged his ideas in the debate about the perfectibility of humankind. Against the previous approaches forwarded by scholars like Godwin and Condorcet, who believed that human race was capable of ever greater improvement and happiness, Malthus,on the other hand, pointed out the pressure and difficulties for the human race arising from the increasing population on the food supply for them. According to Malthus, the pressure of increasing population on the food supply would destroy perfection of humankind and there would be misery in the world. Malthus's theory of population is based on the following three postulates-

- Food is essential for man's existence.
- The passion between sexes is essential and it will nearly remain in its present state.
- The law of diminishing returns operates in agriculture.

From the postulates, Malthus deduced the conclusion that, "the power of population is indefinitely greater than the power in earth to produce subsistence (food) for men." And if the increasing population is not checked by the preventive check or measures, it will bring misery for humankind. The Malthusian theory has been discussed in details in the following points-

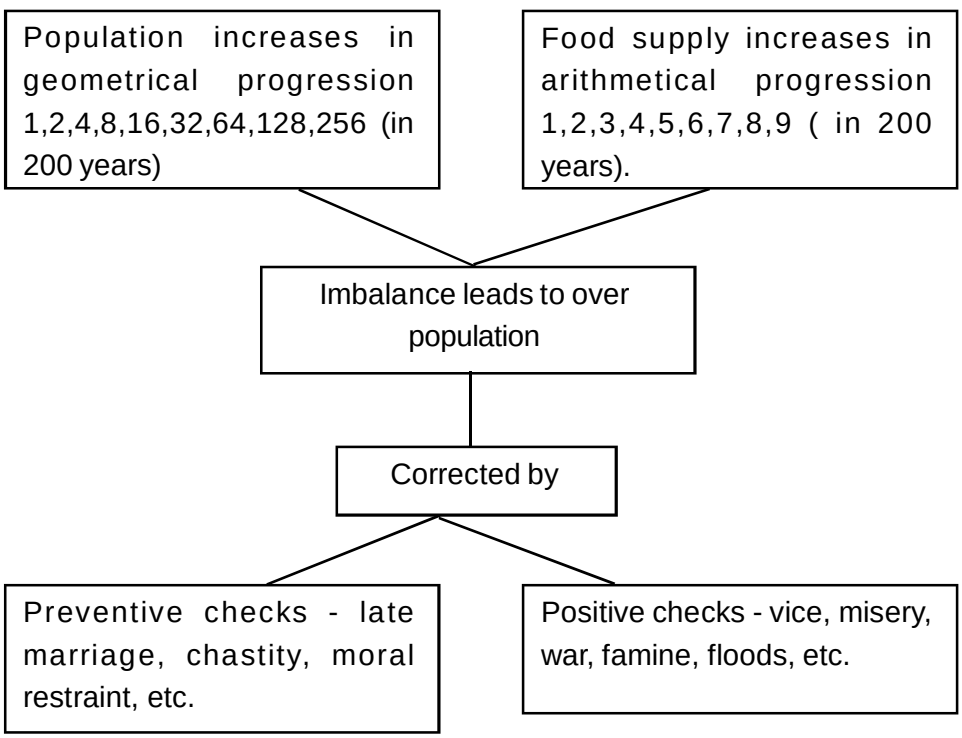
- There is a natural instinct in human beings which lead to the increase of human population at a fast rate. As a result, the rate of population increases in a geometric rate. If this increasing rate is not checked it will lead to a double rate of increase after every 25 years. Thus starting from 1,population in successive periods of 25 years will be 1,2,4,8,16,32,64,128,256 (after 200 years) [Geometric ratio]

- On the other hand, food supply increases in a slow Arithmetic rate or ratio. It is because of the operation of the law of diminishing return based on the supposition that the supply of land is always constant or fixed. The law of diminishing return states that with every additional application of labour and capital in the same plot of land, total output arising from the plot will decrease eventually. In the words of Malthus, ".....in proportion as cultivation is extended, the additions that could yearly be made (to the former average produce) must be gradually and regularly diminishing." Thus, the food supply in successive similar periods will be 1,2,3,4,5,6,7,8,9 (after 200 years) [Arithmetic ratio].
- Since population increases in a geometrical progression and the food supply in arithmetical progression, population tends to outrun food supply. This view has been reflected in Malthus's thoughts when he writes, "It is the constant tendency in all animated life to increase beyond the nourishment prepared for it." Thus a situation of imbalance will come which ultimately leads to over-population.
- To control over-population resulting from the imbalance between population and food supply, Malthus suggested positive checks and preventive checks.
  - **Positive check:** Disasters like famine, earthquake, vice, misery, disease, flood etc took life of many people and death rate increases in the society. These are positive checks which are taken by nature. Thus these are the natural calamities which try to maintain balance between population and food supply.
  - **Preventive check:** Preventive checks are man-made provisions to control the birth rate. Moral restraint and various birth control measures like raising the age of marriage, celibacy etc. are some of the preventive checks mentioned by Malthus. But he was against any artificial birth control measures as it violates his strong religious belief. That is why he called these artificial birth control measures as 'Conjugal fraud'.

According to Malthus, preventive checks are always in operation in a civilized society. He wrote, "In proportion as mankind rises above the

conditions of the beasts, population is restrained by the fear of want, rather than by want itself."

The theoretical doctrine of Malthus on the human population and what we have discussed in the above discussion, can be understood from the following table-



Critical Evaluation of the Malthusian Theory:

Malthus has been severely criticised for his pessimistic outlook towards the study of population growth.Some of the important criticisms of the theory are as follows-

- In advanced countries, Malthusian theory has not proved to be true. In developed or advanced countries where due to the application of modern science and technology, production of food supply increased at a higher rate and that is why increasing population did not exceed the increasing food supply as predicted by Malthus in his theoretical doctrine.

Malthusian theory is based on the Law of diminishing return, which states that with every additional application of labour and capital in the same plot of land, total output arising from that plot will be decreased. Malthus

has overlooked the possibility of scientific improvements in agriculture which may cause increasing returns instead of diminishing returns.

- Ø The spread of literacy, growth and development of culture tend to control the growth of population in a country. Illiteracy and lack of proper education is a major factor for overpopulation in a country. But these issues have been ignored by Malthus as a factor of population control.
- Ø Malthus has suggested certain unnatural means and methods of checking population growth. If these are really followed, then human behaviour is bound to become unnatural.
- Ø Malthus thought that any addition to population was undesirable. But, since, man is a source of labour, sometimes large number means greater wealth, power and strength. This issue has been overlooked by Malthus in his theory.
- Ø The Malthusian approach on population is based only on the relationship between population and food supply. But, he has overlooked the fact that population is not based only on the food supply but actually with the total wealth of the country. If a country is rich materially and even if does not produce enough food for its population, it can feed the people well by importing food stuffs in exchange for its product or money. Thus, the very basis of the Malthusian doctrine has been nullified.
- Ø Malthus was primarily a religious person who laid emphasis mainly on moral restraint to control population, which is basically a philosophical doctrine rather than a scientific treatise. He has failed to visualise that human beings would invent various contraceptives and other artificial family planning devices for controlling population. Moral restraint alone cannot control population.

8.5 THEORY OF GLUTS (THEORY OF CRISIS)

In the classical economy, everything was in a harmony. The market was automatically working by the forces of supply and demand. There was

no scope for any over production or unemployment. Supply always creates its own demand. But Say's law of market could not fully convinced Malthus. He did not come out with the same conclusion that full employment is the general rule of the economic system. He rather could not rule out the danger of over production. He thus broke away from the classical tradition and recognized under consumption as the cause of business depression. The over production or unemployment was the result of deficiency in the effective demand.The deficiency of effective demand is associated with under consumption. In Malthusian view, every production is exchanged with the production services of labour. The productive labour produces goods which command more labour than is required to produce them. The labourers will receive less than what they produce and will not be in a position to buy goods in the market. Thus, an unsold stock of commodities will tend to pile up in the market. This will result in a general deficiency in the effective demand and ultimately creating a situation of over production or glut in the economic system.

Thus, Malthus was the writer from the English classical school, who broke away from the classical tradition by recognizing that general over production or general unemployment is possible. Considering saving or accumulation as a necessary ingredient for growth, Ricardo and Mill refuted the under consumption thesis of Malthus. For them, saving turns to productive investment and hence it has the capacity to generate income. Viewing in an opposite way, Malthus tries to show that mere saving does not ensure larger demand for additional goods which will be produced with the help of increased investment. According to Malthus, saving has the capacity to lead an economy towards overproduction.Saving not only reduces the demand for consumer goods but also produces more goods when invested, which may set the overproduction into motion.

Malthus suggested that in order to get rid of the problem of glut, an economy has to increase the effective demand by encouraging trade and commerce and stimulating other economic activities. Also attempts must be made to stimulate consumption expenditure of different classes of people so that effective demand might be maintained at some reasonable level.

He even suggested unproductive consumption as the solution to the problem of unemployment. Because of this Keynes regarded Malthus, as the forerunner of the modern theory of full employment. It is to be mentioned here that the theory of glut or crisis of Malthus is not a theory of cyclical fluctuation. Rather we can consider the Malthusian theory of glut as a reaction to the general belief and the assertion of Say's law of market that over production is impossibility. Through this theory Malthus tried to establish that the deficiency in the effective demand has a secular tendency towards overproduction and ultimately lead an economy towards depression.

8.6 NEO-MALTHUSIAN APPROACHES OF POPULATION

The various criticisms and various shortcomings of Malthusian theory of population have led to the growth of new approaches towards the understanding of population dynamics. As a reaction to the Malthusian Theory of population, the new approach referred as Neo- Malthusian theory has made its appearance in the area of population studies. The main difference between the Malthusian and Neo-Malthusian doctrine was that Malthus was focusing mainly on celibacy and self-restraint in controlling the population growth. On the other hand, the neo-Malthusian approaches were focused on the artificial measures of birth control.

Mrs. Margaret Sanger in America and Mrs. Mary Stopes in England can be credited as the main exponents of the neo-Malthusian theory. According to the supporters of neo- Malthusian theory, the growth rate of population will decrease by using artificial means of birth control. They accepted the Malthusian view that famines, droughts, epidemics etc. are the result of overpopulation. Unlike Malthus, they differentiated between the sexual desire and the desire for having children. Neo-Malthusian approach regarded desire for sex as natural. But, on the other hand, desire for children depends on social, religious, and cultural factors with the context of different time and space.

Again, the neo-Malthusians did not favour the concept of self-restraint

to check the birth-rate as forwarded by Malthus. They were of the view that sexual urge is natural in human beings. It should not be suppressed because it adversely affects people mentally and physically and ultimately leads to evil practices in the society. That is why they have supported the use of various contraceptives and other birth control measures as it helps to satisfy the sexual urge and at the same time avoid the child birth. So far as the food supply is concerned, the Neo-Malthusians believed that it can be increased by using modern means of production which has been evident from the various advanced countries of Europe and the USA. Thus, by adopting birth control measures, the growth rate of population can be checked and the imbalance between population and food supply can be avoided. In this way the Neo- Malthusian approach overcomes the weaknesses in the original theory of Malthus and makes it more pragmatic.

Conclusion: Although the Malthusian theory of population has been severely criticised on many grounds, we cannot deny the fact that the relevance of the theory has been revived time and again. The contribution of Malthus can never be ignored from the study of history of population growth. Malthus is credited for being the first thinker who thoroughly and systematically applied the inductive methods to study of social science and human population. It was his theory that made both his supporters as well as critics realise the importance of, and the need for, the collection of information for the study of population trends and for any investigation into the relationship between the size and growth of population and social and economic conditions. Charles Emil Stangeland has remarked regarding the theory of Malthus with the following words, "Malthus's work was a great one written in an opportune time, and though it cannot lay claim to any considerable originality as far as the theories presented are concerned, it was successful in that it showed more fully, perhaps more clearly, and certainly more effectively than had any previous attempt, that population depends on subsistence and its increase is checked by want, vice and disease as well as by moral restraint or prudence."



CHECK YOUR PROGRESS

Q 1: Who is the writer of the book Essay on the Principle of Population?

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Q 2: Mention the three postulates on which Malthusian Theory of Population is based. (Answer in about 40 words)

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Q 3: What is meant by 'positive check' and 'preventive check' as forwarded by Malthus? (Answer in around 70 words)

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Q 4: Which two scholars can be credited as the main exponents of the Neo-Malthusian approach?

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8.7 LET US SUM UP

- A theory is a statement of how and why specific facts are related. It is the abstract generalisation of concrete realities.
- In ancient times, several thinkers have studied regarding the size of the population and their studies were revolving around the question of the desirable size of the population.The population theories with a proper theoretical orientation emerged in the eighteen century when the work of Thomas Malthus was published.
- In the book Essay on the Principle of Population, Malthus engages in the debate about the perfectibility of humankind. Against the previous

approaches forwarded by Scholars like Godwin and Condorcet, who believed that human race was capable of ever greater improvement and happiness, Malthus, on the other hand, pointed out the pressure and difficulties for the human race arising from the increasing population on the food supply for them. According to Malthus, the pressure of increasing population on the food supply would destroy perfection of humankind and there would be misery in the world.

- According to Malthus, there is a natural sex instinct in human beings which lead to the increase of human population at a fast rate. As a result, the rate of population increases in a geometric rate.
- On the other hand, food supply increases in a slow Arithmetic rate or ratio. It is because of the operation of the law of diminishing return based on the supposition that the supply of land is always constant or fixed,
- To control over-population resulting from the imbalance between population and food supply, Malthus suggested positive checks and preventive checks.
- The various criticisms and various shortcomings of Malthusian theory of population have led to the growth of new approaches towards the understanding of population dynamics. As a reaction to the Malthusian Theory of population, the new approach referred as Neo-Malthusian theory has made its existence in the academic fray of population studies.
- The main difference between the Malthusian and Neo-Malthusian doctrine was that Malthus was focusing mainly on celibacy and self-restraint in controlling the population growth. On the other hand, the neo-Malthusian approaches were focused on the artificial measures of birth control.
- Malthus did not come out with the same conclusion that, full employment is the general rule of the economic system. He rather could not rule out the danger of over production.
- According to Malthus deficiency of effective demand is the root cause of glut or crisis that occurs in an economic system which has a secular tendency towards depression.

8.8 FURTHER READING

1) Bhende A. A. and Kanitkar, T.(1978). *Principles of Population Studies.* New Delhi: Himalaya Publication House.
2) Haney, L.H. (1977). *History of Economic Thought.* Delhi :Surjeet Publications.
3) Lokanathan, S. (1979). *A History of Economic Thought.* Delhi :S.Chand Publications.
4) Meier, G. and Baldwin, R. (1973). *Development: Theory, History,Policy.* Bombay: Asia Publishing House.
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8.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Thomas Robert Malthus is the writer of the book Essay on the Principle of Population.

Ans to Q No 2: Malthusian theory of population is based on the following there postulates-

1) Food is essential for man's existence.
2) The passion between sexes is essential and it will nearly remain in its present state.
3) The law of diminishing returns operates in agriculture.

Ans to Q No 3: To control over-population resulting from the imbalance between population and food supply, Malthus suggested positive checks and preventive checks.

- **Positive check:** Disasters like famine, earthquake, vice, misery, disease, flood etc took life of many people and death rate increases in the society. These are positive checks which are taken by nature. Thus these are the natural calamities which try to maintain balance between population and food supply.
- **Preventive check:** Preventive checks are man-made provisions to control the birth rate. Moral restraint and various birth control

measures like rising the age of marriage, celibacy etc. are some of the preventive checks mentioned by Malthus. But he was against any artificial birth control measures as it violates his strong religious believe.

Ans to Q No 4: Mrs. Margaret Sanger in America and Mrs. Mary Stopes in England can be credited as the main exponents of the neo-Malthusian theory.



8.10 MODEL QUESTIONS

Short Questions (Answer in about 150 words)

Q 1: Discuss the backdrop which leads to the emergence of Malthusian Theory of Population.

Q 2: Explain the role of arithmetic rate and geometric rate in explaining the Malthusian theory of population.

Q 3: Mention the root cause of glut according to Malthus.

Q 4: Explain the application of Malthusian theory of population in modern times.

Long Questions (Answer in about 300-500 words)

Q 1: Give a critical Evaluation of the Malthusian Theory of Population.

Q 2: Examine the shift on the study of population theories from Malthusian to Neo- Malthusian approach.

Q 3: Write a note on the theory of gluts.

Q 4: Explain the contribution of Malthus in the history of economic thought.

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