BLOCK 1 ECONOMIC PHILOSOPHY

UNIT 1 FINANCIAL MANAGEMENT AND THE PROBLEM OF RUPEES

Structure

1.1 OBJECTIVES

This unit would enable you to understand:

- The contribution of Ambedkar in the field of financial management and solving the problems of the Indian rupee;
- The role of financial management in solving the problem of currency in circulation; and
- The problems of the Indian rupee before India's independence and how were they solved.

1.2 INTRODUCTION

In this unit we will discuss Ambedkar contribution in the financial management and solving the problems of the Indian rupee and what the problems of the Indian rupee before India's independence and how were they solved. When an economy has multiple standards of medium of exchange, the currency loses its primary quality of general and ready acceptability because such a system creates plurality in fluctuations in relative values of currencies. Even if a country adopts a single standard of medium of exchange in metallic currency, the problem cannot be solved because the supply would be insufficient to meet the demand. These facts, especially in the Indian context, were highlighted for the first time by Ambedkar, who was the first Indian to obtain a doctorate degree in economics.

Ambedkar was one of the first generation economists of the early 20th century. He was a leading monetary economist with degrees from Columbia University in U.S.A. and the London School of Economics. He authored the following books on economics:

1) *Administration and Finance of the East India Company (1915)*

2) *The Problem of Rupee: Its Origin and Its Solution (1923)*

3) *The Evolution of Provincial Finance in British India: A Study in the Provincial Decentralisation of Imperial Finance (1925)*

In these books, Ambedkar advocates price stability through conservative and automotive monetary management. In this matter, he criticised Keynes who supported Gold Exchange Standard (GES) while Ambedkar favoured Gold Standard (GS). GES is a monetary system under which the currency of one country is converted into bills of exchange of another country whose currency is convertible into gold at a stable exchange rate. Under this system, the country maintains its currency parity with gold without gold reserve. GS is a monetary system in which the standard unit of currency is a fixed quantity of gold and the country maintains gold reserve.

The differences between the two monetary systems are summarized in the table:

Gold Exchange Standard (GES)	***Gold Standard (GS)***
The currency of one country is converted into bills of exchange of another country whose currency is convertible into gold at a stable exchange rate.	The standard unit of currency is a fixed quantity of gold.
The country maintains its currency parity with gold without gold reserve. The government manipulates the coinage to keep it at par with the value of gold.	The country maintains gold reserve.

The problem of rupee is directly associated with the problem of inflation. A rise in inflation reduces real wages of workers belonging to the earning class. Therefore the rupee should be stabilised which is only possible when the purchasing power of rupee is stabilised because devaluation of currency results in distributional effects and inflation. Stability in purchasing power of the rupee can be achieved only when financial management supports Automatic Monetary Policy (AMP). Ambedkar was in its favour.

In his doctoral thesis in the London School of Economics, he argued that gold exchange standard does not have stability in India. He emphasized that India cannot afford gold exchange standard because it increases inflation and reduces real wages of the earning class. In his thesis he proved statistically that Indian rupee had lost its value and hence purchasing power of the rupee was falling. He suggested having circular flow of money along with regulated government deficit in India. More attention should be given to price stability rather than to exchange rate stability. The exchange standard requires to be managed, which can be done either by the government or by an independent authority. However, the chance of mismanagement is greater by government because the issue of government money is authorised and conducted by men who are never answerable in case of bad judgment. Ambedkar was in favour of an independent centralised regulating authority to undertake financial management. This view laid down the foundation for the establishment of the Reserve Bank of India.

1.3 FINANCIAL MANAGEMENT AND RUPEE

Financial management is concerned with managing money through planning, controlling, organising and directing the financial activities of an organisation. Funds flows are directed according to plan. The basic functions of financial management, according to Nobanee (2015) include the following:

- estimating capital requirement
- determining capital composition
- finding sources of funds and their investment
- managing cash and disposal of surplus
- maximising sales and minimising cost.

The rupee is the name of the currency of India, Nepal, Indonesia, Sri Lanka, Mauritius, Pakistan, Seychelles and Maldives. According to Kapoor (2002), the earliest coins in the world were issued in ancient India. Rupiya was introduced in 900 B.C. Sher Shah Suri (1540-1545) issued silver coins weighing 178 grains which were called Rupiya. The Indian rupee is a descendent of the rupiya. The origin of rupiya is from the Sanskrit word for silver coin, rupya (Turner, 1985).

The Indian rupee suffered from many problems. Ambedkar's experiences related to financial management helped him in proposing solutions to these problems. Ambedkar favoured the need of an autonomous monetary institution to control the value of rupee associated with exchange rate. Ambedkar's view was instrumental in establishing the RBI. It was established on 1 April 1935 via the Reserve Bank of India Act, 1934. The central office of the Reserve Bank of India was initially in Calcutta but was permanently moved to Mumbai in 1937. Ambedkar also helped establish the Finance Commission of India in 1951 to strengthen the centre-state relations.

1.4 AMBEDKAR ON FINANCIAL MANAGEMENT AND RUPEE

Ambedkar was a monetary economist. He obtained a doctorate from London School of Economics in 1923 under the supervision of Prof. Edwin Canaan. His thesis, "The Problem of the Rupee: Its Origin and Solution" was on the problems of the rupee, and was published in book form in 1923. In his thesis, Ambedkar examined the causes for the rupee's fall in value (Sorade 2013).

The main focus of his thesis in London School of Economics (LSE) was on managing Indian monetary affairs. Unlike J.M. Keynes who favoured the gold exchange standard, Ambedkar favoured the gold standard. He looked into the problems of the rupee at a time when there was a clash between the colonial administration and Indian business entrepreneurs over the value of rupee. Indian businessmen blamed the colonial administration for maintaining an overvalued exchange rate of the Indian currency to support British exporters who sold goods in India. The Congress supported Indian entrepreneurs and demanded devaluation in the Indian currency. Eventually, London agreed to set up the Hilton Young Commission to look into the matter. When this commission, then known as the Royal Commission on Indian Currency and Finance, came to India, each of its members was holding the book, *The Problem of Rupee: Its Origin and Its Solution,* that Ambedkar wrote in 1923.

In his book, Ambedkar raised the following basic questions:

- Should India stabilise its exchange?
- What should be the ratio at which India should stabilise its exchange?

Ambedkar argued in favour of limited devaluation of rupee, somewhere in between the then prevailing exchange rate and the point of agreement between the Congress and British colonial administration. He said that this limited devaluation would help both the business class as well as the earning class. A devaluation of currency increases inflation. A steep devaluation results in steep inflation which reduces real wages of the earning class. Ambedkar, in his statement to the Royal Commission said:

The more important point is, supposing that there is a gain arising from low exchange, where does this gain arise? It is held by most businessmen that it is a gain to the export trade and so many people have blindly believed in it that it must be said to have become an article of faith common to all that a low exchange is a source of gain to the nation as a whole. Now if it realized that low exchange means high internal prices, it will at once become clear that this gain is not a gain coming to the nation from outside, but is a gain from one class at the cost of another class in the country.

Ambedkar posited the following facts before the commission to reform the Indian currency:

- Coinage of Indian rupee should be stopped absolutely by closing the mints.
- Minting of gold coin should be opened for the coinage of a suitable gold coin.
- Ratio between the gold coin and rupee should be fixed.
- Both the rupee and gold should not be convertible to each other but they may be circulated as unlimited legal tender at a ratio fixed by law.

Problems of Rupee

i) ***Double Standard in Mughal Period***

The Indian money consisted of both gold and silver in the mid-eighteenth century. Hindu emperors supported gold coins while Muslim emperors favoured silver ones (*Princep 1834*). For example, in south India, a silver coin, pagoda, was used as a medium of exchange. Hence both the gold mohur and the silver rupee were in circulation without any fixed exchange ratio between them. Further, different kingdoms in India decided the minting quality of coins, hence metallic contents differed considerably across kingdoms. As a result, the currency lost its primary quality of general and ready acceptability.

A common medium of exchange between the coins in circulation being absent, plurality of medium of exchange created problems in trade. It encouraged barter trading in the markets. The society suffered from diseased money which drove away good money. Consequently Indian economy suffered significantly.

The value of the coin circulated in the Mughal period depended on the fluctuation in the value of metals. When the value of gold increased more than its value when the coin was minted, the circulation of the gold coin got reduced because people would store gold coins at home instead of using them. Similarly, when the value of silver increased more than its value at the time of fixation of the proportion of gold and silver, the circulation of the silver coin got reduced because people would store the silver coins at home instead of using them. This fluctuation in the relative value became a continual problem for trade. Traders started demanding circulation of monometallic coins in place of bimetallic ones.

ii) ***From Double Standard to Silver Currency***

In 1833 an Imperial system of administration was set up by an Act of parliament which centralized all legislative and executive authorities over India. It replaced local coinage by imperial coinage. Therefore, a common currency, as a sole legal tender, was introduced in India by an Act of the Imperial government (XVII of 1835), which is also known as the Currency Act of 1835. According to this act, no gold coin was permitted as a legal tender of payment in any of the territories of the East India Company. This was a turning point in India's monetary reforms because monometallic silver, 180 grains in weight, became the sole legal tender throughout the country.

Adoption of silver coinage decreased the revenue collected through seignorage (tax collected on total price of a coin including metal contents and production cost). It created a commercial problem in trade, which was demanding credit that could not be met by silver coinage due to insufficiency of supply of silver.

iii) ***Free Banking System***

In the nineteenth century, India followed the free banking system in which every bank was empowered to issue notes. However, notes issued by the Presidency Bank enjoyed more acceptance by the Government for revenue repayment. In 1920, by the Banking Act XLVII, three Presidency Banks were amalgamated into one bank, called the Imperial Bank of India. No discretion was left to the Government regarding paper currency. The Government was empowered to regulate silver mining. According to law, Rs. 979 only could be issued against 1000 to lakh of silver coins. The Indian Paper Currency Law was able to control the volume of issue of notes. Banks were empowered to invest Rs. 4.00 crore in 1861, Rs. 6.00 crore in 1871 and Rs. 8.00 crore in 1890. Denominations of 10, 20, 50, 100, 500and 1000 notes were being issued in 1861. However, even the lowest denomination (Rs. 10) was too large to displace the metallic currency. Perhaps this was the reason why the paper currency could not have as much share as silver coins in total circulated currency (i.e. silver coins plus paper currency). A 5- rupee note was issued for the first time in 1871.

iv) ***Lack of Universal Encashability***

The country was divided into different circles for issuing paper currencies. Paper currencies were encashable only in the circle office from where they were issued. They were not encashable in another circle. Thus the Indian paper currency lacked universal encashability despite being legal tender.

v) ***Irregular Supply of Money***

Both the demand and the supply of money should be kept equal, to keep a check on prices. But in any economy, the demand for money can never be pre-determined because it depends on the population, trade and seasonal variations (for example, demand is slack in summer and brisk in autumn). Only money supply can be adjusted according to the fluctuation in the demand for money.

Financial management involves managing circulation of both metallic and paper money. But the Indian Paper Currency Act did not permit an increase in supply beyond a limit. Paper notes became inelastic in nature. The demand for money, therefore, increased substantially, more than the supply because the purchasing medium of exchange is a function of both money and credit. It resulted in more demand for metallic money than for paper currency because the supply of the latter was restricted and inelastic.

vi) ***No Cheque System***

Credit was given in cash, not by cheque. This created a shortage of liquidity in banks.

vii) ***No Connection Between Treasury and Banking Operation***

The government treasury operated independently without any connection with the banking operation.

viii) ***Inelastic Credit Media***

Amount of credit in operation was limited due to unavailability of cheque system and limited paper currency. This severely affected purchasing power.

ix) ***Low Profit Margin to Businessmen***

Businessmen dependent on banking operations for borrowing capital were subjected to seasonal fluctuations. Their profit margins could be wiped out because of the fluctuations. A sudden rise or fall in the rate of discount resulted in under trading or over trading. This increased business risk.

x) ***Rupee-Sterling Exchange Variation***

Both the Indian silver rupee and England's gold were made of different metals which were subject to vary in value over a period of time. However, the exchange rate was almost steady up to 1873 at the ratio of 1 to 15.5, but after that, the value of the Indian rupee fell substantially because of demonetization of silver in the international market and less production of silver. It affected trade between the two countries. India paid a higher amount of gold to England due to appreciation of gold value. Consequently British administration in India increased taxes to raise revenue.

xi) ***Switching over to Gold Standard***

India was following the silver standard while most of the prominent countries were following the gold standard. Under the prevalent system, the Government was to pay in rupees in return for gold, in every case, and gold for rupees only in case of foreign remittances (Lindsay Committee 1898). The Government of India had two reserves of currencies-paper currency reserve and gold standard reserve. The difference between the two is summarized in the following table:

Paper currency reserve	**Gold standard reserve**
Held fully in rupees.	Held partly in gold and partly in rupee.
Was in the possession of the Government of India located in India.	Was in the possession of the secretary of state located in London.
The Government of India was empowered to sell "Reverse Council" when there was a want of gold.	The secretary of state was empowered to sell "Council Bill" when there was a want of rupee.

The paper currency reserve was held fully in rupees while gold standard reserve was held partly in gold and partly in rupee. The gold reserve was in the possession of the secretary of state located in London and the rupee reserve was in the possession of the

Government of India located in India. The secretary of state was empowered to sell "Council Bill" when there was a want of rupee and the Government of India was empowered to sell "Reverse Council" when there was a want of gold. The basic points of the Indian currency system can be cited below.

- The gold sovereign was a full legal tender.
- The silver rupee was also a full legal tender.
- The Government of India undertook to give rupees for sovereigns but did not undertake to give sovereigns for rupees, that is, rupee was an inconvertible currency, unlimited in issue.

1.5 LET US SUM UP

In this unit you have learned how B. R. Ambedkar looked into the problems of the rupee at a time when there was a clash between the colonial administration and Indian entrepreneurs and businessmen over the value of rupee. The Indian rupee was suffering from a number of problems.

1) Double standard of both gold and gold exchange was adopted by British administration in India.
2) Every bank was empowered to issue notes at its liberty.
3) Paper currencies were encashable only in circle offices from where they were issued.
4) Paper notes were almost inelastic in nature.
5) The cheque system was not popular.
6) The value of Indian currency was highly volatile.

In such a situation, Ambedkar's experiences related to financial management helped him in proposing solutions to these problems.

He strongly supported gold standard in which the standard unit of currency is a fixed quantity of gold and the country maintains a gold reserve. He emphasized that India could not afford gold exchange standard because it increases inflation and reduces real wages of the earning class. More attention should be given to price stability rather than exchange rate stability. He favoured setting up of an autonomous monetary institution to control the value of rupee associated with exchange rate, which later came to be called the Reserve Bank of India.

1.6 QUESTIONS TO CHECK YOUR PROGRESS

1) What do you understand by the plurality in standards of medium of exchange of currency?
2) Who was the first Indian to get a Ph.D. degree in economics?
3) Name some books on economics written by B.R. Ambedkar.
4) What is the difference between gold exchange standard and gold standard?

5) What do you understand by financial management?

6) Who established the finance commission of India?

7) Who was Edwin Canaan?

8) What problems were being faced by Indian currency before independence?

SUGGESTED READINGS

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UNIT 2 CRITIQUE OF COLONIAL ECONOMY

Structure

2.1 OBJECTIVES

This unit would enable you to understand:

- The colonial economy of India;
- The colonial commercial policy and its impact on Indian economy;
- The economic exploitation, forced poverty and famine in colonial India;
- The problem of labour and land policy in colonial India; and
- Financial and monetary problems in colonial India.

2.2 INTRODUCTION

Colonial economy refers to a mode of production and consumption. The East India Company established its foothold in India in the name of trading and gradually extended its rule over the entire country. It finally established the so called company government or British government of India to fulfill its economic agenda of draining the Indian economy through the use of trade and commerce. The colonial state and its ministers, the court of directors, exercised their control over the East India Company.

Europe, having just emerged from medievalism, was making its first experiments in Asiatic rule. Led by the medieval concept of conquest, Europe started to capture the Eastern world and exploit it. A medieval type of commerce was perpetuated on Indian trade. At this time, Portugal, Spain, and Holland established their power in Asia.

The English rose to dominance in India later and embodied the European ideals of the eighteenth century in place of the European ideals of the sixteenth century, modern as against semi-medieval Christendom. However England could not shake away the tradition of the period, the tradition of monopoly. Self-interest induced a corrupt and oligarchic ("the rule of the few") legislature. Principles were banished in the wake of politics. Men fought for material objects and gold ruled the aspirations of the greatest. India was stifled by such fatal powers.

2.3 AMBEDKAR'S IDEAS OF PRE-COLONIAL INDIAN ECONOMY

Ambedkar critically evaluated and described the economic condition of people in pre-colonial India. He studied economic development under various rulers in pre-colonial India to debunk the fallacious stand taken by the British historians of India. Ambedkar describes the country as prosperous under both Hindu and Muslim rules. The magnificence of Kannauj and wealth of Somnath temple are examples of Indian affluence at the time. In Ambedkar's view, British historians were wrong in describing Muslim rulers as barbarous and despots, whereas most of them were men of extraordinary character. For example, Mahmud of Ghazni supported a large number of literary geniuses, such as Firdausi and Al-Biruni. One of his illustrious successors was a woman, Razia Sultan; Feroz Shah Tughlaq was a well-known administrator and builder. His public work consisted of the following:

> 50 dams across rivers to promote irrigation, 40 mosques and 30 colleges, 100 Caravan series, 30 reservoirs, 100 hospitals, 100 public baths, 150 bridges, besides many other edifices for pleasure and ornament; and, above all, the canal from the point in the Jumna where it leaves the mountains of Carnal to Hausi and Hissar, a work which has been partially restored by the British Government…

The ryots were happy under his government; their houses were full of goodness and furniture. Their women generally used gold and silver.

Ambedkar quotes notes of an Italian traveler, Milo de Conti, who visited India. Conti speaks highly of what he saw in Gujarat, and found the banks of Ganges dotted with towns amidst gardens and orchards. He described a city called Maarazia, which was a powerful city, filled with gold, silver and precious stones.

Travelers Barbora and Bartema visited India in early 16th century and wrote about it. Barbora described Cambay as a well-built city, situated in a beautiful country filled with merchants, and with artisans and manufactures like those of Flanders.

Babur, who founded the Mughal dynasty in India, said the country was prosperous and had a large population; artisans were found everywhere. Babur was a benevolent ruler and his public work proves his statesmanship. Shah Jahan, who "reigned not so much as a king over his subjects, but rather as a father over his family." His rule was marked by prosperity and people lived in peace under his sovereign.

Under the Marathas, according to a traveler, the lives of people were simple and happy; there was no war or misery. "The people were cheerful, vigourous and in high health, and, unbounded hospitality was a universal virtue; every door was open, and friends, neighbors and strangers were alike welcome."

About the economic condition in south India under Tipu Sultan, a historian says that the country "was well cultivated, populous with industrious inhabitants." Cities were newly founded, commerce was extending, towns were increasing and everything was flourishing.

"His country was found everywhere full of inhabitants and apparently cultivated to the utmost extent of which the soil was capable," he writes.

According to Macaulay, Bengal was known through the East as the Garden of Eden.

> Its population multiplied exceedingly; distant provinces were nourished from the overflowing of its granaries: and the noble ladies of London and Paris were clothed in the delicate produce of its looms.

Thus we saw pre-colonial Indian economy was booming and Indians were a prosperous people. Let us now look at the condition of England.

2.4 AMBEDKAR'S THOUGHTS ON ECONOMY OF ENGLAND AND COLONIAL INDIA

Ambedkar critically examined the historical and economic condition of England. England under the rule of Norman conquerors was in a pitiable condition. Normans used derogatory terms for Anglo-Saxons, who were denied justice by the iniquitous Norman magistrates.

However, the historians British of India had a wrong notion that Indians were ignorant and uncivilized and portrayed them not in good light. Ambedkar quotes Sir Thomas Munro's words to English historians of India that ancient Indians were far better economically than the English of the same period.

According to Ambedkar,

> If we recall the economic conditions of England before and after 1600 and India's tribute to England, we will get the answer to the question why England prospered and India declined after the religious reformation period. India contributed, or was forced to contribute, to the economic prosperity of England.

Quoting Sir Josiah Child, Ambedkar points out that in 1545 the trade of England was inconsiderable and merchants were very few. Describing the prosperity of the people after 1600, Sir Josiah reveals that in the stock exchange, there were more traders now with ten thousand pound estates than there were with one thousand pound estates in 1545. Sixty years ago, a man who could give a five hundred pound portion to his daughter was held in higher esteem than a man now who could give two thousand pounds to his daughter. Where earlier there was one coach, now there were a hundred. Most men paid a higher tax now in one year than their forefathers did in twenty years. Trade had improved with transportation of goods, which resulted in customs duty being increased six times. The mercantile class had become very powerful by the year 1600 and was instrumental in determining whether the rulers of England were vanquished or restored to power.

Ambedkar presents a vivid account of the East India Company's main political and economic motives:

The rule of the company was anything but wise, it was rigorous, it gave security but destroyed property. The scheme of administration was not perfect.

Ambedkar quotes Adam Smith who said that the merchants were incapable of considering themselves as sovereigns, even after they had become the rulers. For them, governing the state was secondary because their prime objective was business and trade, buying and selling. The merchants cared about their own interest and not the interest of the state. The proprietors and directors of Indian stock did not get any monetary benefit but got voting rights, which gave them some influence. Therefore, even a financially moderate person was willing to give thirteen to fourteen hundred pounds merely for the influence which he expected to acquire by means of a vote in the court of proprietors. This gave him a share, though not in the plunder, but in the appointment of plunderers of India.

Adam Smith describes how the merchants did not care about the prosperity or ruin of the Indian empire, how, unlike any rulers ever, they were completely indifferent to the happiness or misery of their subjects, the improvement or waste of their colony, the glory or disgrace of their administration.

This was true of the early rule of the company; later, gradually corruption was uprooted. However, under this regime Indians had no voice, no job, and were barred from all high paying jobs except petty positions like clerks.

Colonial India's contribution of Trade and stock to England's Economy

India contributed to the economic prosperity and mobility of shareholders, merchants and wealth of England by trade and stock. Trade is forefront in the expansion of wealth. Stock is a barometer of business conditions. Hence, we will see how much that stock would be a useful criteria to determine the value of trade with India in England. The following paragraphs help us to understand how, even though the market fluctuated greatly, the company made great profit.

The stock of East India Company had increased to 8 per cent after the union with Scotland in 1709, rose to 9 per cent in 1710 and 10 per cent in 1712. However, there were fluctuations due to

- competition with the French East India Company
- increase of capital cost
- formation of the Swedish East India Company in 1732
- sectarian wars in Europe
- war in Karnataka.

While the dividend rate increased to 8 per cent in 1744, the average rate of dividend was about 9 per cent in this century. The company's stock had top position throughout 18th century. The stock was valued at 450 pounds in 1720, but fell to 148 pounds in 1755 when Burdwan and other provinces were ceded to the company. Increased cost of administration caused 6 per cent decline of dividends in 1760.

Even the stock value was more than the real value. Let us suppose an average dividend of 10 per cent and interest at a moderate rate of about 5-1/3 per cent on the cost price. As there was no profit on this stock, there was a continuous fall of stock until 1766.

From 1779 to 1788 the price became reasonable and averaged to 150 pounds. However, it fell to 118 pounds and 10 shillings in the crisis of 1784. The stock fluctuation was regulated by the trading company as it became a sovereign ruler and enacted the Pitts India Act, which resulted in increasing the price to 185 pounds and 10 shillings in 1787. Subsequently fluctuations declined.

The company had expectation to get higher profit from Bengal revenue, which caused an artificial boom and inflated the price to 233 pounds. But the stock declined to 60 per cent because of the war in Karnataka. However, the company received 1,91,644 pounds for each year and after the acceptance of territorial sovereignty of Bengal, the dividend increased to 10 per cent and the distributed amount was 3,19,408 pounds. This increase of dividend was unjustified and based on an exaggerated estimate of India's property. The dividend was paid by means of a loan at very high rate of interest.

Later the dividend fell from 12-1/2 per cent to 6 per cent for five years. Lord North intervened to regulate the company dividends, which were subjected to ministerial control after the Regulation Act was passed. This helped to increase the value of property and dividends slowly.

In 1792, the company signed a peace treaty with Tipu Sultan because of which it received a revenue of 2,40,000 pounds and a compensation of 16,00,000 pounds. This enabled the company to increase its dividend from 2 per cent to 11 per cent. The united company of merchants had paid to the English public 2,53,43,215 pounds from 1798 to 1803. India provided England 38,58,666 pounds for its war with America. Mr. Yale who earned money exclusively from trade with India set up the Yale College in the US.

Thus India paid dividends to the stock holders of England and contributed to the wealth of England.

Ambedkar quoted George Tucker to demonstrate how colonial India contributed to the prosperity of England.

- The East India Company drew a surplus revenue from India of around one million and a half sterling (almost 15 lakh pounds) after paying interest on their debt. This surplus was a direct tribute from India to England.
- Around four-fifth of the territorial debt was being held by European British, the interest on the debt was nearly two million sterling (20 lakhs pounds), which may be regarded as indirect tribute paid by India to England. Tucker estimated this indirect tribute together with the savings and profits from commerce at three million sterling (30 lakh pounds) per annum around the year 1821.
- England earned income by forcing Indian traders to use British ships for port-to-port transportation. Thus Indian ship tonnage formed a considerable portion of the whole tonnage of Great Britain.
- During this period in England, the state faced difficulties in providing employment opportunities. Indian service sector opened space to the overflowing classes in England seeking employment, thus economically contributing to England.

2.5 AMBEDKAR'S VIEW ON COLONIAL INDIAN ECONOMY AND PROTECTIVE COMMERCIAL POLICY OF BRITISH

India's economy was far better than England's. England had failed to compete with Indian goods. In spite of the high cost of transportation of goods to England, Indian manufactured goods had captured the English market and England had lost her home markets. This led

England to adopt a strong protectionist policy. England adopted direct and drastic measures, like increased tariff against Indian goods to destroy the competition from Indian goods and thus harm the Indian economy.

In addition to high tariff, England used discriminatory trade practices and imposed heavy import duty on Indian manufactured goods. Few examples comparing import duty on goods from East Indies and West Indies are given below:

- Duty on sugar per quintal was one pound and 12 shillings for East Indies, and one pound and four shillings for West Indies.
- Duty on coffee was 9 pence for East Indies, and 6 pence for West Indies.
- Duty on spirits (sweetened) per gallon was one pound and 10 shillings for East Indies, and one pound for West Indies.
- Duty on spirits (not sweetened) per gallon was 15 shillings for East Indies, and for West Indies, it was 8 shillings and 6 pence.
- Duty on tamarinds per pound was 6 shillings for East Indies, and 2 pence only for West Indies.
- Duty on tobacco per pound was three shillings for East Indies, and 2 shillings and 9 pence to West Indies.
- Duty on teak wood (under 8 inches square per load) was one pound and 10 shillings for East Indies, but for West Indies it was 10 shillings only.
- Duty on wood not particularly enumerated, ad volerem was 20 per cent for East Indies and for 5 per cent for West Indies.

The English tariff on Indian goods was not only discriminatory but also differed according to its use in England. The ad-volorem duty on piece–goods or garments sold at East India House differed in the following way:

- The import duty on calicoes was 3 pounds, 6 shillings and 8 pence per cent. If they were used for home consumption, there was a further duty of 68 pounds, 6 shillings and 8 pence per cent.
- The import duty on muslins was 10 per cent and for home consumption was 27 pounds, 6 shillings and 8 pence per cent.
- Coloured cloth was prohibited in England and import duty on this cloth was 3 pounds, 3shillings and 8 pence per cent. These goods were only for exportation.

Further, the parliament of England had levied a new duty of 20 per cent on the consolidated duty. This made the duty on calicoes for home consumption 78 pounds, 6 shillings and 8 pence per cent. And the duty on muslin for home consumption 31 pounds, 6 shillings and 8 pence.

Colonial Customs Duty Policy and its Impact on Indian Traders

Ambedkar quotes Mr. Holt Mackengie who writes that some Indian commodities had to pass through as many as ten custom houses and several subordinate *chowkis* before they reach the Presidency. Few Indian goods could escape repeated detention. Even if there were no exactions and delays, the system would seriously hinder the commercial intercourse of the country. No interchange of goods could take place between districts separated by a line of custom houses (chowkis) unless the difference of price was large enough to cover the cost of transportation and the duty paid to the government. Therefore, the consumers faced the tax burden and needed to pay more for goods.

In addition to the duty imposed by the government, custom house officers also demanded bribes. A rich merchant could afford to pay the amount demanded from him, but even a moderate demand would erase a petty trader's meagre profits.

The prime objective of British authorities and merchant body was finding a market for goods manufactured in the United Kingdom. Therefore, they gave more importance to import than export trade of India. As per the Regulation Act IX of 1810, goods that the UK exported were exempted from customs duty and commodities that India exported, on which England made profit, such as indigo, cotton, wool and hemp, were exempted from customs duties.

Ambedkar, quoting Lord Ellenborough on inland duties against Indians, writes that while the customs duty on cotton manufactures of England, imported into India, was 2-1/2 per cent, cotton manufactures of India were subjected to a duty of 7-1/2 per cent on yarn, additional 2-1/2 per cent on the manufactured article, and finally an additional 2-1/2 per cent for white cloth dyed after Rowana (pass), making the total duty on cotton goods of India, consumed in India, 17-1/2 per cent. Similarly, the duty on raw leather was 5 per cent, additional 5 per cent on manufactured leather and an additional 5 per cent for leather made into boots and shoes. Thus, the total duty was 15 per cent on Indian leather goods consumed in India. The customs duty paid on sugar was 5 per cent when imported into a town and an additional 5 per cent for town duty. A duty was 5 per cent was to be paid on sugar manufactured and exported from the same town. Thus the total duty paid on Indian sugar consumed in India was 15 per cent. There were no less than 235 separate articles subjected to inland duties. In the name of power of search the duty was levied on Indian commodities in each custom office and officers exercised their power to stop the internal trade by delaying custom procedure to extort bribe from traders.

The lack of uniform currency system was another obstacle to kill the Indian industries.

Ambedkar quotes Frederick List who said:

> Had they sanctioned the free importation into England of Indian cotton and silk goods, the English cotton and silk manufacturers must, of necessity, soon come to a stand. India had not only the advantage of cheaper labour and raw material, but also the experience, the skill and the practice of centuries.

Ambedkar cites historian H. H. Wilson who admitted that England's trade practices were unjust towards India. Indian cotton and silk could be sold in England at a price 50 to 60 per cent lower than that fabricated in England. However, England imposed duties of 70 per cent and 80 per cent on their value, thus prohibiting Indian exports to protect their cotton and silk industries. If England had not followed such prohibitory duties and decrees on Indian goods, the Mills of Paisley and Manchester would have come to a complete standstill in spite of the power of steam behind them.

Further, he said that if India had been independent, it could have retaliated, imposed prohibitive duties on British goods to protect its own productive industry from annihilation.

However, India was not permitted to defend herself. India was under the mercy of a stranger. The British could impose their goods on Indians as they did not have to pay any duties. The foreign manufacturers employed their political arms to keep India down and strangle the competition. India could not contend with the British on equal terms. Therefore, manufacturers were compelled to take up farming for maintenance, a department already overstocked.

2.6 THE PROBLEM OF FARMERS AND COLONIAL LAND POLICY

England's land revenue policy and prohibitory protectionist policy had ruined the Indian industry and farmers. Ambedkar quotes Bishop Heber, travelling in India in 1830, who writes about the pathetic economic condition of farmers who were pushed into misery and poverty.

Neither native nor European agriculturist, I think, can thrive at the present rate of taxation. Half the gross produce of the soil is demanded by Government.

Bishop Heber writes about how the Indian farmers cultivated very frugally and were prudent in consuming food, however their provisions of grains became insufficient even during a favorable monsoon. When their crops failed in slight degree, even government assistance did not prevent men, women and children from dying. Bengal had fertile agrarian land and a system of permanent Assessment (tax) because of which famine was unknown there. However, in Northern India, the peasantry was worse off, poorer and more dispirited in the Company's provinces than under native princes. In Madras Presidency, the soil was poor and farmers were worse off. He writes,

The fact is, no Native Prince demands the rent which we do, and making every allowance for the superior regularity of our system, etc., I met with very few men who will not, in confidence, own their belief that the people are over-taxed, and that the country is in a gradual state of impoverishment.

Bishop Heber explains that the colonial collectors did not declare the gloomy status of people to the secretaries of Madras and Calcutta, lest it may defame them. Further, Bishop Heber speaks on trade and industries. He explains that the trade of Surat had fallen and consisted of raw cotton, which was shipped to Bombay. The English undersold the Indian manufactured goods, leading to a dismal decay of the circumstances of Indian merchants. Bishop Heber writes that the natives petitioned to the British Parliament but the appeal was in vain.

To ameliorate their misery, natives petitioned Parliament saying, "that every encouragement is held out to the exportation from England to India of the growth and produce of foreign, as well as English industry, while many thousands of the natives of India, who, a short time ago, derived a livelihood from the growth of cotton and the manufacture of cotton goods, are without bread, in consequence of the facilities afforded to the produce of America, and the manufacturing industry of England." But the appeal was made in vain and the interests of England always remained in the forefront in the eyes of those that were called upon to rule the destinies of India.

2.7 AMBEDKAR CRITIQUES ON FINANCIAL AND MONETARY ECONOMY IN COLONIAL INDIA

Critique on Financial Economy in Colonial India

Ambedkar examined the changes in administration and finance of the East India Company during the period 1792 to 1858, which led him to conclude that colonial rulers had imposed injustice on Indians. His detailed analysis of gross revenue and expenditure of colonial India revealed that the company had surplus revenue for 36 years and was in deficit for the remaining 30 years, though the combined surplus was in excess of the combined deficit. The main reason for the deficit was that money was not saved in India. It went as a tribute and dividends to company shareholders. The money flow was not sufficient in India to pay to dividends and it had an impact on increasing debt or public debt of India.

The Indian debt was increased because the company borrowed money. There were two ways to raise loans:

i) within India by accepting exchange of loan notes

ii) Home bond debt raised in England by issuing bonds.

Ambedkar had found that the Indian debt rose from 70 lakh pounds to 607 lakh pounds, an increase of 767 per cent in the years 1792-1857. However, the Home bond debt never exceeded 66 lakh pounds during the years 1800-1857. The surprising fact was that Indian debt was more than home bond debt. The Home bond debt did not increase because the English parliament's regulation limited the borrowing capacity of East India Company.

The tax that the British government imposed on land was not only excessive, it was fluctuating and uncertain in many provinces. The tax rate for Indians ranged from 80 to 90 per cent while in England it was between 5 and 20 per cent for 100 years up to 1798. The British government generated huge revenue during the period 1792 -93 to 1885-86. The major components of average revenue are given below:

- land tax: 54 per cent
- tax on salt: 11per cent
- opium duties: 8.7 per cent
- customs duty: 6.2 per cent.

During the period 1800 -1857, the British government spent between 45 per cent and 64 per cent of expenditure on military alone, whereas they spent negligible amount on public works in India. Ambedkar quoting John Bright wrote that a single city of Manchester in England had spent more on a single item, water, than the money spent on all kind of public works in India.

The British administration and finance of East India Company benefited from financial settlement. The East India Company ceased to be a commercial corporation as per the Act of 1834. After this Act, the company benefited in the following ways:

- 15 per cent payment for territorial charges to England
- 12 per cent for liquidation of part of home debt
- 13 per cent for redemption of capital stock of the company.

The public debt of India was entirely due to wars and India had to bear the burden of debt. The company had spent 6,94,73,484 pounds on wars and this unproductive expenditure was placed on the shoulder of the poverty-stricken Indians. The revenue from India was spent outside India for non-Indian purpose. Ambedkar dissected the Act of 1858 and showed it to be unfavorable to India and having evil administrative objectives such as autocracy, secrecy and irresponsibility towards Indians.

From an economic point of view, India contributed immensely to the prosperity of England but did not get any economic benefits in return. England's contribution lay in the uneconomic realm, such as maintenance of peace, introduction of western Education, building modern institutions including administrative and judicial system.

Ambedkar's contribution to the field of public finance and his earlier work on administration and finance of East India Company gave substantive inferences and criticism. He further developed his Ph. D thesis on the Evolution of Provincial Finance in British India. This work explores the central-state financial relationship in British India during the period 1833-1921. He criticized the British government for its excessive revenue collection through taxation; however a poor country like India had limits to taxation. As the result, the problem of equitable distribution of burden on various forms of government such as the central, provincial and local government assumed significance.

The centralization of government finances was a failure on account of faulty fiscal system marked by injurious taxes and extravagant expenditure. The financial system collapsed due to imprudent and unsound fiscal policy. British India suffered its fiscal malady during 1792-1870 mainly because of the inadequacy of imperial system of finance. Financial inadequacy resulted in chronic budget deficit.

Ambedkar in his study cautioned the British government that chronic budget deficit should be corrected not only by increasing the revenue, but also by increasing the stability and productivity of the nation. The taxing capacity of the country must give the benefit to the treasury and the people. He observed that land tax in India was very high which prevented the prosperity of agriculture. Custom taxes hampered Indian manufacturers; internal and external customs blocked trade and repressed industry.

He urged that tax was not equitable: landlords enjoyed conspicuous consumption and led a life of leisure while exploiting poor tenants. European civil servants reveled in the many exemptions and privileges and lived with pomp, while the Indian poor was harassed by taxes on salt and other items. The government was unable to alleviate the burden of taxes from the injurious revenue system. Ambedkar argued that when revenue laws are harmful to the people, the government can only blame itself for its empty treasury. The bulk of government revenue rose out of injurious taxes and it spent them on unproductive uses. The government wasted between 52 and 80 per cent of its revenue on war services. The salary of a European soldier was four times higher than that of an Indian. Though the war was fought in the name of peace, it did not bring any progress. Education formed no part of the expenditure incurred and useful public works were far and few between. There were no long term plans in the imperial budget for the following sectors:

- railways
- canals for navigation
- irrigation
- other aids to the development of commerce and industry.

A weak economy and chronic deficit prevailed in 1833 when the centralization of imperial finance and government was established. The imperial administration was not *de jure* but *de facto*. Administration of provinces was under the primary units of executive and the Imperial administration was the co-ordinating authority. The dichotomy was dangerous for government finance. The expenditure budget was prepared by provincial governments but the responsibility of finding resources rested on the government of India, with the result that the government of India came under financial strain. It was then realized that the provincial governments must draw up their own revenue and expenditure budget. In 1871 provincial budgets came into force.

Ambedkar observed that in Budget Assignment, there were high taxes and inequitable taxation; the imperial government reduced income tax due to outcry of the richer classes which led to additional deficit, hence it curtailed the assignments of the provinces. The provinces therefore, had to resort to higher taxation and again impose tax and cesses on an already overburdened class of tax payers, namely landholders. As a matter of justice, the income tax should have been under the state for their relief. This justice was absent for a long time from Financial Secretariat of Government of India.

Ambedkar criticised in a healthy way the financial inadequacy of the new arrangement; the government had not been able to marshal in the two revenue sources properly, viz. land revenue and customs revenue.

Critique on Monetary Economy in Colonial India

At the time two types of money systems were in use: silver standard and gold standard. Due to uncertainties in international exchange rate, it was difficult to define how much gold was equal to how much silver. The exchange rate between the rupee and the sterling was stable at 1 Rupee = 1 shilling and 10-1/2 pence prior to 1873 and its reflections in the exchange rate between gold and silver was 1 to 15-1/2. However, after 1873, the rupee-sterling parity was dislocated, which resulted in gold-silver exchange ratio losing its growth.

Since India, a silver standard country was bound to a gold standard country, in reality, the economic and financial life of India was controlled by relative values of gold and silver, which governed the rupee-sterling exchange. It was obvious that if India had to make gold payments to England, India had to bear the burden of the increasing value of gold. The payments included the following:

- interest on debt and stock of guaranteed railway companies
- expenses on European troops maintained in India
- pension and non-effective allowances payable in England
- cost of home administration
- supplies purchased in England for use or consumption in India.

Because of the appreciation of gold value (more than the revenue from India), a high tax and rigid financial economy was imposed to compensate for the increase in the cost of sterling. The English investor did not invest in Indian rupee securities due to fall in the gold value of silver and fall in the gold value of rupee securities. Even Indian trade and industry was affected by the fall in the value of rupee; ultimately foreign trade showed significant buoyancy, not Indian trade. The central government treasury was diminishing by the loss due to exchange. The fall of exchange and instability of silver, both affected the fixed income groups, including a large section of Indian people, government, and Europeans. So to establish stable monetary conditions, restoration of common standard of value was needed.

Ambedkar was in favour of a gold standard and criticized Keynes who favoured a gold exchange standard, because gold exchange standard does not have the stability of the gold standard. In the gold standard, additions to the supply of currency are so small that the stability of the standard does not get affected. On the other hand, in the gold exchange standard, the supply of currency is dependent of the will of the issuer and hence its stability is more easily jeopardized. This was evident in India where, prices varied much less under the gold exchange standard.

2.8 LET US SUM UP

Ambedkar's criticism of colonial economy was based on his empirical and theoretical work on economic history, financial economy and monetary economics. He proved that

- the colonial rulers followed discriminatory trade policy
- exploited Indian resources
- overburdened Indian farmers with tax
- failed to control the financial economy
- created disequilibrium in monetary system
- made the Indian government pay unjustifiably more to England.

India was thus forced to remain an underdeveloped country because its resources were exploited by England for its own economic development.

2.9 QUESTIONS TO CHECK YOUR PROGRESS

1) What were Ambedkar's ideas on India's pre-colonial economy?

2) How did Ambedkar critically evaluate the colonial commercial policy and its impact on the Indian economy?

3) What were Ambedkar's views on the economic exploitation, forced poverty and famine in colonial India?

4) Discuss the labour and land policy problems in colonial India.

5) According to Ambedkar, what were the financial and monetary economic problems in colonial India?

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Note:

1) A pound has 20 shillings.

UNIT 3 CAPITALISM AND STATE SOCIALISM

Structure

3.1 OBJECTIVES

This unit would enable you to understand:

- the effect of various economic systems on the process of development;
- the basic concepts of capitalism, socialism and mixed economy;
- Ambedkar's thoughts on capitalism, socialism and parliamentary democracy; and
- Ambedkar's views on state socialism and his contemplation towards the emancipation of human welfare.

3.2 INTRODUCTION

This unit will address the effect of various economic systems on the process of development. We discuss the concepts of capitalism and socialism, with a special emphasis on state socialism. We study how Ambedkar perceived these economic systems. We also discuss Ambedkar's views on state socialism and his contemplation towards the emancipation of human welfare. Further, we examine Ambedkar's vision and his deliberation on alternatives to capitalism and socialism.

B. R. Ambedkar fervently believed that the development of any country should be focussed on reducing inequalities, eliminating exploitation of masses and eradicating poverty.

Many attempts have been made in the world to achieve economic development and growth. Various countries have adopted divergent strategies to achieve development. In the initial stages, developing economies were seen adopting a capitalist mode of production but in the late 60s and 70s, all these developing economies were seen approaching mixed economy. Countries were found to be further liberating their economies. Ambedkar's insight on economic systems was different. He supported neither capitalism nor socialism or even mixed strategy. He advocated the concept of state socialism where the state is proactive and controls resources in order to reduce inequalities and protect the interests of marginalised sections. He wanted the state to play a dual role; on the one hand the state must provide an economic base for equal distribution and on the other it must protect the downtrodden from exploitation.

Though many countries have achieved growth and development due to globalisation, the gaps between rich and poor and between urban and rural in these countries have increased. Ambedkar's economic views may ensure both economic development and social justice. This may provide an alternative to both capitalism and socialism.

3.3 CAPITALISM AND ALTERNATIVE APPROACHES

An economic system refers to the economy's mode of production and distribution of the resources in the countries. There are three main economic systems:

- capitalism
- socialism
- mixed strategy.

In the opinion of *Gregory and Stuart, Paul and Robert,* an economic system is a system of production, resource allocation, and distribution of goods and services in a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community. As such, an economic system is a type of social system. The mode of production is a related concept.[1] All economic systems ask three basic questions:

- *what* to produce
- *how* to produce and in what quantities
- *who* receives the output of production.

Capitalism is an economic system based on private ownership of the means of production and their operation for profit. The main character of capitalism is private property and making individual profit. In this economic system, a few selected individuals own the factors of production, leading to class conflict. Exploitation of poor is the main issue in this economic system.

In socialism the state owns the means of production. In this economic system, the state takes a lead role in production and distribution of resources. This economic system allows no private property.

Mixed economy is a prominent and successful model in the present developing economies. In this both private and public sectors take a lead role and try to achieve economic development. Both the sectors go hand-in-hand and more specifically, public sector play a major role in production and distribution.

Ambedkar did not support either capitalism or socialism. He believed that capitalism only benefits a select group of individuals, thus leading to class conflict. Wealth is accumulated in a few hands. Further, he asserts that capitalists exploit land resources as well as human resources, thus perpetrating exploitation of the lower strata of society. The lower strata of society consisting of the poor and marginalised sections do not take a proactive role in the production process.

This dangerous tendency spoils the very idea of equal distribution of wealth. Ambedkar believed that capitalism, which provides space to private ownership, can be a threat to the masses. Private ownership brings power to one class but problems to another. The reins of the socialist economic system, which is an alternative to capitalism, are in the hands of the state. This state ownership of property certainly leads to increased distribution of wealth and assets. However, interestingly, the state generally becomes monolithic and because of a totalitarian approach, it generally cannot create any base for either economy or the masses to grow.

3.4 STATE SOCIALISM

Ambedkar believed that the prime cause of poverty and exploitation of the masses was rooted in the economic organisation of the society which was based on private ownership of property. Socialistic economy took shape due to the yearning of the people for liberty and democracy. It was believed that a government in the form of parliamentary democracy would bring to human beings, the right to liberty, property and pursuit of happiness.

Ambedkar (1943), however, argued that even in countries pledged to democracy, there was an immense discontent against parliamentary democracy, and the discontent was due to the realization that it had failed to assure to the masses the right to liberty, property and pursuit of happiness. Despite the fact that parliamentary democracy had progressed by expanding the idea of political rights and recognised the principles of equality of social and economic opportunity, it had disappointed the masses.

In Ambedkar's views the cause of this failure may be found in wrong ideology and wrong organisations. As regards wrong ideology, Ambedkar argued that what has constrained parliamentary democracy in its ultimate pursuit is the idea of "Freedom of contract". This idea became sanctified and was upheld in the name of liberty; parliamentary democracy took no notice of economic inequalities and did not care to examine the result of the freedom of contract on the parties to the contract.

Ambedkar developed the linkage between individual liberty and the shape and form of economic structure of society more systematically in his book *State and Minorities* (1947). In this book, he proposed a political and economic structure for India in the form of "constitutional state socialism with Parliamentary Democracy." This was in fact a memorandum prepared for submission to the Constituent Assembly for acceptance.

Ambedkar highlighted contradictions between the capitalistic form of industrial organisation and the form of political organisation called parliamentary democracy. The first contradiction is between fabulous wealth and abject poverty, not in a simple form but in its aggravated form. The second contradiction is between the political and the economic systems.

> For the unemployed person's fear of starvation, the fear of losing house, fear of being compelled to take children away from school, the fear of having being on public charity are the factors too strong to permit a man to stand out of his fundamental rights. The poor are thus compelled to relinquish their fundamental rights for the sake of securing the privilege to work and subsist (Ambedkar 1947).

Ambedkar favoured an economic system that sought to limit the power of not only the government to impose arbitrary restraints but also of powerful individuals. He wanted a system that would eliminate the possibility of the more powerful having the power to impose arbitrary restraints on the less powerful or the ability to exercise control over the economic life of the people by being able to withdraw their privileges.

Ambedkar favoured state ownership in agriculture with collectivised method of cultivation and a modified form of state socialism in the field of industry, leaving other activities to the private sector. He also proposed the nationalisation of insurance to provide greater security to the individual. In Ambedkar's views, consolidation of holdings and tenancy legislations were worse than useless. Ambedkar did not leave the establishment of socialism to the will of the legislature. The establishment of state socialism by the law of the Constitution and thus makes it unalterable by any act of the legislature and the executive, in order to provide stability to socialism under parliamentary democracy. It attempts to establish state socialism without abrogating parliamentary democracy and without leaving its establishment to the will of the parliamentary democracy.

Ambedkar believed that it is only through this that one can achieve the following triple objectives:

- establish socialism (*i.e.* equality)
- retain parliamentary democracy (*i.e.* liberty)
- avoid dictatorship.

3.5 AMBEDKAR'S VIEW ON STATE SOCIALISM

State socialism is one of the alternative approaches for the development of all the sections of society. It can act as a solution to the problems inherent in capitalism and socialism. Ambedkar strongly believed that the involvement of state is essential for economic development. He believed that the state should take a proactive role in development so that the vulnerable and the poor can be benefitted.

State socialism provides better opportunities to communities and also curbs regional inequalities and exploitation of masses. Ambedkar believed that division and unequal distribution of resources was the main cause for suppression and exploitation of masses. So long as the exploitation exists in the system, the development would be impossible and a dream. Only the state could reduce this exploitation through state socialism.

Ambedkar believed in placing 'an obligation on the State to plan the economic life of the people on lines which would lead to highest point of productivity without closing every avenue to private enterprises and also provide for the equitable distribution of wealth.'

Accordingly, Ambedkar suggested an economic policy framework aimed at providing protection to the vulnerable sections of society against economic exploitation. This plan, elaborated in Clause 4, Article 2 of his Memorandum to the Constituent Assembly, is outlined as follows:

- Agriculture would be State industry.
- Key industries would be owned and run by the State.
- A life insurance policy would be compulsory for every adult citizen
- The State would acquire the subsisting rights in agricultural land held by private individuals as owners, tenants or mortgages, key and basic industries and the insurance sector and compensate the owners by issuing debentures.

- The agricultural land acquired would be divided into farms of standard size and would be let out to residents of villages as tenants without distinction of caste or creed.

Ambedkar's plan thus proposes state ownership of agriculture with a collectivised method of cultivation and a modified form of state socialism in the field of industry. According to Ambedkar:

> Consolidation of holdings and tenancy legislations are worse than useless. They cannot bring about prosperity to agriculture. Neither consolidation nor tenancy legislation can be of any help to landless labourers.

Industry and agriculture should go together in the current state of development. The agriculture sector is witnessing a low level of productivity and the productivity of labour has been declining with the advancement of various forces. With the spread of technology and the advent of market forces, the agriculture sector and small industry are at stake. Profitability and sustainability have become a question. Ambedkar rightly advocated that the state must address such issues. While addressing the issues of the poor and the marginalised, the state has to take initiative in providing basic resource distribution. Hence, it can be argued that state socialism is one of the alternative approaches to bring about equal distribution of wealth and welfare to the masses.

In the Indian context, the post-reform period has bridge the gap between poor and rich, between class and caste. This is the epoch of affirmative action by the government. Alternative opportunities are now available to the masses and the marginalised sections. However, unfortunately, this has not effectively happened with an active role of the state. So, as rightly stressed upon by Ambedkar, it is the need of the hour for the state to take an active and lead role.

3.6 LET US SUM UP

In this unit you have learned the effect of various economic systems on the process of development and the concepts of capitalism and socialism, with a special emphasis on state socialism. We have also discussed Ambedkar's views on state socialism and his contemplation towards the emancipation of human welfare and his deliberation on alternatives to capitalism and socialism. Ambedkar's state socialism is an alternative to both capitalism and socialism. His economic system aims to achieve the ideals of socialism in a parliamentary form of democracy. He balances both economic equality and social equality in his scheme of development. He is concerned with both production and distribution of wealth. Ambedkar argues for state ownership of agriculture and key industries. The state has to mimic a welfare state in minimizing the social and economic inequalities among people. In this time of globalization, Ambedkar's economic insights ensure economic growth along with social justice.

3.7 QUESTIONS TO CHECK YOUR PROGRESS

1) Critically evaluate Ambedkar's economic views on an alternative to capitalism and socialism.

2) Discuss the basic features of state socialism.

3) Explain various economic systems in the context of the current state of development.

4) Critically compare state socialism and mixed economy system. At the present state of development, which one do you think would be a better solution for development?

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UNIT 4 MARX VS BUDDHISM

Structure

4.1 OBJECTIVES

This unit would enable you to understand:

- Ambedkar's thought on Buddhism; and
- Ambedkar's views on Buddhism and Marxism.

4.2 INTRODUCTION

In this unit we will emphasis on Ambedkar's thought on Buddhism and it's comparison with Marxism. Buddhism is an age old philosophy in India. Gautam Buddha, born in 563 BC, propounded his philosophy which was epoch making. Bhim Rao Ambedkar, towards the end of his life was deeply influenced by Buddhism. Though he was committed to secularism in his entire life, by the end of it he embraced the Buddhist religion. The influence of Buddhism was so deep on the psyche of Ambedkar that he pondered over various aspects and attributes of Buddhism. One such deliberation of Ambedkar was to compare Buddhist political economy with the Marxist political economy, which he did in his long essay called *Buddha or Marx.*

Before going into the debate on Buddhist political economy and Marxist political economy, one must understand what does political economy imply? Political economy is a comparative tool in social sciences to compare the economic aspects of a given set of political systems. Though one cannot say with confidence whether Buddhism embodies a political economy or even a state system, Marxism clearly is a system of thought which deals with the concept of state as well as the economics of the state.

The aim of this chapter is to shed light on the relevance of Buddhism in modern times. For Ambedkar, Buddhism has more to offer to the world than just the concept of non-violence. He argues that Buddhism is far beyond Ahimsa, and in order to prove his case he enumerates various aspects of Buddhism. For example:

- Religion is necessary for a free society
- Man and morality must be the centre of religion. If not, religion is a cruel superstition.
- Unhappiness in the world is due to conflict of interest and the only way to solve it is to follow the *Ashtanga Marga*.
- Private ownership of property brings power to one class and sorrow to another.
- It is necessary for the good of society that this sorrow be removed by removing its cause.
- All human beings are equal.
- Worth, not birth, is the measure of man.

4.3 THE CREED OF MARX

Karl Marx, the nineteenth century philosopher, called his version of socialism, scientific socialism. This was in contrast with the socialisms of the earlier times. Marx believed his socialism was scientific because "his brand of socialism was inevitable and inescapable and that society was moving towards it and that nothing could prevent its march."[1] Ambedkar argues that though much of Marxism has already been proven wrong there were certain traits which are still present. They are:

1) The function of philosophy is to reconstruct the world and not to waste its time in explaining the origin of the world.
2) There is a conflict of interest between classes.
3) Private ownership of property brings power to one class and sorrow to another through exploitation.
4) It is necessary for the good of society that the sorrow be removed by the abolition of private property.

These four points enumerated by Ambedkar form the basis of the comparison between Buddha and Marx.

4.4 COMPARISON BETWEEN BUDDHA AND KARL MARX

Ambedkar starts with the first point about the function of philosophy and finds that Buddha and Marx are not very different on this point; rather they are quite in agreement. He cites a dialogue between Buddha and a brahmin, Pottapada. The brahmin asks about the origin of universe and living beings and their finiteness. To this Buddha has one simple reply that the origin of universe and its destruction are not the concerns of the Dhamma, rather Dhamma is concerned with right conduct, detachment, purification from lust, quietude, tranquillisation of heart, and most of all, Nirvana. In this dialogue Ambedkar finds similarity between Buddha and Marx.

On the point of class conflict, Ambedkar says: "As to the Buddha's own attitude towards class conflict, his doctrine of Ashtanga Marga recognizes that class conflict exists and that it is the class conflict which is the cause of misery."[2]

On the third point, Ambedkar cites the same dialogue of Buddha with Potthapada where Buddha says that end of misery is in *Dhamma*, because

that question (end of misery) is calculated to profit, is concerned with the Dhamma, redounds to the beginnings of the right conduct, to detachment, to purification from lusts, to quietude, to tranquillisation of heart, to real knowledge, to the insight of the higher stages of the Path and to Nirvana.[3]

According to Ambedkar "if for misery one reads exploitation, Buddha is not away from Marx."[4]

On the fourth point about abolition of private property, Ambedkar argues that the rules of the Sangha about possessions of *bhikkus* epitomize the Buddhist idea of non-possession of private property of any kind. According to the Sangha rules, a bhikku can have only the following eight articles as his private property:

1) A robe or piece of cloth for daily wear
2) Another robe or piece of cloth for daily wear
3) Another robe or piece of cloth for daily wear
4) A girdle for the loins
5) An alms-bowl
6) A razor
7) A needle
8) A water strainer.

Further the bikkhus were completely forbidden from receiving gold or silver for fear that with gold or silver they might buy something besides the eight things they are permitted to have.

The similarities between Buddha and Marx end here. On the question of means to achieve communism, Ambedkar contrasts the means employed by Buddha and Marx.

4.5 THE MEANS

In the part of the essay where Ambedkar discusses the means to communism, he argues that for Buddha there were three means to attain communism. One was observing *Panch Shila*. After the Enlightenment, Buddha gave a new gospel, whereby he declared that the world is full of misery and unhappiness. The cause of misery and unhappiness of man, according to Buddha, was two-fold:

1) man's own conduct
2) man's inequity towards others.

The objective of his gospel was to remove this misery and unhappiness.

To remove the first part of the misery of man, Buddha preached the practice of *Panch Shila*. To remove the second part of the misery of man, Buddha prescribed the Noble Eight-Fold Path (*Ashtanga marga).*

The *Panch Shila* consists of the following precepts:

1) Abstain from destroying or causing destruction of any living thing.

2) Abstain from stealing i.e. acquiring or keeping by fraud or violence, the property of another.

3) Abstain from telling untruth.

4) Abstain from lust.

5) Abstain from intoxicating drinks.

For the second part of the misery of man, Buddha prescribed the Noble Eight-Fold Path.

The various elements of the Noble Eight-Fold Path are:

1) Right views (freedom from superstition)

2) Right aims (high and worthy of intelligent and earnest men)

3) Right speech (kindly, open, truthful)

4) Right conduct (peaceful, honest, and pure)

5) Right livelihood (causing hurt or injury to no living being)

6) Right perseverance in all the other seven

7) Right mindfulness (with a watchful and active mind)

8) Right contemplation (earnest thought on the deep mysteries of life).

According to Ambedkar, the aim of the Noble Eight-Fold Path is "to establish on earth the kingdom of Righteousness, and thereby to banish sorrow and unhappiness from the World."[5]

The third aspect of the gospel is the concept of *Nibbana* or Nirvana. "The doctrine of Nibbana is an integral part of the doctrine of Noble Eight-Fold Path. Without Nibbana the realization of the Eight-Fold Path cannot be accomplished."[6] The Nibbana doctrine states that there are certain hindrances or *Asavas* in the way of realization of the Eight-Fold Path, the top ten, called the Ten Asavas being:

1) **The delusion of self:** So long as man will keep running after every material thing to satisfy his vanity there will be no Nibbana for him. Only when he will realize that he is merely a tiny part of the measureless whole and that how impermanent his being is, only then he can enter this narrow path.

2) **Doubt and Indecision:** "When a man's eyes are opened to the great mystery of existence, the impermanence of every individuality, he is likely to be assailed by doubt and indecision as to his actions. To do or not to do, after all my individuality is impermanent, such thoughts will make him indecisive or inactive."[7] But he will have to make a decision and follow his teacher, to accept the truth and to enter upon the struggle to conquer indecision or he will go no further than that.

3) **Dependence on the efficacy of Rites and Ceremonies:** Any resolution, however strong, will not lead to any culmination if man does not get rid of ritualism; of the

belief that no outward act or priestly intervention or holy ceremony will assist him in any way. Only when man overcomes this hindrance, will he be able to walk on the path of Nibbana.

4) Bodily passions.

5) Ill-will towards others.

6) Suppression of the desire for a future life with a material body.

7) The desire for a future life in an immaterial world.

8) Pride.

9) Self-righteousness.

10) Ignorance.

According to Ambedkar, Nibbana consisted of overcoming the above mentioned hindrances in pursuit of the Noble Eight-Fold Path.

The last part of the gospel of Buddha was the doctrine of *Paramitas*. Paramitas are the ten virtues which every human being must practice in their daily life. They are:

1) **Panna:** The Panna or wisdom requires that one must get all his doubts removed by questioning those wiser than oneself, by associating with the wise and by cultivating the different arts and sciences that help develop the mind.

2) **Sila:** Sila is moral temperament; the disposition not to do evil and to do good.

3) **Nekkhama:** Nekkhama is the renunciation of the pleasures of the world.

4) **Dana:** Dana means the giving of one's possessions, even blood and limb without expecting anything in return.

5) **Virya:** It is the right endeavour. It is putting one's utmost effort into the pursuit of something unflinchingly.

6) **Khanti:** It is forbearance i.e. not to meet hatred with hatred because hatred is not appeased by hatred. It is appeased by forbearance.

7) **Succa:** It means truth. A follower of Buddha does not lie. He only speaks the truth.

8) **Aditthana:** It is the resolute determination to reach the goal.

9) **Metta**: It means the feeling of brotherhood being extended to all, foe and friend, beast and man.

10) **Upekka** is detachment as against indifference. It is a state of mind where there is neither like nor dislike. Remaining unmoved by the result and yet engaged in the pursuit of it.

These are the four-fold gospels of Buddha.

1) *Panch Shila*.

2) The Noble Eight-Fold Path (*Ashtanga marga)*

3) The concept of *Nibbana* or Nirvana

4) The doctrine of *Paramitas*

According to Ambedkar these are the means to the communism of Buddha. On the other hand, if one considers the means of Marxist communism, one will find, Ambedkar argues, that Marxist means are "equally clear, short and swift. They are (1) violence and (2) Dictatorship of the Proletariat".[8] The communists argue in favour of violence because nothing else will destroy the present system and they favour dictatorship of proletariat because nothing else will be able to sustain the new system.

4.6 EVALUATION OF MEANS

After stating the means of both Buddhist as well as Marxist communism, Ambedkar begins with evaluation of the means.

The first aspect of Marxist means is the concept of violence. Ambedkar argues that though Buddha was against violence but "he was also in favour of justice and where justice required he permitted the use of force."[9]

To consolidate this point, Ambedkar cites the dialogue between Buddha and Sinha Senapati, the commander-in-chief of Vaishali. When the commander asked whether Buddha will allow the criminal to go scot-free in the name of Ahimsa?

Buddha replies:

An offender must be punished and an innocent man must be freed. It is not the fault of the Magistrate if he punishes an offender. The cause of punishment is the fault of the offender. The Magistrate who inflicts the punishment is only carrying out the Law. He does not become stained with Ahimsa.[10]

The basis of such explanation for Ambedkar is the maxim that "The end justifies the means".[11] To him, Prof John Dewey has distinguished between violence as a deliberate use of force as against force or energy that must be used for creative purposes. According to Ambedkar in the pursuit of an End, some other ends will invariably be lost which would be integral to the end achieved. Hence the use of force is inevitable, and the aim should be to regulate the use of force so that as many aims can be saved from being destroyed in the pursuit of destroying the evil one (offender). Buddha's understanding of Ahimsa was not as absolute as that of Mahavira, because Buddha would have allowed regulated use of force.

As far as the dictatorship was concerned, Buddha was strictly against it. Ambedkar states that Buddha was a born democrat and he died a democrat. This became clearer in the way the Bhikshu Sangha was constituted. Buddha was only one among many bhikshus and he never accepted any special treatment on account of being the leader of the Sangha. He was also a great equalitarian and lived by the same rules that applied to all bhikshus; whatever amenities were given to all bhikshus, Buddha accepted only those.

In comparison to Buddha, Marxist communism has applied rampant use of violence. Ambedkar asks a question:

Can a Communist say that in achieving their valuable end they have not destroyed other valuable ends? They have destroyed private property. Assuming that this is a valuable end;

can the Communist say that they have not destroyed other valuable end in the process of achieving it? How many people have they killed for achieving their end? Has human life no value?[12]

Ambedkar gives the example of dictatorship of proletariat in order to make the revolution a permanent revolution. Though he finds this aim admirable, Ambedkar asks whether in order to attain this aim, the communist did not destroy other aims. Since, as the common understanding goes, in dictatorship, personal liberty is lost in the name of duty, and the major difference between democracy and dictatorship is the presence of liberties in the former and the absence of liberties in the latter. The main emphasis in dictatorship is only on the duties of the individual.

Ambedkar further argues that for Buddha, the sustainability of the tenets of Buddhism depended on every individual and the strength of his moral righteousness. That all needed to be the soldiers of their Dhamma and the light unto themselves.

4.7 WITHERING AWAY OF THE STATE

The central question after the proletarian revolution was about the sustenance of the state after the revolution. The inherent contradiction of communist revolution was that the communists themselves knew that the proletarian state would not last forever, that ultimately the revolution would give way to withering away of the state. Hence Ambedkar posed two questions at the communists.

1) When will the proletarian state wither away?

2) What will take the place of the state when it withers away?

To both the questions communists had no satisfactory answers. Ambedkar argues that the reason for the instability of the proletarian state is the fact that it is based on brute force and violence and there is no spirituality to sustain it. Since communism does not favour any religion and Marx had even declared "Religion to be the Opium of people,"[13] communist revolutionaries, without any discrimination subdued all kinds of religions in Russia, especially Christianity.

Ambedkar contends that the objection of communists to religion, which might be true for Christianity, is certainly not true in the case of Buddhism. The reason being, for example, the Christian Sermon on the Mount glorifies poverty and weakness. It declares that heaven will belong to the poor. Such sermons go against the ideology of communism which favours materialistic well being for all. According to Ambedkar, Buddha does not vouch for poverty, rather "His teaching is to acquire wealth."[14] Hence here Buddhism and Marxism can finally meet.

Ambedkar summarises the whole argument with Buddha's preaching that wealth acquired legitimately and with just means, with one's arduous hardwork is a great blessing. Wealth acquired thus makes oneself, one's family, community, and the whole nation happy. Hence Buddhism is the answer to the communists' question as to how to sustain the classless society when the force is withdrawn.

The Buddha's method was to change the mind of man: to alter his disposition: so that whatever man does, he does it voluntarily without the use of force or compulsion. His main means to alter disposition of men was his Dhamma and the constant preaching of his Dhamma. The Buddha's way was not to force people to do what they did not like to do although it was good for them. His way was to alter the disposition of men so that they would do voluntarily what they would not otherwise do.[15]

Thus Ambedkar in his essay described how to employ Buddhist means to the communists' ends without bloodshed and violence. In this essay Ambedkar attempted to compare, contrast and collate major principles of Buddhism and Marxist communism to bring out a more wholesome approach to political economy of the state.

4.8 LET US SUM UP

In sum up, we dealt with Ambedkar's ideas regarding Buddhism and its comparison with Marxist communism. Though at the outset there may not seem any visible correlation between the two, but Ambedkar points out that both Buddhism and Marxism aim at community way of life. Due to its violent methodology, Marxism is not sustainable over a long period of time. Yet there is some merit in Marxism; at the same time there is a need to cure it of its violent nature. The answer to this question, for Ambedkar, is in Buddhism. Thus Ambedkar in his essay *Buddha or Marx*, step by step compares and contrasts Buddhism and Marxism, only to collate both the philosophies in the end.

4.9 QUESTIONS TO CHECK YOUR PROGRESS

1) What is political economy?
2) What are the traits of Marxism?
3) What are the precepts of Panch Shila?
4) What is the Noble Eight-Fold Path? Why is it important to Buddhism?
5) What may comprise the private property of a Buddhist monk? What role does it play in the function of Sangha?

SUGGESTED READINGS

Ambedkar, B R: *Selected Works of Dr B R Ambedkar.* https://www.mea.gov.in/Images/attach/amb/Volume_03.pdf

Marx, Karl: *Economic and Political Manuscript.* http://marxists.anu.edu.au/archive/marx/works/cw/volume03

Marx, Karl: *18th Brumaire of Louise Bonaparte.* https://www.marxists.org/archive/marx/works/download/pdf/18th-Brumaire.pdf

End Notes

[1]Ambedkar, B R : *Selected Works* https://www.mea.gov.in/Images/attach/amb/Volume_03.pdf pp. 443

[2] *Ibid.* pp. 445

[3]*Ibid* . pp. 446

[4]*Ibid* . Pp. 446

[5] *Ibid* . Pp. 448

[6] *Ibid.* Pp. 448

[7] *Ibid* . Pp. 448

[8] *Ibid* . Pp. 450

[9] *Ibid* . Pp. 450

[10] *Ibid* Pp. 451

[11] *Ibid* . Pp. 451

[12] *Ibid* . Pp. 452

[13] *Ibid* . Pp. 460

[14] *Ibid* . Pp. 460

[15] *Ibid* . Pp. 461