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ECONOMIC THOUGHT AND ITS APPLICATION  
AND METHODOLOGY IN INDIA

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The reported experiences of travelers suggest that there are three stages in the understanding of a foreign country. The first visit, especially if it is quite brief,--say no more than three weeks,-- leaves one with a number of sharp impressions and a conviction that one really understands the essential features of the culture. A second visit (or the fourth or fifth week of the first) plunges one into confusion. One is no longer able to ignore the persistently recurring exceptions to one's first generalizations. The complexity and variety of the country press in upon one, every simplification becomes demonstrably wrong, one loses completely one's self-confidence as an observer and becomes painfully aware of the inadequacies of any general statement. Finally, though this may not happen for twenty years or more, one recovers one's perspective, and finds the scene sufficiently familiar in every detail so that once again one can caricature the country in rough outline, confident that the features one consciously exaggerates are nevertheless the things it is most important for someone else to know about.

I did not fully realize until I had accepted this assignment what poor shape I am in to try to tell others the main characteristics of Indian economic thought and its application. I could have done this easily and with breezy assurance two or three years ago when my interests had just turned in the direction of Indian economic

problems and thinking. My generalizations would have been for the most part wrong, but they would have been at least clear and interesting and my own soul would have been at rest about them. Now I am in the second stage of confused insecurity. I shall try to simplify, but I shall not sleep well afterwards.

I feel particularly acutely one limitation. I am not a student of Indian history or of the history of Indian thought and philosophy. My concern with Indian problems dates mainly from the birth of India as an independent nation, and my reading of Indian economic literature is largely confined to quite recent writings and exclusively confined to publications in the English language. It is therefore entirely possible that there are rich veins in Indian economic thought that I have missed altogether. I am reasonably confident, however, that these veins, if they exist, do not intersect the main stream of Indian economic thought with which I am familiar. The roots of modern Indian economics lie mainly in the English classical tradition and I have found little either in the analytic content of the Indian journals or in footnote references in the English language literature to suggest that there has been an important influence coming to Indian economics from Hindu or other indigenous Indian philosophy. But I am conscious of my ignorance, and request correction on this point if I am mistaken.

The first point to be made about Indian economic writing is that there is a great deal of it and that it has a long tradition. The Indian Journal of Economics, which like the other two professional

journals described below patterned its form and scope after the Economic Journal of the Royal Economic Society, published its thirty-fifth volume in 1954. The contributors in that year, as throughout most of its history, were overwhelmingly Indian economists though it was founded by Professor H. Stanley Jevons. Unlike many of the other countries of Asia which have recently won their independence, India has for decades had a body of professional economists teaching and doing research at Indian universities. During the colonial period the great majority of these men received their professional training at Cambridge, Oxford, and the London School of Economics. They then returned to India to take up positions in the principal Indian universities, all of which have long had economics departments, or in the Indian Civil Service which the British, for some years prior to independence, systematically staffed with Indian personnel.

Thus when independence was achieved there was a substantial body of Indian economists eager to establish new outlets for their professional work, to strengthen existing institutions for promoting economic research, and to establish new institutions. In 1955 there were over 500 professional members of the thirty-seven year old Indian Economic Association, and this body was growing rapidly. There were many universities granting the Ph.D. in economics and a number of research centers doing advanced work in the field. Outstanding among these are three: the Delhi School of Economics under the direction of Professor V.K.R.V. Rao, the School of Economics and Sociology of the University of Bombay headed by

Professor C. N. Vakil, and the Gokhale Institute of Politics and Economics directed by Professor D. R. Gadgil. The Indian Economic Association launched the Indian Economic Journal, a quarterly, in 1953, and in the following year the Delhi School began publication of the Indian Economic Review as a biannual journal. That the flow of books on economics by Indians is as voluminous as that of periodical articles is indicated by the fact that of the thirty-two volumes reviewed in three representative issues of Indian journals last year fifteen were by Indians and were published in India.

To these professional journals should be added such reports, primarily statistical but containing analytic articles, as the Monthly Bulletin of the Reserve Bank of India, the Indian Labour Gazette issued monthly by the Ministry of Labour of the Government of India, Agricultural Situation in India issued monthly by the Ministry of Food and Agriculture, and other government publications. There is a substantial product from such organizations as the Indian Council for Agricultural Research, the Indian Society of Agricultural Economics, the Federation of Indian Chambers of Commerce, the Association of Indian Trade and Industry, and the like. For shorter analyses of current economic developments one can turn to such weeklies as the Eastern Economist edited in Delhi by Eric Da Costa, the Economic Weekly of Bombay, or Capital of Calcutta.

One cannot complete this quick review of the sheer scale of intellectual activity in economics in India without some mention of the correlative tradition of statistical enquiry, both practical

and theoretical. The Indian Statistical Institute at Calcutta, under the direction of Professor P. C. Mahalanobis is both a center of advanced graduate training and research in pure and applied statistics and the nerve center of the National Sample Survey, an ambitious effort supported by the Indian Government to secure continuing estimates of the national income and its components and of related magnitudes by sampling techniques. Here also is published Sankhya, the Indian Journal of Statistics, now in its fifteenth volume.

After this review of the level of activity in economics and related subjects in India you will perhaps understand my reluctance to characterize the product in a few sweeping generalizations. My first impulse is to insist that Indian economists are essentially members of an international professional fraternity more influenced by the pre-occupations and intellectual presuppositions of their colleagues throughout the world than by anything specifically and uniquely Indian. In some Asian countries this is true because the work done in those countries is done not by nationals of the country but mainly by westerners temporarily resident there. This is not true of India. The organizations described above are staffed almost exclusively by Indians and the journals edited and written by them. It is perhaps the more surprising that it is hard to find evidences of a distinctively Indian approach to economic theory. Leaving aside empirical work on Indian data, which I shall comment on presently, the theoretical articles one found in the journals until a few years

ago dealt with such familiar topics as consumers surplus, pricing under imperfect competition, quasi-rents, the propensity to consume, aspects of trade cycle theory, and the like.

This is presumably to be explained on three grounds. First, most Indian economists prior to World War II passed their formative years of undergraduate and graduate study at English universities where the intellectual problems presented to them were those that were interesting and absorbing their British tutors. Second, the language in which they continued to write and work after their return to India was English. They continued to look upon themselves as contributing to the main stream of British and American economic literature and thought of their potential audience at least as much in terms of the economists they had come to know in England as in terms of their Indian colleagues. Finally, until the very last years of British rule there was little incentive for Indian university people to work out a set of economic principles appropriate to the design of a grand strategy of economic policy for India. They were encouraged to equip themselves for technical jobs in the civil service, to learn how to apply the tools of statistical and applied economic analysis to Indian conditions, and to conduct empirical investigations into factual conditions in India, but not to challenge the basic organization or fundamental purposes of economic activity. Accordingly the best of them went into empirical and practical rather than purely theoretical work. Vakil's early work was on finance and trade, Rao's reputation

was made by his estimates of the national income of India, and Gadgil is known for the empirical surveys he has directed and for essays on such applied problems as railway rates and civil service salaries. All these men are first-class economists and all have written on theoretical issues. I am saying only that the bulk of their work until recently has been in fields other than pure theory. Those with a strong preference for pure theory tended to pick their problems from the models developed in the West. Gadgil speaks of "the founders of our discipline--the Physiocrats and Adam Smith--..."<sup>1</sup> In two recently published representative collections of Indian writings on economics, both well footnoted, there are only four footnote references to Indian economic literature other than government reports.<sup>2</sup>

My nervousness about the validity of any generalization prompts me to mention some exceptions. One of the preconceptions with which I approached the Indian literature was that of course I would find there a different set of fundamental conceptions of economic welfare from those embodied in the English classical tradition. I was thus delighted during my first two weeks in India to have a long talk with the head of the department of economics at a leading Indian university, who expounded at length his theory of the wantless

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<sup>1</sup>D. R. Gadgil, Economic Policy and Development (A Collection of Writings), Gokhale Institute of Politics and Economics, Publication No. 30, Poona, p. 2.

<sup>2</sup>D. R. Gadgil, Economic Policy and Development, and C. N. Vakil, ed., Papers in Economics, Silver Jubilee Memorial Volume, School of Economics and Sociology, University of Bombay, Bombay,



society. The problem of economic development, he explained, arose from the existence of a gap between human wants and the capacity of an economy to satisfy those wants. This gap could be closed in two ways: by expanding the output of goods and services or by reducing wants to the level of availabilities. Classical economics concentrated on the first of these, while he felt that the second was the correct method of India. I asked whether there was not a lower limit of consumption necessary for health and physical well being if not for survival, and if the consumption of many Indians was not below this lower limit. He denied this, insisting that even food requirements were a matter largely of habit and citing a recent case of an Indian girl who was alleged to have survived for some months with no nourishment whatsoever. Unfortunately for my preconceptions, none of his Indian colleagues were willing to take his theory of the wantless society seriously, possibly because shortly after this interview the Indian girl was disclosed by the papers to have been secretly receiving food daily.

R. Mukerjee of Lucknow, a distinguished sociologist and economist, has put forward in his writings the notion that whereas in the West the measure of success of the agricultural sector was taken to be the level of output per man, in the East a more appropriate and fundamental measure was taken to be the level of output per acre. Here again I thought perhaps I had found a fundamental divergence, but when this distinction was developed by an Italian economist

two years ago at a meeting of the International Economic Association it was vigorously attacked as unrepresentative of Indian thinking by C. N. Vakil.

It should be said that in the pre-independence writings on applied problems of many Indian economists there is to be found a concern with social welfare and a conception of the role of the state in the economy which would not follow from the more extreme forms of nineteenth century laissez faire doctrine. Critical attacks on the presuppositions of laissez faire are easy to find in the Indian literature. But to one brought up on the western literature of the thirties and forties there is nothing peculiarly Indian about the point of view put forward. The horse being beaten in these pieces certainly has little life left in him in the United States and none at all in Great Britain. The attacks are all border forays from a fortress whose bastions are all solidly classical. Indeed, given the strong Fabian socialist bias of the Congress Party's political thinking one might have expected to find Indians seizing on the Lange-Lerner models of socialist pricing and eagerly debating their application to India, but my limited probings have uncovered no extensive elaboration by Indians of formal socialist economic models. The above remarks are directed primarily at the pre-independence literature. While they are still largely applicable to more recent work, the policy problems posed by the great Indian development effort have affected economic thinking in India deeply in the last few years. I shall return to comment on these developments in a moment.

First, however, I should like to set a headstone on another of my preconceptions which I have reason to believe is still common among those unfamiliar with Indian economics. This was the notion that economics in India was primarily formal and insufficiently concerned with observation and measurement. It is difficult to see where this misconception comes from since a quick glance at the titles of a representative selection of Indian books and articles would be sufficient to dispel it. There are major studies of most of the industries in India, studies of labor conditions, studies of finance and banking, studies of almost every aspect of agriculture in the large and in the small, studies of crops, studies of villages, studies of the handloom industry, studies of unemployment, studies of almost every aspect of Indian economic life one could conceive of examining and measuring. A principal preoccupation of Indian economists has been serving on Inquiry (or Enquiry) Commissions set up in great profusion by both central and state governments to look into industries, railways, agriculture, exports, etc. Particularly popular have been social and economic surveys of cities or regions somewhat on the pattern of the early British social surveys.

In fact, Indian economics can perhaps be criticized for being a little "survey happy." This avid construction of questionnaires and construction of tables has frequently been pursued with no very clear notion of what the mass of factual material being collected was supposed to be used for. Indian empirical studies are as

subject as similar studies elsewhere to the weakness that when one goes to them with a sharply formulated analytic question one almost invariably finds that the particular information one needs was not collected by the study. Again there is certainly nothing peculiarly Indian about this. Economists all over the world are only gradually learning how to weave theoretical models and observable numbers together into an analytically coherent picture of reality. Indians are making as much, if not more, progress on this front as anybody else. If there is to be a bias toward one end or the other of the theory-fact spectrum, it is probably a good thing in a new nation that the bias should be at the empirical end. The quality of these surveys is, of course, variable. But while there are many relatively poor ones there are also some which show a high degree of statistical and observational sophistication.

Turning now to developments since independence, it is clear that the pre-independence bias of Indian economists first for tackling concrete policy problems like taxation, social insurance, utility rates, foreign trade policy, monetary policy, and the like and second for empirical investigation of all kinds prepared them better than the economists of most underdeveloped areas to be useful to the great experiment of planned development. There has been no break in the tradition of economic research but merely an acceleration and a sharper focus on the problems of growth.

First in the theoretical literature there has been a continuation of the effort to explore the relevance to Indian conditions of

western theory. Since many of the leading economists of today were doing their graduate work at a time when the literature was dominated by the Keynesian revolution, they are much occupied with exploring the applicability of Keynesian tools to developmental problems. They, like many of the rest of us, have become aware that a theoretical model conditioned by the imperatives of the great depression and hence essentially short run in its outlook was of limited utility in tackling the problems of long-run growth. The Keynesian emphasis on policies to relieve unemployment and stimulate investment has a superficial relevance to two of India's most pressing concerns,-- the underutilization of her huge labor force and the inadequacy of her rate of capital formation. A number of penetrating articles in the Indian journals have spelled out why this relevance is only superficial. They are beginning now to examine the applicability of some more recently fashionable tools, such as input-output analysis and linear programming, but there is still something of a lag. On the level of pure theory, India has still not made the frontier contributions to the analysis of economic growth which one might hope for from a country as fully embarked as she on the experiment of consciously promoting such growth.

Possibly the reason is to be found in the fact that Indian talents are too absorbed in the fascinating issues of current development policy to permit leisurely theoretical speculation. Certainly at the policy level there is much solid work going forward. Concern with the scope and shape of the Second Five Year

Plan, now being formulated, has concentrated attention on the key policy choices inescapably raised by such a plan. An interesting if somewhat false dichotomy has arisen between the advocates of what is called "physical planning" and those who support what is termed "financial planning." It is not easy to summarize this controversy, which is partly semantic. If I understand it correctly, the "financial planners" believe in starting from an estimate of the amounts of saving likely to be forthcoming from the private sector and the public revenues which can be raised under reasonable criteria of "sound" public finance, and proceeding to the formulation of a plan to fit these magnitudes. The "physical planners," on the other hand, want to set a fairly ambitious over-all goal in terms of a desirable percentage rate of growth of real gross national product, compute the amounts of physical capital required to implement such a program, estimate its annual cost, and then find somehow the resources to carry it out. The matching of these two procedures has led to some interesting discussion of such questions as the tolerable level of government deficits, the capital output ratios appropriate to different sectors of the economy, the marginal rates of saving to be expected or induced from increments to real output accruing to various segments of the population, and the like.

The issue of the appropriate roles of government and the private sector in development is one which is discussed more on a pragmatic than on a theoretical level. The Congress Party has adopted a resolution known as the Avadi Resolution on the

Socialistic Pattern of Society which is accepted widely from the left all the way to industrialists like Mr. Tata on the right as laying down the general philosophy governing public and private participation in development. There is much discussion of the meaning of this resolution and the steps to be taken to implement it. It is virtually universally accepted (except by the Communists) that the private sector has an important role to play, at least in the short run, but that it will be regulated and controlled by the government, and that government will own and operate such facilities as private industry is insufficiently vigorous in expanding. Thus the debate reduces to differences of opinion as to what constitutes a suitable level of incentive for private industry, how restrictive controls should be, and how far government should go in entering new fields. There is little scope in this debate for considerations drawn from economic theory, and the whole discussion has a common-sense, pragmatic tone.

Meanwhile there has been an acceleration of the tradition of empirical enquiry to develop the facts on which planning could be based. Major efforts are underway under both governmental and private auspices to improve the current estimation of national income. I have already referred to the National Sample Survey, the most elaborate effort that I know of anywhere in the world to develop current national income reporting on the basis of sampling techniques. There has recently been published a Rural Credit Survey which explored, again by constructing a national sample, all of

the factors which its designers believed bore on the present and future demand for and supply of credit in agriculture. The Planning Commission of the Government of India has established a Research Programmes Committee of leading economists which has, through grants to universities, stimulated a variety of surveys in various parts of India on (a) land reform, cooperation, and farm management, (b) savings, investment, and employment, and (c) regional development. A Taxation Enquiry Commission has recently completed an exhaustive study on all aspects of India's fiscal structure.

In summary, Indian economics has its roots in the same intellectual soil as American economics. It has flourished for at least thirty-five years, and has developed during that time fewer distinctively Indian characteristics than one might have expected. It has produced no great theoretical breakthroughs as yet, but much sensible commentary on Western theory, particularly in recent years since Indians have been struggling with the application of Western theory to development problems. It has a strong tradition both of concern with applied policy problems and of extensive empirical and statistical study. These traditions have given India a corps of economists of a high level of competence which gives reasonable assurance that Indian economic growth will not be inhibited by a shortage of this kind of expertise. If India is successful in achieving a self-sustaining rate of economic growth some of her best minds may be freed from the process of guiding that growth to construct a more general theoretical explanation of why it has occurred.

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