UNIT 1 BASICS OF MODERN ECONOMICS

Structure

1.1 INTRODUCTION

Economics has emerged as one of the most important social science disciplines in modern times. Its importance has increased because it aims to be a **positive science,** meaning thereby that it can present objective and scientific explanations of how an economy works. It also aims to be **normative.** Norms here do not imply moral or ethical stands on economic issues. The norms are in the form of offering prescriptions and recommendations on what should be done to cure perceived economic ills arising from the working of the economics. It should be known that Economics evolved from moral philosophy, but slowly it started dealing with study of allocation of resources to production of goods and services and its distribution. Modern Economics seeks to apply scientific method to construct theories about the processes involved **in economic activities** and to test them against what actually happens. Its two central concerns are the efficient allocation of available resources and the ways of reconciling finite resources with a virtually infinite desire for goods and services. Modern Economics claims that it tries to be **value neutral**.

Aims and Objectives

This Unit would enable you to understand

- the evolution of economics as a discipline
- the basics of modern economics
- some outstanding thinkers in economics

1.2 ECONOMIC THOUGHT BEFORE ECONOMICS

Understanding the contemporary world becomes easy and meaningful when we begin from past. In this sense history of thought and in this case history of economic thought would be helpful in understanding the basics of economics as they appear in present. Similarly, it will also be easy to place Gandhi's economic thought in a perspective. A very well-known economist Lionel Robbins, whom we will be referring to elsewhere also, said that contemporary institutions and contemporary thoughts are expressed through with the heritage of the past. For this reason if we want to claim that we know little about the subject, we need to have a 'nodding acquaintance' with its past body of knowledge and also perhaps a little knowledge about people who developed it in the then given social situations.

It is recommended that whosoever is interested in understanding more about Economic thought well up to the beginning of the twentieth century should read Robbins's 'A History of Economic Thought: The LSE Lectures'. Published by Oxford University Press in 1998, these lectures were delivered in 1980-81 at the London School of Economics. Robbins calls the early economic thought as 'anticipations'. These are thoughts that appeared not as economics, but which had the potential that led to the development of the economics as a discipline much later. Economic thought has two sources. One, Moral Philosophy from Greek scholars that had an element of economic thought in their writings and second, ad hoc pamphlets or monographs written by theologians and officers in government that argued out a particular case. Interestingly centuries later, even Gandhi also did not write on economics and was not an economist, but he wrote on an issue when he wanted to argue a particular case. There is one more important thing that one notes. Unlike the early pamphlet and monograph writers, Gandhi did not write any special pamphlet or monograph, he had mostly produced notes not bigger than three pages to make his argument.

Plato and Aristotle are two Greek philosophers whose contribution to early economic thought has got registered. Both philosophers belong to the era before Christ. Plato was looking for an ideal State and responsibilities of people. He examined the working of the economic relations in the State and compared it with what ought to be. It should be made clear that he was not in favour of democracy. Athens was the centre of economic happening and it was easy for them to comment on the working of the economy then. Plato, in the detailed discussion, ended up giving idea about division of labour. Aristotle was not looking for an ideal State in the sense in which Plato was. His focus was household behaviour and in this context he commented on money and ways of money-making from ethical point of view. Interestingly, he approved the system of slavery in the household management.

Aristotle thought that people by nature could be divided into two types, one who gave orders and one who took orders. The justification for slavery came from the belief that indeed people by birth had different nature.

Nothing significant appeared in economic thought after the contribution of these two great Greek philosophers. Roman Empire followed in economic prosperity and there is none who stands out as a thinker or philosopher who contributed to the economic thought. In the intellectual world this period is called the Dark Age. The scholarships started reappearing and economic issues also got attention only in the Middle Ages. St. Thomas Aquinas wrote *summa Theologica*. He considered the economic affairs of exchange and interest as sin. Nevertheless, the major discussion that occupied the debate was about the 'just price' for a commodity that came up for exchange. These debates laid foundations for the labour theory of value. It should be noted that the period was fourteenth century.

It is also worth noticing that the discipline of economics evolved only after the nation state started coming into existence after the Dark Ages, and international trade picked up once again. This environment provided thinkers to contribute to the working of the economy. There was lot of discussion on money and related matters and the Mercantilists school of thought emerged. It contributed to economic debates during 16^{th} and 17^{th} centuries. With the emergence of the concept of nation state, feeling for own nation became strong and national policies received priorities over the local policies in economic affairs. The core concern of the mercantilists could be summed up in a title of the pamphlet that appeared in 1613 from a prison! It read

A Brief Treatise on the Causes which can make Gold and Silver plentiful in Kingdoms where there are no Mines. The best contributions came from Gerard Malynes, Misselden and Thomas Mun. It is interesting to note that most of the persons who contributed to economic thought were holding some government positions in trade and commerce related work.

Malynes advocated exchange control because in the absence of controls speculations lead to deviations that made goods artificially dearer or cheaper. Such fluctuations were not favourable to the State. Misselden had developed an antithesis to Malynes and advocated inflationary environment to stimulate exports. The most important scholar in this school of thought was Thomas Mun. His book *England's Treasure [by] Foreign Trade* was recognised as the most important work of Mercantilist school. Adam Smith, who is known as the Father of the Economics considered it as the bible of mercantilists. Though it may appear that the chief concern of the mercantilists was to make England rich with gold and silver, Mun's writings made it clear that it was all about the terms of trade especially the factorial terms of trade favouring England.

Last in the series of 'anticipation' is Sir William Petty. In a way he laid the foundation of quantitative economics. He approved of the Francis Bacon's method of scientific research. Collecting facts and analysing them to test hypothesis was the mainstay in that method. His contribution lies in combining the monetary ideas with political arithmetic. He was investigating and estimating the amount of money that was necessary to keep the trade going with full employment and constant prices. His recommendations for taxations came from this basic arithmetic and thus Petty becomes a very important forerunner of economists who later developed systems.

This section ends with mention of Josiah Child and John Locke on the interest rate debate that took place in the later half of the seventeenth century. The legal interest rate was 6 per cent in the second decade of the seventeenth century. There was a feeling that it should be reduced and Josiah Child was influential as the head of the East India Company and argued in favour of reduction in 1668. He referred to past experience and then quoted immediate experience of the Netherlands that had prospered on account of reduced interest rate. From the point of economics the logic was not sound, but the argument was well received because Child was an influential person. John Locke, an academic and a philosopher whose contribution was more substantial in the area of coinage debate in his days and for his writings on property, was against the lowering of interest rate. According to him, lowering of interest rate would make borrowing and lending difficult and this in turn would adversely affect the trade. His second argument was a welfare argument. He referred to the class of poor and widows, who have some small investments and interests accrued to them was necessary for their survival.

1.3 CLASSICAL ECONOMICS

Before we actually learn about classical economics and economists, it would help us to learn about some thinkers and schools of thought who envisioned complete economic systems. Cantillon is the first in this series. He was of Irish origin and settled in France. In his book *Essay on the Nature of Commerce*, published in 1755, he deals with working of the economy in first part, followed by elaborate discussion on the monetary and interest theory. In the third and final part he describes banking and commerce including international trade in an authoritative way. It may be noted that for the first time, an economist described the working of the entire economy. Cantillon was a successful banker who could also describe the working of the economy.

Just about when Cantillon was writing, a group of people calling themselves *Physiocrats* was active in France. It was a sect which had regular practices in debating on issues and advocated that agriculture was the main sector in any economy which could generate real value and hence national income. It believed that the economy worked in a particular way should be promoted. Dr. Quesnay, a surgeon turned physician, was the founder who is well-known for his *Tableau economique.* He, for the first time, estimated national income. Of course, there were assumptions. According to physiocrats agriculture was the only productive sector. Extractive industry was later added to it, but rest all labour was useful but sterile. This work was followed by the work of Turgot who wrote *Reflections on Formation and Distribution of Wealth.* It should be clear that by that time economics as a discipline was taking shape in the form of explaining how the economic system worked and how wealth was being created and distributed.

Foundations of classical economics were laid with the writings on property rights. It was also the beginning of the thinking on individual economic enterprise. John Locke and David Hume are beginners in this tradition. The explanation of the systems in which the economic functions were taking place and were explained came to be known as political economy and the focus on individual enterprise, use of labour for production for a unit of output and returns to the factors of production etc. came to be known as analytical economics. Hume has contributed to both. Classical Economics began with Adam Smith, who is referred to as the Father of Economics.

Adam Smith is known for his classic *An Inquiry into the Nature and Causes of the Wealth of Nations* written in 1776. The main inquiry by the classical economists was to determine the value of the production and its distribution. Robbins put it differently and said that the book was about theory of productive organisation and a theory of the causes of economic growth. Smith was interested in theory of value as his predecessors and successors were and he was also inquiring about distribution. His major focus was on how a country could create wealth and what type of productive organisation provided best opportunity for wealth creation. His concept of division of labour which evolved while writing about the organisation of production has become a famous maxim in economics. He said, 'division of labour is limited by the extent of market'. He advocated a production environment which allowed an individual to pursue an enterprise working on what was best for him and one that would yield maximum returns. He also advocated individual liberty and believed that the economic affairs were to be facilitated under *laissez faire*. The State was to play a facilitator's role. He wanted the State to carry out all those enterprises which the individual or small group of people would not find profitable, but people at large would benefit out of it. The contribution of Adam Smith is difficult to be summarised in a short passage. His contribution to analytical economics and political economy was very comprehensive and therefore he is called father of economics. It can also be said that economics started emerging as a separate discipline with the times of Smith.

We will consider a few more prominent thinkers who contributed to the classical economics. They are Robert Malthus and David Ricardo, Colonel Robert Torrens (who is not much remembered and taught in the economic thought paper in regular economics courses), James Mill, his son John Stuart Mill and Nassau Senior, McCulloch and J.E. Cairnes. With Malthus we enter into nineteenth century economic thought. Malthus is known for his theory of population growth. He also wrote on principles of economics and got engaged in serious debate with David Ricardo on issues of the day. Malthus believed that population growth was faster than the increase in food production. Power of earth to produce food was limited. He said, "Population, when unchecked, increases in a geometrical ratio [and] subsistence [for man] in an arithmetical ratio". He then wrote the ratios as 1,2,3,4…..and so on like that - constant additive factors – 1,2,4,8,16,32… and so on. The numbers are given just because he had become known for this, otherwise mathematically he was wrong. What is important, however, is to understand that he was aiming to explain the law of diminishing returns in agriculture. Land being a constant factor and labour being the most important variable factor applied to it, Malthus wanted to argue that the increase in production would gradually decline. It should be remembered that the Law of Diminishing return was further polished by other classical economists, mainly by Ricardo and this is a fundamental contribution of the classical economists to the subject. Malthus wanted to make this point because he thought that human beings did not behave and especially poor did not behave and they will keep on having more children and eventually most population in the world will live on subsistence level only. The diminishing returns theory became so dominant in the times when classical economists wrote that they were termed as 'doomsday economists' and economics came to be known as 'dismal science'.

The hardcore classical economics was about theory of value and distribution in an economy. David Ricardo is the master draftsman of the labour theory of value. It started in the backdrop of the Corn Law in England and the thinkers worked on various explanations. Ricardo's labour theory of value, succinctly put in his own words in *On the Principles of Political Economy and Taxation,* reads as follows.

"The exchangeable value of all commodities rises as the difficulties of their production increases. If then new difficulties occur in the production of corn, from more labour being necessary, whilst no more labour is required to produce gold, silver, cloth, linen, etc. the exchangeable value of corn will necessarily rise, as compared with those things. On the contrary, facilities in the production of corn, or of any other commodity of whatever kind, which shall afford the same produce with less labour, will lower its exchangeable value".

Ricardo went on constructing the theory of rent and theory of profit from labour theory of value. 'Ricardian rent' is even today an accepted concept for the part of profit that is made due to advantage over the quality of the resource, given the same production technology.

The Labour theory of value had a problem. Even Ricardo understood that in production there was contribution of capital as well. This became more and more important with industrial production, where land formed a very small part of the production factor. The acceptance of capital added the problem of distribution on the agenda of economics. James Mill and McCulloch, followers of Ricardo, confronted this issue of capital and treated all of such capital as indirect labour and thus reduced everything to labour. The other contribution of Ricardo was theory of international trade and it has come to be known as theory of comparative advantage.

The last most discussed of the classical economists was John Stuart Mill. He wrote *Principles of Political Economy*. Mill approached production and distribution differently. He believed that laws of production had universal applicability, whereas the laws of distribution were guided by the institutional arrangements in each society. Mill was also a distinct classical economist because he introduced the concept of static and dynamic in the political economy. His approach to distributional issues made him a socialist although there remains dispute about it. The Fabian socialists claim Mill to be a socialist. But one thing is certainly established that he was not a collectivist. He did not know Marx and he would not have advocated collectivism. He remains an individualist and his quest was that of explaining laws of production and distribution.

Before turning to basics of modern economics, the contribution of Marx needs to be understood. Although not a classical economist, Marx has been one of the most influential thinkers who had impact on economics for all times to come. Marx is one social scientist whose theoretical position was accepted by political activists all over the world and there has been serious attempt to put the theory into application. It is significant however, that after about 80 years of serious application, almost most of human societies have found that his theory did not work. The collapse of the Union of Soviet Socialist Republic (USSR) is the case in point. In this unit our focus is to understand his theory briefly.

Marx also focussed on the theory of value in Volume I of *Das Kapital*. The English translation of this original German work was *Capital, A Critique of Political Economy*. He also developed the theory of wages. He argued that employers determined the wages as they always had better bargaining power and they mostly kept the wages at subsistence levels and thus generated surplus value. He also considered the component of capital cost which was the labour cost of producing it. Since the cost of the capital was the value of labour spent in past, the employer could not create surplus from it and hence all surplus came only by reducing the wages of labour currently employed. In this volume, he did not tackle the problem of varying proportion of labour and capital in different industries. Only in volume 3 he admitted, like Ricardo, that ultimately in theory of value it was real cost theory and that it was indeed labour cost mainly but there were other factors as well that determined the cost of output.

Once the surplus value theory was established, he went on to build the theory of declining profit, theory of growing rate of concentration in manufacturing industry and then there was theory of the economic interpretation of the history, the theory of class war. It is the class war, professed by Marx, which came to be accepted with great appeal. It is interesting that Marx not only developed the theory of value, wages and distribution for explaining the economic phenomenon, he also went on to build a political theory for action. His theory of value in essence was no different than that of Ricardo's last position, yet he became a revolutionary thinker in the world. Marx's theory got converted into ideology and the whole world witnessed the rise of communism and socialism. Russia experienced a bloody revolution and the USSR was formed. Quite a few Eastern European countries became communist and a communist block was formed and became powerful after the Second World War, which ended in 1945.

Marx's basic purpose was to change the social system like Gandhi who also worked for social change. The basic difference is that Marx wanted to be a theoretical master of system change. He wanted to prove theoretically that what he proclaimed was inevitable and part of a process for which he was only providing scientific explanation in a theoretical framework.

1.4 BASICS OF MODERN ECONOMICS

The fundamental departure by the modern economics from the classical lies in showing that prices of goods and services depended not so much on the cost of production but on the demand and supply of them at a given point in time. The foundation for this came from what Robbins calls the Marginal Revolution. It is due to this evolution that the modern economics was no longer a political economy (which still continues to be a part of economics), but it became an independent scientific discipline. We shall briefly review the beginning of the modern economics in the same way as we have done in the case of classical economics. This will help in understanding the thought evolution and continuity from the predecessors. The evolution of economic thought will continue until Alfred Marshal, the first master of modern economics after which the present state of modern economics will be presented. Then we will present an idea about what modern economics is today.

The modern economics is also known as Neo Classical Economics. This name was given by an Austrian economist Thorstein Veblen. The credit of introducing the Marginal Revolution goes to three scholars Jevons, Menger and Walras. Menger and Walras had independently discovered the application of the theory of value to the idea of declining marginal utility. Jevons too came up with *The Theory of Political Economy*, but it is not explaining the economy or an economic system. Instead it focuses on the theory of value in relation to utility, and a theory of capital, both are the core elements in the modern economics. Utility was something which was not seen as important in determining the price of a good. To put it differently, the classical economists focussed only on supply side for explaining the price and the economy whereas the modern economics saw and introduced the demand side. Perhaps this is what led Alfred Marshal to say the famous maxim which meant that even a parrot could learn economics; it should only learn two words demand and supply!

Utility appeared in theory of value for the first time in Jevons writing in a major way. It got established that utility had its foundation in wants. Second, utility is not intrinsic in a commodity. Utility is attached to a commodity when an individual thinks about it. Thus utility is related to thinking about a commodity for a particular purpose. Jevons also introduced the concept of market which to him is a place, an area, where all buyers and sellers come together. An important thing he notes is the absence of conspiracy among buyers; nobody is influencing the market. Everybody has complete knowledge of the price at which a commodity is traded or exchanged. Then the exchange takes place when the relative scales differ, that is each buyer and seller for one another has a commodity which is of relative high value. The goat with one person is more valuable to another who has a stock of poultry which in turn is more valuable for person with goat. In such case exchange takes place. **The modern economics thus begins with Jevons where he boldly takes a stand that the origin of value is in utility and scarcity thus dismissing the labour.**

Carl Menger developed the theory of value with utility independently. He and his two students Wieser and Bohm Bawerk founded the Austrian school of utility theory. Menger differentiated between value and utility. Things which are not valuable may have utility. Menger explained the utility theory in terms of an arithmetic table. It explained the way that exchange would take place. Interestingly, Menger brought out that utility of a commodity and its units also help immensely in case of income constraint. Menger in this sense also introduces/d the concept of maximising total utility with income constraint. With Menger began the measurement of satisfaction in economics. Walras, a French economist, developed the marginal theory independent of Jevons and Menger. His contribution was in explaining the complete static economic system.

It is necessary to learn about Alfred Marshall in this context. He was a brilliant mathematician. He wrote *Principles of Economics* among many other books. He developed theory of firm which included theory of value and theory of capital, working of the economy at macro level with money, credit and interest and finally introduced the concept of equilibrium in commodity and factor markets at the economy level. None of this was complete, but Marshal's contribution in establishing economics as a science has been immense.

Modern economics has immensely grown since the days of Marshall. Modern economics is presently defined as the study of how, in a given society, choices are made in the allocation of resources that have alternative uses to produce goods and services for consumption, and the mechanisms and principles that govern this process. Economics has become the study of efficiency in production and in consumption. Modern economics also includes policy studies with respect to conflicting demands for resources and the consequences of whatever choices are made, whether by individuals, enterprises, or governments.

Thus Modern economics is now a fully developed social science devoted to studying the production, distribution, and consumption of wealth. The study of economics is divided into study of various branches. Microeconomics is the study of firm, industry, consumer behaviour and markets. Macro economics is the study of the economy as a whole. In other words it examines and understands the working of the economic system such as working of the money market, taxation by government and public spending. The macro concerns were very well explained and theorised by a giant intellectual named John Maynard Keynes He was a key theorist in economics. His theory has been developed into a school, Keynesian school of thought. Keynesian economics derived from his book *The General Theory of Employment, Interest and Money* (1936) that explains the determinants of national income in the short run when prices are relatively inflexible. Keynes tried to evolve a theoretical framework for failure of self-correcting high labour market unemployment which was a result of low "effective demand" and reasons for unavailing price flexibility and monetary policy. His contribution came after the Great Depression in United States and he had recommended government spending during economically depressed times to improve purchasing power with people so that effective demand could rise.

After Keynes two branches developed new Keynesian and Post Keynesian and the latter survived. A feature of post-Keynesian economics is the principle of effective demand, that demand matters in the long as well as the short run, so that a competitive market economy has no natural or automatic tendency towards full employment. Contrary to the view often expressed, the theoretical basis of this market failure is not rigid or sticky prices or wages. The positive contribution of post-Keynesian economics has extended beyond the theory of aggregate employment to theories of income distribution, growth, trade and development in which demand plays a key role, whereas in neoclassical economics these are determined by the supply side alone.

The role of state that was envisaged in *The Wealth of Nations* by Adam Smith has almost been regained after the collapse of the USSR. The Keynesian school was confronted with the Chicago School where Prof. Milton Friedman argued cogently for market superiority in economic theory and policy. The Chicago school was a post Second World War phenomenon which rose essentially against the dominance of State in the communist and socialist countries. The debates between the Chicago school and the Keynesian school continued to rage. Post Second World War, the economic crisis world over saw the emergence of a mixed approach that the world governments took. The world witnessed the role of economists significantly hyped in the Bretton Woods Conference where two important global institutions were formed. One was the International Monetary Fund (IMF) and the second was the International Bank for Reconstruction and Development (IBRD), popularly known as the World Bank.

We end this section with a comment by Partha Dasgupta, an economist of international repute. He says that the modern economics treats human beings with respect. To quote him "This it does by trying to illuminate the various pathways through which millions of decisions made by individual human beings can give rise to emergent features of communities and societies. Since individual decisions are, in turn, influenced by these emergent features (e.g. rate of inflation, productivity gains, level of national income, prices, cultural values, and social norms), there is mutual feedback over time….. This character of modern economics isn't, of course, new; but it has never been espoused with such abandon as it is today; and so, when the modern economist says he seeks a *micro foundation* for some observation or the other, it isn't an admission on his part, it is an assertion".

This is one of the new philosophical premises on which the modern economics is working today. The subject is of course still evolving and will continue to do so because it deals with human behaviour and therefore laws cannot remain constant as they do in Natural Sciences.

1.5 SUMMARY

The objective of this unit was to acquaint the learners with basic features of modern economics. This is necessary to understand Gandhi's Economic Thought better and also to appreciate how the modern economics has evolved as a discipline. We have done this by taking you through a journey beginning from the days of Greek philosophers and passing through the Middle Ages and entering into classical age and then the modern or the neo classical stages. The Unit also acquainted the learner with the process in which economic thoughts were formulated and embedded into the then prevailing societies. We have also come to know about the prominent thinkers during each of these times and shown in brief the premises, arguments and theories they developed. We have ended this Unit by stating that the discipline of economics is not likely to have any laws that would be constant over time as in the case of laws in Natural Science because laws formulated in economics are based on human behaviour which has been ever changing. This also is the reason why there are constant criticisms of economic thought and alternative thoughts keep emerging. In this light we should be able to appreciate Gandhi' Economic Thought.

1.6 TERMINAL QUESTIONS

1. What were the economic issues discussed by the Greek scholars?
2. Describe in brief the main economic thoughts that appeared during the Middle Ages and until the classical economics got established?
3. What were the main features of classical economics?
4. What is the Marginal Revolution in Economics?
5. What is the Scope of Modern Economics today?

SUGGESTED READINGS

Robbins, Lionel., A History of Economic Thought: The LSE Lectures, Oxford University Press, New Delhi, 1998.

Dasgupta, Partha., Modern Economics and its Critics, 1998, (http://www.econ.cam.ac.uk/faculty/dasgupta/modecon.pdf)

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UNIT 2 CRITIQUE OF MODERN ECONOMICS

Structure

2.1 INTRODUCTION

Modern economics has come under criticism from some quarters on various counts. In this unit we will focus mainly on the criticism from Gandhian thought perspective because the main aim of the whole course is to understand Gandhi's economic thought. General criticism on the discipline is part of the intellectual tradition to strengthen it. But in the context of Gandhian thought perspective critique of Modern Economics would imply looking for alternative thought which would have potential to overcome the severe limitations in the discipline that is being criticised. Nevertheless we have included some criticism from non-Gandhian perspective as well so that we can understand the mainstream criticism as well. Modern economics fails to take ethical consideration into account and hence Gandhi had said that the discipline as followed and as taught was largely irrelevant for understanding human behaviour and for prescribing cures for economic ills that appear in the system. At some place in a particular context, he called *Arthashastra* as *Anarthashastra*.

Gandhi understood some basic problems with the Modern Economics and economic system from two Indian Scholars- Dadabhai Naoroji and Romesh Chandra Dutt. He had read Naoroji's *Poverty and Un-British Rule in India* and Dutt's *Economic History of India*. Here we will present the critique which these two scholars had developed during early times. Tolstoy and Ruskin had taken a moral stand on how labour should be treated and criticised the way in which it was treated. We begin next section with this discussion. It is followed by a debate within economists in India about the need for a separate theory to understand and analyse the economic system in India. J.C. Kumarappa not only developed a critique, but also suggested an alternative system, which is briefly discussed. We have also introduced Partha Dasgupta's brief comment on what is emerging as criticism under the Post-modern thought in the Western world.

Finally, Gandhi saw and experienced the pressure of colonial rule on people and the economy, which made him rethink on the economic issues and take a strong position. The last section will acquaint readers with these points of Gandhi's critique of economics.

Aims and Objectives

After reading this Unit, you would be able to understand

- the critique of Modern Economics
- Gandhi's basic critique of modern economics.

2.2 CRITIQUES OF ECONOMICS DISCIPLINE

Among the foreign scholars who developed critique of economics before Gandhi developed his economic thoughts, Tolstoy and Ruskin are important. Tolstoy's basic criticism was about the way labour was treated in economics. Tolstoy had developed the concept of 'bread labour' out of self-realisation. He belonged to a feudal family from Russia and a brave warrior. He disapproved of war and became a world renowned litterateur for his piece of fiction *War and Peace*. His concept of bread-labour was that one must earn one's bread from sweat of one's brow. One does not have a right to eat if one does not perform bodily labour. Strictly speaking this was not economics, but a moral sentiment expressed and practised for survival. The critique that gets developed in the process of evolution of economics as discipline is that this concept challenges the labour theory of value and also the marginal school. The implication would be that for maintaining this body each member will have to perform labour without any consideration for wages. Irrespective of the labour time employed, the return is in terms of food which should be guaranteed. In case of people working on land, they grow food; in case of those who sweat off farm must be supplied food as their returns to labour. This approach changes the basis of economic thinking.

We had shown in Unit 1 that over time, economics has developed as a positive science. In modern economics, therefore, man has got established as an 'economic man'. The meaning implied in this expression is that in general circumstances at an individual level man will maximise benefits and minimise cost in any activity that is economic. Tolstoy's position would be that for eating food man should not be 'economic man'. Irrespective of his/her capacity to buy food without physical labour, he/she should be working physically for food. Tolstoy's thought never entered economics discipline, but Gandhi used it as we will see in the sections and Units that follow.

John Ruskin had more substantial comment to make on economics. His famous book 'Unto This Last' was first published in 1862, the time when classical economics was firmly established. The Industrial revolution was at its peak. Factories were all around, industrial production attracted rural labour to urban areas. Their living conditions in the cities were not very good. The firm establishment of classical economics as a discipline had made government and business to take it more seriously. The Economic Man was rising fast and getting established. Ruskin noted the following in this regard. "The social affections," said the scholar, "are accidental and disturbing elements in human nature; but avarice and the desire of progress are constant elements. Let us eliminate the inconstants, and, considering the human being merely as a covetous machine, examine by what laws of labour, purchase, and sale, the greatest accumulative result in wealth is obtainable. Those laws once determined, it will be for each individual afterwards to introduce as much of the disturbing affectionate element as he chooses, and to determine for himself the result on the new conditions supposed."

Ruskin did not like the idea in which man was treated in economics. He critiqued the political economy mainly for the way in which labour employment and wages were determined in theory. He commented on the political economy. He did not like the mercantile part of it. His idea of political economy was

"(The economy of a State, or of citizens) consists simply in the production, preservation, and distribution, at fittest time and place, of useful or pleasurable things. The farmer who cuts his hay at the right time; the shipwright who drives his bolts well home in sound wood; the builder who lays good bricks in well-tempered mortar; the housewife who takes care of her furniture in the parlour, and guards against all waste in her kitchen; and the singer who rightly disciplines, and never overstrains her voice, are all political economists in the true and final sense: adding continually to the riches and well-being of the nation to which they belong.

But mercantile economy, the economy of "merces" or of "pay," signifies the accumulation, in the hands of individuals, of legal or moral claim upon, or power over, the labour of others; every such claim implying precisely as much poverty or debt on one side, as it implies riches or right on the other. It does not, therefore, necessarily involve an addition to the actual property, or well-being, of the State in which it exists. But since this commercial wealth, or power over labour, is nearly always convertible at once into real property, while real property is not always convertible at once into power over labour, the idea of riches among active men in civilized nations, generally refers to commercial wealth; and in estimating their possessions, they rather calculate the value of their horses and fields by the number of guineas they could get for them, than the value of their guineas by the number of horses and fields they could buy with them".

This longish quotation is given to clearly bring out Ruskin's idea of political economy (this should not be confused with politics, in his days economics was known as political economy, he meant economic system) and his understanding of political economy as was presented in those days. He rejected the demand and supply of labour idea. He thought that human being was treated as a machine. Though Ruskin's argument and criticism did not find many takers in those days, Gandhi was simply struck by his writing about which we will have observations in Unit 3.

A feeble debate had ensued among economists during pre and post independence period on the issue whether there should be a separate theory for Indian Economy. This had its base in the continued argument in the discipline about the dominance of history and institution over logic and scientific method of analysing human economic behaviour and its interpretation. The Austrian school has major contribution in bringing objective analysis and creating the 'economic man'. The British tradition had consideration of history and institutions in its economic thought and theories.

In pre-Independence time, there was a controversy among Indian economists about the need for separate economic theory for Indian economy. Georgescu Roegen, a noted economist, had commented as follows. "There is an economic theory which does not have any corresponding reality in the society and there is a reality which cannot be explained by the existing economic theory". Justice Ranade, who was also an economist, V.G.Kale and D.R.Gadgil believed that there was no need for a separate theory. According to them human behaviour was same across space and time and hence a uniform theory is obvious. Further, they also thought that the institutional difference between West and India were narrowing and disappearing and hence a separate theory would not be needed, although Gadgil had changed his opinion soon after Independence when he assumed the charge of economic affairs for the country.

Two economists S.V. Ketkar and R.K. Mukerjee thought that there was need for a separate economic theory to understand and analyse the Indian economy. They argued that the production function developed in West could not explain the production relation in Indian production sectors. N.V. Sovani sharply made this argument while commenting that the nature of an economy did not depend on the techniques of production but on the socio-economic conditions and hence a modified theory was necessary. Nevertheless, all these economists were suggesting modification in the theory and recognised the importance of history and institutions. B.R. Ambedkar, who was also an economist, had his comments on the macroeconomics and especially on the fiscal prudence and the role of the state.

J.C. Kumarappa stands out among all these scholar economists in the context of Gandhian economics. Unit 12 has a detailed account on him as a Gandhian economist. As an economist trained in West, Kumarappa's critique of modern economics is worth noting. To him modern economics promoted a system of market where use value could only be exchanged in market. He disagreed with the dominance of self interest and allowance of freedom to pursue it with state as the facilitator. He saw violence in this process. He proposed economy of permanence where people should work with nature to satisfy their basic minimum needs and without creating any major conflict with nature. He was opposed to large industries. He rejected the 'economic man'. Kumarappa, in Gandhian tradition, had gone beyond Gandhi and the mainstream economics. He thought that history and institutions matter in understanding economic system and theory and there was also a need and possibility to build new economic system using the indigenous theoretical understanding.

Now let us turn our attention to mainstream critique very briefly. The post-modern thought has influenced economic theorising as well. Partha Dasgupta has explained the new criticism in the following way.

"Neoclassical theory contends that the particular set of institutions in an economy does not matter. This position rests on three points: (a) outcomes are determined by fundamental forces (reflecting resources, preferences, and technology), (b) these forces lead to Pareto-efficient outcomes, and (c) institutions do not even influence the choice of the equilibrium. For example, whether a society has an institution in which the bride's family pays a dowry, or the groom's family pays a bride price, or neither one, neoclassical theory would contend that—with given fundamentals—the distribution of incomes will be the same as it would have been without those institutions. The standard modelling technique in neoclassical economics is to solve for the outcomes that would emerge from an impersonal setting with a market for all goods, all periods, and all risks, where people make trades "with the market." History does not matter. Not even the distribution of wealth matters if one is interested solely in efficiency. These are strong hypotheses. And in leaving out institutions, history, and distributional considerations, neoclassical economics leaves out the heart of development economics".

It can be seen from the above discussions that the critique of modern economics is also raising issues that would lead to considerations of history and institutions in any society. It is becoming clear that economic system is a sub system getting influenced by other systems and cannot be treated as the main system affecting all other. Gandhi wanted to make this point clear and he also added what ought to have been incorporated in understanding, analysing and shaping an economic system.

2.3 CRITIQUES ON BRITISH ECONOMIC POLICY

Gandhi developed his economic thoughts specifically for India. As mentioned, he was not a theorist. He wanted the Indian economic system to evolve in a particular way. His unrest with the economic state of affairs seemed to have begun from his reading of Dadabhai Naoroji's work depicting poverty in India and Romesh Chandra Dutt's economic history of India. Both the works moved him emotionally. Gandhi was also inspired by two persons from foreign origin. They were Count Leo Tolstoy from Russia and John Ruskin from England. Their thoughts and ideas influenced his sensitivity and way of thinking; he evolved his thought both as principles and as features of system. We will examine these influencing sources as to see what their criticism of economics was that had evolved until then. It should also be remembered that economics as a discipline has grown immensely after these writings and so also the systems.

Dadabhai Naoroji published his book *Poverty and Un-British Rule in India* in 1888. He was one of the bright Indians who had become a member of British Parliament. He had imbibed the true spirit of the parliamentary democracy. He developed the critique of British administration of its colonies and chief among them was India. He analysed India as an economy and wrote about its status. He was the first Indian economist to make an economic assessment of India. In his analysis he showed that India's economic condition had become pathetic. More importantly, through his analysis, he showed that the cause for poverty in India was the British rule and the colonial policies. He showed with data that there was a continuous and planned wealth drain from India to England. Naoroji was also the first to estimate, however inadequately, national income of India. He used production statistics for this purpose and worked out that in 1876, per capita production in India was worth 40 shillings or converted in rupee of the day, rupees 20! This one figure was enough to depict abject poverty and destitution in India by the last quarter of the Nineteenth century.

Let us remember that in 1776, Adam Smith had published *The Wealth of Nations*, it actually meant the wealth of England. He theorised about *Laissez faire* and the role of the State as a facilitator. Given that, he saw tremendous potential in increasing industrial production through division of labour. He also had foreseen and stated that division of labour was limited by the extent of market. 112 years later Naoroji showed that indeed England had followed the policy advocated on extending the market with roaring success. A trading company had gained enormous political power. By 1860, the Queen had subjugated India totally and even the government followed the same exploitative policies. Export from India of agriculture produce and other raw material at cheap rates provided ample raw material to British factories. The factory production was pushed to India at a price that was far lower than the cost of production that the indigenous producers could produce. This was serving the policy of extending market so that the division of labour in English factories could go on profitably. The indigenous production base was destroyed completely in India. Naoroji wrote that from 1870 onwards the rural population had started registering an increase. Workers in indigenous non-agricultural production were pushed out and they joined the already crowded agriculture, reducing the average productivity to a further lower level. Later, the population statistics showed that between 1871 (the year of first population census in India) and 1911, the percentage of rural population to total population had increased. Naoroji stood vindicated.

Secondly, the taxation policy of the British on the Indian subjects was also exploitative. Income Tax on income from agriculture was on an average 15 per cent in India as compared to 8 per cent in Britain. Further, this income to the public exchequer in India was not utilised for the welfare of Indian Population. In addition, England had laid "Home Charges" on India. This was the amount extracted from revenue generation in India to meet the expenses of the British administration administering India.

The third important criticism of Naoroji was that the exploitation of the British was not restricted to economic sources of the colony that was India, but it extended to destroying of human resource as well. The British introduced an education system that almost completely destroyed the skill base in the country.

Naoroji did not seem to have moved beyond this assessment. He did not develop any theoretical criticism of the economics discipline that was emerging. One is also not sure whether he was reading the theoretical work and debates that were going on in Europe and in which England was the focus of arguments and counterarguments. No surprise that Gandhi internalised this criticism and developed economic thought more on the system than on theory.

Another person who presented the critique of the British economic system was R.C. Dutt. He took forward the work of Naoroji especially on the international trade. He estimated that by the end of 19th century, Britain had drained India of 20 million sterling pounds. This left nothing as resource within the country to invest in productive work. He also came to similar conclusion that the British policy in India was to extort wealth from India. Dutt has attempted a more comprehensive work of writing the economic history of India. He begins with the era of the Battle of Plassey, which the East India Company won and founded its empire in India. Dutt records economic conditions in Bengal between 1757 and 1785. He had documented the work of the British governors of the Company and their policies for business and administration. In different chapters he had analysed the situation that prevailed in different regions such as Madras, Bombay, North India, and South India. He had also examined and analysed domestic and international trade, deterioration of the Indian industry and political administration until 1860 when the Queen of Britain was also crowned as the Queen of India.

As stated earlier, Dutt also was not commenting or critiquing the economic theory as such, but his inquiry was into sources of income in India and the causes of poverty. It is indeed a contrast that Adam Smith who talked about *Laissez faire* and inquired about the wealth of nations, an Indian economist from the British colony, inquired into the causes of poverty and found that there was no freedom to pursue economic activity freely in the country in which British ruled. Dutt had examined both the fiscal policy and the economic policies at work in British India. He systematically produced evidence to destroy the justification of flimsy reasons advanced by the British that the Indian farmers were poor because they were extravagant in social expenditure and were in the clutches of the local moneylenders who charged exorbitant interests. He showed that it was the rigid land revenue collection policy that made Indian farmers pauper. Even the foreign exchange policy was regulated in a way in which although exporters gained a little by way of price gain in the international market, the common man had to contribute to the British Exchequer to meet government borrowings for revenue expenditure and capital expenditure especially for railways. Dutt, for instance, showed that from 1871-72 to 1898-99 the rupee was devalued against the sterling pound by about 20 per cent. Since the Indians had to pay in rupees, they had to pay that much more towards borrowing and charges. Thus, Dutt had produced an all round critique of the British economic policy in India and documented the economic history. Gandhi had one more reason to question and he criticised modern economics which generated such policies. He did not agree with the basic theoretical foundation of creating wealth without purity of means. We now turn to Gandhi's critique.

2.4 GANDHI'S CRITIQUE OF MODERN ECONOMICS

Ajit K. Dasgupta has given in depth and detailed account of Gandhi's Economic Thought. In Gandhi's opinion, ethical considerations in the economic behaviour of a man were non-negotiable. As you would remember from Unit 1, Gandhi had not read works of reputed economists, yet he had formed an impression from his experience and observation that the mainstream economics did not emphasise moral and ethical behaviour.

The mainstream economics wanted ethics abstracted from analysis because they were disturbing factors. This was thought necessary for an objective analysis and theorising. Gandhi understood this necessity and yet did not yield to the compulsion of it to recommend behaviour without ethical consideration. Gandhi was pragmatic enough to see the place of economic behaviour relevant in social formation. As he considered ethics to be necessary for economic behaviour, he also thought that ethics must be relevant for day to day economic behaviour and not just an exercise for philosophers and religious discourses. He recognised the necessity of self-interest and yet he emphasised the presence and practice of care and welfare of others. He has/had an interesting observation on religion and wealth. Ajit Dasgupta quotes Gandhi, 'Whatever is basically harmful on economic grounds is also certainly harmful from the religious point of view. Untainted wealth can never be opposed to religion'.

Gandhi also had problem with Bentham and J.S. Mill's concept of welfare as they formulated. The Utilitarian School that Bentham started and Mill brought into his welfare economics analysis, suggested greatest good for greatest number. For Gandhi it was greatest good for all. This he called as Sarvodaya. This was the ethical point he had in mind, which he thought economics should be addressing. When welfare of all is to be considered, the system based only on self-interest would have severe limitations. Gandhi understood that a system which functions on the principle of allowing full freedom to pursue self-interest would impinge upon the welfare of someone and Sarvodaya will not be achieved. More importantly, the foundation for the 'economic man' was in this self-interest thesis. By rejecting the thesis of self-interest, Gandhi also rejected the concept of 'economic man'. He concluded that any economic system that functions with 'economic man' as the basic behaviour would have a moral fall. He quoted from history about past civilisations that had a moral fall due to turpitude in individual moral behaviour on account of greed for accumulating wealth. He meant that the 'economic man' would have the tendency to do so.

An implication of pursuing limitless self-interest is on demand. We have seen in Unit 1 that the Marginal School introduced the concept of demand and the labour theory of value was dismissed from the price determination analysis. This seemingly innocent appearing demand conceals in it uncontrolled wants. Gandhi saw an ethical problem in this when the demand theory worked in a system. Not controlling wants in a society would lead to disastrous consequences. Ethical considerations, the sentiment of giving rather than taking and renunciation rather accumulation would bring welfare for all. In this context, it needs to be understood that limiting wants in one's life is not only for spiritual consideration, but also for ethics-based economic behaviour of one for the benefit of all.

Gandhi joined Tolstoy and Ruskin in criticising the treatment of labour in mainstream economics. He delinked labour with wages and emphasised the necessity of bread-labour in earning livelihood. According to Ajit Dasgupta, Gandhi had both- hard and soft - positions on it. The hard position was related to every individual. He proposed that every individual should earn a living out of physical labour. Rest of the work should be for contributing to the society. The soft position was that every individual must earn part of living (meeting basic minimum needs of food, clothing and shelter) through physical labour.

A direct implication of emphasis on bread labour was on the mode of production. Gandhi rejected the use of machine for mass production of basic necessities. He criticised factory-based production and consequently urbanisation. If everybody was engaged in earning minimum needs by becoming what Alvin Toffler had called 'prosumers'(one who produces and consumes both), then the production theory would change completely. Gandhi was highly critical about centralisation of production. The modern economics has explained that for creation of wealth of nations centralised production was the way.

We end this section with two points that introduces Gandhi's system level critique. One, Gandhi had rejected the Marginal School. He did not isolate history and institutions from economic analysis and economic theorising. He had conceded that his thoughts were his and yet not his because he was only reiterating what had been culturally ingrained in the Indian society and was sustainable. The Marginal School made the economic thought objective and took the society to a different route. This led to his second major criticism on modern economics where he said that unbridled consumerism would form an unethical society based on greed. He rejected the modern civilisation because he thought it came with modern economic analysis and policies. You will read from Unit 5 onwards the detailed thoughts on all these issues.

2.5 SUMMARY

This Unit dealt with the criticism of the mainstream and modern economics. It must be clear that all major criticisms are towards the economic system that has developed over time. There is also a review of criticism that has been raised at conceptual level. The unit began with the critique of Tolstoy and Ruskin on the understanding of labour in economic system. Both had criticised the commoditisation of labour. Tolstoy had rejected it because he considered that it was spiritually necessary that every individual would eat after doing physical labour for bread. Ruskin had questions about just price and justice by treating labour as a commodity on sale for wages. He also had disagreed with wage differentials. The Unit then contains thoughts of the Indian economists of both -pre and post-independence period on the relevance of modern economic theory that developed in West in the Indian context. We find that although some scholars thought that a separate theory was necessary for Indian situation, the main stress was in favour of suitable modification of the theories developed in the West. In this there is also mention about the debate in the mainstream about the necessity of history and institutions in building economic theories. The next section examines the critique of two pre-Independence economists Dadabhai Naoroji and R.C. Dutt. Both of them had come down heavily on the economic policies pursued by the British for centuries. They had shown with empirical evidence that Britain had drained India of its wealth and destroyed the production base almost completely. Gandhi, who had read Naoroji, Dutt, Tolstoy and Ruskin, was convinced that the modern economics was not relevant for India. He had raised very fundamental criticisms on philosophical basis of modern economics by pointing out that without explicit ethical considerations, modern economics was narrow and would not lead to the welfare of all.

2.6 TERMINAL QUESTIONS

1. What were the conceptual issues raised by Tolstoy and Ruskin against Modern Economics?

2. Which policies of British were responsible for creating poverty in India and how?

3. Do you think that history and institutions matter in building country specific economics theory? Reflect upon the mainstream critique of the modern economics.

4. What are major points of criticisms that Gandhi raises against Modern Economics?

SUGGESTED READINGS

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UNIT 3 INDIGENOUS AND EXTERNAL INFLUENCES

Structure

3.1 INTRODUCTION

Leaders, who contribute to action or thought in the world, base their learning from the thought and practice of the predecessors. Rare is a case where a person works only on own inspiration. Gandhi is no exception. He formulated his economic thought based on his experience, reading and internalisation of ideas and values. Readers should understand at the outset that Gandhi was not a philosopher, but essentially a practitioner and a reformer. It is also necessary to know that there is nothing like Gandhism. Thus, there is no dogmatisation of thought. Acharya J.B. Kripalani, an astute political intellectual and Principal of the Gujarat Vidyapeeth College, in mid 1920s, makes this point very clear in his book 'Gandhian Thought' that there was nothing like Gandhism. 'Isms' do not exist with the original thinker; the followers dogmatise it and make the working principles very rigid. The dogmatised principles then become 'ism' losing flexibility and the scope to change. Kripalani goes on to say that Gandhi was not a philosopher. He did not formulate any structure of principles. He had been a practical reformer and an ever growing person and hence he could not have given any universal theory applicable forever. This point has been reiterated to establish that Gandhi is not an economist philosopher, but he has contributed to economic thought as a practitioner.

An ever growing person keeps learning and so did Gandhi. In setting out his thoughts of economic affairs he was influenced by many thinkers and practitioners. He presented his world view in his book *Hind Swaraj*, written in November 1909. In the 'foreword' he notes, "These views are mine, and yet not mine. They are mine because I hope to act according to them. They are almost a part of my being. But yet, they are not mine, because I lay no claim to originality. They have been formed after reading several books".

Another important point in this context is that Gandhi's economic thought has appeared on specific economic aspects and policies, which again establishes him more as a practitioner than a theorist. His stand against modern factory-based manufacturing, his insistence on village industries and spinning wheel, swadeshi, implying boycott of foreign goods etc. illustrate that he had never thought about economics as a theory-building exercise. One does not come across any macro picture of the economic system that he wanted to advocate in a theoretical framework. It becomes clear that he responded to situations as a practitioner and by doing so firmed up on certain principles that could be of great value in economics.

Apart from the books, Gandhi was also influenced by persons, their lives, and his experience during his encounters with real life situations and religious thought. Books and individuals who influenced him were from India and other countries. In this Unit, our focus is limited to the review of influences on his economic thought. There might be some overlap in the material presented here with that in Unit 2 because Gandhi was influenced by the critics who had commented on the mainstream economics during his times and we have already reviewed their critiques in the previous Unit. But care is taken to avoid total duplication.

Aims and Objectives

This Unit would enable you to understand

- Various influences Gandhi had in formulating his economic thoughts.
- How those influences reflected in his thought.

3.2 INDIGENOUS INFLUENCES (Ethical and Spiritual)

We have noted in Unit 2 that a fundamental difference between thinkers of modern economics and their thought and that of Gandhi lies in the latter's emphasis on ethical considerations in all economic affairs. For Gandhi ethics was so important in dealing with economic affairs that his vision could almost become a utopia. But Ajit Dasgupta (1997) tells us in his writing that Gandhi was trying to describe an economic idea to strive for rather than simply an economic plan to implement. In that sense his vision may have been utopian, but in the sense of an idea being non-implementable, his economic thought was not utopian. His understanding of ethics had evolved from his faith in religion. The second source of influence was from writings of other scholars who wrote commentaries and critique on economic issues and concepts. In this section we will consider indigenous influences.

Before discussing religious influences on Gandhi's economic thought, it should be clarified that Gandhi's understanding of religion was faith in God and soul power in human beings. He was against organised religion and various forms of sects and *sampradayas*. He detested any kind of fundamentalism. He wrote in *Young India* in July 21, 1920 issue (Collected Works), 'I reject any religious doctrine that does not appeal to reason and is in conflict with morality'. His concern was not 'other worldly.' He was very much concerned with this worldly affairs and he wanted everybody to have faith in God and follow one's *dharma*. His connotation of *dharma* was performing one's duty selflessly. If an individual performed his/her *dharma* with all his faith and sincerity, his /her 'other worldly' affairs will be taken care of. Thus both religion and ethics were very important for Gandhi also in running economic affairs.

The influence of religion on Gandhi in his childhood and early youth was limited and more on emotional and devotional side. His parents were religious and so also his wife Kasturba. Gandhi was deeply impressed by this religiosity of his parents and wife. He learnt from them the capacity to make *sankalpa* – take oath and stick to a decision. We know that he promised his mother while leaving for his studies to England that he would keep away from wine, women and non-vegetarian food. He stuck to his determination. In England he first read *Bhagvadgita*. His encounter with different religions and especially Christianity was intense in South Africa. There arose many doubts and he had a friend who was way ahead in individual spiritual practices. His influence on him was very important.

The person who drew him to the power of indigenous sources was Rajchandra Ravji Mehta known also as Shrimad Rajchandra. He died young at 39, but became an outstanding and revered Jain. Gandhi corresponded with him regularly and asked him questions and doubts about religion. Rajchandra told him about the soul and the *dharma*. Rajchandra wrote to him in one of the letters, "Dharma does not mean any particular creed or dogma. Nor does it mean reading or learning by rote books known as *shastras*, or believing all that they say. Rather, dharma is 'a quality of soul' present in every human being. Through it we know our duty in human life and our true relation with other souls". We saw in the previous paragraph that Gandhi went beyond Rajchandra's influence.

We have noted in Unit 2 that Gandhi rejected the 'economic man', as conceptualised in modern economics. The roots of his rejection lie in the influence of religion and ethics on his economic thought. *Bhagvadgita* and *Ishavasya Upanishad* had influenced him a great deal. With this inspiration Gandhi turned the modern economics' 'economic man' into 'ethical man' who gains not by maximising personal benefits and minimising personal costs, but by readiness to give and derive pleasure from renunciation than self-indulgence.

Gandhi was so much influenced with the *Ishavasya Upanishad* that he believed that if all other scriptures were destroyed and if this Upanishad was saved, the basis of the Hindu Philosophy would be salvaged. Further, even if the *Ishavasya Upanishad* was destroyed and if somebody had in memory the first *shloka* (verse), the basic Hindu Philosophy could be salvaged. This verse is the one from which he derived economic ethics as well. The verse is as follows.

Ishavasyam idam sarvam Yatkinchit Jagatyam Jagat

Ten tyaktena bhunjitha maa grudha kasyaswid dhanam.

Whatever there is changeful in this ephemeral world, - all that must be enveloped by the Lord. By this renunciation (of the World), support yourself. Do not covet the wealth of anyone (Swami Sarvananda, 1987).

The verse is self-explanatory. One is not supposed to covet the wealth of other. Consumption and use or indulgence is to be done with an attitude of sacrifice. Kishorilal Mashruwala, a renowned scholar and an inmate of Gandhi Ashram, has provided a brilliant commentary on Gandhi's economic thought. According to him, so deep was the influence of *Gita* and *Upanishads* on Gandhi that he visualised *Sant Sanskruti* – noble civilisation. Mashruwala adds that this was not the same as *Bhadra Sanskruti* – elite civilisation. In the *sant sanskruti*, an individual tries to maximise social benefit and minimise social cost. In this civilisation all human beings are equal; there is no stratification of any kind. Where as in the *Bhadra Sanskruti*, there is inequality among individuals and it is assumed to be natural and hence inevitable; because of this inequity brute force and violence are indispensable. The individual in elite civilisation maximises personal benefits and minimises personal costs. Mashruwala stops here, but we add that in this game 'economic man', where individual maximises benefits and minimises cost, imposes social costs and in the present times, also the environmental costs. Gandhi with this influence of religious values moves to create 'ethical man'.

Let us now see what he draws from *Bhagvadgita*. It says that one who eats food without offering the necessary daily sacrifice was a thief. This sacrifice (*Yagna)* to Gandhi was physical labour. Gujarat Vidyapith, a university founded by Gandhi in 1920, until today has a practice of daily spinning which is known as *Yagnarthe Kantan* – spinning for *Yagna*. Gandhi had studied and learnt that all religions practiced in India in their basic scriptures, be it Koran, Bible, Parsi Scripture, *Guru Granth Sahib* recognise dignified physical labour equal to *Yagna*. In December 1916, he responded to Kapildeva Malaviya's invitation to speak to the members of the Myore Central College Economics Society, Allahabad, and he delivered a lecture that was titled "Does Economic Progress Clash with Real Progress"? To the economists who had gathered, he defined real progress as moral progress. He said, "By economic progress, I mean material progress without limit and by real progress we mean moral progress, which again is the same thing as progress of the permanent element in us." (Collected Works, Volume 15).

For him, the source of moral progress came from the saints who lived life of voluntary poverty all over the world. But he had drawn immensely from India. In the lecture that we have referred above he quoted from Bible and then added, "I have not taken the trouble of copying similar passages from the other non Hindu scriptures and I will not insult you by quoting in support of the law stated by Jesus passages from writings and sayings of our own sages, passages stronger even if possible than the Biblical extracts have drawn your attention to. Jesus, Mohamed, Buddha, Nanak, Kabir, Chaitanya, Shankara, Dayanand, Ramakrishna were men who exercised an immense influence over and moulded the character of thousands of men ……And they were all men who deliberately embraced poverty as their lot" (Collected Works, Volume 15).

It may be seen clearly from above that Gandhi was considerably influenced by the moral and ethical values stated in authentic religious scriptures and also advocated by Saints and Sufis. It was also possible to trace the sources due to which Gandhi was able to propose an 'ethical man' in economic affairs rather than an 'economic man'.

3.3 INDIGENOUS INFLUENCES (PERSONS)

On society, polity and economy Gandhi was under influence of some and had resisted influence of others. A brief review of it is attempted here covering largely the politico-economic influences. Gandhi was aware that economics was not working in isolation. Political environment had substantial impact on the type of economic system that would get established.

Gopal Krishna Gokhale was Gandhi's political mentor. Gandhi had accepted him as political Guru. Both had significant differences in their ideas- political and economic. Gokhale had not thought much of *Hind Swaraj*. Yet, both had very good and intense relationship. Thomas Weber (2007) has provided good account of this relationship and shown how Gokhale influenced Gandhi and how Gandhi was influenced. Interestingly, Gandhi had defended Gokhale in *Hind Swaraj*. The young revolutionaries did not like Gokhale's ideas. He was thought to be a friend of the English. But Gandhi had assessed Gokhale as a person with pure heart and motive and highly committed to serve the nation. Gokhale also saw Gandhi as a pure soul and declared it in public. It appears that Gandhi saw in Gokhale pure person of the kind he had in his imagination, and he must have thought that such a pure person's politics would also be pure and serve only the real interest of people. Other than the political connection which Gandhi and Gokhale shared, it is to the credit of Gokhale that he sensitised Gandhi regarding the conditions of common people in India. When Gandhi returned to India in 1915 and thought of getting involved in the freedom struggle, Gokhale advised him to undertake a tour of the entire country and learn about the socioeconomic conditions of people. This tour, as we know, helped Gandhi later in formulating his thought of the economic system and economic activities for the poor and unemployed.

Before we end this section we need to mention two more individuals whose writings influenced Gandhi immensely. We have already learnt about their ideas and work in Unit 2. They are Dadabhai Naoroji and R.C. Dutt. The writings of both helped Gandhi in making correct economic assessment. At the end of *Hind Swaraj,* Gandhi has given a list of suggested readings. The list contains books by both Naoroji and Dutt. (Reference has been given in Unit 2, suggested reading). Gandhi has internalised the contribution of Naoroji, which would be evident from the following conversation. From Chapter 1 of the *Hind Swaraj* some dialogues are reproduced below.

READER: That surely, is not the case. Young India seems to ignore the Congress. It is considered to be an instrument for perpetuating British Rule.

EDITOR: That opinion is not justified. Had not the Grand Old Man of India prepared the soil, our young men could not have even spoken about Home Rule.

Here the reference made to Grand Old Man by the EDITOR (Gandhi) is an honorific address to Dadabhai Naoroji. This reflects deep respect to the Naoroji and acceptance of his contribution. This is further elaborated as the text follows.

READER: It seems to me that you simply want to put me off by talking round and round. Those whom you consider to be well-wishers of India are not such in my estimation. Why, then, would I listen to your discourse on such people? What has he whom you consider to be the Father of the Nation done for it? He says that the English Governors will do justice and that we should co-operate with them.

EDITOR: I must tell you, with all gentleness that it must be a matter of shame for us that you should speak about that great man in terms of disrespect. Just look at his work. He has dedicated his life to the service of India. We have learned what we know from him. It was the respected Dadabhai who taught us that the English had sucked our life-blood. What does it matter that, today, his trust is still in the English nation? Is Dadabhai less to be honoured because, in the exuberance of youth, we are prepared to go a step further? Are we, on that account, wiser than he? It is a mark of wisdom not to kick away the very step from which we have risen higher. The removal of a step from a staircase brings down the whole of it. When, out of infancy, we grow into youth, we do not despise infancy, but, on the contrary, we recall with affection the days of our childhood. If after many years of study, a teacher were to teach me something, and if I were to build a little more on the foundation laid by that teacher, I would not, on that account, be considered wiser than the teacher. He would always command my respect. Such is the case with the Grand Old Man of India. We must admit that he is the author of nationalism.

R.C. Dutt also had deep impact on Gandhi's mind and emotions. In *Hind Swaraj* the chapter on machinery is written entirely on the basis of understanding that he developed from Dutt's *Economic History of India*. The following text from *Hind Swaraj* is reproduced to show Dutt's influence on Gandhi.

READER: When you speak of driving out Western civilization, I suppose you will also say that we want no machinery.

EDITOR: By raising this question, you have opened the wound I have received. When I read Mr. Dutt's Economic History of India, I wept; and as I think of it again my heart sickens. It is machinery that has impoverished India. It is difficult to measure the harm that Manchester has done to us. It is due to Manchester that Indian handicraft has all but disappeared. But I make a mistake. How can Manchester be blamed? We wore Manchester cloth and this is why Manchester wove it. I was delighted when I read about the bravery of Bengal. There were no cloth mills in that presidency. They were, therefore, able to restore the original hand-weaving occupation. It is true Bengal encourages the mill-industry of Bombay. If Bengal had proclaimed a boycott of all machine-made goods, it would have been much better. Machinery has begun to desolate Europe. Ruination is now knocking at the English gates. Machinery is the chief symbol of modern civilization; it represents a great sin. The workers in the mills of Bombay have become slaves. The condition of the women working in the mills is shocking. When there were no mills, these women were not starving. If the machinery craze grows in our country, it will become an unhappy land. It may be considered a heresy, but I am bound to say that it were better for us to send money to Manchester and to use flimsy Manchester cloth than to multiply mills in India. By using Manchester cloth we only waste our money; but by reproducing Manchester in India, we shall keep our money at the price of our blood, because our very moral being will be sapped, and I call in support of my statement the very mill-hands as witnesses. And those who have amassed wealth out of factories are not likely to be better than other rich men. It would be folly to assume that an Indian Rockefeller would be better than the American Rockefeller. Impoverished India can become free, but it will be hard for any India made rich through immorality to regain its freedom. I fear we shall have to admit that moneyed men support British rule; their interest is bound up with its stability. Money renders a man helpless. The other thing which is equally harmful is sexual vice. Both are poison. A snake-bite is a lesser poison than these two, because the former merely destroys the body but the latter destroy body, mind and soul. We need not, therefore, be pleased with the prospect of the growth of the mill-industry.

It can be seen from the text above that Gandhi was emotionally disturbed by the account of exploitation rendered by Dutt in his book. Since in *Hind Swaraj* Gandhi has adopted the style of READER and EDITOR, it appears that they are two, but in reality Gandhi has raised questions and answered them. Thus, while writing *Hind Swaraj*, he is disturbed once again by getting reminded of Dutt's account. It should be noted that Gandhi goes beyond Dutt. Gandhi not only saw the ills of exploitation that was heaped upon India by the British but also saw the mills and factories in urban India doing the same to rural India and its poor. He also saw the ill effects on the character of the people.

It may be clear now that Gandhi was influenced considerably by religion, culture, history and people in India and with that influence went on to synthesise his economic philosophy with his holistic philosophy of lifestyle.

3.4 EXTERNAL INFLUENCES

Ajit Dasgupta (1997) makes an interesting observation on external influences on Gandhi. He says, "Gandhi borrowed the doctrine (bread-labour) from Tolstoy whom, he noted had himself taken it over from another Russian writer, but Gandhi also professed to find roots of the doctrine in *Bhagvadgita*……" This was true not only for Tolstoy, but also for other foreign influences. Jesus Christ's life had made great impact on him and he was highly impressed by the Sermon on the Mount. Twice he came in close contact with the Christian priests. When he was a student in England he got acquainted with a Christian who was vegetarian. Gandhi was persuaded to read the Bible. He could not read the Old Testament with interest. Gandhi writes in his autobiography,

"When I came to New Testament, there was different impact. I had very positive influence of Jesus' 'Sermon on the Mount'. I internalised it in my heart. My mind compared it with *Gita*…..My childlike mind integrated *Gita*, Life of Buddha by Arnold and Jesus' sermons. I was very comfortable in my understanding that religion is in renunciation".

We can see that Gandhi, in his autobiography in 1927-28, conceded that from an early age he found roots of all doctrines in Hindu religious discourses and sermons.

Years later, in his mature age when Gandhi was lecturing in Allahabad in December 1916, in front of economics teachers, he cited an illustration from Christianity. By then he had a vision of his own that was expressed comprehensively in *Hind Swaraj*. He said in that lecture that the societies that prospered materially experienced a moral fall. Rome suffered a moral fall after it achieved material affluence. The *Yadavas* ruined themselves morally when they were rolling in riches. Gandhi thought that an ordinary measure of morality is possessed by most including the very rich, but their material gains did not ensure moral richness. Sharing his longstanding observation of the society of the rich he said that almost invariably the greater the possession of riches, the greater was their moral turpitude. Rich men, to say the least, did not advance the moral struggle of passive resistance, as did the poor. The rich men's sense of self-respect was not so much injured as that of the poorest. Gandhi continued and said that Jesus Christ was the greatest economist of his time. Quoting the dialogue between Christ, a citizen and other disciples described by St. Mark, Gandhi emphasised in his lecture the virtue of spending wealth in the service of the poor and the have-nots. He used illustrations from Christ's life to show that the economics which the West was practising was against the moral and religious preaching of Christianity.

We have noted that Gandhi was influenced by many thoughts and people. However, he came to his own conclusion and it was not always necessary that he accepted all aspects of the other thought. Dasgupta (1997) has provided an illustration on this point. He says that Gandhi condemned exploitation of workers by the capitalists, but refused to condemn all businessmen as individuals. In fact, it is known that Gandhi was very close to Birlas, and considered Jamna Lal Bajaj from Wardha as his fifth son. Gandhi had said that his relationship with the rich was to continue. He did not look upon the rich as wicked and upon poor as angels. Dasgupta notes, "Statements of this kind are consistent with a Buddhist attitude to wealth which is in sharp contrast to that of the Christian Fathers who could see 'no possibility of acquiring great riches without resort to evil practices or inheritance from those who had resorted to them', and for this reason called on all Christians to avoid seeking wealth" (p.166).

There is one more illustration where it becomes evident that while he was highly impressed by the Sermon on the Mount, he was not at all happy with what some Christian missionaries were doing in India. Dasgupta notes that Gandhi pointed out that Britain has been particularly successful in acquiring colonies all over the world. These colonies served as the market for manufactured products. There were attempts according to Gandhi, to encourage the adoption by natives of a Western life-style, through conversions, which would cut them off from their own culture and stimulate a taste for foreign goods. Christianity, as propagated in India had more to do with life-style and material consumption than with the Sermon on the Mount. The advent of a missionary in a Hindu household simply meant change in 'dress, manners, language, food and drink'.

We can see that Gandhi had fine sense of getting influenced and also be open to critically analyse every thought and practice he came across. Most importantly, Gandhi never ever mixed up persons with thought. Relationship with individuals was not determined on the basis of thought likeness. Heart and intrinsic human values in a person mattered to him most. We will now briefly review the influence of people from foreign land on Gandhi.

Count Leo Tolstoy highly influenced Gandhi. He had named one of the two farms in South Africa as Tolstoy Farm. Thomas Weber has given a detailed and analytical account on this aspect and it is recommended that students read the book given in the section on suggested reading. In *Hind Swaraj* Gandhi in his list of 20 books he had suggested for further reading, six are that of Tolstoy's. He was specially impressed by Tolstoy's 'Letter to a Hindoo'. He had read it in England and he translated it in Gujarati and published it in the *Indian Opinion*. It appears that Gandhi had become very eager that Tolstoy knew about him and his work. In South Africa, Father Doke had written a short biography of Gandhi and Gandhi sent it to Tolstoy. He had also sent translated version of the 'Letter to a Hindoo' to him. In 1910, Gandhi had rewritten *Hind Swaraj* in English and with utmost urgency sent it to Tolstoy and sought his comments on it. Unfortunately, Tolstoy could not read it and died, although he sent a letter of acknowledgement. Gandhi received the letter after Tolstoy's death.

Gandhi was touched by Tolstoy's 'Kingdom of God is within You'. He found very good resonance of his own 'inner voice' in it. The search for self and self-regulation was one of the key premises in *Hind Swaraj*. Tolstoy was also rejecting the modern civilisation and he had also come to the conclusion that modern civilisation had in its core violence and wars. Tolstoy had suggested going back to nature and earn livelihood by hard work. He called it Bread-labour. We have already shown in Unit 2 how Gandhi interpreted it. Gandhi had made the reading of 'Kingdom of God is within You' book mandatory for all Ashramites in South Africa. The book influenced Gandhi in formulation of 'ethical man' in place of 'economic man'.

Tolstoy's books, *How Shall We Escape?*, *The Slavery of Our Times* and *The First Step* mainly contain criticism of industrial civilisation. Interestingly, in these books Tolstoy, besides raising the issue of exploitation of labour, disgrace of peasants etc., mentioned about rampant consumerism in modern life (Parel, 1997). It is clear that Gandhi had internalised most of this criticism by the time he wrote *Hind Swaraj*. His idea of limiting wants and leading ethical life with bread-labour shows the influence of Tolstoy's ideas. No surprise that Gandhi very much wanted Tolstoy to take a close look at his *Hind Swaraj*.

Another important person whose writings had very deep influence on Gandhi's economic philosophy was John Ruskin. From the list that is given in *Hind Swaraj*, one can learn that Gandhi must have read many more authors who had developed critiques of new industrial and modern civilisation. But, Ruskin made a deep impact. It should be mentioned here that another person who had deep influence on Gandhi's thinking on economics was Henry Polak. A Contemporary of Gandhi in South Africa, he gave Ruskin's *Unto This Last* to Gandhi to read. Most of you would know if you have read Gandhi's autobiography that Gandhi read this book in an overnight train journey. He wrote that once picked up to read he could not keep the book down. An important characteristic of Gandhi was if he was convinced of an idea, he would put it in practice. In this case too, Gandhi formed his economics first on the ground and then formulated the thought.

Unit 5 contains more details on Ruskin's impact on Gandhi's economic thought, but even at the risk of repeating we are introducing here Gandhi's key learning from the book. Gandhi in his autobiography has summarised following three points.

1. That the good of the individual is contained in the good of all

2. That the lawyer's work has the same value as the barber's, inasmuch as all have the same right of earning their livelihood from their work

3. That a life of labour, i.e., the life of the tiller of the soil and the handicraftsman, is the life worth living

Gandhi published *Unto This Last* in *Indian Opinion* serialising it in nine parts. Later he published a pamphlet and titled it as 'Sarvodaya'. It should be clear by now as to why Gandhi had not agreed with Bentham and Mill's concept of welfare where 'greatest good of greatest number' was the formula. Ruskin guided him to reach to the concept of all i.e., Sarvodaya. Readers will be able to appreciate that the Sarvodaya movement which was initiated after Gandhi's death has its foundation in this concept of 'unto this last'.

Decentralised village and cottage industry, bread-labour, agriculture based economy and rural culture all became corner stones of Gandhian economic thought, and we can readily see that they had their bases in Ruskin's principles. It may be noted that Gandhi also absorbed supplementary ideas from others to complete his vision of an economic system that was non-violent and guaranteed distributive justice. Important among these works was Henry Sumner Maine's classic *Village Communities*. Maine, with his in-depth study of village in different continents, analysed special features and their strengths and weaknesses. In case of India, he observed that villages were representative institutions. The Village Council or what we knew then and know now as Panchayat, enjoyed quasi-judicial and quasi-legislative powers. Gandhi, in his rural economic system, propounded individual and family life as per Ruskin and Tolstoy's concepts of work and wages, and for community life he suggested restoration of village councils with power.

We may note that the foreign influence on Gandhi was deep with respect to economic thought. The number of persons influencing were not many, but few influenced his thought significantly. But it should also be remembered that he, with the help of those thoughts, formulated his own original thoughts.

3.5 SUMMARY

In this Unit we have described in some detail ideas and persons who influenced Gandhi. We have shown that influences came both from within India and outside. It is evident from the sections above that Gandhi drew his basic strength from the Indian sources such as *Vedas, Upanishads and Bhagvadgita.* He was influenced by saints who lived in India from time to time. For political thought and action Gandhi has given credit to Gopal Krishna Gokhale as his guide. Two more persons' writings influenced in shaping Gandhi's economic thought, they were Dadabhai Naoroji and R.C. Dutt. We have also seen that Gandhi was influenced by the Christian thought as well. The concept of voluntary poverty appears to have come from life and discourses of Jesus. The writings of Tolstoy and Ruskin are two most important influences on Gandhi in the formulation of his economic philosophy. It is shown that Gandhi was influenced by many persons and thoughts, but he formulated his own seeking roots in the Indian sources and culture.

3.6 TERMINAL QUESTIONS

1. Describe the basic Indian sources that influenced Gandhi's thought on economics.
2. Which Indian individuals shaped Gandhi's political and Economic thought? How?
3. What impressed Gandhi in Christianity and what made him sad about practitioners?
4. What and how did Gandhi integrate Tolstoy and Ruskin's idea on economic philosophies into his own?

5. Write short notes on:

   i) Influence of Gokhale on Gandhi

   ii) Ruskin's central ideas and his adaptation by Gandhi

   iii) Rise of ethical man in Gandhi's economic thought

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UNIT 4 ENCOUNTER WITH COLONIALISM AND POVERTY

Structure

4.1 INTRODUCTION

Gandhi's encounter with colonialism is normally viewed in the political context. However, our task here is to look for its implications on Gandhi's economic thought. When Gandhi went to England as a student, he did not have any intensive experience vis-à-vis colonialism. He had joined the Vegetarian Society and was even given an opportunity to hold the office of the organisation and he also enjoyed freedom of expression. His encounter with colonialism began in South Africa when he realised during his very first experience in a formal situation, when in a court he was asked by the Judge to remove his turban. This was contrary to his learning of English society as a liberal society. He immediately realised that the Indian and other non-British enjoyed a secondary citizen's status in South Africa. Gandhi's humiliation during the train journey and subsequent coach travel etc. are well known. This is how he encountered colonialism individually and he could see the implication on different sections of population. In this Unit we will try to examine economic implication of colonialism in South Africa and the formation of economic thought by Gandhi.

After returning to India in 1915, the very first experience of getting involved in Champaran farmers' problem gave him the economic implications of colonialism in India. Here it becomes essential to examine the Champaran Satyagraha and identify the economic issues that Gandhi encountered. By then Gandhi had written *Hind Swaraj*. He had understood the way colonialism had taken grip on India and its economy. He had experienced colonial imperialism and its features. We will therefore, use the text from *Hind* Swaraj to assess Gandhi's encounter with colonialism. In that analysis there will also be an assessment of industrial capitalism which was functioning. Gandhi's response to colonial imperialism and industrial capitalism should not be restricted as political response alone as some scholars, especially political scientists, have suggested, but it was a comprehensive response at societal level that included confronting and responding to political, social and economic issues. *Charkha* is thus, not a fancy but part of the comprehensive response.

Gandhi's encounter with poverty also began in South Africa. In his book 'Satyagraha in South Africa' he has recorded the history of the Indians reaching South Africa. There he records their conditions as well. He also encountered poverty issue in the writings of R.C. Dutt about whom we have mentioned in Units 2 and 3. He was deeply moved by Dutt's account. Gandhi undertook an extensive tour of India at the suggestion of Gopalkrishna Gokhale in 1915, and during this tour he had direct encounter with poverty at many places. It is interesting to note that Gandhi has not written anything about poverty in India *per se*, but he has addressed the problem in making his case for a decentralised economic system and while expressing his views on machinery. The discussion on poverty in this Unit will be around machinery, industrialisation and Gandhi's thought. This is done in order to link Gandhi's encounter with poverty in his economic thought perspective.

Aims and Objectives

This Unit would enable you to understand

- Gandhi's exposure and experience with colonialism in South Africa
- Gandhi's encounter with colonial imperialism in India
- The link between Gandhi's economic solution with regard to his experience of poverty in India in the context of industrial capitalism.

4.2 COLONIALISM (SOUTH AFRICA)

Gandhi lived in South Africa for 23 years. The Satyagraha of South Africa is known all over the world for its uniqueness. Rare are occasions in history where one finds a completely non-violent protest movement that has been organised for years and has achieved success. Gandhi not only led this struggle but was transformed from Mohan to Mahatma. Gandhi had documented the South Africa struggle. It was also originally written in Gujarati by Gandhi and later translated by Valji Govindji Desai as 'Satyagraha in South Africa'. This book contains a detailed account of Gandhi's encounter with Colonialism in Africa.

Gandhi notes that the European planters required slave labour. To serve the purpose, the Natal government had made an agreement with the Indian government and under this agreement, the labourers came for five years. After five years they had the option to return or stay back as free labourers. They could offer their labour in open market. They also could pursue some other occupations. As most labourers were illiterate, reading or writing English was beyond their capacity. The Agreement was known as *girmit* and the labourers under agreement came to be known as *girmitiyas*. Once their number increased, the white population started having problems. Gandhi records that with the entry of Indian indentured labour in South Africa, the Indian business people, mostly Muslims from Mauritius, ventured into the states in South Africa. They came as free Indians and set up business. Soon they were successful. The native Africans were afraid of communicating with white population. They were not only cheated by the white traders and businessmen, but they were also abused, insulted, thrashed. The Indian business committee soon expanded and natives were very comfortable with them. Hence, the free Indian business community prospered.

The freed indentured labour also decided to settle down in South Africa. The main reason was that back home in India they did not have means of livelihood in agriculture or any other occupations. The first batch of the indentured labour had reached the South African coast on November 16, 1860. Gandhi had reached Durban in 1893. In 33 years thousands of indentured labour, free Indian origin businessmen, Indian labourers free from agreement had settled in South Africa and they had become a sort of threat to the Whites in conducting their business with authority, cheating and loot. The Indian business community with good relations with natives had done really well and had prospered. They also had a new market in the Indian population. Quintals of rice had to be imported from India for them and it was a paying business. There were Sindhi business people as well who trade in 'fancy goods' and their market were whites! The free indentured labour known as free Indians started growing and selling vegetables at competitive prices. The whites' business suffered. There were a few liberal whites who argued in favour of granting voting rights to the free Indians and hence Indians had got themselves enrolled in the electoral rolls.

The Whites had colonised Africa for improving agricultural prospects, especially cash crops. Gandhi writes in 'Satyagraha in South Africa',

"They settled in Natal, where they obtained some concessions from the Zulus. They observed that excellent sugar cane, tea and coffee could be grown in Natal. Thousands of labourers would be needed in order to grow such crops on a large scale, which was clearly beyond the capacity of a handful of colonists. They offered inducements and then threats to the Negroes in order to make them work but in vain, as slavery had been then abolished. The Negro is not used to hard work. He can easily maintain himself by working for six months in the year. Why then should he bind himself to an employer for a long term? The English settlers could make no progress at all with their plantations in the absence of a stable labour force" (p 21).

The purpose of colonising is clear from above. Since the natives did not want to respond to their labour requirement, which as Gandhi notes earlier that was almost slave kind, the Indian government was persuaded to send labour. The agreement which the Indian government had insisted upon was to ensure the safety and welfare of the Indian labour in a foreign soil. Interestingly, the colonial rulers in India did not trust England's white subjects in Africa with respect to taking care of the Indian origin labour. Gandhi rightly observed that Whites in Africa were looking for slaves. They could not ask for them in literal sense because slavery had been abolished. The colonial mindset thus was interested in exploiting the labour from anywhere or from other colonies along with the natural resources in the colonies which they had occupied. Their objective was to exploit and get rich. Although Adam Smith would have suggested to them about *Laissez Faire* and competition for creating wealth of nations, the white people who had colonised hated any competition from the colonised population.

The whites in Natal wanted to restrict the advancement of the Indian community. They exerted pressure on the government. Gandhi notes,

"One set of agitators demanded that the labourers who completed their indentures should be sent back to India, and that therefore fresh labourers arriving in Natal from that time onward should have a new clause entered in their indentures, providing for their compulsory return to India at the expiration of their term of service unless they renewed their indentures. A second set advocated the imposition of a heavy annual capitation tax on the labourers who did not re-indenture themselves at the end of the first period of five years. Both, however, had the same object in view, namely, by hook or crook to make it impossible for ex-indentured labourers to live as free men in Natal in any circumstances".

The Government appointed a commission and recognised the right of Indians to stay back and pursue any legitimate business they liked. Natal then was still a Crown Colony; the Colonial Office was fully responsible for its governance. Natal's White population first sought to get empowered with independent governance right. This movement succeeded in 1893. After this, the Natal government put pressure on Indian government and suggested that the indentured labour freed from agreement and other free Indians should pay a per capita annual fee of pound sterling 25. In those days the rupee equivalent was 375. We should recall here that about hundred years later when rupee had further devalued, the annual per capita rupee value of production was 20! This was Dadabhai's estimation of national income of India. Everyone could understand that pound sterling 25 was a ridiculous amount to be charged towards the Indians who wanted to stay back. Finally, this was reduced to pound 3 and this tax was imposed and collected. This was also very heavy as it was per capita tax. A family normally had five to six members and it would cost pound 15 to 18 per family per year.

Gandhi had reached South Africa in 1894. This was also the year when the Natal government was empowered to have its own governance. The Legislative Assembly deliberated on the issue of rising power of the free Indians and introduced a Bill that discontinued the right to vote of the free Indians. The Bill was passed and it was the first Bill based on racial discrimination. By that time Gandhi had finished his work of mediating between the two parties in conflict over finance matter. But people requested him to stay back when in the farewell meeting he pointed out at the violation of basic human right in the 'democracy of whites' in Natal. He stayed back and formed an organisation. It collected ten thousand signatures opposing the Bill, and sent it to Lord Ripon, who was Secretary of the State for Colonies. The population of Free Indians was around Ten thousand. Lord Ripon disallowed the Bill and directed not to pass any Bill based on racial discrimination. The ruling community did not sit quiet. It found different ways of stopping the Indians from competing with them and becoming more powerful and prosperous. The efforts in Gandhi's words took the following shape.

"However that may be, the result of the successful opposition to the disfranchising bill was, that in two other laws passed by the Natal Legislature it had to avoid racial distinction and to attain its end in an indirect manner. The position, therefore, was not as bad as it might have been. On this occasion too Indians offered a strenuous resistance, but in spite of this the laws were enacted. One of these imposed severe restrictions on Indian trade and the other on Indian immigration in Natal. The substance of the first Act was that no one could trade without a licence issued by an official appointed in accordance with its provisions. In practice any European could get a licence while the Indian had to face no end of difficulty in the matter. He had to engage a lawyer and incur other expenditure. Those who could not afford it had to go without a licence. The chief provision of the other Act was that only such immigrants as were able to pass the education test in a European language could enter the Colony. This closed the doors of Natal against crores of Indians".

It can be seen from the account above that Gandhi's encounter with colonialism in Africa made him realise that the ruling whites wanted to take full advantage of the colonising population across the globe and continue to exploit them. They did not, in any manner, want the colonised people to compete and prosper. Gandhi came to view colonialism as a product of modern Western civilisation. He realised that colonialism legitimised aggressive wars of conquest and condoned the treatment of the colonised as 'lesser breeds' without rights. Gandhi went on to stay in South Africa until 1915 and fought to gain all human and economic rights and granting equality to Indians living in Africa using non-violent methods. This protest movement is famous as the 'Satyagraha movement in South Africa'.

4.3 COLONIALISM (INDIA)

Gandhi first realised the ground level economic impact of colonial India when he visited Champaran. He had direct experience of it when in South Africa. He came back to India in 1915 after achieving remarkable success in Satyagraha against the mighty British. It is not that

Gandhi was unaware about India's condition, but close encounters such as the ones he had experienced in South Africa were yet to happen. We should remind readers that we have already narrated about Naoroji and Dutt's accounts of India's economic exploitation and destruction of skills and skilled workers in the country. We have also noted that Gandhi was deeply moved by these accounts especially the one rendered by Dutt. The Champaran story of exploitation was more severe and this he learnt when he came back to India from South Africa and joined India's struggle for freedom.

D.G.Tendulkar, who has also written a very good biography of Gandhi, has in his another book 'Gandhi in Champaran' (2005 edition) begins with the words that captures the heart of the situation.

" The tale of Indian Ryots, forced to plant indigo by the British planters, forms one of the blackest chapters in the annals of colonial exploitation. "Not a chest of indigo reached England without being stained with human blood," said Mr. E, De-Latour of the Bengal Civil Service, who was Magistrate of Faridpur in 1848. Giving evidence before the inquiry committee, he revealed: "I have seen several ryots sent unto me as a magistrate, who have been speared through the body. I have had ryots before me who have been shot down by Mr. Forde, a planter. I have put on record how others have been first speared and then kidnapped; and such a system of carrying indigo, I consider a system of bloodshed".

Indigo, known as *Neel* in most Indian languages, is an Indian native product discovered by the British for their use in textile industry. The East India Company in 1600, when it was yet to exercise political power in India as a coloniser, had already traded in indigo and it was a major item giving them huge profit. The first revolt against the Company and later against the British Raj happened in Bengal in the beginning of the nineteenth century and a special commission was appointed to look into the indigo farmers of Bengal. Tendulkar has given a very detailed account and it is recommended to read this account of how economic exploitation of the colonised was organised and carried out with the sympathy of the administrators. The indigo cultivation had moved to parts of Bihar that was under the Bengal province during the British administration towards the end of the eighteenth century. The system was exploitative from the beginning. In about hundred years, Champaran had ranked first in indigo cultivation among other areas in Bihar. Tendulkar notes, "The cultivation of indigo was more extensive in Champaran than in any other districts of Bihar. According to the survey of 1892-97, no less than 21 factories with 48 outworks employing 33,000 labourers had been established in the district, while the area under indigo cultivation was 95,970 acres or about seven per cent of the cultivated area" (p.16).

The artificial dye appeared in Europe in 1900 and this led a depression of indigo prices. It also led to extreme exploitation of indigo farmers. The main problem was that the indigo farmers were not free to grow anything else if they felt that indigo did not yield remunerative price to them. In the liberal and free situation, farmers can also respond to price signals and decide to grow or not to grow a particular crop. In the colonised period, the British planters not only forced the farmers to grow indigo, but also forced them to accept lower prices and taxed the land heavily.

It should be admitted that the British administration had made efforts to understand the systems and intervene in the process. This was because the British had always claimed that justice was for everyone. They also worked towards smooth revenue administration. The Indigo problem had also become intertwined with the land revenue administration issues. The land ownership and tenure system also was exploitative. The combined result of this was that the tenants suffered the most. The issues were then referred to Settlement Commissioner. We end this discussion by highlighting critical observations contained in the Report of the Settlement Commissioner that indicate the consequences of colonisation in the area.

The Report noted that an illegal cess *abwab* was collected by the planters and land owners. It was equal to the legal rent and indigo farmers ended up paying twice the legal rent. There were forty types of payments that made up the *abwab*. Tenants had to pay for the use of water from the canals. It was known as *painkharcha*. This had to be paid even by those who did not get access to canal water and a few cases even when there were no canals. Besides, the other *abwab* items included *salami, tinkathia, lagan, bandhbaheri, bathmat, bapahi-puthaii* etc. The last was a sort of a death duty. There were other specific items collected by planters as part of *abwab* such as *marwach* when tenant's son got married, *sagaura* at the time of widow remarriage, on Hindu festival the planters received *dawatpuja, phaguahi, dasahari, chaitnawami*. When the planter had to buy an elephant the tenants had to mobilise fund that was called *hathiahi*. If the planters build a new house or bought a car or a boat, the tenants had to mobilise *ghorahi, motorahi* and *hawahi*. When a planter fell ill, the tenants had to pay *ghawahi*.

One can see that the system led to severe extortion. The Settlement Commissioner's Report had come out in 1915, the year Gandhi came back to India from South Africa. One of the indigo farmers Rajendra Shukla, who was courageous, made continuous representations in various political fora. He approached Gandhi in the Lucknow Congress and requested him to take up this cause. Gandhi with some reluctance accepted it and then as we know championed it. In the process of the Champaran Satyagraha, Gandhi once again encountered colonialism. This time it was in India.

There was one more type of encounter that Gandhi had with the colonialism among Indians. This related to the mindset. According to Gandhi, the people in India had developed the mindset to get colonised. He has described this in *Hind Swaraj*. He could clearly see that the Indians fighting for freedom and Home Rule did not have indigenous vision of what the country should be like and what should be the fundamentals of society building or reconstruction. Gandhi had found this out during his visits to India during 1896 and 1909 and his interactions with the Indian nationalists in England. In *Hind Swaraj* he has interpreted the minds of those moderates or extremists and shown that everybody wanted British to go, but they wanted to emulate the same system. Relevant text from *Hind Swaraj* is quoted below.

READER: I have now learnt what the Congress has done to make India one nation……….I would now like to know your views on Swaraj. I fear that our interpretation is not the same as yours.

EDITOR: It is quite possible that we do not attach the same meaning to the term. You and I and all Indians are impatient to obtain Swaraj, but we are certainly not decided as to what it is. To drive the English out of India is a thought heard from many mouths, but it does not seem that many have properly considered why it should be so. I must ask you a question. Do you think that it is necessary to drive away the English, if we get all we want?

READER: I should ask of them only one thing, that is: "Please leave our country."…….

EDITOR: ………… Why do you want to drive away the English?

READER: Because India has become impoverished by their Government. They take away our money from year to year…… We are kept in a state of slavery. They behave insolently towards us ……..

EDITOR: If they do not take our money away, become gentle, and give us responsible posts, would you still consider their presence to be harmful?

READER: That question is useless. It is similar to the question whether there is any harm in associating with a tiger if he changes his nature…. When a tiger changes his nature, Englishmen will change theirs….

EDITOR: You have drawn the picture well. In effect it means this; that we want English rule without the Englishman. You want the tiger's nature, but not the tiger; that is to say, you would make India English. And when it becomes English, it will be called not Hindustan but Englistan. This is not the Swaraj that I want.

The text that follows contains elaboration of most of these points. Gandhi saw that even the educated Indians had taken to the Western thinking and they all wanted to modernise India. For them Home Rule or 'Hind Swaraj' was political freedom. They wanted to change the ruler. They did not have much of a problem with the set of rules for governance. This also implied that the Indians seeking freedom were heading for similar civilisation. This, in Gandhi's opinion, was colonial mindset. He realised that the British had also colonised the minds of people. Gandhi rose to fight against political as well as socio-economic colonialism in India.

4.4 UNDERSTANDING POVERTY

It should be clear by now that one of the serious and severe impacts of colonialism on India was impoverishment of large masses. This happened because the economic backbone of India was broken systematically by the British from the very beginning of their landing on the Indian shore. The East India Company had come to look for business and with the expansion of industrialisation in Britain, the company helped in extending the market for industrial output. It imported inputs required for industry and infrastructure cheaply from India and exported finished goods at prices cheaper than the domestic prices. The local producers who produced goods manually and in small scale could not stand the competition. Gandhi noted that this led to rampant unemployment and the skilled and unskilled workers in non-agriculture sectors had to leave their work and go back to agriculture and allied work. The pressure on land and agricultural activities increased.

Gandhi has realised the gravity of the situation in India with respect to poverty. But he has not written about poverty as a subject in great detail. He encountered poverty in many different situations and there are descriptions about them. Interestingly, a person who was compassionate and believed in 'Sarvodaya' and rejected the thesis of 'the greatest good of the greatest number', did not ever talk about anti-poverty programme in the way in which it is discussed presently. This does not mean that he failed to recognise it as a serious problem, or that he did not want poverty to be eradicated. Poverty, for Gandhi, was a curse and all efforts had to be directed towards removing it. For Gandhi poverty was a structural issue. The present day economic analysis has tried to look at poverty problem as an incidental occurrence and to some extent the destitution issue arising out of unusual circumstances like widowhood, losing the main earning worker in a family or some family level misfortune.

Ramesh Shah (1998) writes in this context that Gandhian economic system is understood on the basis of specific programmes he had suggested for removal of unemployment and poverty. His suggestions are then analysed and declared irrelevant in the present day context. This is a wrong approach to take. Shah sees two reasons for it. One, the remedies Gandhi had suggested for poverty and unemployment removal in his times was borne out of the ground realities in those times. Further, his solutions also were embedded deeply in his economic philosophy. The programmes came as part of the lifestyle that Gandhi had recommended. The second problem with respect to the application of Gandhian solution to the present day situation of poverty is that Gandhi's solution assumed some basic values in society. If the building or reconstruction of society was not based on those values, how could one apply the solutions and expect to yield results?

Let us elaborate this point. In Gandhi's economic system emphasis is placed on home and cottage industries and decentralised production system. He recommended Khadi based on hand spinning and hand weaving during the freedom struggle and argued that it would solve the twin problems of unemployment and poverty. One should not deduce on the basis of this recommendation that Khadi and village industry are effective anti-poverty programmes. This was attempted in the Five Year Plans in the country to solve the rural unemployment poverty from the Second Plan onwards. If such inference is made then the next inference would be that if there were no poverty and unemployment in a society Khadi and village industry and decentralised production systems were not required. Gandhi would not have accepted this position. As Vinoba Bhave, a scholar and Gandhi's follower explained later decentralised home-based and cottage industry was part of the total economic system and not a stand alone solution. Had it been so, it would only mean decentralising centralised industries. Breaking the large units into small and tiny ones and spreading it in nooks and corners of the country is not what decentralised industry means in Gandhian sense. There it is a part or a feature of a society that has minimum urban settlements in which basic needs of all are met and there is no place for luxury. People are not greedy. In short, it is 'ethical man' who is in the economic system and not the 'economic man'. Perhaps a more relevant question would be: should Gandhi's recommendation be applied in the situation where the overall philosophy is not accepted by the society?

In this context we should briefly review the debate on the economic development premises. We have reviewed it already in Unit 2, but a revisit is necessary in order to understand why and how Gandhi understood poverty differently. Dasgupta notes that the central concern of the Indian economic nationalism was to find a solution for mass poverty in the country. The causes for poverty were relatively well established and accepted by thinkers and politicians of the time. Naoroji and Dutt had carried out good empirical analysis and had shown the process of impoverishment of the Indian masses. However, there were different opinions when it came to suggesting remedies. In fact, Justice Ranade had different view on the process of impoverishment in the country. He was in agreement with others that over-dependence of workers on agriculture was the result of fall in output and employment in indigenous craft industries. But Ranade thought that it was a global phenomenon due to the advent of technology and machine-based industrialisation that had created economies of scale and the factory-produced goods were competitive. He did accept that since India was a colony and the economic policies were exploitative, deceleration of the indigenous industry was faster. Ranade suggested industrialisation and urbanisation. He also formulated his views similar to the ones developed in economics literature that came to be known as development economics. Ranade viewed that the Indian economy was in the agrarian stage and its next stage should be industrialisation. This had been happening all over Europe and other countries. Most economists in India agreed with his basic view that India should industrialise in order to eradicate poverty. They differed in why it was not happening or how it could happen.

Gandhi did not agree with the goal of industrialisation. He did not see industrialisation as solution for removal of poverty. He argued that economic development based on machinery would lead to further unemployment and impoverishment. He held firmly that machinery displaced labour. He was very apprehensive about industry-led economic development because he feared that it would lead to concentration of wealth and power in the hands of few. The elite would then start exploiting the rural poor masses in similar fashion as the British did. Instead he proposed the revival of indigenous and traditional village and craft industry. He saw in this enormous scope to provide productive employment to a very huge number of workers. He thought that such kind of productive employment would not only increase national output, but would also contribute directly towards removal of poverty. It would also arrest urbanisation and would almost eliminate scope for concentration of economic power. For Gandhi a society with minimum inequity was the preferred goal. In this context he had introduced the concept of *Swadeshi*. It would be working to eliminate capitalism; resources would be owned by individual producers or by the community. The output would be shared rather than being paid as returns to factors of production.

We can see that Gandhi understood the poverty problem in a radically different way than the economists of his times. While Gandhi and most economists had agreed on the process of impoverishment, they differed significantly in suggesting remedies. Interestingly, Gandhi listed 18 Constructive Programmes and not one was specifically named as anti-poverty. It is hoped that the reader is able to understand that for Gandhi poverty was not a residual issue, but a structural issue and his remedy to it was also structural.

4.5 SUMMARY

In this unit we have tried to develop an understanding about the influence of colonialism on Gandhi's economic thought. Gandhi encountered colonialism in South Africa more in terms of human rights violation. Indians had entered South Africa as indentured labourers and when free wanted to pursue livelihood activities honestly and presumed equality with the whites. Gandhi saw that the white who ruled the states in South Africa saw this as threat to their way of profiteering and exploitation and tried to stop Indians by assigning them second grade citizenship. Their rights as citizen were curtailed. This happened mainly due to the coloniser's mindset that prevailed heavily among the white citizens in Africa. In India the colonialism had been working at two levels. At the economic level the way of working was the same. Since the workers were not indentured labour, they had to deal with independent owners of production resources. The British started with trade and soon turned advantages of terms of trade in their favour. Industrialisation came to their help. In agriculture British became almost extortionists. This is explained with the help of the Indigo production in Champaran. The second way of working of colonialism was through the introduction of liberal education. An educated class indeed grew and the Indian nationalism was born. But this group could not have its own vision for free India. Be it moderates or extremists, most thought that the British should leave India, but it would be run by the Indian elite on the same principles that governed England and other European countries. In this Unit, we have followed the discussion on colonialism with Gandhi's understanding of poverty. It is shown that with his unique encounter with colonialism both in South Africa and in India, he developed different understanding on poverty and remedy for it. He could see that the impoverishment of the Indian masses was definitely due to colonising and pursuant economic policies and agreed with other scholars, nationalists and economists. But he strongly disagreed with the remedy. To him eradication of poverty was not a residual and independent issue and industrialisation was not an answer. His vision of development of India was based on revitalising indigenous craft and village industry and providing productive and dignified livelihood for all.

4.6 TERMINAL QUESTIONS

1. What were the central issues with free indentured labour and other free Indians in South Africa?
2. How did Gandhi shape his Satyagraha movement in South Africa?
3. What did Gandhi understand about economic exploitation through Champaran situation?
4. Why did Gandhi think that the British had colonised the mindset of the Indian elite?
5. What was the major difference in the approach of Indian Nationalists and Gandhi with respect to eradication of poverty and why?

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