



# Concept of Economic Thought

Dr. Nalin Chirakkara  
Nimit Kumar

## **CONCEPT OF ECONOMIC THOUGHT**



# CONCEPT OF ECONOMIC THOUGHT

Dr. Nalin Chirakkara

Nimit Kumar





ALEXIS PRESS

*Published by:* Alexis Press, LLC, Jersey City, USA  
[www.alexispress.us](http://www.alexispress.us)

© RESERVED

This book contains information obtained from highly regarded resources.  
Copyright for individual contents remains with the authors.  
A wide variety of references are listed. Reasonable efforts have been made  
to publish reliable data and information, but the author and the publisher  
cannot assume responsibility for the validity of  
all materials or for the consequences of their use.

No part of this book may be reprinted, reproduced, transmitted,  
or utilized in any form by any electronic, mechanical, or other means,  
now known or hereinafter invented, including photocopying,  
microfilming and recording, or any information storage or retrieval system,  
without permission from the publishers.

For permission to photocopy or use material electronically  
from this work please access [alexispress.us](http://alexispress.us)

First Published 2022

*A catalogue record for this publication is available from the British Library*

*Library of Congress Cataloguing in Publication Data*

Includes bibliographical references and index.

Concept of Economic Thought by *Dr. Nalin Chirakkara, Nimit Kumar*

ISBN 978-1-64532-466-9

# CONTENTS

<b>Chapter 1.</b> Evolution of Economic Thought: A Comprehensive Overview .....	1
— <i>Dr. Nalin Chirakkara</i>	
<b>Chapter 2.</b> Aristotle's Ideal State: Contrast and Compare Plato's.....	11
— <i>Dr. Pramod Pandey</i>	
<b>Chapter 3.</b> Origin of Mercantilism: Exploring Its Underlying Causes.....	17
— <i>Mr. Ram Srinivas</i>	
<b>Chapter 4.</b> Economic Theories: Diverse Perspectives on Economic Systems .....	23
— <i>Dr. Srinivasan Palamalai</i>	
<b>Chapter 5.</b> Causes of the Rise of the Physiocracy .....	30
— <i>Dr. Ranganathan Kumar</i>	
<b>Chapter 6.</b> A Brief Overview about Naturalism and Optimism .....	39
— <i>Dr. Muralidhar Sunil</i>	
<b>Chapter 7.</b> Economic Contribution: Significance and Multi Dimensions Overview .....	47
— <i>Mr. Ashok Bhat</i>	
<b>Chapter 8.</b> Contribution and Utilitarianism :Enhancing Social Welfare .....	54
— <i>Ms. Anandasrinivasan Deviprabha</i>	
<b>Chapter 9.</b> Analysis of Socialists and Its Impact .....	60
— <i>Mr. Anil Gowda</i>	
<b>Chapter 10.</b> Exploring the Analysis of Political Economy.....	66
— <i>Ms. Pramoda Hegde</i>	
<b>Chapter 11.</b> Capitalist Crisis Hypothesis in Marxian Political Economy.....	74
— <i>Dr. Yagnamurthy Raja</i>	
<b>Chapter 12.</b> Understanding the Economic Theory and Its Significance.....	81
— <i>Dr. Vinay Muddu</i>	
<b>Chapter 13.</b> Importance of Economic Thought's History .....	89
— <i>Dr. Nalin Chirakkara</i>	
<b>Chapter 14.</b> Analysis of Mercantilism: Understanding Economic Power and Policies.....	96
— <i>Dr. Pramod Pandey</i>	
<b>Chapter 15.</b> Characteristics of Mercantilist Economic Ideology.....	104
— <i>Mr. Ram Srinivas</i>	
<b>Chapter 16.</b> Physiocracy Development:The Evolution of Agricultural Economics.....	111
— <i>Nimit Kumar</i>	
<b>Chapter 17.</b> Analysis of Schools of Socialism .....	120
— <i>Anand Joshi</i>	
<b>Chapter 18.</b> Analysis of Institutional Economics .....	126
— <i>Anand Joshi</i>	

<b>Chapter 19.</b> Criticism of British Economic Policy .....	132
— <i>Anushi Singh</i>	
<b>Chapter 20.</b> Examine Thiruvalluvar's Theory in Economic Thought.....	138
— <i>Vivek Anand Singh</i>	
<b>Chapter 21.</b> Concept of Bhai Dada Naoroji Theory in Economic Thought .....	145
— <i>Vipin Jain</i>	
<b>Chapter 22.</b> Concept of Mahadev Govind Ranade in Economic Thought .....	153
— <i>Pankhuri Agarwal</i>	
<b>Chapter 23.</b> Mahadev Govind Ranade's Agrarian Policy .....	162
— <i>Roma Khanna</i>	
<b>Chapter 24.</b> Investment in Railroads and Economic Growth .....	169
— <i>Charu Agarwal</i>	
<b>Chapter 25.</b> Analysis of Welfare Economics and Its Impact.....	175
— <i>Bindoo Malviya</i>	

# CHAPTER 1

## EVOLUTION OF ECONOMIC THOUGHT: A COMPREHENSIVE OVERVIEW

---

Dr. Nalin Chirakkara, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - nalinkumar@presidencyuniversity.in

### **ABSTRACT:**

Numerous schools of thought have emerged and shaped our knowledge of economic phenomena throughout history, which has seen tremendous intellectual development in the subject of economics. This abstract offers a summary of the history of economic theory, tracking it from prehistoric societies to the current day. Early economic theories were based on commerce, agriculture, and monetary systems and may be traced back to ancient civilizations like Mesopotamia, Egypt, and China. Notably, early efforts to control economic activity are seen in the Code of Hammurabi from ancient Babylon. The development of classical economics occurred throughout the classical era, which is characterised by the writings of influential intellectuals like Adam Smith and David Ricardo. The notion of free markets was first established in Adam Smith's landmark book *The Wealth of Nations*, which promoted the invisible hand of self-interest and competition as the main forces behind economic development and success. Understanding international commerce now has a new dimension thanks to Ricardo's idea of comparative advantage. Alternative viewpoints on economic behaviour, institutions, and the environment were offered by other schools, including institutional, behavioural, and ecological economics.

### **KEYWORDS:**

Economics, History, Political, Philosophy, Society.

### **INTRODUCTION**

The history of economic thought is a field that studies the evolution of economic theories by examining their roots, relationships, and, in some instances, outcomes. Political economy and economic ideas and philosophers from antiquity to the present are included in the history of economic philosophy. Before the nineteenth century, economics was not regarded as a distinct academic field. For instance, the ancient Greek philosopher Aristotle considered the art of wealth acquisition in his writings on politics and ethics. He also thought about whether it is preferable for property to be in private vs public hands. Thomas Aquinas and other mediaeval academics claimed that it was a moral need of enterprises to sell commodities at a fair price. Through feudalism in the middle Ages and mercantilist thinking in the Renaissance when individuals were interested in directing trade policy to benefit the national interest, economic thought developed. During the Industrial Revolution, when previously unfathomable scientific innovation, worldwide discovery, and material wealth were becoming a reality, Adam Smith's modern political economy first emerged.

The history of economic philosophy covers all of these advances as well as any future ones. Economic developments have always been followed by shifts in economic theory, and vice versa shifts in economic theory may also spur changes in economic policy [1], [2]. Economic philosophy has sometimes concentrated on features of human nature like greed and selfishness that often operate against the interests of everyone other times, it has seen economic activity as self-regulating and pursuing a common goal. The multitude of other disciplines that, like economics, developed independently have been consulted by economists as they address the issues of globalisation and the emergence of a global economy. By



building on their findings and joining with them in pursuit of the common goal of advancing human society, economic thought may be on the verge of reaching a new level of understanding. The history of economic philosophy may be presented in a number of different ways. To examine how economic theory is evolving in relation to the social and economic growth of society. To highlight the importance of economic thinking as one of the major currents of philosophical and political ideas to highlight the scientific process' internal dynamics, where fresh ideas and discoveries are produced as a result of economists' growing understanding of the field's limitations.

### **Economic History**

History of economic philosophy is not the same as economic history. Economic history is the study of the economic characteristics of ancient cultures, the history of how people used capital, labour, and land economically, or an analysis of how economies have performed in the past. It is concerned with the majority of people's lives, including how many were born and died, how much they made and spent, and how they worked and played. Although they are an improvement over the definition that stated an economic historian was someone who wrote as little history as possible for as much money as possible, such variations still only reveal that it is the type of history that requires knowledge of economics. Economic history invariably deals with large numbers and aggregates when it examines economic issues, such as demand and supply for goods and services, production costs, income levels, wealth distribution, the volume and direction of investment, or the makeup of international trade. The historical economic phenomena that need to be analysed for any particular era have no existence apart from the social, political, cultural, religious, and physical environments in which they took place, making the study of economic history crucial.

### **Economic Thought Development**

Any society's evolving economic system is a complicated web of people, groups, laws, and connections. Perceptions, values, beliefs, knowledge, and technology all had a role in creating this matrix. The economic process is intertwined with society and affects every facet of culture. Understanding the social, historical, and philosophical framework in which economic theory and the economic system are produced is essential. Individual economists may be taught to use economic methods like benefit/cost analysis without being aware of the philosophical and historical background of the instruments. It is also feasible to teach someone how to clean and operate a weapon without taking into account the situation surrounding its alternate applications. This is the distinction between education and training, between information and wisdom. Both are essential [3], [4].

The study of different viewpoints and explanations of how economic processes work is known as the history of economic thinking. Finding the elements that support various economic viewpoints is a crucial component of the study of economic thinking. It's also crucial to understand how analytical tools have changed through time and how various viewpoints and circumstances influence this usage. According to Mark Baugh, The aim of the historian of economic thinking is to demonstrate how certain assumptions give rise to specific types of analysis and then to inquire as to whether the analysis holds up when it is liberated from its ideological underpinning. Without a strong bias against the landed classes, it is improbable that Ricardo would have created his theory of international commerce, yet this idea endures regardless of such prejudices. Understanding the many economic theories, the reasons behind them, and how they have changed through time offers a historical and philosophical backdrop that promotes a more critical evaluation of the present day's economic instruments and their applications. Three benefits come with this crucial strategy.

The study of economic thought historically was formerly seen as an essential component of an economist's education in many nations. Nevertheless, this point of view has been eroding for a while. Many modern economists have little interest in the past of their field, and others

have strong reservations about the importance of learning about the past. There may be a number of reasons for this, but one of the primary ones is probably that contemporary economists more than their forebears see economics as a cumulative science in which new research and new insights are founded on knowledge that is continually being expanded and improved. Therefore, in a cumulative science, new discoveries will always have a tendency to render outdated and mistaken older researchers' theories. Even some economists make the claim that all of human thinking history consists of the wrong opinions of dead men.

However, studying the development of economic thinking is still important since it is important to understand how a topic came to be the way it is now while studying it. Understanding the internal dynamics of the topic is improved by studying the history of economic theory. The ideas and concepts that are included in the curriculum for students today are the output of prior generations of economists. The knowledge that economics has evolved via a process that is still ongoing now serves as motivation for individuals who want to try to learn more about the field and possibly even contribute to its future growth. It's also possible that reading earlier works may inspire new research by bringing to light and encouraging the rethinking of issues and useful ideas that have been overlooked in more recent work. The following are some justifications for why it could make sense to invest some time and energy in learning about the evolution of economic philosophy.

1. Investigating the past is fascinating. Reading about the philosophers and ideas of the past should be intriguing to anybody who is conversant with present economics. Even if one thinks a deceased man's beliefs were incorrect, studying them might be intriguing. In the same way that Einstein's discoveries did not render Newton useless in history, neither did Paul Samuelson and other economists of the 20th century render Adam Smith's life and work obsolete or uninteresting.
2. It is important to grasp the history of a discipline, particularly one whose scope and character have been contested, like economics. It provides a clearer picture of how the many sciences interact. This will aid the person who is considering how to use economic ideas correctly.
3. A thorough grasp of the place of economics as a unique member of a set of social sciences such as ethics, law, philosophy, sociology, etc. Can be gained by studying the history of economic thought.
4. Anyone can grasp certain terms or ideas that are often used, even in mainstream media, if they have some understanding of the history of thinking. For instance, while addressing a capitalist nation, we often witness overuse of economic words like Adam Smith's invisible hand in general writing in newspapers and other media. Similar to this, while discussing recession, Keynesian policies are used. Laissez faire was said when discussing LPG regulations.
5. Having a basic background of intellectual history helps one to appreciate how constantly changing and expanding the field of economics is, which in turn helps one to appreciate the nature of economic study. The development of economic science has always been fuelled by the efforts of those who have recognised its flaws and faults, according to the history of thinking.
6. Examining the foundations of economic theory and practise helps we avoid taking the incorrect course during economic crises like the one we are now experiencing. The history of economic philosophy is crucial to this subject.
7. Researching prior efforts at a theory using techniques of literary interpretation is aided by studying it.
8. According to proponents of the cumulative approach, the history of economic thinking shows a gradual development to ever-higher degrees of knowledge of economic reality. They contend that such research contributes to the development of

scholarship, which they define as the pursuit of broad and precise knowledge of the history of the workings of the human mind as revealed in written Records.

9. John Maynard Keynes thought it was important to research and put the knowledge of past economists to use. His writings are replete with allusions to prior economists.
10. Learning about the philosophical underpinnings of economics via the study of economic thinking is important for a good comprehension of theories micro, macro, etc.
11. Studying the intellectual legacy and how to read texts critically are two more things that may be learned through studying the history of economic thought.
12. To get fresh perspectives for current research, to comprehend the affiliation of ideas, what works and why, Economics as a history of economists.
13. Guidance in the face of revolutionary upheaval in science Epistemological argument. Study of the rivalry of ideas across schools, between cultures, and through time. With regards to cyclical developments. Regarding various factor markets, maintaining the reservoir of economic knowledge.

### **DISCUSSION**

Economic theory is divided into periods and schools, according to historians. This classification is useful for expositional purposes. Adam Smith, a Scottish economist, and later British economists like Robert Malthus and David Ricardo are considered to be part of the Classical School, which is recognised as the earliest school of economic thinking. The fundamental tenet of the classical school was that government should only have a minimal role in the economy and that markets function best when left alone. The strategy is unwaveringly laissez-faire and a strong conviction in the ability of markets to produce economic growth. Because the pricing mechanism functions as a powerful 'invisible hand' to direct resources to where they are most effectively used, markets should be allowed to operate unchecked. The emphasis of classical philosophy was that value was primarily determined by scarcity and manufacturing costs. The classical economists made the macroeconomic assumption that the economy would always revert to a level of real production that was equal to full employment via an automatic self-adjustment process. There is general agreement that the Classical era lasted until 1870.

#### **Neo-Classical**

Modern economic theory developed from the diverse body of views known as the neo-classical school of economic philosophy. The approach is unmistakably scientific, based on presumptions, hypotheses, and tries to extract broad guidelines or principles about business and customer behaviour. Neo-classical economics, for instance, makes the assumption that economic actors would act rationally, with consumers seeking to maximise utility and businesses seeking to maximise profits. Demand and supply theory is based on the opposing goals of maximising profitability and utility. The emphasis on marginal values, such as marginal cost and marginal utility, was another significant contribution of neo-classical economics. The work of William Jevons, Carl Menger, and Leon Walras is regarded as neo-classical [5], [6].

#### **Classical New**

The Neoclassical School served as the foundation for the New Classical School. Microeconomics and models built on it are important, according to the New Classical School. All actors are seen to want to maximise their utility and have reasonable expectations, according to New Classical economics. They also think that the market always clears. According to New Classical economists, inflation can be managed by monetary policy, but discretionary fiscal policy is unstable and unemployment is mostly a voluntary phenomenon [7], [8].

#### **The Economics of Keynes**

The basic macroeconomic theories of British economist John Maynard Keynes are largely adopted by Keynesian economists. Keynes is recognised as the most significant economist of the 20th century, despite losing popularity in the 1970s and 1980s as new classical economics rose to prominence. Keynesian economists essentially doubt that free markets will invariably evolve towards a full employment equilibrium if left unchecked. The interventionist nature of the Keynesian approach stems from the idea that self-interest, which controls microeconomic activity, does not necessarily result in long-term macroeconomic growth or immediate macroeconomic stability. A key component of Keynesian economics is the idea of aggregate demand and the most effective ways to influence it via macroeconomic policy.

### **Monetarism**

The Chicago School of economic thinking is another name for monetary theory, which is also sometimes used. Milton Friedman is the most well-known proponent of monetary theory, which generally favours a free market economy. According to monetarist economists, it is the duty of the state to restrain inflation by regulating the availability of money. Markets are normally obvious, according to monetarists, and players are usually logically grounded expectations. The idea that governments can manage demand and that such efforts are unstable and likely to cause inflation is rejected by monetarists.

### **Austrian Institute**

An older school of economics, the Austrian School, is seeing some popularity growth. Austrian school economists believe that the ideal form of government involvement is limited since human conduct is too unique to be properly predicted by mathematics. With regard to the economic cycle, the effects of capital intensity, and the significance of time and opportunity costs in determining consumption and value, the Austrian school has made helpful hypotheses and explanations.

### **Historical Economic Theory**

For the majority of history, social ideas in general served as economics' only distinct identity. Adam Smith thought of economics as a branch of law even as late as the seventeenth century. The identification of economics with a self-regulatory market process gave economics its unique character. The market's discovery as a self-regulatory process was a phenomena of the seventeenth century. However, ancient Greece, the birthplace of Western civilisation, was where the roots of economic analysis were first planted.

### **Economic Theory in Greece**

Greece never saw the development of economics as a distinct science. The study of politics and ethics was ancillary to the analysis of economic issues. When it comes to how Greek philosophers approached these issues, their views are a reflection of how economically straightforward their society was. We need only consider the vast international scope of our modern commercial problems, our massive manufacturing plants with their steam and electric power, our enormous wealth and its extreme concentration, the untold complexity of modern business and finance, the vast territorial expanse of modern nations, almost all our luxuries and commonplace comforts, without passing judgement on the issue of the extent of capitalism in ancient Athens. But because of this restriction, the Greeks were forced to think about their issues more in terms of people than of goods, and as a consequence, their understanding of economics was sometimes more accurate and true than ours.

When he said that people, not inanimate objects, are the main focus of economics, Aristotle set the standard for Greek economic philosophy [9], [10]. Greek economists did not arrive at their theories by a deliberate investigation of the issues associated with material prosperity. All business dealings were evaluated mainly in light of morality and public good. The citizen was solely seen as a wealth owner and not as a producer. The most brilliant economists are now adamantly clinging to the Greek principle that economic issues must be seen from the perspective of the full man as a member of society. The focus of modern political economics

has shifted from riches to man, and everything is now based on his genuine wellbeing. All that is noble and genuine in our nature, including love, kindness, selflessness, and generosity, has a place in economic life. The Greeks believed that the study of man must inevitably begin and conclude any field of study that deals with riches since it is far from being a gospel of Mammon.

### **Plato's Economic Theories**

Ancient Greek philosopher Plato lived from 428 BC to 348 BC. He was also a mathematician, a disciple of Socrates, a philosopher, and the founder of the Academy at Athens, the first higher education institution in the Western world. He also wrote philosophical dialogues. The roots of Western philosophy and science were laid by Plato, his teacher Socrates, and their pupil Aristotle. Many modern scholars could easily agree with Plato's definition of economics, which goes as follows. Economics is the science which deals with the satisfaction of human wants through exchange, seeking so to regulate the industries of the state as to make its citizens good and happy, and so to promote the highest well-being of the whole. The Socratics' claim that all economic operations must ultimately root in the market is supported by one of the most recent historians of economic thought.

### **The Ideal State Hypothesis of Plato**

The Republic, Plato's best-known work, contains the philosophy of the perfect state. In terms of a state, Plato offers suggestions on how to create an ideal commonwealth, who the ideal rulers should be, and how to uphold justice in the ideal state. Because everything is simpler to understand in the big picture than in the tiny, Plato believes that the state is a better location to debate morality than an individual. According to Plato, a state is a man writ in the sky. The components of the individual human soul are analogous to the components of a metropolis. The same rules of justice apply to the city as they do to a person. There isn't one morality for the individual and another for the state, according to Plato. Every state has three pieces, which are its three classes, just as each individual human soul has three parts. The following components make up the human soul.

1. Physical appetite.
2. Element spirits.
3. Reason.

Every state contains three components, like the tripartite individual human soul, such as the producer class, 3rd military class and governing class. According to Plato, the diverse demands of individuals are where the state first emerged. Nobody is independent. Men established the political system in order to satisfy their diverse wants. According to Plato, the producing class was the only class in existence at first. Then the guardian class appeared. The governing class developed from the guardian class. In a state, individuals whose physiological cravings are predominate and who live for money make up the producer class. Farmers, blacksmiths, fisherman, and carpenters ashore, makers, weavers, workers, merchants, retailers, and bankers make up the producer class. Compared to the rulers or guardians, the producing class has a considerably simpler existence.

The product class lives according to the well-worn routines of house and property, family and kids, job, relaxation, and entertainment. The producers are by nature wealthy. Each person in the producer class will get an education by learning a skill or profession for example, farming, banking, or carpentry in accordance with their aptitudes and the requirements of the community, both of which will be decided by the guardians. Men who have a strong competitive spirit and a willingness to take risks in order to succeed will make up the military class. The people who make up the ruling class will be chosen from among those men whose rationality prevails and who only exists for the truth. Only the top echelon of the sanest should control a state. Each of these three groups will play a crucial role for the state's organic whole in the ideal state.

### Choosing the Governing Class

The choice of the ruling class is where Plato places the greatest attention. The governing class is chosen from all classes based on innate intellectual ability. Both men and women have the innate ability to be intelligent enough to join the ruling class. According to Plato, a highly educated individual who is passionate about the truth and has attained the highest level of intelligence and understanding of the good would lead a perfect society. The Philosopher King is the title given to the ruler of this perfect society. The Philosopher King must carry out a number of crucial duties. According to Plato, the rulers should be those who have had a complete education and have learned to distinguish between the visible and invisible worlds, the worlds of opinion and the world of knowledge, and the worlds of appearance and actuality. The Philosopher King, to put it briefly, is someone whose education has guided him up gradually through the escalating degrees of knowledge of the dividing line until he has attained knowledge of the good.

The Philosopher King will have advanced through many levels of knowledge to get to this position. He will have received instruction in literature, music, and basic mathematics by the time he is eighteen. His writings would be suppressed. Additionally, music would be recommended such that a healthier, martial metre would take the place of the seduction music. There would be intensive physical and military training throughout the next years. A select few would be chosen at the age of twenty to enrol in an advanced mathematics course. A five-year education in moral philosophy and dialectic would start at age thirty. For the following fifteen years, I would work in government to get real-world experience. The most intelligent men would eventually achieve the pinnacle of knowledge at age fifty, develop a vision of the good, and then be prepared to take on the responsibility of running the country.

The military class and the governing elite are both prohibited from owning any private property or money. Men and women must live together as soldiers in barracks, sharing shared areas for eating and sleeping. The producers will provide their food, clothes, and tools. This cuisine must be straightforward and consumed in moderation only. In order to prevent any conflicts between their commitment to their families and their loyalty to the state, they do not have any families of their own. They are only allowed to have sexual fulfilment during formally sanctioned, occasional instances when they are not expected to bear offspring in order to sustain the size of the guardian class. These events, which Plato refers to as holy Marriage, are short-term partnerships intended to result in offspring. Similar to the human soul, a state will accomplish justice when each class performs its assigned duties. A universal virtue is justice. It indicates that each component is doing its own duties. The artisans will exhibit the virtue of moderation as they represent the element of appetite. Temperance pertains to all classes and is not only for artisans since it shows that, when it is attained, thereadiness of the lower to submit to higher authority. Still, the craftsman below the two higher tiers must exercise temperance in a specific manner.

The state's protectors, known as guardians, are examples of the virtue of bravery. So that the state may be certain that these guardians would always do their duties. They get special instruction and accommodations. The guardians will share women and property, unlike the artisans who marry and possess both. Plato believed that in order for the guardians to develop genuine courage which is defined as understanding what to fear and what not to these arrangements were necessary. The only thing the guardian should really be afraid of is moral evil. He must never worry about being in a position of need, thus his way of life must be devoid of material belongings. As a result, Plato presents the philosophy of an ideal state in his Republic. Later on, however, Aristotle harshly criticised the doctrine of the ideal condition.

Plato is an advocate of a state-regulated system of education. Plato defined education as the introduction of the soul into a suitable environment for the formation of the state, not the

accumulation of outward knowledge. According to Plato, a state may control crime by implementing an appropriate educational system. Plato places education higher on the priority list than any other Greek philosopher. Plato proposed the communism of women and property as a social order. As he believes that both the community of property and the community of families incline them to produce genuinely governing class, Plato suggests communism for the guardian and ruling class. According to Plato, the governing elite class should only hold what is absolutely required in terms of property.

### **Aristotle's Economic Theories**

Greek philosopher Aristotle, who lived from 384 BC to 322 BC, studied under Plato and instructed Alexander the Great. His publications touch on a wide range of topics, such as politics, governance, ethics, biology, zoology, theatre, music, poetry, linguistics, logic, rhetoric, and metaphysics. One of the key architects of Western philosophy, along with Plato and Socrates Plato's mentor, was Aristotle. The first complete system of Western philosophy, including ethics, aesthetics, logic, science, politics, and metaphysics, was developed by Aristotle in his works. *Politics*, *Nicomachean Ethics*, *Rhetoric*, *Economics*, and *Rhetoric to Alexander* are the primary books in which Aristotle develops his economic theories. Aristotle discusses ethics in economics and looks at both the micro and macro levels of the economy.

He founded economics on needs, examined the nature of those needs, and then went on to identify the economic goods that satisfy those needs. He discusses production and the factors involved, the distribution of labour, the importance of the primary, secondary, and tertiary sectors, and the stages in the evolution of the economy. He also looks at the phenomena of an area's economy, as well as its growth and prosperity, in light of financial policy. The significance of his intellectual work is shown to have persisted until the current day thanks to the inclusion of the subjective experience of value as a result, he has had the greatest historical impact on economic philosophy. Aristotle wanted the city-state to be prosperous, self-sufficient, and to have a fair distribution of work. Greek philosophy got the closest to creating a unique theory of economics while examining the components of home administration. The terms economics *oikonomik* and *chrematistics* *chrematistic* are distinguished here the former focuses primarily on wealth consumption in satiating wants and the provision of those necessary and useful commodities that can be stored to do so, while the latter is concerned with obtaining wealth, including money-making and exchange. Aristotle writes on the latter, saying, and there is another element of a household, the so-called art of money-making or finance, which, according to some, is identical with household management, according to others, a major part of it.

The only branch of *chrematistics* that should be incorporated in economics or family management is the natural or proper branch. The difference between a thing's legitimate or natural uses and its unnatural or improper uses is closely related to the previous analysis. Of anything we own, there are two uses: the right use and the inappropriate or secondary use. Both are legitimate uses of the item, but not in the same way. This distinction rests on Aristotle's notion of exchange, which, in turn, is founded on the idea that there is a certain consumption which is sufficient for a proper life for instance, he says that retail trade is not a natural part of money-making, adding that had it been so, men would have ceased to exchange when they had enough. In other words, natural characteristics do not preclude the exchange of goods and services.

### **Private Property in Aristotle**

Since the time of the Lyceum, Aristotle's views have had a significant influence on social and economic theory. Aristotle's awareness of the critical significance of private property is his greatest contribution. Aristotle opposed the communism of the ruling class that Plato promoted. Plato's collectivist paradise, in Aristotle's view, is incompatible with human diversity and the reciprocal benefits of commercial trading. Even Plato understood the value

of the division of work. In *The Republic*, Plato has Socrates observe that we are not all same there are numerous variations of nature among us that are suited to various jobs. Aristotle articulated the universal features of private property that strengthened his instance:

1. Private property is more efficient and advances society.
2. Managing common property always involves conflict.
3. Private property is inherent to the essence of man. The innate passion of private possession is linked to the love of oneself, money, and property.
4. Private property has always been a thing.
5. Only private property provides the means for moral action, including the exercise of the virtues of charity and generosity.

### **Money, exchange, and value in Aristotle**

Marx's theory of economic value and most of the economic analysis of money until the twenty-first century were both founded on Aristotle's work on money, which served as the foundation for mediaeval ideas about trade. The understanding of Aristotle's work on money has changed throughout the last century. In this paper, it is claimed that Aristotle did provide a logical explanation of economic wealth, trade, and money. According to Aristotle, ethics and economics are in conflict with one another and serve as competing sources of information when making decisions that affect the public. Despite his erroneous statement that the lending of money at interest was against nature, Aristotle also had a generally favourable and correct perspective of money. He rightly recognised money's expansion as a driving force behind rising output and trade. According to him, money serves as an exchange medium that reflects overall demand and binds all products together. Aristotle continues by stating that the issue of the double coincidence of desires is resolved when everyone sells products for money. Each trader is no longer required to directly want the items of the other merchant.

Money reflects human need or want, which provides the impetus for commerce and binds everything together, according to Aristotle. The usefulness or attractiveness of an item determines demand. Aristotle takes a persuasive method to analysing how varying supply levels affect a good's value. It is also possible to hear the echoes of a marginal utility theory of value and its solution to the value problem. According to Aristotle, when a good's quantity reaches a saturation threshold, its use-value drastically decreases and is rendered irrelevant. He draws attention to the converse effect, which states that when a good's supply decreases, its perceived value increases. What is uncommon is a greater benefit than what is abundant, according to Aristotle's *Rhetoric*. Gold is thus superior than iron, although being less useful. Much closer than many economists of the seventeenth century, albeit still not a total denial of the paradox of value.

Aristotle properly described the method through which the value of finished goods is attributed to the producing components or methods. Aristotle claims in both the *Topics* and the *Rhetoric* that the worth of the tools of production comes from the tools of action, or the finished goods that are beneficial to people. The value of the methods used to produce a thing increases with its subjective worth. In his statement Judge by means of an addition, and see if the addition of A to the same thing as B makes the whole more desirable than the addition of B, Aristotle touches on the marginal component in this imputation. In contrast to the value of a good's addition, Aristotle properly emphasises the worth of a loss. That is the larger good, and its loss has a bigger impact on us than its opposite, which is the greater evil. Aristotle extended his research by pointing out that although a saw is more useful than a sickle in the carpentry trade, it is not always so. The production elements are crucial to the process as a whole. Aristotle also observed that a product with several uses is more appealing than one with only one purpose. Aristotle gave economists more than two thousand years later good insight into the economic theory of imputation and marginal production.

### **CONCLUSION**



The scope of economic research has recently been significantly broadened by new academic disciplines including development economics, game theory, and behavioural finance that integrate multidisciplinary perspectives and address current issues. This summary offers a comprehensive review of the evolution of economic philosophy, emphasising significant schools of thought and their historical contributions. Understanding the development of economic theories may help researchers and policymakers better grasp the variety of viewpoints that have influenced the discipline, leading to a greater comprehension of the intricacies of economic systems and influencing current economic discourse and decision-making.

**REFERENCES:**

- [1] M. Bowley And R. L. Meek, “Economics And Ideology And Other Essays: Studies In The Development Of Economic Thought.,” *Economica*, 1969, Doi: 10.2307/2556254.
- [2] M. Lemanowicz, “Innovation In Economic Theory And The Development Of Economic Thought,” *Acta Sci. Pol. Oeconomia*, 2015.
- [3] A. J. Youngson And Lord Robbins, “The Theory Of Economic Development In The History Of Economic Thought.,” *Economica*, 1969, Doi: 10.2307/2551911.
- [4] N. Rina Kus Afriana, M. Muslimah, And I. Qalyubi, “Peran Bahasa Dalam Teks – Teks Perkembangan Pemikiran Ekonomi Islam,” *J. Al-Qiyam*, 2021, Doi: 10.33648/Alqiyam.V2i1.159.
- [5] L. H. Handoko, “History Of Islamic Economic Thought: A Content Analysis,” *Libr. Philos. Pract.*, 2020.
- [6] S. Sharma, “The Death Of Political Economy: A Retrospective Overview Of Economic Thought,” *Economic Research-Ekonomska Istrazivanja* . 2020. Doi: 10.1080/1331677x.2020.1761854.
- [7] L. Sandonà, “Francis’ Economic Thought: His Case For An Inclusive Economy,” *Forum Soc. Econ.*, 2020, Doi: 10.1080/07360932.2017.1279557.
- [8] Q. A. Bakir And Z. K. Nawaf, “The Impact Of Islamic Economic Thought On Europe,” *Dirasat Hum. Soc. Sci.*, 2020.
- [9] C. Sugiyama, “The Development Of Economic Thought In Meiji Japan,” *Mod. Asian Stud.*, 1968, Doi: 10.1017/S0026749x00001918.
- [10] A. Adji, “Stigler’s Influential Contribution To Economic Thought,” *J. Indones. Econ. Bus.*, 2017, Doi: 10.22146/Jieb.22981.

## CHAPTER 2

### ARISTOTLE'S IDEAL STATE: CONTRAST AND COMPARE PLATO'S

---

Dr. Pramod Pandey, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - pramodkumar@presidencyuniversity.in

#### **ABSTRACT:**

Two well-known Greek philosophers, Plato and Aristotle, provided opposing yet significant theories of the perfect society. This abstract analyses and contrasts each of their political philosophies to highlight the key distinctions between them. The notion of a utopian society ruled by philosopher-kings forms the foundation of Plato's vision of the perfect state, as described in his seminal book *The Republic*. Plato places a strong emphasis on education because he wants to raise up philosopher-rulers who are wise and moral. In his worldview, there are three separate groups in society the rulers, the auxiliary, and the producer. Plato's conviction in the inherent inequality of people is reflected in this hierarchical framework, which strives to preserve harmony by ensuring that each class plays the part assigned to it. The severe regimen of communal life, shared property, and constrained personal liberties that Plato describes as the ideal state is also intended to foster social cohesiveness and the pursuit of knowledge and wisdom. Aristotle advocates a more inclusive and balanced approach that fosters individual happiness within a community framework, in contrast to Plato, whose ideal state is based on a strict hierarchy and strives to repress individual wants for the sake of the whole. Aristotle places a greater emphasis on the development of moral character in people whereas Plato stresses abstract goals and the search for knowledge.

#### **KEYWORDS:**

Commerce, Education, Law, Philosophy, Society.

#### **INTRODUCTION**

Plato and Aristotle, who lived at the height of Greek philosophy, made significant contributions to political philosophy in addition to other disciplines. In this essay, we will assess the areas of convergence and divergence among both of these Socratic philosophers' recommendations for the ideal state. The Optimal State A state is first described as a territorial entity divided into government and subject and claiming within its allotted area, supremacy over all other institutions The adjective ideal indicates a perfected standard simply. As a result, a state that is based on a flawless norm can only be an ideal one. According to their philosophical outlook on man, both Plato and Aristotle dictated what these flawless norms on which the state should be established, should be. The following are some of the many things they both agree on. Contrasting the ideal condition of Plato and Aristotle.

1. **Justice:** Justice serves as the cornerstone of the ideal state, which is ethical for both parties. According to Plato, the state and the person are one since each has three components, and justice results from a healthy balance between them. According to Aristotle, the city-state polis is created for the purpose of life but continues to exist for the good life.
2. **Democracy's Detractors:** They both thought democracy to be the worst kind of governance. Democracy is the worst of all legal best governments and the finest of all illegal worst ones, according to Plato. Aristotle believed that a perverted polity degenerates into democracy a sort of mob rule, which is an undesirable type of governance.

3. **Education:** According to Plato, everyone must be given an equal chance to demonstrate their worth in order to determine where they fit in the social hierarchy. This is the reason he founded the school. Aristotle believed that as a matter of public policy, education should be governed by laws. Because each person is a component of the state, the care given to each naturally moves towards the care of the total. Similar to Plato, Aristotle founded the Lyceum as a school.
4. **Slavery and Racial Stratification:** Both justified the fact that certain individuals are slaves by nature and saw slaves as the property of their masters. This could be due to the fact that both thinkers come from affluent aristocratic households. For Plato, the guardians, auxiliaries, and artisans are the three social categories of citizens. According to Aristotle, they are the rich, middle class, and poor. The ideal state's size is both suggested that the ideal condition be compact in order to make achieving perfection simpler. Athens, the capital of Greece, was a little nation. Additionally, Greece as a whole was split up into little city states, each of which had its own independent government and judicial system[1], [2].

### **Contrasting the Ideal States of Plato and Aristotle**

#### **Private Property**

In his communism, Plato made recommendations for the abolition of private property, particularly for the guardians and auxiliary. According to Plato, whatever property that they must possess must be owned jointly. Their social hierarchy and propensity to misuse such privileges may be to blame for this. Aristotle, on the other hand, opposed the abolishment of private property since he acknowledged the need of owning it, despite the fact that private ownership of things must adhere to certain restrictions. Therefore, he preached against the excessive acquisition of commodities and counselled people to make the most of their limited resources for the betterment of everyone[3], [4].

#### **Feminism**

The republican ideal state envisioned by Plato supports feminism in that girls and women should be able to pursue careers in politics and government just like men. Thus, a person's sexual orientation typically has little bearing on their eligibility for job or education. According to Aristotle, women are often submissive to males since men are by nature superior and women are inferior. Women are dominated by males, yet they are not treated as property. Aristotle thus acknowledges the traditional patriarchal subordination of women to males.

#### **The Idea of Rule**

The rule of the best man the philosopher monarch who alone is aware of the ideal norms for the state has been used to sum up Plato's political philosophy. As even the finest man has to be taught to govern, ruling is also a talent. An ideal is to rule. The rule of the best laws also known as Aristotle's theory of government is a well-ordered constitution that promotes excellent governance. Although Aristotle saw politics as a normative or prescriptive discipline rather than as a purely empirical or descriptive investigation, for him, governing is both a talent and an ideal as well as a science.

#### **Family**

In his communism, Plato suggests doing away with the family unit by stating that the guardians and auxiliaries would share a woman instead of having separate ones. At birth, parents should be divorced, and the state should raise the child. As a result, there will be less discord and greater togetherness[5], [6]. Aristotle disagrees and maintains that the family is the cornerstone of the nation and the basic civilization created in accordance with the natural law to meet man's basic needs. According to him, he detested communism because everyone is inclined to neglect something that he expects another to fulfil as in families, many attendants are often less useful than a few.

## DISCUSSION

Muslim philosopher Ibn Khaldun lived in the fourteenth century. On May 27, 1332, Ibn Khaldun was born in Tunis. He had a superb education in Islam, logic, philosophy, law, grammar, and poetry, all of which were intended to help him develop the traits of a great leader. To comprehend human conduct and history, Ibn Khaldun studied economics, sociology, political science, and other sciences. Ibn Khaldun made significant contributions to the development of economic philosophy, although they have received little attention from academics. In *An Introduction to History*, he discusses a variety of topics, including the emergence and dissolution of states. His works on economics, economic surplus, and policies with an economic focus are still important now just as they were before. Many industrialised nations have taken note of his focus on reducing government spending on mercenary armies and are now putting his policy recommendations into practice in an effort to enhance economic surplus by allocating resources to human development and education. Taxes and tariffs that impeded commerce and manufacturing were opposed by him.

Ibn Khaldun was against the government being involved in business and manufacturing. He believed that officials do not share the same goals as businesspeople and are unable to comprehend economic activity. He foresees a relative drop in economic excess and the collapse of the nations where they exist. Trading and manufacturing activities. A sizable army, in his opinion, serves as a barrier to the growth of commerce, industry, and economic surplus. Ibn Khaldun was the first to methodically examine how an economy works, the value of technology, specialisation, and foreign commerce in creating economic surplus, as well as the function of the state and its stabilisation policies in boosting production and employment. In addition, Ibn Khaldun addressed issues relating to the best taxes, the bare minimum of services provided by the government, incentives, institutional framework, law and order, expectancies, production, and the theory of value. Ibn Khaldun is once again the first economist to explain the rise and fall of countries in terms of biology while also having economic excess at his disposal.

The backdrop for his history is his cogent general economic theory. *An Introduction to History*, which is the first comprehensive general economic theory ever developed to explain and forecast the development and fall of civilizations, states, and empires. His theory has the empirical and theoretical capacity to forecast the very life of the state in addition to explaining the effects of governmental policies on production and trade, investment, and specialization. Prior to Adam Smith by over three centuries, Ibn Khaldun had made the observation that specialisation is the main source of economic profit. According to Ibn Khaldun, the entrepreneur is urged to dedicate himself to more commerce and production when the atmosphere is favourable for specialisation. Indeed, a person would specialise in a field where he or she may reap the rewards of their labour. He believed that specialisation depends on population, commerce, output, and minimal taxes under conditions of law and order. Ibn Khaldun has so clearly explained the concepts of mass production, learning via experience, and on-the-job training in the aforementioned statement that more explanation is not necessary. It is crucial to point out that in the late 1950s, essays in *Economic Literature* dealt with the identical ideas with which Ibn Khaldun had dealt in his works.

Ibn Khaldun defined specialisation as the coordination of several production factor functions where what is obtained through the cooperation of a group, of human beings satisfies the need of a number many times greater than themselves. Ibn Khaldun, who was once again centuries ahead of his time, proposed that supply and demand determines how much things cost. When an item is in great demand and limited supply, its price is high. The businessperson will purchase the products where they are cheap and abundant and sell them at a high price where they are scarce and in demand. Naturally, a good's price will be cheap when it is in abundance. City dwellers have more food than they need. As a result, food is

often inexpensive, barring catastrophes brought on by celestial circumstances that might disrupt the supply of food. Additionally, he understood the long-term cost of manufacturing in the Marshallian sense.

Ibn Khaldun argues in favour of a sound monetary policy. He disagrees with government initiatives that manipulate the value of money. He worries that the government may be persuaded to play fast and loose with the value of money in order to construct palaces and pay for mercenary troops. It will result in inflation. People will stop believing in money. Additionally, these changes are seen to be unfair. The preservation of the buying power of money must be put into practice as the society's guiding principle since it is an issue of fairness. To accomplish this, he suggested creating a separate monetary authority with the Chief Justice as its leader God-fearing man to stop the ruling class from fearlessly seducing them with the value of money and debasing the currency [7], [8].

For him, a stable monetary policy with the goal of preserving the buying power of money is necessary as a matter of justice. When the authorities debase the money, the populace must be shielded from their unfair practices. People have more faith in money, commerce, and production when it is steady and sound. For him, less government spending on palaces and bureaucracy, less spending on mercenary forces, less taxes, and a stable currency for commerce and manufacturing are what the community needs. Ibn Khaldun opposed government involvement in both commercial and agricultural pursuits as well as in setting prices for products and services. The king will be able to force the seller to lower his price and forces the merchants or farmers who deal in these particular products to buy from him when the government uses force by buying things up at a cheapest possible price. The kings and queens promise to purchase agricultural products and commodities from their owners who come to them, at rates determined by them as they deem proper. Then, at the appropriate periods, and at prices they decide upon, they resale these items to the people under their control.

Given political stability and solidarity aSaniyah, for the rise of the nations, there must be a firm of establishment of private property rights and freedom of enterprise. Rule of law and the reliability of judicial system for the establishment of justice. The security of peace and the security of trade routes. Lower and less taxation in order to increase employment, production and revenues. Less bureaucracy and much smaller efficient army. No government involvement in trade, production and commercial affairs. No fixation of prices by the government. A rule that does not give monopoly power to anyone in the market Stable monetary policy and independent monetary authority that does not play with the value of money. A larger population and a larger market for greater specialization. A creative education system for independent thinking and behaviour. The collective responsibility and internal feeling for the setting up of adjust system to encourage good deeds and prevent vice.

### **St. Thomas Aquinas' Economic Theories**

One of the most significant mediaeval thinkers and theologians was Saint Thomas Aquinas 1225–74, an Italian Catholic priest. He was greatly inspired by Aristotle and Scholasticism, and he is renowned for his synthesis of the two ideologies. Although he produced several philosophical and theological writings throughout the course of his life, the *Summa Theological* is his most significant contribution. The concept of natural law is important to Aquinas' view of economics. According to him, natural law is an ethic that results from abiding by the basic principles of human nature. These standards might be seen as God's intention for creation. Perverting God's intent for a specific aspect of His creation is illegal. Aquinas believed that economic transactions should be taken into consideration. They fit into this paradigm because they happen when people try to use resources that nature has given them to accomplish goals.

The economic institution of private property is beneficial because it supports man's innate yearning for order. Therefore, Aquinas claims in the *Summa Theological*, the possession of things is not opposed to the natural law, but an addition thereto devised by human reason. However, the state has the power to uphold laws that govern business, such as those that prohibit theft, coercion, and fraud. In this manner, natural law is reflected in civil law. Furthermore, Aquinas thought that private property ownership is the greatest assurance of a tranquil and orderly society since it maximises incentives for careful property management. Aquinas assisted in easing the historically pessimistic perception of commercial commerce that was prevalent, for instance, in Patristic philosophy. According to Aquinas, commerce is not inherently bad rather, its moral value is determined by the trader's intentions and actions. Furthermore, the danger involved in transporting products from a place where they are plentiful to one where they are rare warrants commercial profit. However, the trader must use his gains for honourable purposes.

### **Regarding Exchange and Value**

According to Aquinas, the topic of exchange in barter circumstances was crucial. He thought that the exchange rate between different products suggested that each good must have a value and that this would lead to a moral conundrum. The only exchange that would be fair to both the buyer and the seller or in this case, the traders, since there was little to no market for surplus commodities would be one in which two identical goods were exchanged for the same quantity, but this would be redundant. For him, this brought up questions of equality and justice about the ethical side of pricing. Usury is now understood to be the practise of charging high interest on loans. Usury was the term used to describe any charge of interest throughout the Scholastic era. A loan throughout the middle Ages was typically for a good and was seldom, if ever, intended as a way to create money. Usury was outlawed by the Second Lateran Council 1139 with clear biblical support. The assumption of any interest on loans was seen unfair and in violation of natural law by both Aristotle and Aquinas.

### **On Good and Justice**

At the heart of Scholastic views is the idea that man's relationships with his society are guided by his autonomy and free choice. Aquinas, Adam Smith, J.S. Mill, and Karl Marx are just a few who incorporated this moral theory into economics. It is a matter of general knowledge that our actions are driven by many goals, including wealth, honour, material pleasure, social status, etc. The real good is revealed when these goals are balanced with what is best for ourselves and our community. For instance, servitude or slavery is advantageous for the one exerting power over another, and it may also be advantageous for the servant if the servant has no other means of support. As much as Karl Marx, St. Thomas is aware of the humiliation imposed on man by what Marx calls the alienation of labour for the benefit of another, and what St. Thomas termed more simply slavery. However, the private utility of another is unfair and denies the respect and will of the other.

### **Scholasticism**

The school of economic philosophy that emerged in Europe throughout the middle Ages 500–1500 is known as scholasticism The Schoolmen. The study of commerce, value, and ownership in relation to historical context is a subject that scholarly philosophers are recognised for treating with a moral and philosophical perspective period. St. Thomas Aquinas is renowned among the scholastics for his innovative, though sometimes unclear, contributions to the early debates on value, pricing, private property, and usury or interest. The Scholastics, or Schoolmen as they are more popularly known today, were in the forefront of establishing economic theory within the context of philosophy up to the advent of Mercantilism in the 14th century. Roman Catholic Thomas Aquinas, who was born in Sicily, was perhaps the most important economist of the Scholastic era[9], [10].

Feudalism was the social system through which Scholasticism developed. The church, led by the Pope, was the ultimate source of power in the feudal system that prevailed in mediaeval Europe. In a feudal system, the sovereign of a country or territory gave his subordinates nobles, barons, lords, etc. authority, responsibility, and land concessions. With the understanding that the baron had complete control over the land, set his own laws and taxes, and had the authority to summon everyone to serve the monarch, these barons would then sublet property to landlords. At that time, it was the humble serfs' responsibility to take care of the land and to provide whenever it was needed free work, food, and service. Custom, tradition, and authority all had a role in determining the relationship between the lord and the serf. Religious theologians of the period were motivated by this class dynamic to consider the moral and ethical issues that were raised whenever two or more persons joined into a trade or contract.

### CONCLUSION

Aristotle, Plato's illustrious pupil, however, creates a more realistic view of the ideal state in his book *Politics*. According to Aristotle, the state is seen as a natural and organic thing that develops from the social essence of humans. He supports a society that considers the interests and qualities of a wide spectrum of people, unlike Plato, who denies the reality of diversity. Aristotle believes that the finest kind of government is a hybrid one that combines aspects of monarchy, aristocracy, and democracy. He promotes moderation and stability as essential tenets of the ideal state and stresses the significance of a middle-class populace. The divergent views on the ideal state held by Plato and Aristotle, providing insight into their different political philosophies. Their disparate views on governing, human nature, and the place of people in society are revealed by the comparative examination. By studying their writings, we are better able to comprehend the ongoing arguments about the nature of politics, the pursuit of the common good, and the function of the state in promoting the well-being of people.

### REFERENCES:

- [1] D. Rauhut And A. Humer, "Eu Cohesion Policy And Spatial Economic Growth: Trajectories In Economic Thought," *Eur. Plan. Stud.*, 2020, Doi: 10.1080/09654313.2019.1709416.
- [2] S. K. Rizkiah And A. Chachi, "The Relevance Of Ibn Khaldun's Economic Thought In The Contemporary World," *Turkish J. Islam. Econ.*, 2020, Doi: 10.26414/A074.
- [3] "On Economic Inequality And Schools Of Economic Thought," *Econ. Altern.*, 2020, Doi: 10.37075/Ea.2020.4.01.
- [4] G. Hailu, "Economic Thoughts On Covid-19 For Canadian Food Processors," *Can. J. Agric. Econ.*, 2020, Doi: 10.1111/Cjag.12241.
- [5] T. A. Szlezak And S. Delcomminette, "Die Idee Des Guten In Platons Politeia: Beobachtungen Zu Den Mittleren Buchern," *Rev. Philos. Louv.*, 2003.
- [6] F. D. Miller, "Aristotle On The Ideal Constitution," In *A Companion To Aristotle: B: Politics*, 2009. Doi: 10.1002/9781444305661.Ch34.
- [7] P. Kouba, "The Problem Of Mental Disorder," In *Contributions To Phenomenology*, 2015. Doi: 10.1007/978-3-319-10323-5\_4.
- [8] A. J. Cascardi, *Cervantes, Literature And The Discourse Of Politics*. 2011. Doi: 10.1215/26885220-103.3-4.585.
- [9] E. I. J. Rosenthal, "Ibn Rushd: The Consummation," In *Political Thought In Medieval Islam*, 2010. Doi: 10.1017/Cbo9780511735332.011.
- [10] G. B. Flanagan, "Emerson's Democratic Platonism In Representative Men," In *A Political Companion To Ralph Waldo Emerson*, 2011.

### CHAPTER 3

## ORIGIN OF MERCANTILISM: EXPLORING ITS UNDERLYING CAUSES

---

Mr. Ram Srinivas, Assistant Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - ramsrinivas@presidencyuniversity.in

#### **ABSTRACT:**

The economic and political climate of the period gave rise to mercantilism, a theory of economics that dominated European thinking from the 16th through the 18th century. The origins of mercantilism's growth and its effects on the early modern economies of Europe are examined in this abstract. Several interrelated variables acted as the main drivers behind the rise of mercantilism. Greater economic activity and the building of riches via trade were a result of the discovery of new trade routes and the growth of foreign colonies. By enacting policies that prioritised exports over imports and aimed to maintain a positive trade balance, European nations attempted to increase their part of the global economy. The dominant ideas of national wealth, which linked prosperity with the ownership of precious metals, notably gold and silver, had an impact on the mercantilist theory. The development of economic theories that provide justification for government interference in economic concerns also aided mercantilism. Mercantilists promoted the use of protectionist policies including tariffs, subsidies, and colonial monopolies to support domestic industry and safeguard essential resources. Furthermore, the development of nation-states in Europe and the concentration of political power gave leaders the ability to carry out mercantilist policies successfully. Economic prosperity was seen by monarchs and governments as being crucial to preserving political stability and achieving their goals.

#### **KEYWORDS:**

Commerce, Domestic, Governments, Economy, Mercantilism.

#### **INTRODUCTION**

The goal of mercantilism is to create a strong and prosperous state via economic nationalism. The word mercantile system was first used by Adam Smith to refer to the political economy that aimed to benefit the nation by restricting imports and promoting exports. From the fifteenth until the late eighteenth century, this system dominated economic theory and policy in Western Europe. These measures were expected to be implemented in order to sustain domestic employment as well as a favourable trade balance that would bring in gold and silver. The commercial system promoted the interests of producers and merchants like the British East India Company, whose operations were protected or fostered by the state, in contrast to the laissez-faire of the nineteenth and early twentieth centuries or the physio-cratie agricultural system [1], [2].

The consolidation of the regional power centres of the feudal age by big, competing nation-states was the primary economic justification for mercantilism in the sixteenth century. The founding of colonies outside of Europe, the expansion of European trade and industry relative to agriculture, the expansion of trade volume and breadth, and the rise in the use of metallic monetary systems, particularly gold and silver, relative to barter exchanges were additional contributing factors. Military warfare between nation-states was more prevalent and broad than at any previous point in history during the mercantilist era. The major protagonists' armies and fleets were full-time, professional forces instead than being temporary units formed to combat a particular danger or goal. The main economic goal of any administration



was to control a sufficient amount of real cash to fund a military that would help in its own geographical growth while preventing invasions from other nations.

The majority of mercantilist policies were a result of the interaction between nation-state governments and their mercantile classes. The mercantile classes forced governments to create laws that would safeguard their commercial interests from international competition in return for paying levies and taxes to fund the militaries of the nation-states. Alexander Grey points out that the term mercantilism is deceptive and misleading. Various authors have provided varying definitions of mercantilism. Mercantilism was a battle against stifling mediaeval thought and practise, claims Lachman. It was a revolution against medievalism with the intention of rebuilding economic life according to a more sensible plan. Edmund Whittaker believed that mercantilism was the financial equivalent of political nationalism. It was the ideological basis for commercial capitalism, according to Heiman[3], [4].

Thus, realistic businesspeople, merchants, and administrators in a variety of European nations, including England, France, Italy, Germany, Scotland, and Spain, made up the bulk of mercantilist authors. They left a wealth of writings on current domestic economic issues behind. They do not constitute an economics school. Therefore, mercantilism is a proper name for the beliefs and practises that dominated the economic landscape of England and a portion of Europe between the end of the 16th century and the middle of the 18th century. Foreign commerce was emphasised by mercantilist authors as a method of amassing wealth and fortifying a country. It would be good to look more closely at these reasons because they combined cultural, theological, political, and economic variables to contribute to the emergence of Mercantilism. Due to the Reformation and Protestantism, Europe saw a significant religious and intellectual awakening at the start of the sixteenth century.

The concepts of individualism and personal freedom received a major boost from these two movements, which are associated with the names of Erasmus and Martin Luther, respectively. They also made significant contributions to the development of the concepts of property and contract rights, which in turn fuelled the growth of trade and free exchange[5], [6]. Before these movements took hold, the Pope had a privileged position in the religious world and had the power to intervene in secular affairs. With the advent of Protestantism, the emphasis on money in life increased, and efforts were made to limit the Pope's power to questions of faith alone and avoid his meddling in economic and political issues. By establishing national churches, the church's status even internationally was put in jeopardy. For instance, Henry VIII founded the Church of England and assumed leadership of it after seizing the church's property in England. The humanist aspect was accentuated and played an even more crucial role throughout the Renaissance.

It argued that happiness on this planet should be preferred over the promised joys of the other world, challenging the mediaeval theologian notion that happiness in heaven should be favoured above earthly happiness. In other words, it focused on the purely materialistic foundations of enjoyment for people. Following the acceptance of the humanist and individualist tenets, a great number of authors, painters, and philosophers emphasised the economic underpinnings of society in their works, upending the theological foundations of the church. The rise of mercantilism in the economic arena was largely aided by the collapse of feudalism. Economic self-sufficiency, agricultural output, and the lack of a trading economy were characteristics of the feudal system. The agriculturalists were compelled to do free labour on the lords' fields for a certain amount of time. In times of war, they were also obligated to serve as soldiers for the lords. These agriculturalists strove to ensure local food grain self-sufficiency since there were no organised industries and even commercial crops were not in high demand.

The production was done mostly to satisfy local demands as there were no organised marketplaces. As a consequence, a home economy that is autonomous and focused on local

self-sufficiency has grown. Most importantly, there was no efficient governmental apparatus. Guilds and municipalities made an effort to control commerce between various locations in cities and towns. However, as trade increased, different personal commercial interests came to the fore. Nearly all of them sought for a powerful central figure to defend them against competition. This was not practicable in the absence of a national administration, and the connection was unquestionably weak. The dilemma of labour and distribution was brought on by the expansion of trade and the home economy. But the advent of the exchange economy was perhaps the most significant element that encouraged the growth of mercantilism. International commerce increased as a result, which in turn promoted massive manufacturing. It was thought that the economic life should be controlled in order to make better use of the economic resources that were already accessible. Colonialism evolved as a result of the need for new trade routes and the discovery of new nations and islands.

### DISCUSSION

In a nutshell, we can conclude that the abolition of feudalism, a lack of governmental organisation, and the emergence of free working classes, competition, and the growth of the exchange economy all served as stimuli for mercantilism. The increase of mercantilism is a result of several reasons. Therefore, in order to comprehend the fundamental principles of mercantilism, one must first grasp the social, economic, political, cultural, and scientific transformations that occurred in Europe between the 13th and 14th centuries. The key elements are listed below:

1. **Economic Factor:** At the end of the 15th century, Europe was experiencing major economic transformation. The demise of feudalism and its eventual replacement by commercial capitalism was a significant economic development. The emergence of a trade system was replacing the domestic self-sufficiency. The feudalistic local economy of self-sufficiency was gradually being replaced by the market economy. Trade and commerce were taking the role of agriculture. The volume of monetary transactions was growing quickly. The feudal society was quickly disintegrating, and the market economy was steadily developing. This opened the door for the development of a money-based commercial system.
2. **Political Aspects:** The shift from feudalism to nationalism was the primary political transformation. A robust nation state was being developed in the foreground. The emergence of nation states replaced feudalism in many European nations. These nations needed a powerful government. The merchants and commercial community looked forward to a strong centre to defend them from competitors and to foster their business interests. Machiavelli and Jean Bodines proposed the necessity for a united national state under a powerful monarch.
3. **Religious Aspects:** Protectionism and the Reformation both promoted individuality and personal independence. The Roman Catholic Church's hegemony and the power of the Pope were overthrown by the Reformation movement. The development of property rights and contract rights, which were crucial for the expansion of business, was greatly aided by these developments in religion. The emerging Protestant faith permitted the obtaining of material possessions and real estate. The new religion advocated for individual independence and total liberty. Over time, the Protestant faith grew significantly and was accepted by businesspeople.
4. **Cultural Aspects:** Heavenly bliss was emphasised in mediaeval religion. It urged individuals to distance themselves from worldly prosperity. In response to this, the society underwent two significant cultural shifts. They are humanism and the Renaissance. These cultural shifts placed more emphasis on trade and business, economic accumulation, and creative human endeavours. This new philosophy was

able to support the desire for wealth accumulation among traders and merchants. In actuality, medievalism's moral and idealistic outlook was opposed by mercantilism.

- 5. Discoveries and Innovations:** Numerous discoveries and inventions contributed significantly to the growth of mercantilist ideas as well as the promotion of trade and commerce. The discovery of the Mariner's Compass, Columbus' discovery of America, the discovery of gold and silver mines in the New World, the printing press, a new sea route to India, etc. all contributed significantly to the growth of international commerce and international markets. All of the aforementioned elements contributed to the development of mercantilism, a novel effort in the direction of commercial merchant capitalism in European nations.

#### **Important mercantilism-related economic ideas**

The economic theory of mercantilism was created by secular persons, mostly commercial businesspeople who were privately involved in selling and purchasing things, as opposed to the economic literature of scholasticism, which was created by mediaeval churchmen. The writing they created centred on issues of economic policy and was often connected to an idea the merchant and writer who was one person was attempting to advance [7], [8]. Because of this, there was often a great deal of cynicism about the analytical strength of certain arguments and the veracity of their findings. Few writers could claim that they were sufficiently disengaged from their personal difficulties to provide unbiased economic analysis. Nevertheless, during the course of mercantilism, both the volume more than 2000 economic works were written in the 16th and 17th centuries and the quality of economic writing increased.

The mercantilist literature between 1650 and 1750 was noticeably of better calibre these authors developed or at least briefly discussed practically every analytical idea that served as the foundation for Adam Smith's *Wealth of Nations*, which was published in 1776. It has been said that everyone in the period of mercantilism was his own economist. It is difficult to make generalisations about the literature that resulted from the extremely different viewpoints that the numerous authors between 1500 and 1750 had. Additionally, each author preferred to focus on a single subject, no one author was able to convincingly synthesise these ideas to have an impact on how economic theory later developed [9], [10].

Second, the best way to understand mercantilism is as an intellectual response to contemporary issues. The mercantilists attempted to ascertain the best strategies for advancing the strength and riches of the country, the policies that would most effectively consolidate and grow the power and prosperity of the rising economies, during this time of the demise of feudalism and the development of nation-states. The mercantilist presumption that the entire amount of wealth in the globe was fixed and constant is what is particularly significant in this case. The assumption was applied to international commerce, and the authors came to the conclusion that any rise in a nation's wealth and economic might came at the cost of other countries the rest of the world. Therefore, the mercantilists emphasised global commerce as a way to boost a nation's riches and influence. They believed that economic activity in general, and international trade in particular, was a zero-sum game, which is a game in which neither player can win in a two-person zero-sum game, the payoff to one player is the opposite of that going to the other player. Therefore, mercantilists contend that the effects of trade on the world's wealth cannot be realised. It is a really sad premise, and contemporary economics do not agree with it. Most mercantilists believed that the purpose of economic activity was production, not consumption, as later classical economics would have it. They argued for raising the country's wealth through promoting production, boosting exports, and reducing domestic consumption all at once. As a result, in reality, the nation's prosperity depended on how poor many people were. They promoted high levels of production, export, and home consumption once again.

In order to give the home economy a competitive edge in world commerce, they also suggested cheap wages. The majority of mercantilists believed that wages for employees should be set at the subsistence level, enabling workers to maintain their lifestyles while limiting their consumption to that which is necessary to do so. According to mercantilists, higher wages would force workers to restrict their work hours and national productivity, resulting in a decline in national wealth. Therefore, poverty for the majority helps the country when the objective of economic activity is defined in terms of national production rather than in terms of national consumption. Another unfortunate result of mercantilist economic theory is this.

The third basic observation regarding mercantilism is their emphasis on the idea of trade balance. The total of an economy's profit from selling exports less the cost of purchasing imports is the balance of trade number, often known as net exports. A trade surplus, sometimes referred to as a positive balance of trade, is created when one exports more money than one imports. A trade deficit, sometimes referred to as a negative balance of trade, is created when more goods are imported than exported. As of right now, neither a positive nor negative trade balance poses a risk to contemporary economies, while large surpluses or deficits may sometimes be an indication of more serious issues. Mercantilists believe that in order to attain a so-called favourable or positive balance of trade, a nation should boost exports while discouraging imports via the use of tariffs, quotas, subsidies, taxes, and other similar measures. Government intervention in the domestic economy and trade rules should be used to boost production. Protective charges should be imposed on imported manufactured products, and the government should promote the importation of low-cost raw materials for use in producing items for export.

Fourth, the mercantilists pushed for a favourable trade balance. Many early mercantilists believed that a country's prosperity was determined by its holdings of precious metals, such as gold or silver, rather than by its production or consumption. They argued in favour of a positive trade balance since doing so would promote a flow of precious metals into the domestic economy, which would balance the trade. Keep in mind that later or most prominent mercantilists linked a nation's wealth with its whole productivity. While for early mercantilists, the nation's wealth was made up of the precious metals amassed inside its borders. The original mercantilists maintained that each country should have a trade balance that is in their favour. However, some later authors contended that the only important trade balance was the global one. Because it might import inexpensive raw materials from India to make products in England for sale, even though England could have a trade deficit with India, it may still have a positive total trade balance with all other countries.

The export of precious metals or bullion, such as gold or silver in bars, was a similar problem. Early mercantilists advocated for a severe ban on bullion exports. Later authors hypothesised that exporting bullion, if utilised to buy the raw materials for export products, may enhance global trade balances. The early mercantilists linked a nation's wealth with the stock of precious metals it possessed domestically. This brings us to the fifth and last point regarding mercantilist theory: money. They were astonished by the import of the massive influx of precious metals from the New World, especially from America, into Europe, and especially into Spain. Therefore, it is not strange that people learned to associate gold and silver with a country's prosperity. Later mercantilists, on the other hand, adopted a more sophisticated viewpoint and connected a country's wealth to its whole output. They were able to get insightful analytical understandings of how money functions in an economy. The belief that monetary variables, namely the money supply, rather than real factors such as the amount of labour, capital goods, and the like, are the primary drivers of economic activity, is a key component of this late mercantilist literature. They claimed that the expansion of both domestic and foreign commerce depends largely on there being an appropriate supply of

money. They held that variations in the amount of money result in variations in the magnitude of actual production. Accordingly, a positive trade balance, which would result in a flow of funds into the domestic economy, would raise production and real output and so help to improve the nation's wealth.

### CONCLUSION

Mercantilism has both beneficial and harmful effects. On the plus side, mercantilism aided in the growth of home businesses, fostered international trade expansion, and supported the establishment of colonial empires. Additionally, it enhanced the state's authority and promoted a feeling of economic nationalism. Mercantilism, however, also had disadvantages. Trade imbalances and tense international relations were often the results of the focus on exports and the accumulation of bullion. The restrictive trade practices inhibited competition, slowed economic expansion, and made it difficult to allocate resources effectively. As a result of the early modern era's economic, political, and ideological conditions, mercantilism eventually developed. The emergence of mercantilist policies was influenced by the desire for riches, the pursuit of national power, and dominant notions of economic success and national wealth. Understanding the origins and effects of mercantilism offers important new perspectives on the evolution of economic theory throughout history as well as how it affected the development of the European economies throughout this crucial period.

### REFERENCES:

- [1] A. A. Islahi, "The Emergence Of Mercantilism As A Reaction Against Muslim Power: Some Of The Evidences From History," *Rev. Islam. Econ.*, 2007.
- [2] T. Gee, "The World System Is Not Neo-Liberal: The Emergence Of Structural Mercantilism," *Critique*. 2009. Doi: 10.1080/03017600902760737.
- [3] K. Yerli, "The Elizabethan Poor Law Of 1601 As A Result Of Socio-Political And Economic Conditions Of The Sixteenth Century England," *Turkish J. Appl. Soc. Work*, 2020.
- [4] P. Belesky, "Towards A New Political Economy Of Food: State Capitalism And The Emergence Of New Mercantilism In The Global Food System," *Ssrn Electron. J.*, 2019, Doi: 10.2139/Ssrn.3473843.
- [5] A. Mustofa, E. Haryati, Rifai, A. Kurniawan, And O. D. Kravchenko, "Understanding Theoretical Perspective Of The Best Implementation Of Regional Autonomy," *Eur. J. Mol. Clin. Med.*, 2020.
- [6] G. İçel, "The Effects Of Mercantilism Current On The Development Of German Economy And Cameralism," *Int. J. Bus. Appl. Soc. Sci.*, 2020, Doi: 10.33642/Ijbass.V6n8p1.
- [7] A. Weersink, M. Von Massow, And B. Mcdougall, "Economic Thoughts On The Potential Implications Of Covid-19 On The Canadian Dairy And Poultry Sectors," *Can. J. Agric. Econ.*, 2020, Doi: 10.1111/Cjag.12240.
- [8] K. Rofiah And M. Ghozali, "Construction Of M. Umer Chapra's Economic Thoughts In Realizing Efficiency And Justice," *Al-Iktisab J. Islam. Econ. Law*, 2020, Doi: 10.21111/Al-Iktisab.V4i1.4349.
- [9] M. Merison, E. Rahmi, R. Nur, And E. Elfia, "Third Century Islamic Economic Thoughts Yahya Bin Umar And Ahmad Bin Hanbal Iii H / 9 M," *Hunafa J. Stud. Islam.*, 2020, Doi: 10.24239/Jsi.V17i1.578.119-132.
- [10] S. Dow, "The Methodological Role Of The History Of Economic Thought," In *Palgrave Studies In The History Of Economic Thought*, 2020. Doi: 10.1007/978-3-030-42925-6\_2.

## CHAPTER 4

### ECONOMIC THEORIES: DIVERSE PERSPECTIVES ON ECONOMIC SYSTEMS

---

Dr. Srinivasan Palamalai, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - srinivasanp@presidencyuniversity.in

#### **ABSTRACT:**

Economic theories provide the groundwork for our comprehension of how economies work and offer knowledge of a variety of elements of economic behaviour and policy-making. This abstract offers a summary of many economic theories, emphasising their core ideas, methods, and contributions to the study of economics. The concept of monetarism emphasises the significance of monetary considerations in determining economic outcomes and is often associated with economists like Milton Friedman. Monetarists support a predictable and steady increase in the money supply as a method of reducing inflation and fostering economic stability. According to them, changes in the money supply are the main cause of changes in production and employment. Economics and psychology insights are combined in behavioural economics to better understand how cognitive biases and heuristics affect economic decision-making. This discipline examines the effects of psychological variables on consumer decisions, market results, and policy formulation, challenging the idealised rationality of classical economics. Every theory provides a unique viewpoint on economic behaviour, market dynamics, and policy ramifications, which helps us grasp the intricacies of economic systems and gives us tools for examining and resolving economic issues.

#### **KEYWORDS:**

Commerce, Economic, Money, Trade, Mercantilist.

#### **INTRODUCTION**

This idea that monetary considerations are the primary drivers of economic activity and economic progress was categorically rejected by classical economics including Adam Smith in the second half of the 18th century. According to classical economists, the amount of labour, the availability of natural resources, the price of capital goods, and the institutional makeup of the society are all real elements that affect the level of economic activity and the pace of development. According to traditional economists, any changes in the money supply would only have an impact on the overall level of prices and not the level of production or growth. Mercantilists believed that the nation's prosperity was primarily derived from the money supply, not from any other real or non-monetary element. So much for the mercantilist economic doctrine's underlying premises now let's talk about what the mercantilists' theoretical contributions to economic theory have to say [1], [2].

The explicit acknowledgement of the potential for economic analysis was perhaps the later mercantilists' most important achievement. As we all recall, the majority of ancient and mediaeval intellectuals focused on analysing the economy from a moral and ethical standpoint. Only in mercantilist works does economics become the subject of a morally neutral, merely scientific examination. They began to see economics as a branch of science and realised that economic laws could be found using the same techniques as those used to find the laws of physics and other disciplines. This was a crucial first step in the formation of economic theory. Many mercantilists thought that one could manage the economy by understanding the economic rules that govern it since they saw an economy as a mechanical system. According to this theory, well drafted legislation may have a favourable impact on how economic events develop, and economic research would show what kinds of

governmental involvement would be beneficial to the economy. However, they came to the realisation that certain fundamental economic principles, such as the law of supply and demand, must not be in conflict with government action[3], [4].

Some of them correctly inferred, for instance, that price caps placed below equilibrium prices cause shortages and excess demand. In addition, subsequent mercantilists often used the theories of economic man and the profit motive to promote economic growth since, according to them, government cannot alter human nature, particularly egoistic desires. Politicians must thus assume that people are egoistic and motivated by the pursuit of wealth and work to develop a system of laws and institutions that will harness these traits for the benefit of the country's power and prosperity. Many subsequent mercantilists learned about the severe analytical mistakes made by their forebear's early mercantilists. They understood, for instance, that a country's gold and silver reserves are not a reliable indicator of its wealth, that all countries cannot have a positive trade balance, and that no one nation cannot have a good balance of trade over the long term. Additionally, some of them understood that commerce can be advantageous for both parties and that nations that use the division of labour in manufacturing would benefit from it. In advance of the recommendations of Adam Smith and other classical economists, a rising number of authors called for a decrease in the level of government action[5], [6].

But it's important to keep in mind that none of these authors was able to provide a comprehensive analysis of how a market economy functions, including how prices are established and scarce resources are distributed. Adam Smith and other classical economists finally succeeded in achieving this in the latter part of the 18th and early 19th centuries. The widely accepted theory for why mercantilists were unable to develop a comprehensive analysis of a market economy was that they held the fundamental contradiction between private and public interests or between private and public welfare. They thus believed that the government had a responsibility to convert individual self-interest into public good. On the other hand, classical economists discovered a fundamental harmony in society between people's selfish, egoistic motivations and societal benefit. Even the later mercantilists who supported market-based policies lacked the necessary understanding of how markets functioned to effectively demonstrate the connection between individual self-interest and societal welfare. However, Smith utilised the works of the later mercantilists to construct his analysis this is another important contribution made by the mercantilists[7], [8].

## DISCUSSION

### **The Analytical Contributions of Mercantilists to Economic Theory**

#### **Nationalism as a Concept**

Mercantilism was never more than a tool. The real outcome had a political bent. That is the making of a powerful state. The mercantilist put an emphasis on a strong and prosperous country. The development of a nation state was prioritised. Money and other economic tools were only seen as tools to strengthen the state. State interventions were a crucial component of mercantilist theory. Mercantilists believed that all facets of life were susceptible to governmental control in order to expand the market beyond its mediaeval bounds. Their natural objectives were the growth of trade and commerce economically, as well as political victory in battle. Only a strong country founded on national identity can do this. A powerful central authority becomes a key component of mercantilist theory for safeguarding local commerce and growing the global market. Therefore, the mercantilists placed great weight on the development of a powerful Nation. Therefore, the mercantilists urged the establishment of a state powerful enough to safeguard commercial capitalism and trade interests.

#### **Treasure's Importance**

The country's military might was the mercantilists' top priority. The real mercantilist always has a benchmark in the back of his mind when evaluating the power and prosperity of the

nation. According to mercantilists, a country's power is based on its whole amount of wealth. They refer to the hoard of precious metals as riches. The availability of non-perishable goods, such as silver, gold, and gems, is what the mercantilists believe to be the true and greatest benefit of trade. The monarch who had the riches required for this purpose behind him was the king who could sustain a sizable army and a strong fleet. Because they were the most practical and widely recognised form of riches, treasure and bullion were highly valued by mercantilists. At that period, the catchphrases gold more gold, wealth more wealth were prominent.

#### **Foreign Trade and the Trade Balance**

Treasure Gold, Silver, and Precious Metals was seen as the ultimate form of riches by mercantilists. Foreign commerce is the usual means to increase our wealth and treasure and this ought to be encouraged, according to Thomas Mun. Therefore, the mercantilist believed that the only way to get gold and silver was via international commerce. They held the opinion that the wealth generated by the net result of our overseas commerce was retained in the kingdom. A nation must be compensated in silver or gold for the goods it exports. On the other hand, it will have to pay for the imports it makes. Exports stand for money entering the nation, while imports stand for money leaving it. A favourable balance of trade defined as an excess of exports over imports is required for a nation in order to boost its supply of gold. Therefore, it is simple to draw the conclusion that all products exports are good and desirable while all imports are bad and damnable.

As a result, it is a fundamental premise of typical mercantilists to maximise exports while minimising imports. However, when it came to the idea of a favourable trade balance, there was no consensus among the mercantilist thinkers. Some of them supported the balance of margin hypothesis, according to which every single transaction must result in a profit for the state. Most mercantilists did not specify when they spoke of a good trade balance whether they meant a favourable balance with each nation individually or as a whole. The mercantilists understood the significance of intangible components of the trade balance, such as freight revenue, insurance, and foreign military and diplomatic expenses. Therefore, the mercantilist advocated for a positive trade balance as a way to amass greater wealth.

#### **Commercial and Industrial Regulations**

To maximise the net profit from international commerce, the mercantilists used a variety of strategies. The primary aim is to enhance local production of goods that can be exported while decreasing imports of goods from other nations. The mercantilist advised the following strategies to maximise production in the home economy. In order to increase production and employment, the mercantilists advocated a system of low wage level. Land resources may be fully utilised and fallow lands may be brought under cultivation. Employment opportunities should be increased. This will allow unemployed human resources to be used for increasing production of goods intended for export. Better method and technique of production should be introduced. Colonies may serve as a source of raw resources for the parent nation. Additionally, the mercantilists created a number of trade laws and practises. These regulations attempted to limit imports and promote exports. The most significant of them were a restrictions on imports, particularly of manufactured goods encouragement of exports of manufactured goods and prohibitions on exports of raw resources. Prohibition of sectors of the economy that interfere with sectors or trades of larger national significance. Prohibition of exporting bullion. The creation of banks and the encouragement of the use of credit instruments.

#### **Governmental Role**

The mercantilists sought to a benignly paternal government that may meddle anywhere to carry out all their projects and programmes. If the government's actions contribute to advance the well-being of the public, there is nothing it cannot do or should not do. As the focus of all



economic activity, the state was thus very important to the mercantilists. The achievement of a good trade balance depends on the government's management and regulation. The aforementioned collection of suggestions and laws reflects the protectionist viewpoint that predominates in mercantilist literature. The literature of mercantilists contains almost all protectionist arguments. As an overview, the mercantilist protection argument is as follows: A Strategic industries may be given protection. The government of the nation may designate certain industries as crucial for the country in terms of both their export contribution and their contribution to economic growth. Weak but promising sectors that were in their early stages of development might also be protected. Protection might also be provided to the military sector. Industries that contribute to the nation being self-sufficient and independent should be protected.

Industries producing items that are export-promoting and import-substitutable may also get protection. Given this, it seems that the mercantilist authors' perspectives on the many facets of international commerce were well-balanced. Three prepositions form the foundation of the mercantilist monetary system's theoretical framework. Money was not meant to be gathered as treasure in the literal sense of a store of priceless and early sellable items. The use of money as a means of trade was sought. A nation must spend less than its revenue if it wishes to develop its wealth, just as an individual saves from his income. Thus, they linked a good trade balance to an annual surplus of income over consumption and cash over capital. For the mercantilist, a country's wealth was determined by its level of productivity. By being in circulation, money improves a country's capability for production. Mercantilists opposed the concept of amassing wealth as a kind of treasure. The mercantilists thought that money would be used to produce additional goods and that through creating jobs, it would also generate new consumer demand for goods.

He thus thought that expanding the money supply would improve production and employment without causing prices to rise. Thus, mercantilists continued to uphold the belief that money encourages commerce. Commodities have intrinsic value, which depends on what people require. It was believed that value is a market phenomenon that relied on trade. Mercantilists made a distinction between two different kinds of value. That encapsulates both inherent and external worth. The ability of a commodity to satiate human needs is its intrinsic worth. The cost of production is all that the mercantilists imply by extrinsic value. William Petty made it very obvious that value is dependent on manufacturing costs. According to him, a commodity's market value is its intrinsic worth, which varies depending on supply and demand. Locke stressed the significance of work and its role in establishing value.

He served as the model for the later-developed labour theory of value. The mercantilists promoted an increase in labour and resources because they believed that production included the application of human work to resources. Agriculture was considered unimportant by mercantilists. They felt that only foreign commerce could produce so much. They distinguished between work that was fruitful and that that was not. A merchant's, a manufacturer's, or a farmer's effort was deemed fruitful. The work of professionals such as physicians, stock traders, and store owners was seen as being unproductive. The thoughts of mercantilists towards taxes were particularly intriguing. A numerous tax system based on the fundamental tenet that everyone should contribute in proportion to the advantages obtained from the state was preferred by mercantilists. According to Hobbes, a tax on expenditures is the most equal form of taxation since it is based on the expenditures that each person makes.

In general, the mercantilists supported taxes like excise, excise duty, and interest. The equity tax was their main taxing weapon. Mercantilists encouraged population growth in order to preserve military might. Additionally, it was encouraged that the economy's productive capacity be increased. They held the opinion that a cheap and plentiful worker pool would assist to keep manufacturing costs down. They promoted having children and raising a

family. There was no consensus on how to view the idea of interest. Thomas Mun, Locke, and North supported the practise of charging interest on loans. They claimed that money lending produced the disadvantaged merchants' essential financial support. Additionally, it resulted in the hiring of widows, orphans, and others in lucrative jobs. However, the mercantilists were against high interest rates.

#### **Notable Mercantilist Authors Petty, Sir William 1623–1685**

Petty is credited with creating political economics. He is recognised for his contributions to economic theory and statistical methodologies. He had a tendency to think quantitatively. He was the first to create a methodology for doing economic research. As a statistician, Petty restricted himself to using only quantitative data and relied on the simple average as the statistical technique. The Treatise on taxes and contributions 1662 is his most well-known publication.

#### **William Mun 1571–1641**

In 1571, he was born in England. His line of work was as a trader. England's Treasure of Foreign Trade is his best-known work. Mun was in charge of establishing England's trade policy during the time. He promoted the basic principle of global trade. According to him, the golden rule of global commerce should be to sell more to strangers annually than we consume of them in volume. He was a staunch supporter of nationalism and a powerful government. He believed that the only way to do this would be to accumulate wealth. He advocated for the introduction of high import taxes on products intended for domestic use and low taxes on exports.

He also understood the significance of taxes. David Hume born in 1711–16. John Locke investigated the impact of a one-time, permanent shift in the money supply on the level of prices. Hume strengthened Locke's case by establishing a causal link between money supply and price level. Hume acknowledged the existence of a proportionate relationship between money supply and price level, keeping trade volume and money velocity constant: He only took into account the role of money as a unit of account and a medium of exchange. He disregarded the role of money as a store of value.

#### **1680–1734: Richard Cantillon**

Cantillon adhered closely to Petty's approach and set of issues. Cantillon used an analytical approach, and his goal was to establish a parity between work and land. Cantillon described work and capital as the primary sources of prosperity and defined wealth as all that brings happiness. It was believed that capital was a dependent component that was simultaneously created by income and land. When he was talking about worth. According to Cantilli, a commodity's typical price is a measure of the quantity and quality of land and labour going into its production. The area of finance saw Cantillon's greatest impact. He examined the connection between the money supply and the level of prices. In a nutshell, Cantillon's analytical contribution to the theory of value and money and his explanation of the cyclical flow of national revenue are what have made him famous[9].

#### **Mercantilism's Detractors**

Serious criticism was levelled towards mercantilism. Laissez-faire proponents said that there was actually no distinction between domestic and international commerce and that all trade was advantageous to both the merchant and the general public. They also said that a state would need as much wealth or resources as automatically modified, and that money might be in excess, just like any other good or service. They maintained that commerce was really a two-way street and refuted the notion that a country could only get wealthy at the cost of another. Numerous authors who supported agricultural productivity and individual liberty towards the end of the 17th century fiercely attacked the mercantilist doctrines and practises. Even Petty, Locke, and North of England opposed free trade and criticised governmental

control of international commerce. However, Adam Smith and the physiocrats made harsh critiques. The opponents of mercantilism made the following accusations against it:

1. The mercantilists overstated the significance of commerce to the point that it negatively impacted agriculture and other sectors of the human economy.
2. Gold and silver received an excessive amount of prominence.
3. They had the mistaken notion that a favourable trade balance would be sufficient to ensure the nation's prosperity.
4. Their concepts of value, utility capital, and interest were imprecise and hazy.
5. They lack cosmopolitanism and are narrow-minded nationalists. They were unable to imagine the concepts of mutually beneficial trading. However, we cannot discount such theories as pointless or unworkable. Their policies produced the concepts of nationalism, self-reliance, and economic power[10], [11]. In France, England, Holland, and Germany, who were vying for colonial domination, the mercantilist doctrine was effective.

### CONCLUSION

The wide variety of economic theories discussed in this introduction demonstrates how deep and intricate the study of economics is. Every theory provides distinct insights into how economies function, illuminating various facets of economic behaviour, market dynamics, and policy consequences. With its focus on free markets and human self-interest, classical economics set the groundwork for understanding how efficiently resources are allocated. In order to stabilise the economy, Keynesian economics, which emerged from the Great Depression, emphasised the need of government involvement. Neoclassical economics built on classical economics by introducing marginal analysis and personal preferences.

### REFERENCES:

- [1] M. Johnson And A. Kovzik, "Keynes, Russian Economic Thought, And Contemporary Policy," *Ssrn Electron. J.*, 2020, Doi: 10.2139/Ssrn.3686886.
- [2] A. M. Endres And D. A. Harper, "Capital In The History Of Economic Thought: Charting The Ontological Underworld," *Cambridge J. Econ.*, 2020, Doi: 10.1093/Cje/Beaa026.
- [3] Z. Hamid, H. Zhang, And S. M. Sarif, "Economic Theories Of Social Entrepreneurship," *Int. J. Accounting, Financ. Bus.*, 2017.
- [4] V. Lazovic, B. Rondovic, D. Lazovic, And T. Djurickovic, "Is Economic Theory, Presented In Basic Academic Textbooks, Applicable To The Digital Economy?," *Sustain.*, 2021, Doi: 10.3390/Su132212705.
- [5] F. Allisson And A. Missemer, "Some Historiographical Tools For The Study Of Intellectual Legacies," *Stud. Hist. Philos. Sci. Part A*, 2020, Doi: 10.1016/J.Shpsa.2020.09.004.
- [6] M. Pomini, "Interpreting The Path Of Italian Economic Thought: The Contribution Of Eraldo Fossati," *History Of Economic Thought And Policy*. 2020. Doi: 10.3280/Sp2020-001002.
- [7] J. Kumagai, "Economic Thought Of The British Mercantile Empire In The 18th Century," *Hist. Econ. Thought*, 2020, Doi: 10.5362/Jshet.61.2\_1.
- [8] P. Pirozelli, "Paradigms In Action," *Rev. Filos. Aurora*, 2020, Doi: 10.7213/1980-5934.32.056.Ao05.
- [9] M. Petersen, "The Epistemological Crisis Of Marxian Economic Theory," *Prometeica*, 2020, Doi: 10.34024/Prometeica.2020.20.10021.

- [10] K. Rofiah And M. Ghozali, "Construction Of M. Umer Chapra's Economic Thoughts In Realizing Efficiency And Justice," *Al-Iktisab J. Islam. Econ. Law*, 2020, Doi: 10.21111/Al-Iktisab.V4i1.4349.
- [11] P. Lewis And M. Dold, "James Buchanan On The Nature Of Choice: Ontology, Artifactual Man And The Constitutional Moment In Political Economy," *Cambridge J. Econ.*, 2020, Doi: 10.1093/Cje/Beaa027.

## CHAPTER 5

### CAUSES OF THE RISE OF THE PHYSIOCRACY

---

Dr. Ranganathan Kumar, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - drsenthilkumar@presidencyuniversity.in

#### **ABSTRACT:**

The Physiocracy, a school of economic theory that developed in the 18th century, was a reaction to the political, social, and economic circumstances of the day. The Physiocracy had a major influence on economic thought throughout the Enlightenment, and this abstract explores the factors that led to its emergence. The emergence of the Physiocrats, who had their roots in France, may be linked to a number of connected events. First, their views were situated in the framework of the existing agricultural culture in 18th-century France. The Physiocrats were interested in understanding and advancing the natural order of economic activity within the agricultural sector, which they saw as the fundamental source of prosperity. The importance of influential intellectuals like François Quesnay, the founder of the Physiocracy school, cannot be overstated. The renowned *Tableau économique* by Quesnay provided a systematic depiction of the movement of products and revenue within an economy, highlighting the significance of agricultural output and the transfer of wealth. Additionally, the Physiocrats' theories complemented the Enlightenment's emphasis on reason, natural laws, and the desire of progress. As they saw the economy as a natural system regulated by basic economic laws, the Physiocrats tried to apply scientific approaches to economics. Their focus on the harmony of the natural world and the economy fit perfectly with the greater intellectual atmosphere of the Enlightenment.

#### **KEYWORDS:**

Agricultural, Economic, History, Natural, Physiocracy.

#### **INTRODUCTION**

A group of economists known as the Physiocrats held the view that agriculture was the only source of income for countries. Their ideas gained the greatest traction in the second half of the 18th century and were developed in France. Perhaps the earliest well-developed economic philosophy was physiocracy. They identified as economists, but to separate them from the several schools of economic thought that came after them, they are sometimes referred to as Physiocrats. The concepts were then developed into a more organised body of thinking that was shared by a group of thinkers by authors like François Quesnay and Jean Claude Marie Vincent de Gurney [1]. The excess of agricultural produce over and above that required to maintain agriculture by feeding farm workers and other factors was considered by the Physiocrats to be the genuine measure of a nation's prosperity.

By utilising the excess agricultural output to feed the workers who generated the additional commodities, other economic activities, like as manufacturing, and were seen as taking this surplus agricultural production and turning it into new products. Although these manufacturers and other non-agricultural employees may be valuable, they were seen as sterile since their money ultimately comes from the agriculture sector's excess produce rather than from their own labour [2]. The Physiocrats opposed mercantilism, which prioritised international commerce of products, vehemently because they believed that a country's prosperity was based on its peasant community. The French monarchy offered considerable assistance to the physiocrats, and they regularly gathered at Versailles. Adam Smith was

greatly inspired by the Physiocrats theories, and Karl Marx acknowledges them in *Das Capital* they popularised the contemporary iteration of the labour theory of value.

### **Definition of Physiocracy**

A royal physician of King Louis the 15th, François Quesnay 1694–1774 created the system of thinking known as physiocracy. At one point in history, physiocracy was a type of religious movement that drew many notable and ardent adherents and had a major impact on actual politics. It is believed that the Physiocratic movement began in 1757 when Quesnay first met Mirabeau the elder 1715-89, and that it came to an end in 1776 with Turgot's overthrow 1727-81. The genuine students of the Physiocratic school called themselves economists rather than Physiocrats. After first appearing in 1767 with the publication of a compilation of Quesnay's writings by Pierre du Pont under the title *Physiocratic, or Constitution Naturally du Government le Plus Advantageous au Genre Human*, the term physiocracy seems to have entered common use. The phrase literally means the rule of nature and is a combination of the words physiocracy nature and crack rule. This embodies the underlying belief of the school that there is a natural order as opposed to manmade systems, and that the goal of study and politics is to comprehend this natural order and bring it about in order to establish this rule of nature[3].

The term physiocracy which derives from the Greek meaning Government of Nature refers to an economic theory put out by the Physiocrats, a group of economists who held the view that a country's wealth was primarily generated from the value of land agriculture or land development. Their ideas gained the greatest traction in the second half of the 18th century and were developed in France. Perhaps the earliest comprehensive economic philosophy was physiocracy. The first school of economic theory was founded by the Physiocrats, or Economists as they called themselves. They served as a protest against Jean Baptiste Colbert's policies. Colbert worked as a minister in Louis XIV's court. Colbert was a proponent of stringent commerce regulation, protective tariffs, and is known as the prototypical Mercantilist.

By the early 1700s, a number of authors had begun to criticise Colbert's mercantilist policies examples include Pierre Boisguillebert, Seigneur, and later Richard Canutillo however, it was François Quesnay who, in the late 1750s, provided the fundamental framework of the Physiocratic system. The Physiocrats stood for an alliance of persons, a community of ideas, acknowledged authority, and a combination in purpose, which banded together then into a society apart. They shared the belief that everything is a part of a linked system that makes sense and is understandable to the human intellect. In France, physiocracy was a backlash against mercantilism. This was a result of the rapidly declining social and economic circumstances of the period, which were mostly brought on by mercantilist policies. The following is a list of the numerous causes for the development of physiocracy in France.

### **Terrorism and Opulent Court Life**

An absolute monarchy was in place in France, but it lacked any potential for good. From the monarch on down, political bureaucrats led extraordinarily opulent and dishonest lives. The amount of public spending was excessive and wasteful. As a consequence, the government's debt grew, necessitating the imposition of more taxes to pay for public spending. The economy's decline opened up new possibilities and brought about a welcome transformation.

### **Regressive Taxation**

During Louis 14's reigns, taxes in France was excessively high, unfair, and inequitable. About two-thirds of the country's land was held by the nobles and clergy, yet they scarcely paid any taxes while the impoverished peasants were oppressed by a variety of charges on top of the extortionate land rents. The way taxes were collected was likewise abhorrent. Obviously, the farmers had very little left over that they could utilise to enhance their property or their own living conditions. The responsibility of delivering services to the feudal

lords fell on the shoulders of the peasants. Other harsh levies that were as onerous for the underprivileged members of the society were the tithe, poll tax, salt tax, and others. Farmers' torturous lives served as a catalyst for Physiocratic theories and actions[4], [5].

### **The Demise of Mercantilism**

Policies that were mercantilist had lost their relevance. Its policies came under heavy fire. People were seeking a different system. The advent of large-scale farming in England transformed the agricultural sector. Through the works of Gurney, Mirabeau, and Montesquieu, the accomplishments of this revolution found their way to the ears of the French people.

### **Ignoring Agriculture**

Compared to England, where it was becoming more profitable and beneficial, agriculture in France remained stagnant. Colbert's had a role in this to some extent. In France, industrial growth was displacing agricultural growth. Investments were switched from manufacturing to agriculture. Due to limited markets, agricultural products' value decreased. Agriculture was unable to accumulate capital because of lower agricultural product prices. A lack of resources and initiative hurt agriculture.

## **DISCUSSION**

A group of ambitious farmers and landowners in France began seriously considering the growth of agriculture in their country. They did not accept the monarch's repression of French agriculture. Quesnay was one such aspirational landowner. These aspirational French landowners were greatly impacted by the ongoing Agricultural Revolution in England. They believed that France may experience a similar revolution.

1. **Subjective Elements:** Prof. Haney asserts that the rejection of mercantile policies was the result of significant subjective reasons. People were unable to voice their opinions on Louis 14's policies at that time. The French people gained enough freedom to voice their opinions after his death. This marked the beginning of a departure from the normative laws, politics, and religion.
2. **Social and Economic Factors Exist Inequality:** The significant inequality between various social levels and economic sectors that was seen in France. Both rich and underprivileged classes existed. Underprivileged people desired to get out of this undesirable position.
3. **The Writers' Influence:** People who were worried about the problems in society were attempting to come up with and communicate recommendations for changing the system. Analytical conversations and investigations about the drawbacks of the current system and the kind of ideal system that should replace it were conducted. They all agreed that physiocracy is the best form of government.

### **Deflationary Policies are repudiated**

According to Haney, the French people's uprising against mercantilism resulted in physiocracy. By the middle of the 18th century, the mercantilist philosophy was no longer applicable or beneficial in daily life. The idea was heavily criticised in Thomas Mum's own England. Trade was overemphasised as a result of mercantilist practises. Large-scale farming was causing an agricultural revolution in England. Authors like Mirabeau and Montesquieu brought the benefits of the revolution to the attention of the French. Several English authors' works have been translated into French. This gave French philosophers a chance to comprehend Great Britain's development, which was mostly dependent on agricultural pursuits. The populace was looking for a different system. They were seeking for a new kind of socioeconomic organisation that might take the place of mercantilism. Physiocracy provided this system[6].

### **Subjective Forces**

Haney claimed that there were powerful subjective influences driving progress. Louis XIV's dictatorial control prevented individuals from criticising his actions throughout his reign. After Louis XIV's death, the French people had the freedom to voice their opinions. As a result, individuals started to dissent from the country's traditional politics, religion, and laws. People yearned for something more sensible, straightforward, and useful. Above all, they started to make demands based on natural justice. As a result, naturalism gained prominence in human behaviour and philosophy. The new physiocracy system, which was based on the rule of nature, met this desire.

### **The Fundamentals of Physiocracy**

The physiocracy guiding concepts and regulations are listed below. The only profession that is fruitful is agriculture. Trade and industry are sterile professions. The only source of net product is agriculture. Life is joyful and meaningful because of a natural order. There is harmony amongst all social strata. The person should have the most freedom possible. State intervention should be kept to a minimum. Trade should be free because it is a necessary evil. Utility determines value. Money has worth. Price and value are synonymous terms. The pay is just enough to live on. The economic system is interdependent. Real wealth is found in material and consumable items. Individual initiative has to be supported. Product distribution is highly important. A means of trade is money. Everything is purchased, everything is sold, and everything is bought. Landlords' lawful source of revenue is rent. Given that land is the main source of economic activity, there should be a single, direct tax on it. The importance of private property. There's a chance of excessive population growth on land. Doctrines of the Physiocrats. The following four headings make it easy to categorise the physiocrats economic doctrines.

### **Natural Philosophy**

The Physiocratic system is symbolised by natural order. Physiocracy was coined by DuPont de Nemours as the science of natural order. According to physiocrats, natural order was an ideal system of things governed by natural principles and decreed by god for humanity's pleasure. Actually, it was God's providential plan. It was unalterable and permanent. The physiocrats imagined a flawless system of governance with institutions that followed the rules of nature. The actions of its constituents are governed by natural laws. The challenge is in learning and following these rules. Natural laws come in two different flavours. Natural moral laws as well as natural physical laws. The cosmos is governed by physical rules. The rules governing how people behave are natural moral laws.

They are laws that control how people behave. They contain guidelines for responsible personal behaviour. It is the standard of justice that people should adhere to while transacting with one another. The natural order, in the view of physiocrats, was the perfect arrangement of things put in place by god to maximise human enjoyment. The social structures that were created by humans were artificial. Therefore, the physiocrats advocated abolishing all artificial, man-made regulations. People experience social ills, according to physiocrats, since the social order does not correspond to the natural order. They believed that the way the state is now organised needed to be reformed appropriately in order to put people's lives, behaviours, and ideas more in line with the natural order [7], [8].

**The Net Product:** The physiocrats natural order ideology had a direct impact on the idea of net product. The mercantilists claimed that prosperity came from foreign commerce and was made up of precious metals. On each of these points, the physiocrats disagreed with the mercantilists. The sole source of prosperity, according to the physiocrats, was agriculture. Agriculture was the physiocrats only source of productive wealth. They saw all other professions as being sterile and less fruitful than agriculture. In agriculture, man and nature both work. Agriculture generates more than what is needed for farmers to live thanks to the



gift of nature, or fertility. This agricultural industry's excess output is referred to as Netproduct. This surplus is calculated by deducting the input from the quantity of newly created wealth. The input is the amount of wealth that was destroyed during the creation of new wealth. The other classes of people are fed with this excess.

It implies that agriculture met the requirements of those working in commerce, manufacturing, and other occupations in addition to those who were directly involved in agriculture. As a result, the surplus may be defined as the difference between the quantity produced and the quantity used during production. Commerce and manufacturing were seen as unproductive by physiocrats. Production is defined by physiocrats as the generation of surplus. They consequently believed that an enterprise could only be productive if it increased national wealth. In the manufacturing process, only raw materials are transformed into final goods. A simple transfer of wealth occurs in trade and business. There is a surplus only in agriculture. Therefore, work performed somewhere else than on land was fruitless since man is not a creator. The physiocrats thus thought that only agriculture was productive. As a consequence, the economy's net output was feasible, and civilisation was now a reality. Agriculture should be encouraged, interest in it should be raised, and obstacles in its path should be eliminated since it is the only source of income.

**The Transfer of wealth:** The physiocrats pioneered the notion of wealth circulation based on the idea of Net Product. That is net product distribution. The first people to try to understand the distribution issue were physiocrats. Francois Quesnay is to be credited with organising the concept. With the use of analogies from the body's blood circulation, he skilfully and visually evaluated the idea of the circulation of wealth. He was able to articulate it well since he is a doctor. According to Turbot, the circulation of net product serves as the physical equivalent of blood flow and is the very lifeblood of body politics.

**Laissez Faire and Individualism:** The Physiocrats, notably Turgot, believed that each sector of the economy was driven by self-interest in order to fulfil its duty in society. Each person was best qualified to choose the products and jobs that would enable him to live the life he desired. While a person may work hard for the benefit of others, he or she will work even harder for their own needs, which are met by several other individuals. Trade limitations create an artificial barrier to accomplishing one's objectives, and the system functions best when there is a complimentary link between one person's wants and another person's aspirations.

**Personal Property:** Without sufficient legal backing for private property ownership, none of the hypotheses relating to the value of land could be shown to be true. When combined with a strong sense of individuality, private property plays a crucial role in how the Tableau functions. One of the first to understand that successful applications of the variable input will cause the product to grow, at first at an increasing rate, later at a diminishing rate, until it reaches a critical size, was Turgot maximum. This was a knowledge that wealth was not endless and that the productivity advances necessary to create national wealth had a cap.

**Investment Money:** Quesnay and Anne Robert Jacques Turgot, Baron de Laune both supported utilising a portion of each year's earnings to boost productivity because they understood that farmers required cash to begin the production process. Additionally, capital was required to pay the workers' wages while they worked on the final product. Turgot advocates interest as performing a strategic function in the economy while acknowledging the opportunity cost and risk associated with employing money for purposes other than property ownership [9], [10].

**Regarding Taxes:** A straightforward taxation scheme was proposed by physiocrats. They promoted a single tax structure, the land tax, which the proprietary class was to pay directly to the government. The idea of net product was intimately related to taxation theory. To cover the costs of the state's maintenance of security, expansion of education, and development of

public works, certain levies were necessary. The only resource that could be used was net product, and only landed owners were able to pay taxes. So they pushed for a single land tax. Since this one tax was paid directly, it cannot be avoided. It was easy to evaluate. Small sections of France attempted the Physiocratic taxing system, but it was unsuccessful for a variety of reasons. However, Physiocratic concepts persisted in the minds of statesmen: Approximately 50% of the constituent's income budget. According to Physiocratic theories, the assembly was funded by land taxes after the French Revolution. The Theory of Value Physiocrats showed little interest in this topic. According to Turgot, usefulness determined value. But they distinguished between value in use and worth in trade, disregarding the underlying value in goods. However, they saw worth and price as being interchangeable. According to physiocrats, value was not constant but fluctuated according on demand: However, the Physiocratic school did not place great importance on the notion of values. Trade was seen as being unproductive since it included the exchange of items of equal worth. They said that commerce did not result in actual riches. Therefore, the whole commodities switch was a complete waste of time and effort. By promoting total independence in the realm of trade, they hoped to combat the negative effects of commerce. Physiocrats did not adhere to anarchism. They proposed a state with the fewest possible civil laws, which would remove any obstacles to the realisation of the natural order. They believed that the state with the fewest laws was the best state. They favoured a state with the least amount of regulation and the most amount of power. The Physiocratic sovereign's duties included upholding the law of nature, protecting private property, promoting universal education, and implementing a public works agenda.

#### **François Quesnay's Economic Tableau**

Dr. François Quesnay 1694–1774 was the creator and first leader of the physiocracy. King Louis XV's personal physician at Versailles was Quesnay. He became interested in economics later in life and wrote his first book on the topic in his 60s. He and fellow physiocrats Jean de Gurney gained influence in the Sect des Economists, whose members looked to Quesnay as their leader, with the help of Madame de Pompadour. Tableau économique 1758, a depiction depicting the relationships between the various economic groups and sectors of society and the flow of payments between them, summarised Quesnay's theory of political economics. Quesnay introduced the idea of economic equilibrium in his Tableau, which is commonly used as the starting point for further economic study. His characterization of capital as advances. as a stock of wealth that needed to be collected before production was crucial. He divided the capital used in these advancements into fixed and circulating capital.

Contrary to the then-dominant French mercantilists see Jean-Baptiste Colbert, Quesnay, who coined the phrase *laissez-faire, laissez-passer*, thought that the crushing poverty he witnessed in France was a result of high taxes, high internal tolls, and high barriers to imported goods. Quesnay sought for commercial liberalisation and tax reductions under Louis XV, the monarch from 1715 to 1774, so that France may begin to resemble the richer Britain. Quesnay's Physiocratic system's methodology and guiding principles were derived from an extreme version of the natural law concept, which he said reflected the divinely ordained economic order. He was, in reality, one of the founders of the idea of the harmony of class interests that emerged in the 19th century, as well as the associated doctrine that free competition promotes the highest levels of social pleasure. In François Quesnay's Tableau Économique, which was released in 1759, the cornerstone of the Physiocrats economic views was first laid forth. The model Quesnay developed included three economic movers.

The Productive class was made up entirely of agricultural labourers, whereas the Proprietary class was exclusively made up of landowners. Merchants and craftsmen make form the sterile class. Since the Proprietary class owns the property and purchases from both of the other two

groups, the flow of production or money between the three classes begins with them. The farmer leases land from the landowner and produces 1,500 meals. He keeps 600 of the 1,500 for himself, his cattle, and any hired help. He offers the market \$1 for each of the remaining 900 food items. He maintains \$300 to spend on non-farm products clothing, home items, etc. from the shops and craftsmen he keeps \$150 for himself and \$150 for his worker. Quesnay refers to this as product net, which is \$600 in net profit. 3, 189 The craftsman puts out 750 items. He need 150 units of foreign commodities and 300 units of food to manufacture at that level. In order to maintain his sustenance during the year, he also needs 150 units of food and 150 units of crafts.

150 units of crafts, 450 units of food, and 150 units of imported products make up the whole amount. He spends \$500 on food from the farmer, \$150 on commodities from the merchant, and \$600 on 600 crafts units that he sells at the market. Because the craftsperson must utilize makes no net profit since he used the money from the sale of his crafts to acquire the supplies for the next year's production. The landlord does not make any products, just consuming things like food and crafts. The \$600 yearly lease he pays for the farmer's use of the land is his contribution to the production process. The landlord spends \$300 of the rent on groceries from the market's farmer and \$300 on handmade goods from the artisan. Quesnay views the landlord as the main driver of economic activity since he is essentially a consumer. He spends all of his rent money on food and crafts because of a drive to consume, which also supports the other social classes. The trader is the means through which food is exported in exchange for goods from abroad. The merchant buys food at the market with the \$150 he got from the craftsman, and it is presumed that he exports the food to trade for additional foreign items.

### **The school of the Physiocrats**

The oldest school of thinking in the strictest meaning of the words was supposed to have been founded by the physiocratic. They must be recognised as the political economy's true founders. The physiocratic school's members wrote a number of significant books and essays that served as the physiocratic system's cornerstones. A lawyer who wrote two volumes, Boisguillebert served as the physiocratic school's spiritual guide. Francois Quetsnay Mirabeau was a philosophical statesman we have previously seen his contribution. After Quesnay's death, he became the physiocratic school's new leader. The Friend of Mankind, The Theory of Taxation, and Rural Philosophy were three of his significant writings. According to Mirabeau, human work alone has the ability to generate wealth, which is the product of the earth or of agriculture. After Quesnay, Robert Jaquis Turgot Turgot was the most significant representative of the physiocratic school. He served as Louis XIV's finance minister. Reflections on the Forms and Distribution of wealth, his significant contribution, was a dissertation with over 100 paragraphs that extolled the virtues of agriculture. It was published in 1766.

### **Dupont-de-Nemours**

Nemours, who coined the term physiocracy, was a devoted student of Dr. Quesnay. He mostly served as a physiocratic ideology publicist and did not provide any new insights into economic theory. He was a key figure in the French Revolution.

### **Evaluation of Physiocracy Critically**

The discovery of any one of the physiocrats concepts was not their primary contribution to contemporary political economics rather, it was their effort to create a science of society using resources that were previously available. Adam Smith set out to give the study of economic phenomena a fresh push using this approach as a basis. A significant contribution was also made by highlighting the flaws in the mercantile system. Because a response was required, laissez faire was a fine philosophy for the eighteenth century, but it was a mistake to establish it as a universal rule that applied in all circumstances. The Physiocratic teaching's value idea was its worst flaw. Agriculture provides the raw materials for manufacturing, but

trade and manufacturing also provide wealth. The physiocrats acknowledged this in a way, but they insisted that the industrial and commercial classes sacrifice an equal amount of value in order to produce this prosperity. Even if this arbitrary premise were true which it isn't the same might be said about the so-called productive class.

Furthermore, the net product would consist of wealth produced by the commercial and industrial classes as well as by the agricultural class if wages were determined by the iron law in agriculture, manufactures, and commerce, as the physiocrats think. All earnings, save those of the owners, were assumed to be at the existence minimum under the notion of the import unique or single tax. Since this is untrue, it follows that all taxes imposed on the other groups will not eventually be covered by the business owners. The following are the main objections raised against physiocracy. Their theory was weighed down by normative assertions. The idea of natural order fits this well. The working class was not seen by the physiocrats as a productive class. Furthermore, their claim that the industrial class is sterile is also heavily contested. The physiocrats lack a precise understanding of what is valuable. They maintained the belief that usefulness determines value. Their perception of the landlord class as a somewhat productive one is primarily motivated by politics. Physiocrats overlooked the non-agricultural sector and put too much focus on agriculture. According to Hanes, Physiocratic theories are rife with unfavourable views.

In any case, physiocracy had a significant role in the development of economic thinking. Because of their constructive and beneficial contributions to the advancement of the science of economics, they stand out in the history of economic thinking. The graphic in Quesnay's *tableau économique* is provided previously in this chapter, which summarises his concept of political economics, shows how social reproduction works in the natural order. With a print run of only four copies, it was published in 1758 at Versailles. On the suggestion of Madame de Pompadour, Quesnay abandoned his first plan to deliver it with *Extraits des Économies royales de M. de Sully*. But Professor Stephan Bauer found the manuscript containing it among the files of Mirabeau in the Archives Nationales in 1890. It was written in Quesnay's own hand. The second edition of the *Tableau Économique*, which had been printed in the spring of 1759 with a print run of three copies, was also found at that time by Bauer. A third edition with three copies was released at the year's end, and Gustave Schelle subsequently learned about it.

The Formula of the *Tableau Economique* described in his *Analyse du Tableau Economique* is one of Quesnay's own creations that differs significantly from the others. This table is referred to as the *Tableau Abrégé* abridged table to set it apart from the others. In *Analyse du Tableau Économique*, Quesnay set out to explain the underlying meaning of his economic table in a way that was understandable to the general public. The table was subsequently altered. In comparison to the preceding tables, he improved on the content front. Most crucially, the *Tableau Abrégé* portrays the circulation between the three primary classes from the start as the circulation between classes as a whole, in contrast to earlier tables that had shown the circulation between people belonging to each of those groups. The shortened table normally shows all of the circulation throughout a year of output in line with the specific roles in the national economy, in contrast to the other tables that show a continuously recurring process. Additionally, a great deal more clarity is provided on the relations of reproduction for each form of advance capital. Thus, even though the *Tableau Abrégé's* name suggests that it is considerably more streamlined, Quesnay's simplification removed the superfluous while keeping the essential.

### CONCLUSION

In addition, the Physiocrats' theories became well-known because they were linked to powerful individuals in the French administration. King Louis XV and his finance minister, Étienne de Silhouette, adopted elements of the physiocratic ideas. These included tax

measures that transferred financial responsibility from the rural populace to the landowning nobility. The development of the Physiocrats signalled a substantial break from predominate economic theory of the period. They provided the foundation for subsequent economic theories with their emphasis on the productive function of agriculture, the idea of economic surplus, and their conviction in the significance of natural economic laws. They had an impact on economic schools of thought in the years after France, notably the classical economists. In conclusion, the Physiocracy's growth was influenced by the particular social and economic circumstances of 18th-century France, discontent with current economic policies, significant intellectuals, and the Enlightenment's intellectual atmosphere. Their focus on agriculture, natural economic laws, and laissez-faire principles laid the groundwork for the growth of economic theory and policy-making, influencing future ideas and advancing economic thought more broadly throughout the Enlightenment.

#### REFERENCES:

- [1] G. D. Gloveli, "Mercantilism, World-System Hegemony And Protoanalysis Of National Competitiveness," *Zhournal Novoi Ekon. Assoc. /Journal New Econ. Assoc.*, 2021, Doi: 10.31737/2221-2264-2021-51-3-8.
- [2] R. H. Drayton And P. T. F. Kennedy, "Imperial Science And A Scientific Empire: Kew Gardens And The Uses Of Nature, 1772-1903," 1993.
- [3] C. Herrmann-Pillath, "A 'Third Culture' In Economics? An Essay On Smith, Confucius And The Rise Of China," *Ssrn Electron. J.*, 2012, Doi: 10.2139/SSrn.1757833.
- [4] N. E. Devletoglu And I. H. Rima, "Development Of Economic Analysis.," *Economica*, 1968, Doi: 10.2307/2552168.
- [5] F. Gauthier, "Political Economy In The Eighteenth Century: Popular Or Despotic? The Physiocrats Against The Right To Existence.," 2015.
- [6] "Reviews And Short Notices," *History*, 1978, Doi: 10.1111/J.1468-229x.1978.Tb02359.X.
- [7] W. Zhang, "Application Of Crowd Thought And Herd Behavior In Economic Investment," *Rev. Argentina Clin. Psicol.*, 2020, Doi: 10.24205/03276716.2020.44.
- [8] R. M. Stahl, "From Depoliticisation To Dedemocratisation: Revisiting The Neoliberal Turn In Macroeconomics," *New Polit. Econ.*, 2020, Doi: 10.1080/13563467.2020.1788525.
- [9] T. Pénigaud, "The Political Opposition Of Rousseau To Physiocracy: Government, Interest, Citizenship," *Eur. J. Hist. Econ. Thought*, 2015, Doi: 10.1080/09672567.2014.1003951.
- [10] H. R. Sánchez, "Populate The Site Of Free Of Pedraza To Obtain 'Utility To The Agriculture, The Public And The State', Governorate Of Santa Marta, Nueva Granada, 1790-1794," *America Latina En La Historia Economica*. 2019. Doi: 10.18232/Alhe.999.

## CHAPTER 6

### A BRIEF OVERVIEW ABOUT NATURALISM AND OPTIMISM

---

Dr. Muralidhar Sunil, Assistant Professor,

Department of Master in Business Administration (General Management),

Presidency University, Bangalore, India.

Email Id: - sunilrashinkar@presidencyuniversity.in

#### **ABSTRACT:**

Optimism and naturalism are two separate ideas that have long shaped human vision. The interaction between naturalism and optimism is explored in this abstract, along with its ramifications for people's perspectives on life and the wider universe. According to naturalism, a philosophical school of thought, there are no supernatural or metaphysical beings necessary to comprehend or explain the natural world and its manifestations. Instead, natural laws and processes may be used to do so. It places a strong emphasis on the importance of empirical data, scientific investigation, and a logical understanding of the cosmos. The goal of naturalism is to explain occurrences in terms of natural forces and causes, rejecting supernatural explanations in the process. Contrarily, optimism is a perspective or attitude that is marked by an optimistic and upbeat conviction in the intrinsic goodness of life and the world. It includes self-assurance, fortitude, and the conviction that favourable results are more probable than unfavourable ones. Focusing on possibilities, advancement, and the possibility for both individual and society well-being is a common characteristic of optimism. There are several ways to look at the complicated link between naturalism and optimism. By encouraging a logical and fact-based view of the universe, encouraging awe and respect for the glories of nature, and emphasising the possibility for human development via scientific and technical breakthroughs, some contend that naturalism may lead to optimism.

#### **KEYWORDS:**

Economics, Labour, Naturalism, Optimism, Wealth.

#### **INTRODUCTION**

The work of a group of economists in the eighteenth and nineteenth century is referred to as classical economics. They created ideas that explained how markets and market economies function. The dynamics of economic development were the main focus of the research. It emphasised economic liberty and supported concepts like laissez-faire and unbridled competition. Up to the late 1800s, economic theory. Although the 1776 publication of Adam Smith's *Wealth of Nations* is often cited as the official start of classical economics, the discipline actually developed over time under the influence of Mercantilist theories, Physiocracy, the Enlightenment, classical liberalism, and the early stages of the industrial revolution [1], [2].

The Marginalism Revolution and the advent of Neoclassical Economics in the late 1800s marked the end of classical economics as the dominant school of mainstream economics. The foundations were laid in the 1870s by the general equilibrium theory of Leon Walrus, William Stanley Jevons, and Carl Menger, as well as by their concepts of marginal utility. The foundational concepts of neoclassical economics were developed by Henry Sidgwick, F.Y. Edgeworth, Vilfredo Pareto, and Alfred Marshall. Neoclassical economics is an extension of classical economics, but the problems it addresses and the methods it uses for analysis have evolved. Classical Economics has survived and continues to impact

contemporary economics, especially the so-called New Classical Economics, despite the dominance of neoclassical philosophy. The core of both classical and neoclassical ideology is the conviction that a free market can function effectively.

This school of thinking produced notable economists including John Stuart Mill, Thomas Malthus, David Ricardo, and Adam Smith. While Adam Smith would be considered as the school's founder and head, David Ricardo should be given credit for creating the school's structure and teaching methods. The emphasis and structure of the school were influenced by the arguments between Thomas Malthus and David Ricardo about political matters like the Corn Laws and the Poor Laws. Smith was worried about how the economy was growing. The concept of distribution concerns classical economists like Malthus, Ricardo, and others. There was a significant argument among traditional economists over whether or not there was a surplus or glut. The two main players in the debate over the existence of a surplus and its implications for a market economy were Jean Baptiste Say and Thomas Malthus. The Scottish Fife region is where Adam Smith was born. Although his actual birthdate is uncertain, he was baptised on June 5, 1723. Smith was a Scottish philosopher who achieved fame for his 1776 book *The Wealth of Nations*, which had a significant impact on contemporary economics and ideas of personal freedom[3], [4].

Smith was hired as a professor of logic at Glasgow University in 1751. He then moved to the department of moral philosophy. His lectures addressed topics in political economics, language, law, and ethics, often known as police and revenue. He published his *Theory of Moral Sentiments*, which included part of his lectures from Glasgow, in 1759. This project dealt with the moral principles that guide society under a benevolent Providence, with focus on the overall harmony of human motivations and actions. Smith relocated to London in 1776, where he wrote a detailed analysis of the effects of economic independence in *An Inquiry into the Nature and Causes of the Wealth of Nations*. It included ideas including the function of markets, the worldwide ramifications of a laissez-faire economy, the importance of self-interest, and the division of work. The book *Wealth of Nations* pioneered the free market economic ideology and created economics as a separate academic discipline. Smith established the theoretical foundation for free markets, which is still valid today.

The phrase the invisible hand, which he used to explain how self-interest determines the most effective use of resources in a country's economy and how public benefit results as a by-product, is the one for which he is most often remembered. Smith claimed that government and individual attempts to advance social justice are ineffective in comparison to unchecked market forces to support his laissez-faire belief[5], [6]. He was given the position of commissioner of customs at Edinburgh, Scotland, in 1778. On July 17, 1790, there, he passed away from an illness. In the end, it was found that Smith had used a significant portion of his salary to do a number of covert acts of charity. His *'Theory of Moral Sentiments'* 1759 is one of his significant writings. An investigation of the origins and causes of national wealth was published in 1776.

### **The Invisible Hand Hypothesis**

*An Inquiry into the Nature and Causes of the Wealth of Nations*, written by Adam Smith in 1776, is when the phrase first appeared. The invisible hand idea was one of Adam Smith's biggest accomplishments. According to him, if the government does nothing, markets may be controlled by the general populace. I think that the government should clarify property rights, establish fair courts, levy small taxes, and provide compensation for clearly defined market failures. If I sell sweets for one peso apiece and Christian sells them for two pesos for three pieces, he will take all the business, leaving me with none, thus I should be required to drop my price to make up for my loss in order to continue in business. My self-interest to make money, or as Adam Smith would say, every man for himself, is the unseen hand that steers me.

According to the invisible hand theory, if consumers are free to choose what they want to buy and producers are free to choose what they want to sell and how to make it, the market will eventually determine a product distribution and price that is advantageous to each individual member of a community and, consequently, to the community as a whole. This is due to the fact that actors behave in their own best interests. To increase revenues, efficient manufacturing practises are used. Low prices are offered in order to acquire market share by undercutting rivals and maximising income. To maximise profits, investors put money into the sectors where it is most urgently required and pull money out of others where value creation is less effective. Students train for the jobs that are most in demand and, thus, most lucrative. All of these impacts happen automatically and dynamically[7], [8].

According to Wealth of Nations, He is led in this, as in many other cases, by an invisible hand to promote an end which was not part of his intention. He intends only his own security by preferring the support of domestic industry to that of foreign industry and by directing that industry in such a manner that its produce may be of the greatest value. Additionally, not always for the bad society, of which it was an outsider. He often advances society more effectively by advancing his personal interests than when he really means to. I have never seen many people trading for the welfare of the community. It is an affliction, in fact, that is not very widespread among businesspeople, and just a few words are required to discourage them from it. This is how Adam Smith put it following the guidance of an invisible hand may actually be lucrative since it makes use of an individual's self-interest, which motivates him to come up with more and better ideas to outcompete his rivals, so long as he does it in a manner that is lawful.

### DISCUSSION

Optimism refers to the conviction that the impacts of the economic institutions that were thusly produced were positive. Naturalism indicates the spontaneous and natural genesis of economic institutions. Smith was certain that human behaviour motivated by self-interest will always lead to societal benefit. Smith believed that spontaneity and goodness went hand in hand. When one was present, it also meant that the other was present. Each person is driven by self-interest. Each and every guy, so to speak, maximises gain and minimises loss. Every guy thus engages in the endeavour that he perceives to be most lucrative. This idea serves as the foundation for the whole civilization. Everyone aspires to improve their circumstances. As a result of individuals engaging in a variety of activities, the community develops a wide range of economic institutions. These economic institutions have a haphazard nature. However, despite the organisations' primary self-interested foundation, they eventually improve societal welfare. We don't anticipate our meal from the butcher, the brewer, or the baker's generosity, but rather from their consideration of their own interest.

Every guy should be permitted to go his own path since they are naturally the greatest judges of their own interests. Adam Smith made the observation that every person is guided by an unseen hand to advance an end that was not in his intended goals while seeking his own gain. According to Smith, there can be no contradiction between the interests of various economic entities and the natural order. Their objectives must coincide. The operation of the invisible hand or automated adjustment mechanism ensures this. Individual interest and collective interest would be compatible if perfect competition prevailed, according to Smith. Naturalism, often known as the operation of the natural order, requires liberty, free competition, and laissez-faire. A variety of spontaneously formed and advantageous economic institutions have been described by Adam Smith. Men turned to specialisation and the division of work because of their innate desire to trade and swap one item for another. However, the division of work is advantageous since it leads to luxury. The institution of money emerged spontaneously, but since it made trade, exchange, and business easier and eliminated the challenges of the barter system, it eventually proved helpful.



The availability of money and the distribution of gold and silver stocks among the many nations of the globe were two areas where Adam Smith used his spontaneity-based notions. There was a system in place that automatically rebalanced the situation. In a similar vein, we might consider his contribution to the idea of capital accumulation, where once again, human nature lends spontaneity to it and makes it beneficial to society. Smith's theory of demand and supply is another illustration of the naturalism and spontaneity of economic institutions. Smith noted, like Marshall, that there is an opportunity for the price of the product under examination would decrease in the event of an excess supply against demand, whereas it would increase in the event of an excess demand. In this approach, a continual process is always in motion to restore the equilibrium between supply and demand. Smith's 'spontaneity' applies to population as well. He asserts that via a fluctuation in population, the variance in pay rates controls the availability of workers. As a result, naturalism and optimism are merged in *The Wealth of Nations*. Smith contends that the existence of economic institutions is both natural and advantageous. The institutions that naturally developed out of people's self-interest are healthy and advantageous since they assure growth towards riches and success.

Smith's notion of naturalism and optimism is not without detractors, however. In terms of productivity, his idea of optimism seems to be accurate. However, there is very little room for hope and agreement of interest in the domain of distribution. Smith himself has shown the potential of a class of interest between labour and capital in the area of distribution. His optimistic hypothesis is not entirely supported by scientific evidence. It's possible that societal interest and personal interest don't always align. The public and private sectors do not have the same shared interests or levels of efficiency. Adam Smith's conclusion on naturalism and optimism is based on inadequate inductive or empirical research. These are not based on any arbitrary relationship or presumptive theory. It has been observed that as capitalism develops, social class separation becomes more pronounced. When Smith asserts that naturalism and optimism can be attained independently of the state, he is mistaken. In reality, acquiring optimism and naturalism will often need the assistance of the state.

### **Division of work**

The fundamental thrust of Adam Smith's *The Wealth of Nations* resides in the notion of economic development. Growth, according to Smith, is founded in the growing division of work. This theory refers mostly to the specialization of the labour force, basically the breaking down of huge work into numerous little components. Under this system each worker becomes an expert in one isolated sector of production, thereby enhancing his efficiency. The fact that labour do not have to swap duties throughout the day further saves time and money. Of course, this is precisely what enabled Victorian manufacturers to develop throughout the nineteenth century. Assembly line technology makes it essential for a worker to concentrate his or her attention on one specific element of the manufacturing process. Surprisingly, Smith foresaw the possible hazards of this development.

He pointed out that pushing workers to undertake monotonous and repeated activities will lead to an uninformed, disgruntled work force. For this reason he pushed the revolutionary concept that governments had a duty to give education to workers. This stemmed from the assumption that education might offset the harmful consequences of industry life. Division of labour also entails allocating each worker to the task that fits him best. Productive work, to Smith, fulfils two fundamental needs. First, it must 'lead to the creation of actual objects.' Second, labour has to create a surplus that can be put back into the manufacturing process. The inclination to barter, which is shared by all men, is what leads to the division of labour. This tendency develops organically under the influence of personal interest, which works simultaneously for the advantage of everyone.

By analysing how it functions in certain specific manufacturers, it will be easier to comprehend the implications of the division of labour on society's overall operations. Not necessarily that it is carried farther in them than in others of greater importance, but in those trivial manufactures that are intended to meet the modest needs of only a small number of people, the total number of workmen must necessarily be small. Those engaged in every different branch of the work can frequently be gathered into the same workhouse, and placed simultaneously under the view of the same supervisor. Contrarily, every distinct sector of the job in those large factories that are meant to satisfy the vast majority of the population employs such a large number of labourers that it is not conceivable to gather them all into a single workhouse. Rarely do we see more people at once than are engaged in a single branch. Thus, even if the labour in such factories may really be split into a far higher number of components than in those of a more trivial character, the division is nowhere near as visible and has, as a result, been noted much less.

Therefore, to use the manufacture of pins as an example, which is a very minor product but one in which the division of labour has been frequently noted, a worker untrained in this field, which the division of labour has made a distinct trade of, nor familiar with the use of the machinery employed in it to which the same division of labour has probably given occasion, could hardly, perhaps, with his or her utmost industry, make one. However, the way this firm is now run means that not only is the whole operation an unusual trade, but it is also broken down into a number of branches, the majority of which are also peculiar businesses. One person draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top to receive the head making the head requires two or three distinct operations putting it on is a peculiar business whitening the pins is another and even putting them into the paper is a trade unto itself the important business of making a pin is thus divided into about eighteen distinct operations, some of which, in some factories, are all I've seen a tiny factory of this kind with just 10 workers, some of whom were thus responsible for doing two or three different tasks.

Despite the fact that they were very underprivileged and without the appropriate equipment, they were nevertheless able to produce around twelve pounds of pins per person each day when they worked hard. There are more than 4,000 pins of average size in a pound. Therefore, just 10 people might produce more than 48,000 pins in a single day. By producing a tenth of the forty-eight thousand pins, each individual may be thought of as producing four thousand eight hundred pins every day. However, if they had all worked independently and separately, without any of them having received training in this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day that is, unquestionably, not the two hundred and forty-first, perhaps not the four thousand eight hundredth part of what they are currently capable of performing, as a result of a proper division and combination of their different operations. They could manufacture tens of thousands every day by completing a little operation. Smith endorsed the division of work for this reason. According to him, there are three reasons for the rise in work.

1. Each individual worker's dexterity is increased significantly by the division of labour, which simplifies each person's labour to a single, straightforward task and forces each person to devote their whole lives to this task.
2. Saving the time that is often wasted when switching from one kind of work to another: He contends that it is hard to go from one type of work to another fast when it is being done in a different location and using tools that are extremely different. A rural weaver who runs a small farm must spend a significant amount of time getting from his loom to his fields and back to his loom. The time lost is undoubtedly far less when the two crafts can be performed in the same workhouse.

3. The creation of numerous machines that facilitate and abbreviate labour and allow one person to complete the work of many: According to Smith, a large portion of the machines used in industries where labour is most divided were initially created by common labourers who, after being assigned to perform a single, extremely straightforward task, naturally turned their attention to devising faster, easier ways to complete it.

### **Theory of Value**

Smith was particularly interested in identifying the sources of value. He distinguished between use value and exchange value, two separate types of value. Exchange value was a topic that piqued Smith's curiosity. He found the diamond-water dilemma to be particularly perplexing: Why does the price of water, which is essential to life but has very little practical value, exceed that of diamonds? Smith sought to identify the underlying source of value in order to establish a standard by which to measure economic expansion. Smith ultimately decided that work was the source of value: The amount of effort that an item may be traded for in hours determines its intrinsic value. Note that claiming a good is worth how many hours it took to produce it is not the same thing. The phrase natural price may also be used to describe a good's worth.

The market price of an item does not always correspond to the natural price. However, it was anticipated that competition would drive the market price closer to the natural price. According to Smith, the term value has two distinct definitions and may sometimes refer to an object's usefulness or the ability to purchase additional things that comes with its ownership. One may be referred to as value in use, and the other as value in exchange. Contrarily, those with the highest value in trade usually have little to no value in use, while those with the greatest value in use frequently have little to no value in exchange. Water is more useful than anything else, yet it won't buy much and can only be obtained in return for little. On the other hand, a diamond seldom has any worthwhile use, but it may often be exchanged for a very large number of other items. Smith asserts that a commodity's ability to swap its price for other products constitutes its worth in trade. This is an objective metric that the market has communicated.

His use of an imprecise idea of value contributed significantly to his difficulty in understanding relative pricing. It is a return to scholasticism on the one hand since it has ethical implications. Smith's claim that diamonds have almost little value in usage stands out as an example of his own puritanical standards. As opposed to that, value in use refers to a good's capacity to meet needs and the usefulness it provides while held or consumed. Consuming a commodity results in receiving three different types of utility: total utility, average utility, and marginal utility. Smith's emphasis on total utility concealed his knowledge of how demand influences price determination since economists did not comprehend the link between marginal utility and value until one hundred years after Smith wrote. The high use value of water in comparison to the use value of diamonds is what Smith was pointing out when he said that it is obvious that the overall usefulness of water is larger than that of diamonds. It is also feasible that another unit of water would provide less marginal value than another unit of diamonds, however, since a commodity's marginal usefulness often declines as more of it is used.

The cost we are prepared to pay for a good, or the value we put on getting another unit, is determined by its marginal usefulness rather than its overall worth. Smith was unable to resolve the diamond-water problem or understand the connection between use value and exchange value because he was unaware of this as were most economists until the 1870s. According to Smith's labour theory of value, the cost of work employed to produce a thing or service determines how much it is worth. It implies that products with the same production time should have the same price. A key principle in Karl Marx's philosophical objectives was

this thesis. It is claimed by those who disagree with the labour theory of value that supply and demand for a particular commodity or service, rather than work, ultimately decides a good's or service's price. The idea is that if the price of anything exceeds how much the buyer values the time required to manufacture it, he would make it himself rather than pay the higher price[9], [10].

### **Laissez-Faire**

A laissez-faire economic system is one in which rules and regulations are not too intrusive. In French, the phrase translates to let it be. Laissez-faire proponents believe that government should only be involved in policing for fraud and upholding contracts, leaving private parties' transactions free from restrictions, taxes, tariffs, and monopolies. In the 19th century, Adam Smith's viewpoint that people can contribute to society most effectively when they follow their own desires was generally accepted. In his book *The Wealth of Nations*, Adam Smith used the phrase *Laissez-Faire* to describe an economic system in which people are economically free to act as they like without intervention from the government and the markets are totally uncontrolled.

Laissez-faire was historically an opposition to mercantilism, a system of commercial regulations in which business and commerce, particularly foreign trade, were only considered as ways to bolster the state. During the time of European colonial expansion, paternalistic rules of many types, including navigation laws and trade monopolies, had a significant impact on the emerging class of merchants. The French physiocrats, who were early economists in the 18th century, initially developed the laissez-faire tenets on behalf of this elite. State non-interference became a fundamental principle among the physiocrats, who were particularly against taxing commercial activities. Thus, laissez-faire economics had its start in France in the 18th century, when physiocrats economists like Francois Quesnay and Mirabeau started to oppose the subsidies and discriminatory economic policies of the prevailing mercantilism.

The founder of classical economics, who is more closely associated than any other with British laissez-faire ideologies, was also driven by opposition to mercantilism and governmental paternalism. Smith argued that commerce should be unrestricted by the government because he thought that pursuing individual benefit rather than national power was the right objective. The 'invisible hand' of rivalry or competition would take over as a more potent economic life regulator when people were free to follow their own interests. The construction of canals and ports to assist trade is an example of a public work. Smith did not believe in laissez-faire in the strictest sense he saw a role for government intervention in these areas as well as in the regulation of foreign trade to safeguard certain domestic industries.

When laissez-faire failed to address the social issues brought on by industrialization, it lost favour in the 20th century. This economic theory dominated Western economic thought in the 19th century. But it didn't take long for its flaws to be exposed, as seen by the widening monopoly distribution, harsh treatment of labour, and contempt for customer safety. By the middle of the 19th century, resistance to laissez-faire economics had begun, and governments in every industrialised nation had stepped in to protect the interests of the populace and workers. Monopoly expansion was restrained and factory restrictions and consumer protection laws were established. Monopolies were dismantled in the US throughout the early 20th century, while key industries and services were nationalised in Europe during the Second World War. It was further undercut by Keynesian economics, which favours government involvement in the economy, a movement sparked by the great depression of the 1930s. But starting in the 1970s, the pendulum swung back towards laissez-faire economics renamed market economy or free enterprise under the pretence of globalisation and brought corporate deregulation and the ongoing gradual dismantling of trade barriers.

## CONCLUSION

It's crucial to remember, however, that optimism and naturalism are not intrinsically at odds. Human agency, the possibility of positive development, and the ability of people and society to adapt and flourish in the face of difficulties, optimism may emerge within a naturalistic framework. Beyond philosophical discussion, naturalism and optimism interact with one another. It has consequences for many facets of human existence, including as morality, societal advancement, environmental protection, and individual well-being. Knowing how these factors interact might help people be more resilient, make better decisions, and interact with the outside environment. In summary, naturalism and optimism are two separate ideas that interact in nuanced ways. Optimism involves having a cheerful view and believing in the intrinsic goodness of life, while naturalism emphasises a reasoned, empirically based knowledge of the natural world. While naturalism may pose obstacles to optimism, it may also serve as a basis for an increased or moderated optimism that is based on an appreciation of both the possibilities for human development and the marvels of the natural world. Understanding how these ideas interact may influence a person's perspective, choices, and interactions with their environment.

## REFERENCES:

- [1] H. Asy'ari, "Renaissans Eropa dan Transmisi Keilmuan Islam ke Eropa," *JUSPI (Jurnal Sej. Perad. Islam.*, 2018, doi: 10.30829/j.v2i1.1792.
- [2] F. Fatima and S. Ali, "Philosophical and Biological Foundation of Brain Based Learning: A Phenomenological Approach," *Int. J. Innov. Teach. Learn.*, 2021, doi: 10.35993/ijitl.v6i2.831.
- [3] H. Asy, "Renaissans Eropa dan Transmisi Keilmuan Islam ke Eropa," *JUSPI J. Sej. Perad. Islam*, 2018.
- [4] D. Weijers, "Optimistic naturalism: Scientific advancement and the meaning of life," *Sophia*, 2014, doi: 10.1007/s11841-013-0369-x.
- [5] W. Zhang, "Application of crowd thought and herd behavior in economic investment," *Rev. Argentina Clin. Psicol.*, 2020, doi: 10.24205/03276716.2020.44.
- [6] R. F. Delgado, "The emblematic and Spanish economic thought of the late sixteenth and early seventeenth," *Estudios de Economia Aplicada*. 2020. doi: 10.25115/EEA.V32I1.3200.
- [7] S. Finlay, "Defining Normativity," in *Dimensions of Normativity: New Essays on Metaethics and Jurisprudence*, 2019. doi: 10.1093/oso/9780190640408.003.0009.
- [8] J. W. Roland, "On naturalizing the epistemology of mathematics," *Pacific Philosophical Quarterly*. 2009. doi: 10.1111/j.1468-0114.2009.01329.x.
- [9] L. Panos, "Postmodernism, culture and feminism: The aesthetics of space and performance in Rock Follies and Rock Follies of '77," *Journal of British Cinema and Television*. 2014. doi: 10.3366/jbctv.2014.0191.
- [10] J. B. Priestley, "'Particular Pleasures' in Performance," *New Theatr. Q.*, 1985, doi: 10.1017/s0266464x00001391.

## CHAPTER 7

### ECONOMIC CONTRIBUTION: SIGNIFICANCE AND MULTI DIMENSIONS OVERVIEW

---

Mr. Ashok Bhat, Assistant Professor,  
Department of Masters in Business Administration,  
Presidency University, Bangalore, India.  
Email Id: - ashokbhat@Presidencyuniversity.in

#### **ABSTRACT:**

Economic contribution is the effect and value produced by people, groups, and industries within an economy. This summary gives a general review of economic contribution, emphasising its importance and many characteristics that include both direct and indirect impacts on economic development, growth, and well-being. The term economic contribution refers to a broad variety of actions that support the creation, transfer, and consumption of commodities and services. It takes into account both the labour, initiative, and invention of people as well as the output, investment, and job creation made possible by enterprises, industries, and sectors. The importance of economic contribution is seen in its function as an engine for economic development and growth. It supports the growth of production, income, and employment, raising standards of living and enhancing welfare in the process. Contributions to the economy encourage innovation, technical development, and productivity improvements, all of which are necessary for long-term economic growth. Trade and international economic contacts also play a part in economic contribution. It encompasses trade in goods and services, FDI from other countries, and the integration of national economies into international value chains. International trade and economic cooperation boost overall economic performance and competitiveness by promoting economic development, specialisation, and access to new markets.

#### **KEYWORDS:**

Economics, Economy, Profits, Rent, Wealth.

#### **INTRODUCTION**

Many people credit Adam Smith 1723–1790 as being the father of modern economics. By defining the rule of demand, he was able to construct a cogent and logical explanation of how the economy functions. The Theory of Moral Sentiments and An Inquiry into the Nature and Causes of the Wealth of Nations are his two major writings. Adam Smith explores the factors that contributed to the industrial revolution in his book Wealth of Nations, in which he also presents his free market theories. He posed a question that was still relevant in the modern world 250 years ago. Why do people in one country earn more money than those in another? Why do such salaries vary in certain nations while rising steadily in others? He believed that a government should play a specific, well-defined function in society in a free market. Government should be in charge of national security, justice, and public goods. In other words, the government should only provide those products and services that the free market is unable to supply.

The division of labour and the invisible hand are two crucial features of the economy that Smith discusses in Wealth of Nations. Smith argues that division and specialisation of work are crucial. Smith emphasises the significance of the organisation of production as the source of technical development, in contrast to contemporary perspectives on technological advancements connected to the capital investment process. The term divide of labour refers to the new specialisations that separate the Production is divided into sections, with each section carrying out distinct responsibilities and earning varied rates of profit for competitive

advantages in the market. The degree of labour division that a nation has achieved determines the amount of income. Competition between buyers and sellers in an effort to increase sales and profits is how a free economy is operated. In order to compete, vendors must cut their pricing, enhance their goods, and provide unique promotions.

Sellers are driven by self-interest they consider, what's in it for me? Self-interest is an element that is involved. Instead of being driven by the government's set pricing, merchants set their own prices and operate their enterprises to maximise profits. Anything that people want will be provided by someone willing to make money. In this way, all of the needs of the populace are met without the involvement of the government. Smiths referred to this system, which is controlled by an Invisible Hand, as the free market. The free market is guided by the invisible hand of self-interest, which implies that it is self-regulatory[1], [2]. Smith was aware that there are flaws in free markets, but he also acknowledged that, generally speaking, the free market notion is more capable of promoting prosperity and welfare than any other option. Citizens are required to pay for whatever service is provided in return, rather than profits for both parties resulting from each transaction. Thus, lives get poorer. The fact is that individuals and families take care of themselves better than a distant, overbearing government when they are allowed to do so.

The Iron Law of Wages, which states that wages are generally equal to the subsistence level of earnings, is a version of Smith's wage theory. If wages are higher than what is necessary to ensure the worker's and his dependents' survival, there will be a rise in population, which will lower wages to those needed for sustenance. Population will decline and wages will increase to subsistence levels if earnings are below what workers need to survive. This meant that any rise in overall productivity instead benefitted business owners who would save money and buy equipment to enable further technical advancement and the division of labour. Smith saw rent as a remnant from the entire production after salaries and profits had been distributed. As I said before, wages would be lowered to the subsistence level. The rate of profit will steadily decline due to competition to a low level that would apply to all businesses. Therefore, advancement would only be advantageous to renters.

Smith made the claim that humans may empathise with the pain of others as a result of their ability to envisage what others are experiencing in his work, the Theory of Moral Sentiments. When we identify with the experiences of others as our own, our innate need to protect our own interests might cause us to act in their best interests. Therefore, it makes perfect sense to think that people are self-centred and kind to others. Aside from our capacity for empathy, which helps us understand the suffering of others, the mere pragmatism of peace the knowledge that it is essential for prosperity might be sufficient to promote moral conduct. Smith was in support of a government that did not interfere with the functioning of the market, as one would anticipate given his belief that markets were incredibly efficient. Smith, however, emphasised that the government should uphold law and order, guarantee the nation's defences against foreign adversaries, construct and maintain public infrastructure that won't be done by private residents, and fund those who otherwise couldn't afford an education.

### **David Ricardo**

On April 19, 1772, David Ricardo was born in London. He was a Dutch Jew and the third son of a wealthy London Stock Exchange trader. Ricardo joined his father's company when he was 14 and shown a solid understanding of economics. After marrying Priscilla Anne Wilkinson, a Quaker, in 1793, Ricardo turned to Christianity and became a Unitarian. As a result, Ricardo's relationship with his father was damaged, and he was forced to start his own company. He proceeded to participate on the stock market, where his talent earned him the backing of a prestigious financial institution. He succeeded so brilliantly that he quickly

accumulated a fortune. This made it possible for him to pursue his interests in mathematics, chemistry, and geology as well as in literature and science.

After reading Adam Smith's *Wealth of Nations* in 1799, he pursued a ten-year study of economics. *The High Price of Bullion, a Proof of the Depreciation of Bank Notes*, his first booklet, was released in 1810 and was an expansion of the letters that Ricardo had written in the *Morning Chronicle* in 1809. In it, he argued in support of a metallic currency, reigniting the debate over the Bank of England's monetary policy. Pitt's administration was forced to halt cash payments by the Bank of England in 1797 as a result of the French Wars 1792–1815. As a result, both the quantity of loans and the amount of their paper money had increased. This led to an inflationary environment. According to Ricardo, inflation has an impact on gold trading and foreign currency values. When the House of Commons created the Bullion Committee in 1819, it endorsed Ricardo's arguments and suggested that the Bank Restriction Act be repealed.

### DISCUSSION

Ricardo resigned from business in 1814 at the age of 42 and moved into Lacombe Park in Gloucestershire, where he owned substantial landholdings. He was elected as Port Arlington's MP in 1819. Although he didn't speak out frequently, his pro-free-trade ideas were respected despite the fact that they went against the prevailing economic theory at the time. Landowners who wanted to secure their earnings by keeping the Corn Laws in place made up Parliament. The philosopher and economist James Mill, the utilitarian philosopher Jeremy Bentham, and Thomas Malthus best known for his essay *Principles of Population* published in 1798 were among the notable persons Ricardo became acquainted with. Malthus' theories on population increase were accepted by Ricardo. When the government introduced new laws to increase the taxes on imported wheat in 1815, the Corn Laws became the subject of yet another debate. In his *Essay on the Influence of a Low Price of Corn on the Profits of Stock*, published in 1815 as a response to the Corn Laws, Ricardo argued that raising the duties on imported grain had the effect of raising the price of corn, which in turn increased the incomes of landowners and the aristocracy at the expense of the working classes and the emerging industrial class.

According to him, the Corn Laws' repeal would facilitate the distribution of the nation's revenue among the more productive segments of society. In his book *Principles of Political Economy and Taxation*, published in 1817, Ricardo examined how money was divided among capital owners, labourers, and landlords. He discovered that, with rent removed from the expenses of production, the relative domestic values of commodities were mostly determined by the amounts of labour needed to produce them. He came to the conclusion that earnings fluctuate in an opposite manner. Rent tends to climb as the population expands, increasing as the cost of agriculture rises, along with salaries, which move with the cost of necessities. He was worried about the population expanding too quickly for fear that it would drive down wages to subsistence levels, cut profits, and halt capital production. Ricardo was 51 years old when he passed away on September 11, 1823, after being forced to leave Parliament due to illness.

#### **The Works of David Ricardo**

When he was in his late 20s, Ricardo studied Adam Smith's *Wealth of Nations* 1776. This triggered a lifelong interest in economics in him. Ricardo started outlining his own economic theories for newspaper pieces in 1809. Ricardo first described the law of decreasing returns in his *Essay on the Influence of a Low Price of Corn on the Profits of Stock* 1815. Malthus, Robert Torrens, and Edward West were also the first to independently and concurrently establish this theory. The book *Principles of Political Economy and Taxation* by David Ricardo was released in 1817. In this essay, Ricardo combined his theory of distribution with a theory of value. By attempting to address significant economic problems, David Ricardo



raised the bar for theoretical complexity in economics. He provided a clearer and more consistent explanation of the Classical system than anybody before him. The 'Classical' or 'Ricardian' School was named after him. While his ideas were adopted, they were gradually supplanted. The 'Neo-Ricardian' research programme does still exist today, however.

### **Theory of Value**

The theory of value has been the focal point of contemporary debates about the viability of David Ricardo's economic system. According to the labour theory of value, the ratio between the amounts of work needed to produce two things determines their respective prices. His labour theory of value makes the following presumptions.

1. Both sectors have the same pay rate and profit rate.
2. All of the capital used in production is comprised of wages.
3. The production time for both items has the same duration.

Ricardo acknowledged two deviations to his labour theory of value and acknowledged that the second and third assumptions were extremely implausible. Production cycles may vary in addition, the two production methods may use capital instead of only wages in the form of tools and equipment. Up to the end of his life, Ricardo kept developing his value theory. The first chapter just acts as a prologue to a lengthy book that discusses a lengthy list of analogies, compares the different points of view, and lays out Ricardo's own logic. Ricardo tries to show how trade value and value in use are two different things in the chapter On Value and Riches. One may factor two often at odds outcomes in this manner. That production may be made up of capital and machinery, but it doesn't change the principle which he attributes to Adam Smith that he tries to lay out in this chapter, in response to Point 2 above, that the capital employed in production must be made up of wages only for his value theory to hold. Without increasing the value of the other measure by even a little amount, machinery may significantly increase the value of one measure.

Ricardo appears to demonstrate that one may factor out somewhat contradicting assumptions in this method which, when combined, produce outcomes that are equally paradoxical. In an effort to address some of the problems with the democratic society he lived in, Ricardo strives to explain everything clearly, or at least makes an effort to do so. He pursued this goal by delivering moving and entertaining addresses to Parliament in an effort to alter British Empire internal policy[3], [4]. The main argument Ricardo appears to be making is that wealth may be added via capital accumulation without lowering the value of tradeable goods, potentially resulting in a win-win situation for all parties involved in the economy. First, Ricardo makes an effort to demonstrate that, since new riches are always detracting in some manner from the exchangeable worth of what was generated, they do not contribute as much value as one would believe. He extrapolates to conclude that the aggregate global value in exchange is a fixed constant based on the declining value in exchange as value-in-use grows. He claims that as the global economy expands, first-world nations will start to lose value in trade, even in purely speculative ways like reducing their capital base. However, Ricardo points out that as physical economic expansion tempers the aggressiveness of rivalry, both the wealthy and the poor will probably enjoy more security as a result of increased value in use. Adam Smith believed that since it has an impact on value, the rise of the poor's wealth over the level of subsistence is likely to reduce society's total worth. All economists, from the most conservative to the most progressive, are still concerned about it, thus they reduce the wealth of the poor in order to keep the economy growing. When we assess value in exchange alongside the increase of value-in-riches rather than by the monopolisation value, Ricardo demonstrates that this is unnecessary. The extremes of competition thus provide both the wealthy and the impoverished the impression of increasing riches without producing any genuine results.

People, including firms and workers, wealthy and poor, may realise this and see a way and means ahead by taking a step back and seeing the increase of actual value-in-use. According to David Ricardo, economic growth typically slows down. A modified version of the labour theory of value serves as the foundation for his study. He espoused the viewpoint that the quantity of labour required to support the employees who cultivate the most barren land that can still sustain agriculture determines the rate of profit for society as a whole. Based on typical fertility rates, this model classifies different types of land. Naturally, the most fertile land yields more food than lower-quality soil. It fetches a higher rent as a consequence. The least productive agricultural land pays no rent instead, all of its income is used to pay labour and capital expenses. The source of rent on the better land is the difference between the production from the least fertile land that can still be farmed and that of a higher grade. Poorer land must be farmed in order to fulfil the rising demand as the population expands. Rent for desirable land therefore becomes more expensive.

Falling profit levels are the outcome of this, together with the fact that bad land need more manpower to maintain minimum productivity. Profits decrease when rents increase. In essence, as population grows, rent expenses eat into earnings. Rising rent prices impede economic development since earnings encourage investing and expansion. The interests of landowners under Ricardo's paradigm directly conflict with those of the general public. Ricardo described antagonistic class relations before Karl Marx did. In reality, Marx heavily drew on Ricardo's works for most of his economic theory. Despite the fact that Marx blamed capitalists, not landowners, for society ills, he adopted Ricardo's labour theory of value. Marx Ricardo's prediction of economic stagnation to support his thesis that the working class would revolt. It was anticipated that the unhappiness that resulted from capitalism eroding its own foundations would spark social unrest and a revolution. Although it is doubtful that Ricardo would have agreed with Marx's revolutionary view of political economy, there is no denying the connections between the two schools of thought?

### **Static Condition**

The basic issue of income distribution was solved in the Ricardian system by combining the theory of rent with the theory of value, both simplified to Ricardo's level. In a complicated economy, it was obviously essential to connect the theory of value to the theory of pricing. Ricardo achieved this by connecting the market price to the marginal no-rent firm's production costs. He observed: The exchangeable value of all commodities, whether they be manufactured, mined, or agricultural products, is always determined by the greater amount of labour that must be expended on their production by those who do so under conditions that are less favourable than those in which they can be produced under highly favourable conditions, which benefits only those with special facilities for production.

Ricardo understood that there is no ideal way to quantify value since it depends on changes in wages and profit margins. We have shown that various capital durability and different fixed to circulating capital ratios will have varied effects on market prices if wages shift relative to profits. As a result, Ricardo created the average firm, an analytical ruse in which the economy's average is assumed for both the capital to labour ratio and capital durability. Ricardo had all the tools necessary to address the issue of changing income distribution[5], [6].

### **Theory of the Ricardian Distribution**

The reason David Ricardo's model is significant is because it was among the first ones used in economics to describe how income is divided in society. The classical school of political economics in England either shared the labour theory of value or, secondary, some other kind of cost theory of value. The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it, said Adam Smith in a vague manner. The first cost, the money used to make the first purchase of everything, was labour.

But in the same sentence, he said that the quantity of the labour which he can command determines the worth of a thing in one's possession. And other times, he seemed to attribute the labour market price as the cause of its impact on exchange value[7], [8].

The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not as the greater or less compensation which is paid for that labour, wrote David Ricardo in *Principles of Political Economy and Taxation*. By articulating the concept in this way, Ricardo was able to clarify the distinction between wages as a component of price and labour as the source of exchange value. According to this theory, income received by land and capital owners was deducted from the exchange value produced by labour, and wages varied inversely with profit: If the corn is to be divided between the farmer and the labourer, the greater the proportion that is given to the latter, the less will be left for the former. In other words, the greater the percentage provided to the former, the less is left for the latter if fabric or cotton items are shared between the worker and his employer[9], [10].

It made perfect sense for the newly-emerging socialist movement to capitalise on the political ramifications of this finding. This is exactly where the English school of 'Ricardian socialists' found its inspiration. Thomas Hodgkin, the greatest of them, stated in *Labour defended against the claims of capital that Wages vary inversely as profits, or wages rise when profits fall, and profits rise when wages fall and it is therefore profits, or the capitalist's share of the national produce, which is opposed to wages, or the share of the labourer*. Marx himself was influenced by Proudhon and the socialist interpretation of classical political economics known as the Ricardian School. 'Bourgeois political economy's' understanding of the nature of wages, rent, and profit, in Engels' view, was the primary source of contemporary socialism.

Any contemporary socialism, regardless of orientation, that draws its foundation from bourgeois political economics adopts the Ricardian theory of value practically without fail. The two assertions that Ricardo made in 1817, right at the start of his *Principles*: 1 that the value of any good is wholly determined by the amount of labour needed to produce it, and 2 that the value of any good is determined by the amount of capital necessary to produce it. These two ideas had been used in England for socialist conclusions since 1821, and in part with such Alamanace and resolve that this literature, which had then almost been forgotten and was largely only rediscovered by Marx, remained unsurpassed until the publication of *Capital*. The product of the entire social labour is divided among the three classes landowners rent, capitalists profit, and workers' wages. It is debatable to what degree Marx's theory of value really evolved directly from Ricardo's and to what extent it was a pre-existing Hegelian philosophy with Ricardian features grafted on. However, for the time being, we shall consider Marx's theory of value to be pertinent to our investigation to the degree that it lends itself to a Ricardian approach.

### CONCLUSION

Economic contribution also includes social and environmental components. Considerations including income distribution, poverty reduction, social mobility, and access to necessary services and opportunities are all part of social contributions. To maintain long-term economic viability and well-being, environmental contributions include the sustainable use of resources, environmental protection, and the prevention of negative externalities. It is essential for people, corporations, and politicians to comprehend economic contribution. It supports resource allocation, investment strategies, and policy choices. Achieving inclusive development, reducing inequality, and addressing socioeconomic issues may be guided by evaluating and rewarding economic contributions. In conclusion, economic contribution includes the influence and value produced by people, groups, and industries within an economy. It is essential for promoting development, well-being, and economic prosperity.

Direct and indirect consequences, commerce and international connections, as well as social and environmental factors, are all part of the economic contribution. For economies to grow sustainably and for society to develop generally, economic contributions must be valued and recognised.

**REFERENCES:**

- [1] O. Stokes-Cawley, H. Stroud, D. Lyons, P. Wiley, and C. Goodhue, “Economic contribution analysis of national estuarine research reserves,” *Water (Switzerland)*, 2021, doi: 10.3390/w13111596.
- [2] S. Matiku, J. Zuwarimwe, and N. Tshipala, “Community-driven tourism projects’ economic contribution to community livelihoods-A case of makuleke contractual park community tourism project,” *Sustain.*, 2020, doi: 10.3390/su12198230.
- [3] J. Hos, A. Upe, M. Arsyad, and Hasniah, “Time allocation and economic contribution of women in fulfilling the basic needs of poor households,” *Chang. Soc. Personal.*, 2021, doi: 10.15826/csp.2021.5.3.144.
- [4] O. Ajayi, E. Ekanem, and M. Mafuyai, “Economic contributions of the local food systems in tennessee,” *J. Food Distrib. Res.*, 2021.
- [5] P. Lewis, M. G. Moura, and J. Runde, “Ontology and the history of economic thought: An introduction,” *Cambridge J. Econ.*, 2020, doi: 10.1093/cje/beaa039.
- [6] P. T. Roundy and M. Bonnal, “Social entrepreneurship and economic thought: A path to rapprochement,” *Glob. Bus. Econ. Rev.*, 2020, doi: 10.1504/GBER.2020.110014.
- [7] J. A. F. Martínez and M. A. Garcia-Gordillo, “Heterodox economy in the neoliberal education age,” *Soc. Sci.*, 2020, doi: 10.3390/SOCSCI9050081.
- [8] S. Percic, “Social Welfare: A Synthetic Analysis from the Perspective of the Main Schools of Economic Thought,” *Tech. Soc. Sci. J.*, 2020, doi: 10.47577/tssj.v6i1.177.
- [9] M. Kraido Socrates and M. Davis Kimuli, “Pragmatic History of Economic Thought: Explaining Trade Practices and Policies in Kenya,” *Tanzanian Econ. Rev.*, 2020, doi: 10.56279/ter.v10i1.59.
- [10] T. L. Pimenta, “Alienation and fetishism in karl marx’s critique of political economy,” *Nov. Econ.*, 2020, doi: 10.1590/0103-6351/4958.

## CHAPTER 8

### CONTRIBUTION AND UTILITARIANISM :ENHANCING SOCIAL WELFARE

---

Ms. Anandasrinivasan Deviprabha, Assistant Professor,  
Department of Masters in Business Administration,  
Presidency University, Bangalore, India.  
Email Id: - deviprabha@presidencyuniversity.in

#### **ABSTRACT:**

The consequentialist ethical theory known as utilitarianism, which was created by thinkers like Jeremy Bentham and John Stuart Mill, has had a profound impact on moral philosophy and judgement. This abstract examines utilitarianism's core ideas and accomplishments, focusing on how they have influenced ethical debate and how they have been used in real-world situations across a range of disciplines. The maximisation of general utility or pleasure is the foundation of utilitarianism. According to utilitarianism, deeds are ethically justified if they result in the most pleasure or well-being for the most people. This consequentialist perspective emphasises acts' results or repercussions rather than innate moral obligations. The greatest happiness principle was first proposed by Jeremy Bentham, who is regarded as the father of utilitarianism. Bentham maintained that decisions should be made in a way that maximises pleasure and minimises misery for everyone who would be impacted. He suggested a quantitative method of evaluating utility, arguing that the total usefulness of an activity could be calculated by quantifying its joys and pains.

#### **KEYWORDS:**

Contribution, Ethical, Moral, Utility, Utilitarianism.

#### **INTRODUCTION**

Utilitarianism has spurred discussions in ethics about the definition of happiness, how utility is measured, and the moral ramifications of balancing the interests of many people. By presenting a consequentialist viewpoint that places emphasis on the general welfare of people and society, it has challenged conventional deontological and virtue ethics frameworks. Cost-benefit assessments, welfare economics, and policy-making have all been impacted by utilitarian concepts in economics. Discussions on resource allocation, public goods, and redistribution have been influenced by the idea of maximizing social welfare and taking into account the wellbeing of the whole community[1], [2].

Bentham's ideas were developed upon and qualitative variations in pleasure were presented by John Stuart Mill, a well-known utilitarian philosopher. Mill emphasized that not all pleasures are created equal and argued in favour of seeking out higher pleasures over more base, physical ones, such as intellectual and moral fulfilment. Mill's idea of rule utilitarianism proposed that moral laws should be upheld if they usually maximise happiness, even though particular individual behaviours do not always maximise utility. By offering a methodical framework for assessing moral judgements and practises, utilitarianism has significantly influenced ethical discourse. Ethics, economics, public policy, and healthcare have all been impacted by its focus on the results of acts and the welfare of persons.

#### **Objections to the Theory**

Ricardo's thesis of comparative advantage and Mill's theory of reciprocal demand are both dependent on a number of irrational assumptions. As a result, the idea has flaws. In addition, Viner, Graham, and others have expressed several further criticisms.

1. According to Viner, Mills' theory of reciprocal demand does not account for the product's domestic demand each nation would only export its goods after meeting

local demand. Thus, until the domestic demand was met, neither the demand curve for Germany nor the demand curve for England would be below the line.

2. The two commodities must have equivalent consumption values and the two nations must be of equal size for Graham Mills' analysis to be accurate. Without these two suppositions, if one country is small and the other is large, the small country will benefit most on both counts. First, if it produced a high-value well, it would adopt the cost ratios of its large partner. Second, because the two trading countries are not the same size, the terms of trade would be set at or close to the large country's comparative costs. Graham also faults Mill for prioritising demand over supply when defining international values. He contends that manufacturing costs supply are also of utmost relevance to international commerce and that the application of the reciprocal demand makes it look that demand alone is of concern.
3. The lack of consideration for income changes in the two trading nations, which are certain to have an impact on the terms of trade between them, is another flaw in Mill's study of reciprocal demand.
4. The idea also relies on relative price ratios and barter conditions of trade. As a result, it ignores all wage and price inflation, all transitional inflationary and overvaluation gaps, as well as all balance of payment issues.

### **Jonathan Bentham**

The son of a lawyer, Jeremy Bentham was born in London in 1748. Bentham excelled academically and was accepted to Lincoln's Inn at the age of fifteen after enrolling at Queen's College, Oxford, at the age of twelve. Bentham disliked giving speeches in front of crowds and was a timid person. He subsequently made the decision to quit the Lincoln Inn and focus on his work. With the £90 his father sent him each year, Bentham wrote a number of publications on politics, economics, and philosophy[3], [4]. For the earliest part of his life, Bentham shared the conservative political philosophies of his conservative family, who had been Tories. Following Bentham's reading of Joseph Priestley, this situation altered. Bentham was greatly influenced by a line from *The First Principles of Government and the Nature of Political, Civil and Religious Liberty* 1768, which reads, the great standard by which everything relating to that state must ultimately be determined is the good and happiness of the members that is the majority of the members of the state.

David Hume, a philosopher, had a significant impact on Bentham as well. Bentham maintained that the ideal goal of human behaviour and law is the greatest happiness of the greatest number in works like *A Fragment on Government* 1776 and *Introduction to the Principles of Morals and Law* 1789. 'Pain and pleasure are the royal lords guiding man's behaviour,' said Bentham. Since self-interest is always the driving force behind an action, it is the job of law and education to make punishments severe enough to convince the offender to put the good of the society above his personal enjoyment. Bentham claimed in *Principles of International Law*, published in 1798, that gaining European unity was necessary in order to bring about world peace. He thought that a European Parliament in some shape or form would be able to impose press freedom, free trade, the abandoning of all colonies, and a decrease in the amount of money spent on weaponry.

Bentham questioned the law of libel in *Catechism of Reformers* 1809 because he thought it was so unclear that judges may exploit it to their advantage. Bentham emphasised that any Radical who hurt the feelings of the ruling class may face legal penalties from the government. In addition, Bentham criticised 'jury packing' and other flaws of the judicial system. Bentham's work was hailed by radical reformers including Sir Francis Burdett, Leigh Hunt, William Cobbett, and Henry Brougham. Radical publishers made an effort to explain his views to the working class despite the fact that they were written in a complicated language. The *Catechism of Reformers* was finally released in a low-cost format after

Jonathan Wooer published excerpts in his publication *Black Dwarf*. Burdett used Jeremy Bentham's theories to back his demands for universal suffrage, yearly parliaments, and vote by ballot when he proposed a package of motions in the House of Commons in July 1818. Bentham and James Mill 1773–1836 founded the *Westminster Review*, a publication for intellectual radicals, in 1824. Lord Byron, Samuel Taylor Coleridge, and Thomas Carlyle were among the authors that contributed to the magazine. Bentham's work *Constitutional Code 1830* has the most in-depth explanation of his views on political democracy.

In the book, Bentham made the case that political change should be guided by the idea that the majority of those it would impact will be happier under the new system. Bentham advocated in support of direct elections, yearly legislatures, and universal suffrage. Bentham argued that there shouldn't be a monarch, a House of Lords, or a recognised religion. Bentham's belief that both men and women should have the right to vote was also expressed in the book [4], [5]. Bentham also addressed the issue of how government should be structured in *Constitutional Code*. For instance, he advocated for the adoption of regulations that would guarantee Commons members' frequent attendance. Government officials need to be chosen via a competitive examination process. The book also advocated for regular reviews of the actions taken by politicians and other public servants. They need to be constantly reminded that they are the servants, not the masters, of the public, according to Bentham. In 1832, Jeremy Bentham died.

### DISCUSSION

Utilitarianism was Bentham's primary contribution to philosophy and economics. The maximisation theories have their roots in utilitarianism, which holds that whatever brings about the greatest happiness or utility is ultimately the most significant, valuable, etc. Furthermore, this belief led people to aim to maximise their net pleasure or, alternatively, to maximise their pleasure while minimising their pain. The ethical theory of utilitarianism is widely explored in an effort to respond to the partially answered issue by Adam Smith. Bentham saw that 'communities' are really simply a collection of people, and that the interests of the 'community' are really just the interests of the collective group of people. The concepts of utilitarianism and hedonism often inspired Bentham to make an important economic contribution: the concept of decreasing utility.

A person who currently has hundreds of carts and buggies will find very little use in adding another, while a person without a cart and buggies may profit from being able to move more, and so enhance their gain, more. According to Bentham, money no longer has as much of an impact on happiness as it formerly did. When considered in isolation, diminishing marginal utility definitely backed the notion of wealth redistribution. Bentham agreed, arguing that if you removed money from someone who had a lot of money, they would feel the loss more keenly than someone who got it would [6], [7]. According to Bentham, money is not a suitable indicator of people's pleasure and that GDP and other metrics do not reflect appropriate measurements of well-being or happiness. He urged moral philosophers and politicians to develop a new yardstick for happiness since it was a progressive idea to turn morality into an accurate science. Bentham popularised the notion that recompense for employment sometimes known as wages is only remuneration for the fact that labour is painful.

#### Utilitarianism

The utilitarian philosophy of Jeremy Bentham, which holds that all social activities should be judged in light of the axiom It is the greatest pleasure of the greatest number that is the Unlike Adam Smith, who saw 'natural rights' as something that might be tampered with, Bentham thought that there were no such things as 'natural rights,' just a measure of good and evil. Happiness and consequentialism are the two primary characteristics of utilitarianism. The greatest satisfaction that every person seeks is utilitarian happiness. Everything nice in utilitarianism is beneficial to happiness. As a result, the philosophy is known as utilitarianism

and is founded on the utility principle. Everything that enhances the enjoyment of every rational creature is useful. The happiness of a person and the happiness of the society are balanced as the standard of good and evil, with each counting in an equal way Bentham, Introduction in the principles of morality and law.

Consequentialism in utilitarianism is the idea that a decision should be made based on how it will affect the happiness of the greatest number of people. That is, when it lowers the happiness of another person, the happiness of the greatest number, the happiness of the society, or the happiness of the community, my pursuit of pleasure comes to an end. My freedom ends when it compromises the freedom of another person or the general well-being of society since my freedom is seen in relation to that of other people and the community. We may argue that utilitarianism is the continuation of Roman law, and its contemporary nature is shown by the fact that it gives an ethical concept happiness and well-being an economic, legal, and political component. With Bentham, Mill, and Sidgwick, who were successful in providing this theory a practical and rational component that we can discover in our contemporary society, in economics, politics, and ethics, the modern part of the doctrine would develop during the 19th century [7], [8].

It is simple to comprehend why the maximum pleasure system is still relevant today since it incorporates a convincing and extremely natural concept of logic. According to this theory, which also includes decision theory, cost-benefit analysis, and public choice theory, rational behaviour is seen as an effort to maximise net utility, which is the outcome of adding up the benefits and costs and subtracting the latter from the former. This viewpoint, often known as means-end reasoning, dates at least as far back as Aristotle. If we assume, with Aristotle, that happiness is the highest good attainable by action, and therefore the aim of politics, we get something very similar to Bentham's view. Aristotle claims in the *Nicomachean Ethics* that we cannot deliberate about ends but only about the means by which ends can be attained. The idea that thinkers as disparate as Adam Smith and Chairman Mao agree that the aim of social structures is to maximize achieving that purpose is appealing, but not unreasonable.

As Aristotle noted, there is broad agreement that happiness is the goal, but there is significant disagreement as to what constitutes happiness. Philosophers who share this vision of the proper function of social institutions like law and morality may, of course, disagree on more than just the best ways to achieve it. For Bentham, the solution is straightforward: happiness is just the absence of pain and pleasure. The intensity and duration of a pleasure or pain are the sole factors that determine its worth or lack thereof, and these factors may at least in theory be properly defined. The total of everyone's pleasure inside a society is that society's good. Promoting society's well-being is the goal of morality. A moral rule is perfect if and only if it would maximize the benefit of society if everyone followed it. The benefit of society would be maximised if everyone adhered to the concept of utility. Always act so as to maximise overall net balance of joys and sufferings. One of Bentham's test questions, gave rise to the term utilitarianism. In Joseph Priestly's *Treatise on Government*, he came across the phrase the greatest happiness of the greatest number, which gave him the notion. Jeremy Bentham built his ethical philosophy on the concept of enjoyment. He based it on the old hedonism that sought bodily pleasure and shunned misery.

The most moral behaviours, in Bentham's view, are those that maximise pleasure and minimise suffering. A behaviour would be moral if it results in the most joy and the least suffering, which is frequently referred to as the utilitarian calculus. Bentham's hedonistic basis of this philosophy was amended and developed separately by John Stuart Mill. Using the same utilitarian calculus, Mill calculated the greatest good for the largest number in order to maximise overall happiness. Mill used this calculus in a qualitative way, in contrast to Bentham who employed it in a quantitative one. For instance, he thought that certain pleasures were of a greater calibre than others. Many people have adopted utilitarianism



because it appears to make sense and is relatively easy to put into practise. However, utilitarianism was a revolutionary concept when it was originally put out. It made an effort to provide a moral framework apart from biblical morality and divine revelation. Utilitarianism prioritised outcomes above regulations. In the end, the rules were destroyed by the emphasis on outcomes. In other words, utilitarianism gave individuals a method to lead decent lives apart of the Bible and its teachings.

No reference to supernatural revelation was required. Morality was determined by reason rather than revelation. The popularity of utilitarianism may be attributed to a variety of factors. First of all, it is a rather easy ethical framework to implement. You just need to analyse the positive and negative outcomes of a potential action to know if it is moral or immoral. The activity is moral if the good exceeds the evil. Second, utilitarianism does away with the need to invoke supernatural revelation. Many followers of this moral philosophy are seeking for a method to live morally without consulting the Bible or believing in God. The system substitutes reason for revelation. A utilitarian makes ethical decisions based on logic rather than according to biblical precepts. Third, the majority of individuals already apply a utilitarian mind-set to their everyday choices. Every day, we make a tonne of immoral choices depending on the results.

We search for the checkout queue with the least wait time in order to leave the store faster. The majority of our financial choices including whether to write checks or purchase things are based on a utilitarian analysis of costs and rewards. So utilising utilitarianism to make moral judgements seems like a logical progression from how we make decisions every day [9], [10]. Utilitarianism also has a number of drawbacks. One issue with utilitarianism is the tendency it fosters for an end justifies the means approach. A solid ethical basis is lost if any worthy objective may justify the methods to achieve it. But as we are well aware, ends do not justify methods. If so, Hitler could explain the Holocaust by saying that it was done to cleanse the human race. Stalin was pursuing a communist ideal, which allowed him to defend the mass murder of millions of people.

Never let the goal outweigh the means. The methods must be justified. Simply because an action could have positive results doesn't make it good or bad. The methods need to be evaluated by an impartial and morality that is consistently applied. Second, if the objective is the greatest benefit for the largest number, utilitarianism cannot defend the rights of minority. The majority of Americans in the eighteenth century could defend slavery on the grounds that it had positive consequences for them. Despite the fact that black slaves had significantly poorer conditions of living, the majority undoubtedly profited from the inexpensive work of slaves. Predicting the outcomes is utilitarianism's third flaw. If morality is dependent on outcomes, then knowing what would happen as a result of every action would require omniscience. But at best, we can only make informed projections about the future, and often these assumptions are off. The need of judging the consequences themselves is the fourth issue with utilitarianism. When outcomes occur, we must still consider whether they are favourable or unfavourable. Because outcomes are the standard by which actions are evaluated, utilitarianism does not provide an impartial or consistent basis for evaluating results.

### CONCLUSION

Aspects of public policy like as criminal justice, environmental preservation, and the distribution of financial resources for healthcare have all been influenced by utilitarianism. It has given us a structure for assessing the effects of policy decisions and considering their effects on various stakeholders. While utilitarianism provides insightful ideas, it is not without detractors. Critics claim that the theory could disregard issues of fairness and individual rights, and that determining and comparing usefulness can be difficult and arbitrary. As a consequentialist framework for assessing decisions and policies based on the total pleasure or

utility they create, utilitarianism has made a substantial contribution to moral philosophy. Its effect goes beyond ethics, infiltrating other fields and influencing conversations on societal welfare and decision-making. Utilitarianism continues to influence ethical debate and provide useful advice for handling challenging moral conundrums in modern culture, despite criticism.

#### REFERENCES:

- [1] H. Boushey, "Unbound: Releasing Inequality's Grip on Our Economy," *Rev. Radic. Polit. Econ.*, 2020, doi: 10.1177/0486613420938187.
- [2] F. Wang, H. Yan, and D. Zhang, "The transition of thoughts on grain control in the Qing Dynasty: A survey of the great debate on the ever-normal granary and grain prices in 1748," *Front. Econ. China*, 2020.
- [3] M. B. Budolfson *et al.*, "Utilitarian benchmarks for emissions and pledges promote equity, climate and development," *Nat. Clim. Chang.*, 2021, doi: 10.1038/s41558-021-01130-6.
- [4] A. Giubilini, T. Douglas, and J. Savulescu, "The moral obligation to be vaccinated: utilitarianism, contractualism, and collective easy rescue," *Med. Heal. Care Philos.*, 2018, doi: 10.1007/s11019-018-9829-y.
- [5] S. Nathanson, "Act and Rule Utilitarianism," *Internet Encycl. Philos.*, 1873.
- [6] P. J. Connolly, "Susanna Newcome and the Origins of Utilitarianism," *Utilitas*, 2021, doi: 10.1017/S0953820821000108.
- [7] N. C. Tjandra, L. Aroean, and Y. S. Prabandari, "Public evaluation of the ethics of tobacco marketing in Indonesia: symbiotic ethical approach," *Qual. Mark. Res.*, 2020, doi: 10.1108/QMR-01-2020-0011.
- [8] C. Dierksmeier and P. Seele, "Blockchain and business ethics," *Bus. Ethics*, 2020, doi: 10.1111/beer.12259.
- [9] G. R. Laczniak and N. J. C. Santos, "Gross National Happiness (GNH): Linkages to and Implications for Macromarketing," *J. Macromarketing*, 2018, doi: 10.1177/0276146718787600.
- [10] D. Scarpi, *Hedonism, Utilitarianism, and Consumer Behavior*. 2020. doi: 10.1007/978-3-030-43876-0.

## CHAPTER 9

### ANALYSIS OF SOCIALISTS AND ITS IMPACT

---

Mr. Anil Gowda, Associate Professor,  
Department of Masters in Business Administration, Presidency University, Bangalore, India.  
Email Id: - anilgowda@presidencyuniversity.in

#### **ABSTRACT:**

The political and economic concept of socialism has generated a lot of discussion throughout history. This abstract offers an examination of socialists, examining their philosophical stances, suggested courses of action, and wider societal effects of socialist ideas. The money, resources, and power in society should be distributed more fairly, according to socialists. They criticise capitalism for producing social inequities, labour exploitation, and economic inequality. From democratic socialists who want to reform capitalism to revolutionary socialists who anticipate a total change of the social, political, and economic order, socialism comprises a variety of viewpoints and methodologies. The community ownership and control of the means of production is emphasised by socialist philosophy. Socialists contend that rather than private people or companies, the state, workers' cooperatives, or the society as a whole should control and manage economic resources and businesses. The goal of this communal ownership is to make sure that economic advantages are distributed more fairly and that social welfare, not profit maximisation, informs economic decision-making. Socialists advocate a variety of policies, but a few recurring ideas are universal access to healthcare, education, and social services, progressive taxation to redistribute wealth, market regulation to safeguard consumers' and workers' interests, and the advancement of labour rights and collective bargaining. While some socialists favour mixed economies where the public and private sectors coexist, others support nationalising important industries.

#### **KEYWORDS:**

Economic, Equality, Political, Philosophy, Socialists.

#### **INTRODUCTION**

Socialists are often accused of stifling individual freedom, undermining the incentives for entrepreneurship and innovation, and causing inefficiencies in resource allocation. According to them, prosperity and economic progress depend on private property ownership and market-based competition. However, socialists contend that group ownership and planning can overcome market imperfections, provide social safety nets, and guarantee a more equitable and inclusive society. In order to analyse socialists, one must examine both the many schools of socialism philosophy and the historical situations in which socialist groups first appeared. It necessitates a comprehensive comprehension of the benefits and drawbacks of socialist ideas, as well as their possible effects on economic structures, social cohesiveness, and personal liberties [1], [2].

As a response to the economic and social upheavals brought on by the Industrial Revolution, socialism emerged in the late 18th and early 19th centuries. The proprietors of the factories quickly got wealthy, while the employees' poverty grew. Reactions in the shape of socialist thinking grew correspondingly as this capitalist industrial system developed. François Nol Babeuf, who rose to prominence during the French Revolution, was the first theorist who can legitimately be labelled a socialist, even if many philosophers in history have voiced concepts that are akin to subsequent socialism. Babeuf advanced the theory of the conflict between capital and labour that would later be seen in Marxism. However, the socialist authors who came after Babeuf were more reasonable. They were referred to as utopian socialists, and Saint-Simon, Charles Fourier, and Robert Owen were among them. Saint-Simon suggested that the government handle manufacturing and distribution.

Industrialists who established a nation-wide community based on collaboration and eliminated the poverty of the lowest classes would be the leaders of society. Despite their numerous differences, Fourier and Owen shared the view that tiny local collective communities rather than the large centralist state of Saint-Simon should serve as the foundation for social organisation. However, they all believed that cooperation should prevail over competition, and they all impliedly disapproved of class conflict. Early in the 19th century. In both Europe and the United States, utopian communistic communities based on the theories of Fourier and Owen arose two prominent examples are New Harmony and Brook Farm. The socialist ideas of intellectuals like Louis Blanc, who came after the utopians, were more political in nature. In 1840, Blanc proposed a system of social workshops that would be run by the workers themselves with the assistance of the government. The endeavour would be open to capitalists, and each individual would get items in accordance with his or her requirements.

Blanc joined the French provisional administration in 1848 and made an effort to implement some of his ideas, but his opponents thwarted his plans. Influential socialist figures of the early and mid-19th century were the anarchist Pierre Joseph Proudhon and the insurrectionist Augusta Blanc. In English print, the word socialism first appeared in 1827. The phrase was first used in a French journal five years later. It is no coincidence that the socialist movement and philosophy initially emerged in England and France. Because of the two human affairs revolutions that gave rise to socialism the industrial revolution in England and the popular-democratic revolution in France each of which had its origins in those two nations[3], [4]. The largest-scale populist uprisings in history took place during the French revolution of 1789–1799. The French Revolution, which had its roots in widespread hostility against a repressive monarchy, was carried further by the city's vast underclass, who banded together under the slogan liberty, equality, and brotherhood.

The revolution began as a protest against the injustices of the monarchy but expanded into a great uprising against all repressive authorities, including those of lords, priests, and factory owners. Initially, the struggle against the monarchy brought together significant portions of society. A new ruling class, however, attempted to put an end to the revolution as it proceeded in order to preserve their egregiously unfair system of property and power. The popular movement split into conservative and revolutionary factions as a consequence. There were others in the conservative side who only regarded freedom as the ability to acquire property. In the revolutionary camp, there were individuals who stood in for the poor of Paris and understood that freedom was impossible without equality. They also understood that it was pointless to speak about liberty if it was limited to certain people's right to starve to death while others became wealthy off the work of others[5], [6].

### **DISCUSSION**

The socialist belief that a society of equality is necessary for democracy and freedom then developed from the French Revolution. The French radicals understood that true freedom required everyone to have the freedom to contribute equally to generating and distributing society's resources. They realised that if some people had the unequal right to possess and control riches, industries, or other resources, then others may also have the unfair fate of being doomed to a life of squalor, suffering, and destitution. But an abundant state is necessary for an egalitarian society. As long as economic development continues to be comparatively slow, equality can only entail sharing in the misery of poverty. A prosperous environment where all of the fundamental necessities of the populace may be met is necessary for a strong and flourishing popular democracy. Therefore, the demand for liberty and equality made by the French revolutionaries remained unrealistic in the absence of a certain degree of economic progress. Only until England's industrial revolution unleashed massive economic growth was it possible to envision a society based on wealth and equality.

The English industrial revolution evokes pictures of filthy, gloomy textile mills, 10-year-olds toiling in coal mines, and men and women working 12- and 14-hour shifts, in other words, of anguish and despair. Such a perception is mainly accurate. Beginning in the last quarter of the eighteenth century, Britain experienced a massive social upheaval known as the industrial revolution. Old communities were destroyed, people were driven off their land and into the tyranny of the factory, industrial diseases proliferated, hunger, poverty, and illness spread, and life expectancy decreased. Several components of the industrial revolution, however, offered hope that these problems may one day come to an end. With the help of the new production technology that emerged, particularly in the early 1800s, it was possible to drastically reduce toil and labour and greatly increase wealth creation, eradicating poverty once and for all [7], [8].

The industrial revolution didn't really do this. The new industry was employed to boost the wealth of a select few the new industrial capitalists rather than resulting in an improvement in working conditions. Nevertheless, other authors believed that the industrial revolution held great promise for improving the state of humanity. The industrial revolution's energies should be exploited to further human goals, said several well-intentioned financiers and factory owners. Many of them go on to become early proponents of what is now referred to as utopian socialism. Robert Owen, a cotton maker, is perhaps the most well-known utopian socialist in Britain. Owen did not advocate for a widespread, democratic reorganisation of society, unlike the majority of the early socialists who came from the capitalist class. The working class was apathetic and despicable in Owen's eyes.

To relieve the miserable circumstances of the working masses, Owen's socialism relied on appealing to rich political and economic elites. In this regard, Henri Saint-Simon and Charles Fourier, the first two French utopian socialists, and Owen are comparable. In the decades after the French Revolution, Saint-Simon, a real estate investor who later became a banker, achieved immense riches. Saint-Simon started making the case for a socialist society that would do away with the chaotic elements of capitalism after being fascinated by the immense possibilities of science and technology. 'Socialism' as practised by Saint-Simon was unmistakably anti-democratic. He did not plan on expanding civil liberties and rights. Instead, he envisioned a planned, advanced industrial civilization that would be governed by a global banker committee. In many ways, Saint-Simon foresaw the rise of state capitalism he envisaged a capitalist order in which the government, made up of scientists, managers, and financiers, would control and run the economy.

There were further advantages to Charles Fourier's socialism. Fourier, a self-taught eccentric, came up with some very ground-breaking concepts. However, Fourier's view had two major flaws. He began by discounting the possibility of modern technology to create an abundant society and by longing for a return to preindustrial living standards. Second, Fourier looked on enlightened rulers rather than the vast majority of working people to bring in the socialist dream. He spent his time creating precise plans for the future society and sent copies to powerful people including the Russian Czar and the US President.

This is, in fact, the unifying theme that unites the viewpoint of all the early socialist utopians. Each of them looked to some well-meaning members of the aristocracy to turn society into a socialist one. They all rejected the idea that socialism could only be attained via the collective activity of the working class. Because of this, all of their opinions may be categorised as variations of socialism from above perspective in which the vast majority of people are nothing more than the pawns of an intelligent elite who will transform society to serve the needs of the vast majority of people.

However, throughout this time there was just one revolutionary socialist theory. This was a kind of communism that is best described as conspiratorial. A communist viewpoint emerged from the failure of the popular movements during the French Revolution, thanks in part to a

foresighted rebel faction led by Gracchus Babeuf. Babeuf and his adherents believed that only by establishing a system of shared ownership of property could a real democracy be established. However, they were unable to see how to persuade the majority of people in society to embrace their communist agenda. The preservation of their own private property, such as their piece of land or workshop, was all that the vast majority of French people wanted. They didn't seem particularly interested in a socialist revolution. Babeuf and his subsequent disciple Adolphe Blancqui could only see a revolution led by a small group, the communist elite. Democracy thus continued to be alien to their communist agenda.

The Industrial Revolution is where socialism as a political movement first emerged. However, its intellectual origins go nearly as far back as recorded thought even as far back as Moses, claims one the topic's history. In Plato's Republic, which describes a sparse society in which members of the guardian class share not only their little financial possessions but also their marriages and children, socialist or communist principles undoubtedly play a significant role. A basic element of socialism that was later adopted in certain kinds of monasticism was the sharing of commodities and work in early Christian communities. Many monastic orders still follow these traditions today.

More's Utopia, which seems to advocate collective ownership as a means of reining in the vices of pride, jealousy, and greed, combines Christianity with Platonism. On more's fictitious island of Utopia, where everyone works for at least two years on the community farms and moves homes every ten years to prevent anybody from developing a sense of ownership, land and houses are common property. People are free to take what they need from communal storage facilities now that money has been eliminated. Furthermore, all Utopians have simple lives that allow them to fulfil their requirements with only a few hours of labour each day, leaving the rest of the day free for pleasure[9], [10]. More's Utopia is more of a critique of the flaws he saw in the ostensibly Christian cultures of his day than it is a model for a socialist state. However, the upheaval in politics and religion quickly encouraged others to attempt to implement utopian concepts.

One of the goals of the short Anabaptist dictatorship in Munster, Westphalia, during the Protestant Reformation was common ownership, and various communist or socialist groups emerged in England after the Civil Wars 1642–1651. The Diggers were foremost among them they maintained that God had created the earth for people to share, not to divide and exploit for one's own gain. They were forcefully dissolved after they violated Oliver Cromwell's Protectorate by excavating and planting on property that was not lawfully theirs. These early socialist ideals were essentially agricultural, whether they were utopian or realistic. This was still true throughout the French Revolution, when leftists such as writer François-Nil Babeuf bemoaned the Revolution's failure to uphold the values of liberty, equality, and fraternity. According to Babeuf, private property must be abolished in order to preserve the precious principle of equality, and the use of the land and its produce must be shared by everyone. His death for plotting to overthrow the government was a result of his convictions. But because of the attention his trial and execution received, many people in the 19th century who opposed the rise of industrial capitalism looked up to him as a hero.

### **Important Socialists in Utopia**

Thomas More 1478–1535, who wrote about a hypothetical socialist society in his satire Utopia, which was published in 1516, is perhaps the first utopian socialist. This book is where the modern meaning of the English term utopia comes from. Thomas More's imagined republic of Utopia, which is Latin for nowhere, is one in which all social strife and sorrow has been resolved. Over the years, there have been several Utopian ideals, many of which were socialist societies. Although Utopian Socialism which had many supporters in the early nineteenth century was described as something different by Marx and Engels, they had a great deal of admiration for the great Utopian socialists like Charles Fourier and Robert

Owen. Utopian socialism accomplishes three things by imagining how life would be for those who upheld the socialist ethic: it motivates the oppressed to fight and give up for a better life it clarifies socialism's goal and it shows how socialism is ethical, that is, how its principles can be applied without excluding or exploiting anyone.

A political and social movement in France during the first part of the 19th century known as Saint-Simon was motivated by the theories of Claude Henri de Oувry, comet de Saint-Simon 1760-1825. Many other philosophers and social theorists, including Augustus Comte who briefly served as Saint-Simon's secretary, Karl Marx, John Stuart Mill, and others, were affected by his theories. Welsh industrialist Robert Owen 1771–1858 improved the lives of his workers with a large portion of his revenues. His notoriety increased when he established a textile business in New Lanark, Scotland, with the help of his utilitarian instructor Jeremy Bentham, and added reduced working hours, kid-friendly schools, and refurbished homes. In his books *A New View of Society*, published in 1813, and *An Explanation of the Cause of Distress which pervades the Civilised Parts of the World*, published in 1823, he discussed his theories. Additionally, he founded New Harmony, an Oceanite community in Indiana, USA. When one of his company partners stole all the proceeds, this failed.

The idea that human social conduct is neither set nor absolute and that people had the freedom to organise themselves into whatever kind of society they choose was Owen's primary contribution to socialist theory. The socialist who was by far the most utopian was Charles Fourier 1772–1837. He made a number of fantastical assertions about the perfect society he imagined, rejecting the industrial revolution and the issues that came with it. Despite having some blatantly anti-socialist tendencies, he made a significant, though indirect, contribution to the socialist cause. Young Karl Marx was inspired by his writings on converting labour into recreation and used them to develop his thesis of alienation. Fourier developed the idea of phalanstère, which are groups of individuals based on a theory of passions and how they might be combined. He was also a proponent of feminism. Albert Brisbane and Horace Greeley established a number of colonies in the United States based on Fourier's theories.

The ideal communalist society was envisioned by Étienne Cabot 1788–1856, who was inspired by Robert Owen, in his 1840 book *Travel and adventures of Lord William Carousal in Icaria*. Although his efforts to establish actual socialist towns based on his principles via the Icarian movement failed, one such village served as the forerunner of Corning, Iowa. He invented the term communism and had an impact on other philosophers such as Karl Marx and Friedrich Engels. His inspiration may have come from Christianity. *Looking Backward*, a utopian romance book by Edward Bellamy 1850–1898, was released in 1888 and is about a socialist society in the future. Property was held in common and money was replaced with a system of universally accessible credit in Bellamy's paradise. This credit had a one-year expiration date and could not be transferred to another person. Its use had to be recorded using credit-cards. Between the ages of 21 and 40, labour was to be required and arranged via different divisions of an Industrial Army to which the majority of the populace belonged. However, owing to technological advancements, working hours had to be dramatically reduced.

People were supposed to be driven by a Religion of Solidarity, and behaviours like crime were seen as manifestations of mental disease or atavism. It was one among the top two or three best sellers at the time. In response to his critiques, Bellamy released a follow-up called *Equality* in 1897, but the Industrial Army and other authoritarian elements were missing. In part in reaction to Bellamy's *Looking Backwards*, which he linked with the socialism of Fabians like Sydney Webb, William Morris 1834–1966 released *News from Nowhere* in 1890. Morris' idea of useful labour as opposed to pointless employment and the redemption of human labour were central to his vision of the socialist society of the future. Morris had

the view that all work should be artistic in the sense that it should be enjoyable and serve as a creative outlet for the employee. Morris' view of work therefore resembles Fourier's strongly, but Bellamy's i.e., the minimization of labour is more comparable to Saint-Simon's or even Marx's.

### CONCLUSION

Socialism has a wide range of effects on government and society. Socialist movements have had a considerable impact on labour and social movements, political rhetoric, and policy agendas. Welfare states and social democratic programmes have emerged in many nations as a result of socialist ideology. In conclusion, the study of socialists shows a wide spectrum of ideological viewpoints and policy recommendations designed to combat economic injustice and advance social justice. Socialism emphasises the necessity for community ownership and democratic control over economic resources and opposes the prevailing ideologies of capitalism. For enlightened conversations on economic systems, social policies, and the quest of a more inclusive and fair society, it is crucial to comprehend the complexity of socialism.

### REFERENCES:

- [1] R. Zhang, "Re-directing socialist persuasion through affective reiteration: a discourse analysis of 'Socialist Memes' on the Chinese internet," *AI Soc.*, 2020, doi: 10.1007/s00146-020-01107-7.
- [2] M. Nowicka-Franczak, "Post-foucauldian discourse and dispositif analysis in the post-socialist field of research: Methodological remarks," *Qual. Sociol. Rev.*, 2021, doi: 10.18778/1733-8077.17.1.6.
- [3] Y. S. Shafrani, "Rancang Bangun Ekonomi Islam Adiwarman Karim dalam Kajian Epistemologi Islam," *el-Jizya J. Ekon. Islam*, 2020, doi: 10.24090/ej.v8i2.4272.
- [4] K. B. Mulyono and Rusdarti, "How psychological factors boost compulsive buying behavior in digital era: A case study of Indonesian students," *Int. J. Soc. Econ.*, 2020, doi: 10.1108/IJSE-10-2019-0652.
- [5] H. Boushey, "Unbound: Releasing Inequality's Grip on Our Economy," *Rev. Radic. Polit. Econ.*, 2020, doi: 10.1177/04866613420938187.
- [6] F. Wang, H. Yan, and D. Zhang, "The transition of thoughts on grain control in the Qing Dynasty: A survey of the great debate on the ever-normal granary and grain prices in 1748," *Front. Econ. China*, 2020.
- [7] E. Cihelkova, "Formation of the theoretical framework for the comparative analysis of post-socialist countries," *Agric. Econ. (Czech Republic)*, 2016, doi: 10.17221/18/2016-AGRICECON.
- [8] J. Hu, "Analysis of the innovation and development of the socialist market economy theory," *China Polit. Econ.*, 2019, doi: 10.1108/cpe-04-2019-0006.
- [9] K. Rišová, "Walkability research: concept, methods and a critical review of post-socialist studies," *Geogr. Cas.*, 2020, doi: 10.31577/geogrcas.2020.72.3.11.
- [10] D. S. Kwon, D. Li, and S. Y. Sohn, "Identifying innovation in socialist countries through patent analysis focused on Cuba and Vietnam," *World Pat. Inf.*, 2019, doi: 10.1016/j.wpi.2019.04.001.



## CHAPTER 10

### EXPLORING THE ANALYSIS OF POLITICAL ECONOMY

---

Ms. Pramoda Hegde, Assistant Professor,  
Department of Masters in Business Administration,  
Presidency University, Bangalore, India.  
Email Id: - pramodah@presidencyuniversity.in

#### **ABSTRACT:**

The study of political economy provides a thorough framework for examining the complex interaction between politics and economics. The essential ideas, theoretical stances, and the importance of researching the connection of political and economic elements are highlighted in this abstract's description of political economics. Political economics examines how political institutions, practises, and outcomes affect economic frameworks and results. It acknowledges that political choices, dynamics of power, and social institutions have a significant influence on economic activity, resource allocation, and income distribution. Political economics seeks to clarify the intricacies of contemporary societies and offer insight on the dynamics that shape economic growth, inequality, and policy decisions by exploring this interaction. The study of classical political economics focuses on how markets, labour, and capital influence economic systems. It is often connected with significant figures like Adam Smith and Karl Marx. Neoclassical economics analyses the efficiency and behaviour of the market while taking political concerns into account. The emphasis of institutional political economics is on how social norms, laws, and other formal and informal institutions, such as business practises, affect economic results.

#### **KEYWORDS:**

Class, Economy, Family, Political, Society, Theory.

#### **INTRODUCTION**

Political economics analysis offers insightful information to practitioners, academics, and politicians. It contributes to policy discussions on issues including trade, social welfare, financial regulation, and environmental sustainability. Political economics aids in determining the possible trade-offs, unintended consequences, and distributional implications of various policy options by taking into account both political and economic considerations. Additionally, knowing political economy is essential to understanding the dynamics of economic growth and the difficulties that different countries encounter. It looks at the connections between political elements including political stability, effective governance, and institutional frameworks and social well-being in general. The link between economic growth and democratisation is also explored, as well as how economic forces may influence political systems and vice versa [1].

Marxian Political Economy is the name given to Karl Marx and Friedrich Engels' political and economic philosophy, which emphasises the role of class struggle in explaining society's ostensibly inevitable transition from bourgeois oppression under capitalism to a socialist and ultimately classless society. The original word for the study of production, purchase, and sale, as well as their interactions with custom, law, and government, as well as with the distribution of wealth and income within a country, was political economy. Moral philosophy served as the basis for political economics. Political economics is a word that was used in the 18th century to describe the study of state or polity economies[2], [3].

Political economy was replaced by economics in the late 19th century, around the time Alfred Marshall published his renowned textbook in 1890. Prior to this, William Stanley Jevons, a supporter of the application of mathematics to the field, argued in favour of the word

economics for its conciseness and the goal of it being the recognised name of a science. Where it is not used as a synonym for economics, political economy today can refer to a wide range of concepts, such as Marxian analysis, applied public-choice theories from the Chicago and Virginia schools, or simply the advice economists provide to the government or public on broad economic policy or on particular proposals. Since the 1970s, a rapidly expanding mainstream literature has looked beyond the economic policy model in which planners maximise the utility of a representative individual to examine how political forces, particularly distributional conflicts and political institutions, influence the choice of economic policies. Universities currently offer courses in it.

On May 5, 1818, Karl Heinrich Marx was born in Trier, Germany. He lived till the age of eighteen. Although he hailed from a long family of Rabbis, his father was a lawyer who converted to Protestantism in order to preserve his work. When Karl Marx was 17 years old, he enrolled at the University of Bonn to study law. Here, he met Jenny von Westphalia, whose father, Baron von Westphalia, encouraged Marx to study Romantic literature and adhere to Saint-Simonian ideals. Jenny and Marx later became engaged. Marx studied Hegelianism at the University of Berlin under the tutelage of Ludwig Feuerbach and other Hegelians a year after his father relocated the family there. Marx questioned the idealism and abstract thinking of philosophy and maintained his opinion that reality rests in the material foundation of economics, yet he appreciated G.W.F. Hegel's dialectics and sense of historical inevitability. Marx believed that civil society should be examined in order to comprehend the historical evolution of humanity, in stark contrast to G.W.F. Hegel's focus on the state in his philosophy of law. With his research on the materialism and atheism of Greek atomists, Marx received his PhD in 1841 at Jena.

Marx's extreme political ideas made it difficult for him to find publishers, so he relocated to Cologne, which was considered to be home to a powerful liberal opposition organisation. In their journal *The Rhenish Gazette* of which Marx became editor in 1842, the liberal organisation the Cologne Circle published a piece by Marx advocating press freedom. Marx met Moses Hess in Cologne, a radical who hosted socialist gatherings that Marx attended. Marx picked up information on the struggles of the German working class during these gatherings. Marx authored an essay on the poverty of the Mosel wine-farmers that was harshly critical of the government based on the facts he learned from the members present at the meetings. *The Rhenish Gazette* was outlawed by Prussian authorities after the article's 1843 publication, and Marx faced arrest threats. Marx wed his fiancé, and the two of them escaped to Paris.

Here, he accepted a post as editor of *Deutsch Franco German Annals*, a political publication meant to link extreme Hegelianism with French socialism. Despite the magazine only having one issue, Marx benefited much from the experience. Through it, he got to know the journal contributor and lifelong friend Friedrich Engels. His former Berlin tutor Bruno Bauer and the Russian anarchist Michael Bakunin were two other notable contributions. Marx converted to communism while in Paris and spent much of his time on political economy and the French Revolution. His *Economic and Philosophical Manuscripts, 1844* series of essays were written, but they weren't made public until the 1930s. The Manuscripts provide a humanist view of communism and are inspired by Feuerbach. Marx compares the alienated character of labour in capitalist society with the free development of human nature in cooperative production in communist society. Marx wrote a critique of Bruno Bauer's work *On the Jewish Question* in 1844. Marx's piece was more than just a review it was also a criticism of how religion continues to dominate politics and a radical reform of European society.

Guizot banished Marx from France in 1845. In order to see Friedrich Engels' family, who had cotton-spinning interests in Manchester, he escaped with Engels to Brussels, where they spent three years. *The Poverty of Philosophy*, which Marx authored when he was living in

Brussels, was a critique of P.J. Proudhon's utopian socialism. He produced the text that would eventually be known as *The German Ideology* when it was released after his death while simultaneously developing his materialist view of history [4], [5]. This essay makes the case that a person's essence depends on the material circumstances that govern his or her creation. Marx foresees the demise of industrial capitalism and the rise of communism in this historical analysis of production methods throughout history.

At this time, Marx became a member of the Communist League, a group of German immigrant labourers based in London. At a convention in 1847, Marx and Engels who later emerged as the League's primary theoretical force were given the task of formulating the League's stance. The Communist Manifesto also known as the Communist Manifesto was intended to spur social revolution, and as soon as it was published, uprisings spread across Europe in 1848. In this article, Marx shifts his focus from using natural rights as a reason for social change to asserting that the working class will eventually come into power as a result of the laws of history. The Manifesto describes the conflicts between the proletariat and the bourgeoisie, sets communism apart from previous movements, and suggests specific social changes. Additionally, it expressly calls on workers to band together to overthrow the current governments.

### DISCUSSION

The Belgian authorities expelled Marx from Brussels as a result of the fear brought on by the February Revolution of 1848. The French interim administration extended an invitation for him to come back to Paris. The effort to shut down the newspaper by the local government was made via legal channels, but was ultimately unsuccessful since the editors' expulsion was justified. After the uprisings in May 1849, Marx and his associates were banished, and the publication published its last issue in June 1849. Marx had to go back to Paris but was promptly banished again, so he went on to London, which would become his last residence. Marx re-joined the Communist League in London, believing that more revolutionary activity would take place in Europe. He then wrote two pamphlets titled *The Class Struggles in France* and the *18th Brumaire of Louis Bonaparte on the French Revolution of 1848 and its aftermath*.

He believed that a fresh catastrophe would be necessary before a new revolution could occur, and he intended to find out what would trigger this crisis. In order to do this, he spent a significant amount of time researching political economics at the British Museum. Marx, Jenny, and their four children lived in a three-room apartment in London's Soho during the majority of the 1850s in a destitute condition. Only three of the couple's children would live, despite having two more. Friedrich Engels, whose personal income came from the Manchester-based family company, provided much of the family's support in the form of gifts. Marx also received a tiny payment for the pieces he produced while serving as the *New York Daily Tribune's* overseas correspondent. The International Workingmen's Association was established by Marx and Friedrich Engels in 1864, but it would eventually disband as a result of differences between Marx and anarchist Mikhail Bakunin.

Marx completed the 800-page manuscript that would become *Das Capital* in 1857. This is his most important book on political economics, money, real estate, government, the wage system, international commerce, and the global market. He took a break from working on *Das Capital* in the early 1860s to work on the three-volume opus *Theories of Surplus Value*. The political economics ideas covered in this work are mostly those of Adam Smith and David Ricardo. Volume I of *Das Capital*, a study of the capitalist production process that included an expansion of Marx's theories of labour value, surplus value, and exploitation, was released in 1867. Marx had prophesied that this analysis would result in a declining profit rate and the demise of industrial capitalism. Even though Volumes II and III of *Das Capital* were virtually completed in the late 1860s, Marx continued to work on them for the remainder of

his life. After Marx's death, Friedrich Engels would release the last two volumes. Eleanor Marx, who was 17 at the time, was assisting her father with his job by 1871. She grew up with a deep awareness of the capitalist system thanks to Marx's at-home instruction, which would later enable her to play a significant role in the development of the British labour movement.

### **The Value of Studying Marxist Economics**

Many of the Marxist ideas, including his labour theory of value, the theory of price and wages, the theory of surplus value, the theory of crises, suffering, and capitalism breakdown, etc., are barely viable in the context of modern economics. In actuality, the capitalist economy's pricing system conflicts with the labour theory of value. Marx did not support socialism. Marx focused mostly on capitalism and how it was changing. Surprisingly, Marx is recognised as the socialism's prophet. Due to the following factors, we must study Marxian economics:

1. Marx was the harshest opponent of capitalism, thus studying him can help us comprehend how capitalism works. He exposed the flaws and internal conflicts of capitalism. Additionally, he discussed the foundations of social transformation. Therefore, by studying Marx, we may become aware of capitalism's flaws and work to fix them.
2. According to Marxian economics, social well-being requires material prosperity. Economic forces have a significant impact on all aspects of human civilization, including the arts, sciences, literature, politics, and philosophy. Marxism calls our attention to the suffering and plight of the masses of the working class. It makes us aware of the need of achieving social fairness.
3. The Marxian explanation of capitalism sheds light on several aspects of it that the classical economists either failed to fully study or did not even mention. As a result, themes like imperialism, the expansion of monopolies and financial capital, the unemployment rate, and the economic crisis brought on by overproduction and under-consumption are all quite hot right now. However, Marx deserves praise for bringing these urgent issues to the notice of his successors. He presented them as a comprehensive study. Because of this, it is essential that we understand Marxian economics in order to properly understand these problems.
4. In order to comprehend current socialism and read socialist literature in the appropriate context, it is crucial to familiarise oneself with Marxian language via the study of Marxian economics. Terms like immiserisation, proletariat, organic composition of capital, dialectical materialism, etc. are often used in socialist literature. The majority of them have Marxist roots. Our grasp of socialism would be insufficient without a comprehension of the ramifications of these Marxian phrasings.
5. Traditional economics of the Orthodox school made their arguments in terms of social harmony. According to Joan Robinson, the Marxian idea of a constant clash of interests in economic activity paints a more accurate image of society. It is apparent that there would be conflicts since the goals of capitalists and labour are irreconcilable. Therefore, studying Marx would provide a realistic depiction of a capitalist society.
6. Economics is a branch of social science. The social connections of production and distribution are the subject of economic study. However, we often see a separation between economic theory and social relations in classical economics. Marxism was an opposition to this idea. Although the presumptions and conclusions were not always true, his Theory of class conflict constituted a more realistic approach in this situation. Thus, studying Marxian economics helps we comprehend the social context of class conflict.

7. Marx's criticism of capitalism hasn't been shown to be wholly accurate. His view of capitalism as a transitory phase in the sociological development of society, however, makes for fascinating reading.
8. Understanding the nature and function of the state is made possible by studying Marx. The state serves as a weapon of oppression in a capitalist society. The state will disappear in the final communist society. However, there is room to influence the government to serve the needs of the majority.
9. Understanding Marxian concepts is crucial if one wants to comprehend the modern economic world. A third of humanity now uses Marxism as their exclusive approach of social analysis. Therefore, it would be nonsensical to understand modern social reality without also understanding Marxism.

### **Marxian Political Economy: Development Stages**

Marx argues that human civilisation has taken the form of a variety of organisational structures, each of which is influenced by the dominant mode of production at each stage, notably the division of labour.

1. **Tribal Societies:** Tribal Societies do not have social classes instead, they are based on familial relationships, with women doing household duties and males doing hunting. According to Marx and Engels, the tribal form is still relatively simple at this point, an extension of the natural division of labour existing in the family. As the population grows and there is an increase in 'the development of demands' and interactions with other civilizations via trade or conflict, it is also feasible to see the emergence of a slave society at this stage. We can trace the emergence of class society back to slave culture[6], [7].
2. **Primitive Communism:** The old community and State ownership which comes primarily from the merging of various tribes into a city by consent or by conquest'. The idea of private property starts to take shape at this point: With the development of private property, we find here for the first time the same conditions that we will find again, only on a larger scale, with modern private property. One thing is the concentration of private property another is this, together with the the plebeian small peasants[8].
3. **Feudal or Estate Property:** Like tribal and communal ownership, it is based again on a community but the directly producing class standing over against it is not the slaves, as in the case of the ancient community, but the ensured small peasantry Trade guilds were one way that the feudal system appeared in the city. There was minimal labour division at the height of feudalism since the organisation of both the country and the city was determined by the restricted conditions of production the small-scale and primitive cultivation of the land, and the craft type of industry Because each feudal peasant was aware of the precise percentage of his work that was to be given to the nobility and the church while the remaining amount was his or hers to consume, exploitation operated differently during this period than it did at the height of capitalism.
4. **Capitalism:** Due to the eventual growth of commerce and of human populations, feudal society started to accumulate capital. This, coupled with the aristocracy's increased debt, eventually sparked the English Revolution of 1640 and the French Revolution of 1789, both of which paved the way for the establishment of a society centred on commodities and profit i.e., capitalism. The proletariat in such a society is taught to believe that they are free because they are compensated for their effort. The proletariat is really exploited as a result of the transformation of labour into an abstract commodity that can be traded on the open market, which only benefits a tiny segment of society that controls the flow of money. As a result, the working class

feels alienated since these class believe they have little control over the factors pushing them towards a certain career. The reason for this predicament is that the means of production which are viewed as private property belong to someone else.

### **Theory of Surplus Value in Marxist Political Economy**

According to Marx's letter to Engels dated August 24, 1867, his theory of surplus value was his most significant contribution to the development of economic analysis. Through this theory, he is simultaneously able to situate the capitalist mode of production in its historical context, as well as to identify the origin of its internal economic contradictions and its laws of motion, in the particular relations of production on which it is based. The amount of effort that went into producing a product determines its price. Labourer works for his employer to manufacture a product in the complicated capitalist environment, but in return, he only receives a little portion of the profit. The manager or person in charge of running that firm receives the remainder of the earnings. According to the notion of surplus value, this worker's efforts are beneficial and important to the company owner since the excess money flows to the boss rather than the worker who is truly in charge of running the whole enterprise. Karl Marx believed that a worker and the person running a firm should be treated equally, but the capitalist system does not account for this reality[9], [10].

This idea of splitting the class into haves and have-nots was questioned by Karl Marx. Marx clarified the effects of the surplus value theory in his theory of class struggle. The 'owner' makes a nice living from the surplus value, but the work has decreasing returns. As a result, the petit bourgeois and proletariat are born. The former are individuals who are affluent, powerful, and important in society, whereas the latter are those who are helpless, impoverished, and dependent on powerful people. Therefore, excess value causes a class struggle between the various social classes. Second, alienation is a result of excess value. This indicates that someone who is intelligent and skilled but who is unable to apply all of his ability to the task at hand will become alienated. The reason for this is because the boss only cares about his product, regardless of the labourer's skill, while on the other hand, because of the labourer's vulnerability to unfavourable environmental circumstances, the wage system requires him to do the task.

There is no other way for the underpaid labour to support himself. Thirdly, the polarisation of society is a result of the theories of alienation, class struggle, and surplus value. The wealthy are becoming wealthier while the poor are going poorer. Therefore, this kind of exploitation paralyses society. Therefore, polarisation makes the people in the society feel deprived. Fourthly, wars and armed conflict are caused by surplus value, according to Marxists. The major cartels use the extra money or profit they make to fund wars as the primary explanation. Thus, chaos and anarchy are born. The Marxist school of thinking thus supports a closed economy. Karl Marx adhered to a subsistence theory of wages for a different rationale than that offered by the classical economists, while he embraced Ricardo's labour theory of value that the value of a commodity is dependent on the amount of work that went into making it. Marx believed that a high number of jobless workers, rather than population pressure, was what pushed wages to the subsistence level.

Marx attributed capitalism to unemployment. He reaffirmed Ricardo's theory that the number of hours of effort required to produce any good determines its exchange value. Marx also believed that with capitalism, labour was essentially a commodity that could be exchanged for other goods. A pay for sustenance would be given to the worker. Marx, however, hypothesised that the owner of capital may make a worker work longer hours than were required to achieve this subsistence wage, and that the extra output or surplus value thus produced would be claimed by the owner. This claim was ultimately revealed to be false, along with the labour theory of value and the subsistence theory of wages. The surplus-value hypothesis failed without them. Marx's theory of classes is founded, as was previously said,

on the understanding that in each class society, a certain segment of society the ruling class appropriates the social surplus product. However, that extra product may exist in one of three fundamentally distinct forms or a hybrid of them.

It might appear as simple unpaid excess work, as in early feudalism, the slave mode of production, or certain areas of the Asian method of production unpaid curve labour for the Empire. As in feudalism, when feudal rent was paid in a set quantity of produce production rent, it may take the form of commodities seized by the ruling class in the form of use-values pure and simple the results of excess labour, or it might take the shape of its more contemporary remains, such sharecropping. Additionally, it may take the shape of money, such as money-rent during the latter stages of feudalism and capitalist gains. In essence, surplus-value is just that: the monetary equivalent of the social surplus good or, to put it another way, the monetary equivalent of excess work. Therefore, it shares an origin with all other excess products: unpaid work. As a result, Marx's theory of surplus value may be seen as essentially a deduction or residual explanation of the income of the ruling classes. The whole social product the net national revenue is created throughout the production process, just as the peasants reap the entire crop.

What transpires in the marketplace or as a result of the product being appropriated is a distribution or redistribution of what has already been generated. The leftover of that new net social product income, which remains after the productive classes have got their remuneration under capitalism: their salaries, is the surplus product, and hence also its money form, surplus-value. Thus, this deduction hypothesis of the wealth of the ruling classes is inherently an exploitation theory. Although Marx and Engels undoubtedly displayed a great deal of comprehensible moral outrage over the treatment of the exploited throughout history, particularly over the treatment of the contemporary proletariat, they did so in an economic sense rather than an ethical one. The core of Marx's theory of exploitation is the idea that the income of the ruling classes can always be reduced to the outcome of unpaid work.

This is also the reason why Marx placed such a high value on treating surplus value as a general category, separate from profits which are themselves divided into industrial profits, bank profits, commercial profits, etc., interest, and rent, all of which are included in the overall surplus product created by wage labour. This broad classification explains both the emergence of the class conflict under capitalism as well as the presence and shared interest of the ruling class those who benefit from surplus value. Marx also exposed the economic process through which surplus value arises. A significant social revolution that began in Western Europe in the 15th century and progressively expanded to the rest of the continent and to all other continents and is still ongoing now in many so-called poor nations lays the foundation for that economic process.

### **CONCLUSION**

Political economy's main areas of study include the formulation and application of economic policy, wealth and resource distribution, the influence of elites and interest groups on economic policy, the effects of globalisation and international relations on national economies, and the distribution of wealth and resources. Political economics also looks at themes like social fairness, economic injustice, and the effects of economic policy on various social groups. The study of political economy provides a multifaceted prism through which to comprehend the complex interaction between politics and economics. Political economics investigates how political structures, laws, and power relationships affect economic results, offering important insights into the complexity of contemporary societies. Its theoretical perspectives and empirical studies advance our knowledge of the dynamics that influence economic systems and society as a whole and guide policy debates and decision-making.

**REFERENCES:**

- [1] M. Koch and H. Buch-Hansen, "In search of a political economy of the postgrowth era," *Globalizations*, 2021, doi: 10.1080/14747731.2020.1807837.
- [2] J. Best, C. Hay, G. LeBaron, and D. Mügge, "Seeing and Not-seeing Like a Political Economist: The Historicity of Contemporary Political Economy and its Blind Spots," *New Polit. Econ.*, 2021, doi: 10.1080/13563467.2020.1841143.
- [3] S. P. Sparkes, J. B. Bump, E. A. Özçelik, J. Kutzin, and M. R. Reich, "Political Economy Analysis for Health Financing Reform," *Heal. Syst. Reform*, 2019, doi: 10.1080/23288604.2019.1633874.
- [4] H. Hanappi and M. Scholz-Wäckerle, "Evolutionary Political Economy: Content and Methods," *Forum Soc. Econ.*, 2021, doi: 10.1080/07360932.2017.1287748.
- [5] R. Bianchi, "The political economy of tourism development: A critical review," *Ann. Tour. Res.*, 2018, doi: 10.1016/j.annals.2017.08.005.
- [6] A. De Freitas Barbosa, "Developmentalist Brazil (1945-1964) as a concept: Historicizing and (re)periodizing development in Brazil," *Brazilian J. Polit. Econ.*, 2020, doi: 10.1590/0101-31572020-3091.
- [7] C. A. Tisdell, "Bounded rationality, satisficing and the evolution of economic thought," in *Routledge Handbook of Bounded Rationality*, 2020. doi: 10.4324/9781315658353-32.
- [8] J. E. Suh, "An economic thought about how to detect currency manipulation," *Econ. Bull.*, 2020.
- [9] K. Bedford, "Gambling and Political Economy, Revisited," *New Polit. Econ.*, 2021, doi: 10.1080/13563467.2020.1841138.
- [10] R. Fletcher and S. Toncheva, "The political economy of human-wildlife conflict and coexistence," *Biol. Conserv.*, 2021, doi: 10.1016/j.biocon.2021.109216.



## CHAPTER 11

### CAPITALIST CRISIS HYPOTHESIS IN MARXIAN POLITICAL ECONOMY

---

Dr. Yagnamurthy Raja, Assistant Professor,  
Department of Master in Business Administration,  
Presidency University, Bangalore, India.  
Email Id: - narasimharaja@presidencyuniversity.in

#### **ABSTRACT:**

The capitalist crisis hypothesis, as it is found in Marxian political economics, offers a framework for comprehending the cyclical nature and inherently unstable character of capitalism systems. This abstract discusses the main ideas of the crisis hypothesis, its theoretical underpinnings, and its implications for understanding economic crises and structural tensions in capitalism. It contends that capitalism's dependence on the market system, rivalry, and the desire of profit creates inherent tensions and instabilities that take the shape of different crises, including as financial crises, recessions, and depressions. The idea of overproduction and underconsumption is the main focus of Marx's explanation of crises. It contends that a crisis of effective demand occurs when capitalism's pursuit of profit causes the creation of products and services that are more than the market can absorb. A negative cycle with diminishing investment, increased unemployment, and economic stagnation may be started by this imbalance between output and consumption. It contends that financialization, with its focus on speculative and short-term gain, brings new risks and vulnerabilities into the capitalism system, possibly escalating the severity and spread of economic crises.

#### **KEYWORDS:**

Capitalist, Economy, Political, Power, Worth.

#### **INTRODUCTION**

The majority of direct producers mostly peasants and artisans are cut off from their means of production and denied unrestricted access to the land as a result of several concurrent economic including technological, social, political, and cultural upheavals. As a result, they are unable to generate their own means of support. Keeping themselves and their family alive. They must rent their hands, muscles, and minds to the proprietors of the means of production including land in order to stay alive. These owners can begin to organise production on a capitalist basis once they have access to enough capital to buy raw materials and pay wages, using wage labour to use the tools they own to turn the raw materials they buy into finished goods that they then automatically own as well. Thus, the capitalist mode of production assumes that work has been reduced to a commodity. The commodity labour power has both a trade value and a use value, much like all other commodities. Similar to the trade value of all other commodities, the exchange value of labour power is determined by the quantity of socially essential work it embodies, or, more specifically, by its reproduction costs.

This refers to the value of all consumer goods and services required for a worker to work at roughly the same intensity day in and day out, week in and week out, and month in and month out, and for the labouring classes to remain roughly stable in number and skill i.e., for a certain number of working-class children to be fed, housed, and educated in order to replace their parents when they are unable to work anymore, or when they pass away. But the ability to produce new value, including the potential to do so at a rate greater than its own cost of reproduction, is exactly what gives commodity labour power its use value. The difference

between the entire new value produced by the commodity labour power and its own worth, or its own reproduction costs, is what is known as surplus value. The nuanced difference between labour power and labour or value is the foundation of the whole Marxian theory of surplus-value. However, there is nothing 'metaphysical' about this difference. It only clarifies demystifies a daily procedure that involves millions of instances.

The worker's labour is not purchased by the capitalist. If he did so, it would constitute clear-cut theft since the worker's pay is manifestly less than the overall value he contributes to the worth of the raw materials throughout the manufacturing process. No, the capitalist purchases labour power, often though obviously not always at its just true worth. Therefore, when it is said that he created a dishonest operation, he feels unfairly blamed. The worker is not the victim of blatant theft rather, he is the victim of a social structure that forces him to first turn his productive capacity into a commodity, then sell that labour power on a particular market the labour market, which is marked by institutional inequality, and finally to be satisfied with the market price he can obtain for that commodity, regardless of whether the new value he creates during the production process exceeds that market price his wage by a small amount[1], [2].

The capitalist's acquisition of labour 'adds value' to the depreciated raw materials and tools machinery, structures, etc. Surplus value cannot exist until and until this additional value is less than or equal to the employees' pay. However, in such scenario, it is clear that the capitalist has no interest in employing wage employees. He only employs it because it has the ability to increase the worth of the raw materials more than its own value, which is represented by its salary[3], [4]. This additional added value is really surplus value, which is the difference between total value added and salaries. It must arise from the production process in order for capitalists to employ labourers and for the capitalist mode of production to survive. Because the capitalist mode of production is founded on a generalised market economy and generalised commodity production, there is institutional inequality on the labour market.

This suggests that a property with fewer workers, no capital, and no reserves of higher amounts of money who must constantly exchange money for necessities like food, clothing, rent, and even the most basic form of transportation to get from home to work, he is forced by economic necessity to continuously sell his labour, which is the only resource he possesses. He is unable to leave the job force till earnings increase. He can't hold out. However, a business owner with cash reserves has the option of leaving the work force for a while. He has the option of firing his employees, closing or selling his firm, and waiting a few years before relaunching it. Due to institutional disparities, determining labour market prices is like rolling the dice it's highly stacked against the working class. To appreciate why wage determination in such a society would be quite different from what it is under capitalism, one just has to picture a system in which every person would be given a minimum yearly income by the community, regardless of whether he is working or not[5], [6].

The individual would really have the economic freedom to decide whether or not to sell his labour force to another person or a company under such a system. In a capitalist system, he is powerless. His must complete that deal due to economic pressure, essentially at any cost. That simple study also demonstrates the economic role and significance of unions for wage workers. For it is precisely the workers' combination and their creation of a collective resistance fund what the first French unions referred to as reserve deposits, or causes de résistance that allows them, for example through a strike, to temporarily withdraw the supply of labour power from the market in order to stop a downward trend in wages or induce a wage increase. Such a short-term reduction in labour force availability is hardly unjust, since capitalists regularly reduce labour force demand, sometimes on a scale that has never been matched by strikes. The working class attempts to address the structural inequality in the

labour market of which it is a victim via the operation of powerful labour unions, although modestly and in part, without ever being able to permanently or entirely negate it. It cannot be permanently neutralised because capitalism itself has a potent built-in corrective in its favour: the inevitable creation of an industrial reserve army of workers. The pre-capitalist mass of producers and self-employed individuals independent peasants, craftsmen, tradespeople, professionals, small- and medium-sized capitalists the mass of housewives and to a lesser extent, children and the mass of wage earners themselves, who may be forced out of work, are the three main sources for that reserve army[7], [8]. The first two sources must be visualised on a global scale, via the dynamics of international migration, rather than just in each capitalist nation independently. Although the number of wage workers worldwide including agricultural wage labourers has now surpassed one billion, they are still mostly limitless. The third source has enormous reserves, precisely in line with the enormous growth in the absolute number of wage earners, despite the fact that it is obviously not limitless if wage labour were to completely vanish, if all wage labourers were fired, surplus-value production would also vanish this is why total robotics is impossible under capitalism.

### DISCUSSION

The economic cycle and long-term patterns in capital accumulation both influence the industrial reserve army's swings. Wage labour is drawn to capital accumulation that is accelerating on a huge scale, especially via migration across borders. Similar to this, a slowdown in capital accumulation or even a decline increases the size of the labour reserve. Thus, there is a ceiling on wage increases when profits realised profits and expected profits are 'excessively' reduced in the eyes of capitalists. This causes decelerated, stagnant, or declining capital accumulation, which in turn lowers employment and wages until a 'reasonable' level of profits is restored. This procedure is not in accordance with any natural economic law or need, and it is also not in accordance with any immanent justice. It simply articulates the underlying, profit-driven logic of the capitalist mode of production. On the basis of other logics, different types of economic organisation might work, have functioned, and are still operating these logics do not result in periodic huge unemployment.

A socialist, on the other hand and Marx thought so would argue that the capitalist system is unjust, or more accurately, alienating, inhuman, because it is incapable of functioning without periodically reducing employment and the satisfaction of basic needs for tens of millions of people. Therefore, Marx's theory of surplus value is strongly related to a theory of wages that differs greatly from the iron law of wages put forward by early socialists like Ferdinand Lassalle, Malthus, and Ricardo, according to which salaries tend to vary around the physiological minimum. Many current scholars have persuasively shown that the simplistic idea of the working class's absolute pauperization under capitalism, which many authors have mistakenly ascribed to Marx, is not Marx's at all. Such a iron law of wages is fundamentally a demographic one, in which birth rates and the frequency of marriages control employment and unemployment fluctuations and, therefore, pay levels.

Such a hypothesis has blatant logical and factual contradictions. Let it enough to say that although changes in the supply of wage workers are seen as crucial, changes in the demand for labour force are ignored in the study. Even if the possibility for wage growth under capitalism is limited in time and place, it is paradoxical that Karl Marx, a fervent opponent of capitalism, pointed this out as early as the middle of the 19th century. Marx emphasised the idea that each capitalist should see salary increases for the employees of other capitalists as prospective gains in buying power rather than actual cost increases. Marx divides the cost of producing the commodity labour force into two components that are included in the employees' pay. One is essentially physiological and may be described in terms of calories and energy quanta this is the minimum wage below which the employees' ability to work will slowly but surely be destroyed.

The second is historical-moral, as defined by Marx, and consists of the extra goods and services that the working class is able to include in the average wage in order to cover the reproduction costs of the commodity labour force that are socially necessary recognised, such as holidays following the French general strike of June 1936. In essence, this portion of the salary is negotiable. According to numerous factors, it will vary from nation to nation, continent to continent, and period to epoch. The ceiling from which earnings threaten to vanish or become inadequate in the viewpoint of the capitalists, who therefore embark on an investment strike, is its upper limit, nevertheless. Marx thus believed that the first law of motion of the capitalist mode of production was the need for capitalists to continuously increase the rate of capital accumulation. As a result, his theory of wages is basically an accumulation-of-capital theory of wages.

### **Value Added in Excess**

The surplus value, which is transformed into the owner's profit, is the difference between the value of what an employee produces and what they are paid. This is a challenging idea that at first looks illogical. Modern industry uses machines, but does this mean that efficiency is increased? Isn't it why capitalists purchase machinery in order to employ fewer employees and boost output because the machine apparently costs less during its lifespan than the worker? Both statements are true. However, the value of machines is lost throughout manufacturing and is instead transferred to the goods that are made using them. The commodity that is sold for more than was paid for the resources required to manufacture it is the result of the physical work involved in manufacturing. It is simpler to comprehend this idea when it is applied to the whole life of a commodity as opposed to just the business that produces the final product[9].

Every item that is intended for sale has an exchange value. The use value of a product, or the inherent worth it has to the consumer, may not always be the same as this value. A shirt might be stated to have a use value of eight hours of labour if it takes a person eight hours to create one for themselves. Perhaps the manufacturer of the garment would prefer to trade it for a pair of shoes than wear it herself. The shoemaker is unlikely to see it as a fair deal if the shoes take sixteen hours to manufacture. However, if the shoemaker requires two shirts, the labour involved in either side of the transaction was equal presuming the level of expertise and intensity of effort were about equivalent. In this scenario, the value of the pair of shoes is equivalent to that of two shirts. The price paid for the garment or shoe determines its exchange value in a contemporary capitalist market. However, the shirt maker who is paid by a manufacturer will only get a fraction of that value the remaining sum, or surplus value, is what generates profit. If a capitalist freely paid his workers the full worth of the goods and services they create, there would be no profit and he wouldn't be a capitalist.

The factory's owner has selfish intentions he wants to take advantage of the excess value. However, the owner must share the excess value with others who support the commodity's circulation rather than keeping it all for himself. Distributors and retailers split the excess value while bearing the cost of circulation, which is an expenditure associated with a product or service. Due to the distributor's specialised knowledge and ability to distribute the good more effectively than the producer, there is more surplus value available for distribution. In the hypothetical situation that follows, the distributor and the retailer each get a portion of the excess value. Let's assume that the factory owner pays each employee an amount equal to \$8 for each widget. The widget is sold by the owner for ten dollars to the distributor, who then sells it to the merchant for twelve dollars, who then sells it for fourteen dollars. Although she was only paid eight dollars to manufacture one, the worker spends fourteen dollars in the shop to purchase a widget. Thus, the value of the widget is not the two-dollar difference between the salary and the price the factory owner got for it, but rather, six dollars more than what the factory owner paid to the worker.

The capitalists' allocation of such excess value is flexible. These entrepreneurs work together to bring the product to market while still competing with one another to make a higher profit. A widget producer may overestimate demand and create too much, leading to a glut and a drop in the price that may be realised. Or a massive retail chain expands to the point that it has the ability to negotiate a discount with the manufacturer, pushing them to reduce their wholesale costs. The chain wants to sell the widget for less to beat its smaller rivals, and because of its scale, it has the authority to do so. The firm must cut expenses if it doesn't want to see its earnings decline. It can primarily achieve this through reducing the cost of manpower. This might include reductions in pay or benefits, a rise in workload, layoffs, or shifting the location of production. The capitalist is boosting profit levels in each of these scenarios by taking more surplus value. By reducing wages or stepping up the workload, more will be taken from the workforce[10].

Of course, the aforementioned illustration is oversimplified. The owner of the factory must pay expenses besides labour, and workers do not just use their bare hands to make the widgets. And, in fact, the employee will get far less compensation than the 80 percent of the factory owner's earnings that we used as an example. The creation of the widgets involves equipment as well as the requirement for raw materials, including already produced components. The shareholders will anticipate receiving a sizable portion of the company's earnings if its shares are traded on a stock market. Because work generates more value than it is paid for while raw materials and the value of the equipment are used up in production, labour is the source of surplus value. That does not imply that machines are not productive or that using them does not increase worker productivity. Both are done. The maker of the machine realised the excess value contained in the machine when it was sold, and the machine's worth is transferred to the goods made with it. Payments may be paid on the equipment even after it has been placed into operation, but they are made to the lender who provided the financing for the machine's acquisition interest is another way excess value is divided.

A commodity is created using direct labour, machines, and raw materials nevertheless, the machines and raw materials help labour generate the surplus value because they increase productivity, which makes it possible to extract more surplus value from each worker. A single worker can do as much with a bulldozer as numerous people could with shovels. Having fewer staff in a workplace due to computerization allows for greater productivity. The capitalist purchases raw materials and other goods so they may be transformed into something else and sold for a greater price. Raw materials and natural resources cannot create surplus value on their own the only good that can do so is worker force.

This idea was illustrated by Marx at the beginning of Volume III of *Capital*. The following text needs explanation to make sense of its complexity. Marx himself spent three chapters and several pages explaining this one-paragraph example, looking at it from every possible perspective since he knew that if his argument had any holes, his many detractors would point them out.

Marx used the following example in his essay. Let us imagine that the creation of a particular commodity involves a capital in spending of £500: £20 for wear and tear of the tools of labour, £380 for raw materials, and £100 for labour-power. If we assume that the rate of surplus value is 100%, the product's worth is  $400c + 100v + 100s = £600$ . There is a commodity value of £500 after removing the surplus value of £100, and this just substitutes the capital outlay of £500. This portion of the product's worth, which takes the place of the cost of the labour and the raw materials used in manufacturing, employed, which, in his eyes, is the cost price of the item, only substitutes what the capitalist himself paid for the good.

In this case, the investor has made a 20% profit, presuming the completed good has been sold for £600, which is the market price. The capitalist took £100 in surplus value by paying the

workers for just half of what they created since £200 was realised above the whole £400 cost of raw materials £380 and machine usage £20, but only £100 was paid in wages the '100v' in the equation. The source of profit is identified by calculating labour-power apart from other inputs. When worker costs are included in total expenses, this important element is lost, and the capitalist's profit is seen by him or her to be nothing more than the difference between the total of his or her costs and the selling price. As a result, even if the product is being circulated sold, the profit is really being realised via circulation.

The economic interpretation of history is another name for Marx's materialistic view of the past. It indicates that economic issues have the greatest influence on how society develops. 'The ultimate determinant of social change is not to be found in his man's beliefs of external truth and social fairness, but in changes in the mode of production and trade,' the statement asserts. According to this hypothesis, each member of a society has a specific degree of productive capacity at any given moment. It is dependent on equipment, machinery, raw materials, and other resources. It also relies on the individuals themselves, including their skills, efficiency, and expertise. These are collectively referred to as Productive forces. Marx argued that these productive forces dictate how individuals earn a livelihood.

People need to participate in some kind of economic activity in order to make a livelihood. People have a variety of desires. The fulfilment of these desires demands creative work. Men get into particular productive ties with one another when they work together to manufacture and trade the tools necessary to meet their economic needs. These ties are necessary and not controlled by their desires. A relationship between men is necessary for production. These productive interactions represent a certain stage in the evolution of the forces of production at any given period. The production relations are determined by the producing forces. For instance, in the production and exchange of the necessities of life under slavery, feudalism, and capitalism, individuals are tied to one another as master and slave, lord and serf, and capitalist and worker. Marx referred to these trading and production linkages as relations of production.

Land would be seen as the main source of wealth in, say, an agricultural society: The key to understanding a society's superstructure of social, political, and cultural institutions and ideas would be found in who owns the land. The governing class will be made up of landowners. They shall be treated with the utmost respect. The capitalist class is also the dominant one under capitalism. The capitalists control the state. Capitalist property ownership has an impact on the institutions of law, society, and culture as well as on people's perspectives. The economic structure of society is made up of all of the production interactions across all sectors of productive activity. The social superstructure is shaped by the economic society. The superstructure includes human concepts, social, political, judicial, and intellectual institutions activities, family dynamics, artistic creations, and spiritual practises. Thus, it encompasses the organisations and practises that maintain society's class system. Elements of the superstructure vary as the economic structure changes.

The social relations of production are characterised by the development of productive forces through time. Eventually, these forces will clash with the existing class system. The current production relations or property system limit further development of the productive forces. These relationships, which in the past aided in the advancement of industrial systems, are now obstacles to such advancement. The advancement of the economy's productive forces and the sociocultural environment are at odds with one another. The rising class connected to the new means of production and the old ruling class, whose power is waning, engage in a class conflict as a result of the increasing contradiction or incompatibility. The contradiction worsens with time until new production relations that are consistent with the more powerful productive forces are developed as a consequence of a social revolution. The merchants and artisans opposed the feudal lord in the middle ages and took away his control over the

economy. The wage labourer will oppose the capitalist and do the same under capitalism. Class struggle is the history of all societies that have existed up to this point.

### CONCLUSION

It is crucial to comprehend the capitalist crisis hypothesis in order to properly assess and handle economic crises. It demonstrates the shortcomings of conventional economic theories, which often minimise systemic problems and structural weaknesses in capitalism systems. The crisis hypothesis argues for a critical analysis of the current economic system and proposes the necessity for structural changes, such as steps to address income disparity, control financial markets, and realign production towards societal needs instead of profit accumulation. In conclusion, the capitalist crisis hypothesis in Marxian political economics offers a theoretical framework for comprehending the cyclical nature and inherent instability of capitalist systems. It focuses on the tensions and contradictions underlying capitalism that result in overproduction and financial fragility, among other factors, which cause economic crises. Understanding the processes of economic crises and considering alternative economic systems and policy responses that try to lessen the inherent instability of capitalism require recognising and analysing these fundamental tensions.

### REFERENCES:

- [1] A. Sánchez-Bayón, “Renovación del pensamiento económico-empresarial tras la globalización: Talentism & Happiness Economics,” *Bajo Palabra*. 2020. doi: 10.15366/BP.2020.24.015.
- [2] H. Boushey, “Unbound: Releasing Inequality’s Grip on Our Economy,” *Rev. Radic. Polit. Econ.*, 2020, doi: 10.1177/0486613420938187.
- [3] P. A. Lewis, M. da Graça Moura, and J. Runde, “Ontology and the History of Economic Thought: An Introduction,” *SSRN Electron. J.*, 2020, doi: 10.2139/ssrn.3662269.
- [4] T. Lagoarde-Segot, “Financing the sustainable development goals,” *Sustain.*, 2020, doi: 10.3390/su12072775.
- [5] V. Brown, “Decanonizing discourses: Textual analysis and the history of economic thought,” in *Economics and Language*, 2020. doi: 10.4324/9781003072256-5.
- [6] J. E. Suh, “An economic thought about how to detect currency manipulation,” *Econ. Bull.*, 2020.
- [7] G. Scheiring, “Sustaining democracy in the era of dependent financialization: Karl Polanyi’s perspectives on the politics of finance,” *Intersect. East Eur. J. Soc. Polit.*, 2016, doi: 10.17356/ieejsp.v2i2.183.
- [8] N. Ansell, E. Robson, F. Hajdu, L. van Blerk, and L. Chipeta, “The new variant famine hypothesis: Moving beyond the household in exploring links between AIDS and food insecurity in southern Africa,” *Prog. Dev. Stud.*, 2009, doi: 10.1177/146499340800900302.
- [9] D. Basu, “Financialization, household credit and economic slowdown in the US,” *Res. Money Financ. Discuss. Pap.*, 2011.
- [10] M. Bonaiuti, “Are we entering the age of involuntary degrowth? Promethean technologies and declining returns of innovation,” *J. Clean. Prod.*, 2018, doi: 10.1016/j.jclepro.2017.02.196.

## CHAPTER 12

### UNDERSTANDING THE ECONOMIC THEORY AND ITS SIGNIFICANCE

---

Dr. Vinay Muddu, Professor,  
Department of Master in Business Administration,  
Presidency University, Bangalore, India.  
Email Id: - muddu.vinay@presidencyuniversity.in

#### **ABSTRACT:**

Understanding the concepts and processes that underpin economic systems and behaviour is crucial for understanding economic theory. In this abstract, the importance of understanding economic theory is examined, with a focus on how it helps to explain and anticipate economic occurrences, guide policy choices, and promote educated economic conversations. Economic theory offers a framework for examining the decisions, relationships, and results that result from the economic activity of people, businesses, and governments. Economists may create models and theories that accurately depict the intricacies of actual economic behaviour by looking at the core concepts of microeconomics and macroeconomics. Policymakers, academics, and practitioners may make educated judgements and predictions regarding economic variables and their linkages by having a solid understanding of economic theory. In addition, economic theory is crucial in determining how to make policy. Economic theories are used by governments and policymakers to develop and put into practise sound policies that advance economic development, stability, and welfare. A strong grasp of economic theory is essential for assessing policy alternatives, foreseeing their effects, and calculating the trade-offs involved when establishing monetary policy, fiscal policy, trade policy, or regulatory measures.

#### **KEYWORDS:**

Development, Economic, History, Political, Social.

#### **INTRODUCTION**

The history of economic thinking examines the development of economic theories and their relationships, as well as the contributions made by economists and researchers from antiquity to the present in terms of theories and economic concepts. Scholars in ancient Greece, including Aristotle, debated the development of riches and whether or not private ownership of property was appropriate. Numerous important economists who belonged to the classical school of economic thinking created hypotheses that altered the direction of economic research. *Wealth of Nations* by Adam Smith was the first book to discuss economic issues in depth. His main argument, which he refers to as the invisible hand, is that our individual desire to pursue self-interest results in social advantages. The evolution and methodologies of economic theory have been examined in this section.

As human knowledge grows, it is examined and divided into many sciences. The similar process led to the development of economic science, which contains theories and generalisations that address the economic issues that affect our daily lives. Like other disciplines, economic science has evolved through time as a consequence of the many contributions made by different thinkers. Many times, important contributions remained undetected for a long while other contributions were acknowledged during the creators' actual lifetimes. In certain instances, the opinions of these philosophers significantly influenced how future economic thinking patterns will develop. Different minds have had varying degrees of influence on how it has evolved. Others were relatively faint, but certain thoughts shone like brilliant stars in the sky and dazzling everything in their path. Even if some philosophers'



contributions weren't very noteworthy when they were made, each one has a place in the growth of economic research and advances our understanding of economic phenomena.

The collection of ideas, doctrines, rules, generalisations, and analyses used in the study and resolution of economic phenomena and issues would often be considered to represent the scope of economic thinking. However, it should be emphasised that several aspects of economic thinking have often commanded an unequal prominence, with some drawing more attention than the others. In addition, the general structure of economic thought is also susceptible to continual change. Economic theory, analytical tools, and methods are not a predetermined and unchanging set. Economics is a dynamic science, which is a quality it develops for a number of reasons. The fact that it is a social science contributes to this quality of it. It produces a corpus of generalisations that include cause-and-effect links, much as in other disciplines. But from among the array of causative factors at play, the relevant ones must be selected for the issue at hand similarly, a filtering process must be carried out on the side of consequences.

These assignments allow for a range of opinions and judgements[1], [2]. Since human civilization is a complicated phenomenon, there are probably several factors at play in most occurrences, and various investigators may have different opinions on which causes are the most relevant. Investigations may also reveal factors that were previously dismissed as unimportant or irrelevant. The fact that the causative factors at play have been identified does not, however, mean that they will remain constant until their intended result is attained. The various roles of certain forces are likely to shift throughout time. In light of the dominant moral, political, religious, and social philosophy as well as the institutional structure of the society, the reactions of economic unit's individuals, enterprises, governments, etc. would differ from one scenario to the next. Economic research is dynamic because economies are dynamic phenomena. A new set of economic issues arises with societal change. Additionally, a person's social and physical surroundings affects how they think.

Two paths lead economic idea development. On the one hand, there is always room for a more thorough research within the fundamental framework of a particular economy and its institutional arrangement, which serves as a foundation for further analysis and theorising. On the other hand, an economy's very dynamism offers a foundation for further research. There is little room to advance the study of economics in a sluggish and unchanging economy. But as the economy changes, there are new difficulties that economists must address. A dynamic economy would typically get more complicated over time, necessitating the use of improved tools and methodologies for research as well as a broader range of economic topics. Therefore, both of these facets of the growth of economic research are covered by a study of the history of economic thinking. Every key theory's development, each school's collection of ideas and recommendations for policy, and even the noteworthy contributions of particular economists must be seen in the context of the overall economic environment. In addition, the research must consider how economic philosophy affected the development of economies and the subsequent impacts on economic science.

In this context, it should be noted that the concern of economists with the general improvement of the efficiency of the economic system and the economic welfare of society as a whole or specific segments has been a significant driving factor in the creation of economic research. As a consequence, economic science is always evolving. Specific sets of economic concepts, ideologies, theories, tools, and processes gain popularity and recognition throughout time, suggesting that there are several systems of economic thinking depending on the situation. As a result, studying the evolution of economic theory also involves studying the numerous systems that have influenced it. According to Haney, the study of economic thinking may be summed up as a critical account of how economic concepts have evolved while looking at their antecedents, relationships, and manifestations. As might be anticipated,

the majority of economic theories and concepts have historically been in flux. However, as time went on, an evolution in the ideas, instruments, and analytical processes took place. To address the new theoretical and practical issues, new ideas were regularly introduced while older ones were refined. The tools and procedures of analysis have improved along with the growth of notions.

### DISCUSSION

The contrast between economic theories as such and economic science or actual economics should be kept in mind in this context. Economic theories have existed from the beginning of time, but it wasn't until recently that they came to be organised into what is now known as economic science or economics. In older literature, references to economic issues are practically universal. They are mentioned by Plato, Aristotle, and other philosophers. For instance, Aristotle talks on money, population, and slavery. Kaushalya is well-known for his discussions on numerous economic issues in India as well. However, we only have a limited amount of information and analysis in each of these situations. We cannot assert the birth of economic thinking as long as we are unable to appropriately generalise on these economic theories and viewpoints with any real importance.

In that regard, mercantilism coincides with the period when these concepts first began to solidify as economic theory. Because it is in this system that we discover a full economic theory for the first time, it is possible to say that the development of economic science and the advent of physiocracy went hand in hand. According to a widely held belief, Richard Canuttillo's book *Essai sur la nature du commerce*, which was published in 1755, predates Adam Smith's book *An Inquiry into the Nature and Causes of the Wealth of Nations* which was published in 1776 and was instead the first systematic treatment of economic issues. Economic thinking is a collection of generalisations and concepts that may be said to belong to one another. The economic research and recommendations for policy have theoretical foundations. The process of coming to conclusions involves both logical reasoning and an element of abstract theorising. Economic concepts only come together to create economic thinking at this point in its creation and cohesiveness.

Of course, it is not necessary for the economic theories that make up an economic thought system to be consistent with one another or to form a single main body rather, it is the overall thinking process that gives these theories the appearance of mutual association and belonging and, as a result, creates the phenomenon of economic thought. Individual economic theories are often problem-focused. There are generalisations regarding specific facts, issues, and the ideal solutions to those issues. There are many issues that man encounters on a daily basis, including economic issues. He must thus attempt to fix these as well as other issues. As a result, we see that economic concepts have always been present in human mind as a whole. Numerous economic issues have been discussed, as well as potential remedies. For instance, early economic theories focused primarily on the issues related to trade, commerce, usury, and to a lesser degree, the economic issues associated with slavery, agriculture, and other early issues.

But because economics is a science, it means that both the issues facing the economy and the solutions to them must be seen as a whole and their connections must be understood. In economic science, there is a lot of theorising and generalising about the nature of economic problems the types of realistic and practical solutions are listed along with the typical responses that various economic units' individuals, firms, etc. exhibit in response to various stimuli. The 'efficiency' of the economic system and potential improvements to its operation are also a source of worry. Numerous ideas are used in all of this, and as time goes on, their meanings become more and more complicated. New instruments are developed along with economic science's advancement, and existing ones are sharpened. Additionally, abstract theorising plays a significant part in the advancement of any science, and economics is no

exception. The contrast between inductive and deductive analytical techniques may also be used to highlight the role abstraction plays in economics.

The inductive approach involves investigating economic events, gathering data, finding out the correlations between various interacting factors, and then drawing conclusions and making generalisations accordingly. This method depends on a correct assessment of how economic forces interact and is based on empiricism. Deductive methods, on the other hand, rely on abstraction. A collection of causes is selected as being pertinent to the issue at hand, and the manner in which these causes interact is established using predetermined guidelines. There is scarcely any abstraction, deductive analysis, or generalisation as long as all we have are economic concepts. On the other hand, there is a lot of room for abstraction, deductive reasoning, and generalisation in actual economic research. Actually, only when it adheres to acknowledged standards of analysis and theorising and employs appropriate methods and instruments can empiricism or inductive analysis become acceptable[3], [4].

As a result, the history of economic thinking is primarily the history of economics as a discipline, albeit for the sake of thoroughness, a consideration of the antecedents of significant concepts may be included. There are several techniques to attempt such an economics history. For instance, one may choose to study significant schools of economic theory and continue to do so throughout time. For instance, we may focus on the advancement of the laissez-faire ideology, the concept of economic welfare, the theory of utility, etc. A different strategy may be to investigate economic thinking in terms of schools, that is, in terms of theories, conclusions, and policy recommendations that constituted substantial harmonic sets on their own, shared a similar set of premises, and were advanced by recognised groups of economists. The historical school, the Utopian socialists, and marginalises are a few examples[5], [6].

Another strategy may be to focus on notable individuals, such as economists who significantly advanced the field of economics or made a substantial contribution to the study of economic phenomena and empirical issues. It goes without saying that any of these approaches would only be useful for a certain goal and would not be entirely satisfying from other angles. It would thus be better to adopt a fusion approach to the evolution of economic research, where appropriate weight is given to individual economists, schools, and the emergence of significant currents of economic thinking. Economic environment and thinking are intimately intertwined. The development of economic science may be linked to the complexity of the global economy. Economics has its roots in the particular economic framework of a society, even in pure abstract theorising. Market economies, economies with centralised planning, and other economic systems may all be used as contexts for economic theory[7], [8].

Regardless matter the depth of economic theorising, economic analysis always takes place inside a specific economic framework, whether that framework is actual or hypothetical. For instance, a lot of economic thought has evolved in the context of a market economy and on the presumption of 'economic rationality' on the part of individual economic units, despite the fact that the field of economic science as a whole has its roots in the study of the economic issues that society as a whole, or its representative, the government, faced, known as 'political economy'. The evolution of the economic environment and the development of economic research are inextricably linked, and they influence one another. Economics makes the assumption that there is a framework of technology, resources, and ties with other economies accessible to the community as a whole. An essential step in the creation of economic generalisations is the accurate identification, description, and analysis of the reactions of economic units. The institutional structure of the society now determines the precise character of the reactions. According to institutionalists, there are two different sorts of reactions that people might have: acquired responses and natural or instinctual responses. The

latter take on the shape of social traditions and behaviours when they are practised by a significant number of people in a certain manner. In this manner, institutions are formed out of the conventions and behaviours. Therefore, research and theory in economics must be conducted inside the confines of an economy. The effectiveness of an economy in the context of its unique institutional structure is assessed via economic theorising and inquiry, and corrective measures, if necessary, are suggested.

### **Lack of Consensus in Economic Thought**

There are a number of reasons to think that we shouldn't count on finding consensus among economists on matters of theoretical or applied significance. In the social science of economics, controlled experiments are almost impossible. As a result, there is always a chance of disagreement with respect to the selection of pertinent causal factors and the manner in which they interact. The selection of the relevant forces and variables, as well as the limiting assumptions, is crucial in abstract theorising. There is a risk that different assessments of the facts might be made, particularly when they are combined with other facts. It takes research, discretion, and opinion to pinpoint the exact direction and power of a given force. Utilising the data, tools, and analytic procedures at hand, relevant phenomena are examined and estimated. These are all things that might change. Data are always changing fresh data are added to or replace old ones. In a similar vein, analytical tools and methods are always evolving. A broad range of techniques are acceptable in economic analysis. As a consequence, even with the same tools and goals, different analysts may use different analytical techniques and get different outcomes[9], [10].

In addition to these causes, discrepancies occur because of the objective of the economic inquiry. This is especially true of challenges and solutions that are practical in nature. An assigned cause-and-effect link between several factors would be made to serve a certain philosophy and objective. Thus, during the British colonial era, Indian economists were typically driven by nationalist sentiments and goals and would view the Indo-British economic relationship from the perspective of Indian interests, whereas British economists would approach the same issues from a different perspective. The economists' idealistic and materialistic perspectives also contribute to the difference in opinion. In the end, economists are just as much people as everyone else, and they often let their opinions be influenced by the conclusions they want to promote.

### **Development**

Human civilization is a complicated phenomenon that is influenced by a wide range of interrelated variables, as we have already stated. Therefore, economic concepts have to first be linked to other concepts. The actions of man are influenced by his surroundings. There is a direct connection between economic concepts and environmental concerns. Thinking is motivated by the environment, and thinking about economic issues produces explanations. Economic theories were originally problem-oriented, much like the majority of social sciences that have developed throughout time. Pure abstraction didn't exist until much later, and even then, abstract analysis was always grounded in reality. As a result, the development of economic research was dragged down by the propensity to include non-economic aspects in the analysis of economic issues.

It cannot be said that as time has gone on, the economic and non-economic facets of our lives have become unrelated. We shouldn't anticipate economic research to completely disengage from the analysis of non-economic phenomena and social philosophy since the link between the two is still quite strong. We cannot accept that economic science, or theoretical work in it, is or has been or can be so perfectly or absolutely scientific objective, unbiased, neutral, and throughout secure as opposed to speculative as to make it possible to say, generally, that the great contributions made to its development by great economists have been wholly uninfluenced by the political philosophies shared, and often partly created, by them. The

increasing significance of economic phenomena as a whole was a factor in the formation of economics as a distinct discipline.

It should be mentioned that in the early phases of economic growth, there was not much to study in terms of pure economics since the proportion of economic issues in all of social life was limited, both in absolute and relative terms. Warmer temperatures and locations close to abundant natural resources are where early human civilisation evolved and thrived. Getting the means of subsistence for the basic existence those folks lived was not too difficult. Because of this, economic issues did not seem as urgent as they were later. Economic phenomena existed in the relatively static life of primitive man, but economic life was so limited and as monotonous in the earliest ancient cultures as to practically preclude speculation in humdrum activities, the author writes. Before capitalism, economic structure was straightforward. Because the division of work was not implemented fully, a significant portion of output was intended for personal use.

The issues with marketing and exchange were minor and straightforward. Therefore, complicated economic events and the issues they cause were scarce on this account. For instance, there weren't many particular issues with public finance or fiscal policy. There was little room for modification or manipulation in the economic relationships between the numerous individual economic units on the one hand, and between the economic units and the State on the other. As a result, the scope and relevance of early economic thought may have been very small. As long as the economic process is so basic as to not call for any specific explanation, man cannot begin to theorise about it. Up before the advent of capitalism, economic phenomena did not get the proper attention. Those who had the time and means to improve economics research lacked the motivation and desire to do so. Haney clarifies this argument by stating that although some of the hobbies most beneficial to studying economics have historically been expressly condemned, there have been moments when they have been particularly helpful to the growth of economics.

Growth was not encouraged by the dominant value system and the atmosphere of thought. The amount of material progress that was seen desirable and reasonable was fairly constrained. The most sophisticated and subtle of the economic virtues were the vices that the mediaeval thinker kept his most ruthless denunciations for. He condemned as a sin exactly that attempt to attain an endless rise in material prosperity that contemporary scientists celebrate as a quality. According to a Schoolman from the fourteenth century, He who has enough to satisfy his wants and yet ceaselessly labours to acquire riches, either in order to obtain a higher social position, that he may subsequently have enough to live without labour, or that his sons may become men of wealth and importance—all such are incited by a damnable avarice, sensuality, or pride—all such are motivated by a damnable avarice, sensuality, or pride. In the middle of an economic and spiritual upheaval two and a half centuries later, Luther would make the same claim in much stronger terms.

The development of economics was inevitably hampered by this lack of interest in a variety of issues. The traditional structure and ideology meant that there was little concern for the overall economic well-being of the community. The working class and artisans were sometimes even hated. The wealthiest socioeconomic classes were guaranteed a sizable portion of the nation's output, and they didn't give much thought to the plight of the underprivileged. As a result, there was a degree of apathy, if not outright hostility, towards the study of economic phenomena. Instead, the fine arts, music, and other arts received more focus. Up to the end of the Middle Ages, non-economic parts of social life were given a lot of weight. The importance given to material wealth in achieving pleasure in human existence was quite low. Instead, a life that upheld moral principles was seen better to one that placed an undue emphasis on worldly success.

The pursuit of material wealth at the expense of other facets of a good existence was viewed with disdain. Until mercantilist thought modified this composition in favour of materialism, this philosophy, in which idealism played a significant role, dominated in Western nations as well. At the same time, the Western economies began to exhibit a certain vitality that contributed to the expansion of all economic phenomena. As efforts were made to address the existing issues, new ones were cropping up throughout the economy. Although it is not argued that idealism has completely given way to a materialistic viewpoint at this point, there is undoubtedly enough worry over the materialistic components of our social lives. There is a growing interest in developing the standards for an economy's effective operation and examining its actual performance in their context. The study of economics today includes abstract theorising and generalisations, while in the past it was exclusively a problem-oriented discipline. The contributions made by various schools of economic thinking, as well as their significance, justification, and logic, must be understood in the light of the economic institutions and framework that these schools presuppose.

Nevertheless, the techniques of investigation and their underlying philosophy have often had an impact on the actual theorising and results. Therefore, it is important to keep this aspect of the relationship between reality and theory in mind while you examine the development of economic thinking and evaluate diverse contributions. Haney notes that the notion of the State's omnipotence also disregarded the need of learning economics. There was scarcely any need to emphasise the function of individual economic units responding to economic pressures if the State could utilise its political authority to handle the majority of its own economic issues as well as those of the higher classes. The issues facing State were seen primarily as political issues. With a few exceptions, the same basic conclusion about indifference or aversion to economic events might be stated with reference to financial problems. Furthermore, much as between states, it was thought that wealth accumulation had more to do with political conquest and power than it did with economic interactions.

Unlike the things they must deal with every day, humans have a natural affinity for things that are far away and strange. Economic phenomena were slow to pique attention, particularly in the days of relatively unchanging and straightforward economic activity. They were not chosen for a particular research because of their proximity and the general level of superficial familiarity. Nothing in the immediate area had any intrigue or mystery[11]. But as time went on, the factors that impeded economic progress gave way to those that supported it. The evolution of economic science is being actively influenced by the growing economic operations of contemporary governments. On the one hand, their activities supply a significant portion of all economic phenomena, and on the other, they have contributed to the development of the infrastructure required for the advancement of economic research. The fact that the budgetary and other operations of the government cannot have no impact on the economy is now widely acknowledged. This is true for market economies where the governments do not have any special economic plans, as well as for centrally planned economies and mixed economies. Although it is understood that the government should at the very least make sure that its budgetary and other activities do not prevent the society from achieving its goals, in reality, governments are actively involved in influencing and guiding their economies along the proper lines. A government should have access to pertinent information in order to perform its obligations effectively. As a result, governments are now a significant supplier of statistical data of all types. Additionally, the production of this data in published form is growing. The number of economists working nowadays has increased along with the availability of data. Economics knowledge is increasingly more broadly distributed. It is a well-liked academic topic. Additionally, there are more and better computer and other research resources, and mathematical and other methodologies are being used more and more in evaluating and examining the function of various economic factors.

Rigid notions have been developed with the use of abstract theories and models. Because of all these factors, economic science is presently progressing considerably more quickly than it ever has.

### CONCLUSION

Economic theory may also be used to understand the origins and effects of economic events. It aids in the deciphering of the processes behind demand and supply, market equilibrium, consumer behaviour, output, investment, inflation, unemployment, and other important economic indicators. By comprehending these basic ideas, economists may provide explanations for why certain economic events take place and provide possible solutions to problems with the economy. In conclusion, having a solid knowledge of economic theory is crucial for understanding the intricacies of economic systems, forecasting economic behaviour, influencing policy choices, and having educated debates about the economy. It offers a framework for deciphering economic events, illuminating their sources and effects, and guiding the development of policy. An in-depth knowledge of economic theory equips people, decision-makers, and researchers to negotiate the complexities of the economy and contribute to its growth and sustainability.

### REFERENCES:

- [1] Z. Hamid, H. Zhang, and S. M. Sarif, "Economic theories of social entrepreneurship," *Int. J. Accounting, Financ. Bus.*, 2017.
- [2] V. Lazovic, B. Rondovic, D. Lazovic, and T. Djurickovic, "Is economic theory, presented in basic academic textbooks, applicable to the digital economy?," *Sustain.*, 2021, doi: 10.3390/su132212705.
- [3] A. R. De Carvalho and L. R. De Souza, "The conceptual evolution of inequality and poverty in economic thought," *Brazilian J. Polit. Econ.*, 2021, doi: 10.1590/0101-31572021-3142.
- [4] M. Witter, "Caribbean Economic Thought: Advances, Retreat, Current Challenges," *Agrar. South*, 2021, doi: 10.1177/22779760211053083.
- [5] V. S. Avtonomov, "West-Russia-West: Early cases of interaction in economic thought," *Russ. J. Econ.*, 2021, doi: 10.32609/J.RUJE.7.55458.
- [6] M. Desmarais-Tremblay and A. Svorenčík, "A prosopography of the European Society for the History of Economic Thought," *Eur. J. Hist. Econ. Thought*, 2021, doi: 10.1080/09672567.2021.1987495.
- [7] S. K. Majune and D. K. Mwanja, "On the economic thought of trade practices and policies in Kenya," *Estud. económicos*, 2021, doi: 10.52292/j.estudecon.2021.2256.
- [8] P. Kuchař, "Recharting the history of economic thought," *Eur. J. Hist. Econ. Thought*, 2021, doi: 10.1080/09672567.2021.1936723.
- [9] M. Petersen, "The epistemological crisis of Marxian economic theory," *Prometeica*, 2020, doi: 10.34024/PROMETEICA.2020.20.10021.
- [10] L. Pittaway, "Philosophies in entrepreneurship: A focus on economic theories," *Int. J. Entrep. Behav. Res.*, 2005, doi: 10.1108/13552550510598790.
- [11] V. Olkhov, "Price, volatility and the second-order economic theory," *ACRN J. Financ. Risk Perspect.*, 2021, doi: 10.35944/JOFRP.2021.10.1.009.

## CHAPTER 13

### IMPORTANCE OF ECONOMIC THOUGHT'S HISTORY

Dr. Nalin Chirakkara, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - nalinkumar@presidencyuniversity.in

#### **ABSTRACT:**

To comprehend and influence modern economic ideas and practices, it is essential to understand the history of economic thinking. This abstract examines the value of researching the development of economic thinking and how it informs current economic discourse. Understanding the development of economic concepts, theories, and practices across time may be learned via studying the history of economic thinking. Economists may trace the evolution of important economic ideas and approaches by studying the writings of major philosophers like Adam Smith, Karl Marx, John Maynard Keynes, and Friedrich Hayek, among others. Economists may comprehend the philosophical disputes that have formed economic theory by understanding the historical environment in which these concepts first appeared. Furthermore, economists may analyse and improve current economic ideas by using the history of economic thinking. Economists may determine the advantages and disadvantages of various methodologies and judge their application in contemporary economic circumstances by looking at historical ideas and their real-world ramifications. This historical study supports intellectual variety and offers a wider viewpoint, promoting a more strong and thorough understanding of economic processes. The transdisciplinary aspect of economics is further shown by researching the development of economic theory. Economic theories are impacted by philosophical, social, political, and historical considerations rather than being born in a vacuum.

#### **KEYWORDS:**

Economic, History, Philosophical, Political, Social.

#### **INTRODUCTION**

This review article explores the value of researching the evolution of economic thinking and how it has influenced modern economic theory and policy. This study emphasizes the significance of historical context in forming our knowledge of economics by exploring the development of economic concepts, theories, and practises. The examination of significant thinkers and their works sheds light on the evolution of economic ideas, encourages a critical assessment of contemporary theories, places an emphasis on interdisciplinary links, and encourages adaptation in dealing with current and future economic difficulties. A key component of economics education and research is the study of economic thinking historically. The significance of comprehending the historical roots of economic theories and concepts is briefly discussed in this section [1], [2].

#### **Development of Economic Theory**

This section chronicles the development of economic theory while identifying significant figures and turning points. The section offers a historical overview of economic ideas, starting with classical economists such Adam Smith and David Ricardo, moving through the advent of socialism with Karl Marx, the Keynesian revolution, and later advances.

#### **Setting up Economic Concepts**

Understanding the fundamental reasons and consequences of economic theories requires examining them in the context of their historical development. The knowledge of the cultural,



political, and philosophical influences on economic theory is discussed in this part as a way to aid economists in the interpretation and application of ideas to current economic issues.

#### **Analysing Economic Theories Critically**

Economists develop the capacity to critically assess contemporary hypotheses by learning about the evolution of economic theory. This section examines the importance of contrasting historical and contemporary economic theories, highlighting their strengths and faults, and improving on current theories to solve novel problems.

#### **Cross-Disciplinary Links**

Economic theory interacts with other social disciplines and does not exist in a vacuum. This section examines how studying the history of economic thinking strengthens ties with philosophy, sociology, political science, and history as well as the multidisciplinary character of economics. It highlights the need for an all-encompassing method of economic research.

#### **Flexibility and Preparedness**

Economic ideas and practises must change to reflect the environment. This section demonstrates how having a historical perspective gives economists the capacity to foresee obstacles, forecast future developments, and respond quickly to economic crises and changes.

#### **Relevance to Economic Policy**

The historical understanding of economic theory directly affects how policies are created. This section investigates how lessons learned from the past might influence policymakers' choices and direct the creation of successful economic policies. The review article wraps up by summarising the main conclusions and restating the value of researching the development of economic theory. In order to have a more complete and strong knowledge of economics, it emphasises the need of adding historical context into economic education, research, and policy-making.

### **DISCUSSION**

The topic History of Economic Thought is concerned with a study of economic theories from the earliest periods to the present. A History of Economic Thought examines the beginnings and development of economic theories, as the title indicates. It provides a historical description of how economic concepts have evolved as well as their effects on various economic organizations and activities. Thus, the genesis, evolution, and interrelationships of economic concepts are all covered under the history of economic thinking. At least in the current industrial context, economic theory is crucial [3], [4]. History of Economic Thought and History of Economics are two different things. The evolution of economic theories is the subject of economic thinking history. Since the dawn of humanity, there have always been economic concepts. The science of economics is discussed in the history of economics. The development of business, manufacturing, trade, banking, transportation, and other economic institutions is examined in the history of economics.

It is, in essence, a study of previous human material or industrial growth. Despite the fact that they are distinct branches, there is a strong connection between them. The main source of social dynamics is the concept of man in relation to the environment. The debate over whether the environment or man's thoughts influence one another has been settled, and it is analogous to the age-old dilemma of whether the hen or the egg came first. However, it is true that thoughts and environment do interact. People's economic beliefs are always influenced and shaped by their surroundings. For instance, the institution of slavery had an impact on Plato and Aristotle's economic theories since it was a feature of ancient Greek civilization. Karl Marx's socialist theories were founded on the industrial revolution in England, the growth of urban regions, and the wage system.

The history of economic thinking traces out the historical shifts in views while passingly recognising analytical accomplishments. Such a history would need to demonstrate the strong connection between the general attitudes of the public mind, as stated, and the types of issues

that, at any given moment, attract analysis as well as the overall perspective with which they approach their issues. The history of economic thought can be roughly divided into two parts: the first part covers the origin and development of economic ideas prior to the development of economics as a separate science, and the second part covers the development of economic ideas following the emergence of political economy as a separate science.

### **Theoretical Techniques**

Scholars and philosophers sometimes use a variety of theoretical techniques while studying economics or when assessing economic events. These methods are as follows:

1. **Chronological Method:** The chronological method discusses economic concepts in chronological order. This method has the advantage of ensuring continuity and allowing the reader to determine the moment at which the economic concepts first appeared.
2. **Conceptual Approach:** In this strategy, the growth of economic concepts and ideas is prioritised. The schools of thought that had made a certain notion popular did not interest conceptual approach adherents.
3. **Philosophical Approach:** Greek philosopher Plato was the first to use this strategy. Later, it was used by early authors to talk about economic concepts. All four men Aristotle, Quesnay, Adam Smith, and most importantly Markhad distinct philosophical viewpoints.
4. **The Classical School of Thought:** J.S. The economists of the classical school were Mill. The classical economists believed that all economic laws could be derived by a straightforward process of reasoning from a single basic premise and that the rules of economics were universally applicable. The historical school has made severe criticisms of the traditional logical method.
5. **Historical Approach:** Germany is where the historical school first emerged. The inductive technique was emphasised in the historical approach. They held the opinion that economic rules are not inherent in nature. They are somewhat influenced by geographical, temporal, and historical factors.
6. **The Neo-classical Method:** The Neo-classical method seeks to enhance the traditional ideas by appropriately adapting them to account for contemporary advancements in the science of economics. A reconstruction of the classical doctrines is attempted via the neo-classical method. The proponents of this method of economics held that, as the right and left feet are required for walking, induction and deduction are both essential to science.

The welfare approach tries to provide a foundation for the adoption of policies that are likely to enhance social welfare vii. The factors that influence a community's overall economic wellbeing are the focus of welfare economics. Utility, demand, and consumption are highlighted by the welfare approach. The institutional approach is a phenomenon of the twentieth century viii. Veblen established this methodology. This strategy's proponents contend that the price system should not be the main focus of economics. They place a lot of value on shifting group dynamics. They see economic rules as contingent. They held the opinion that the main elements influencing human conduct are habits, conventions, and legal structures. J.M. Keynes is credited with a significant advancement in contemporary economics. Keynes. The phrase Keynesian Revolution refers to the Keynesian method. The fundamental aspect of the Keynesian strategy is that it addresses the issues facing the whole economy as opposed to just those affecting a single customer. Keynes made a significant contribution by connecting economic theory to the major social issues of the day.

**History of Economic thinking's Importance:** The advantages it brings with it are what give the history of economic thinking its importance. One may get insight into the development of economic theory and the creation of policies that have governed economic life from the

beginning of time to the present by studying the topic. Every age's thoughts have influenced people's behaviour and policies, and as a result, they are significant to us. The main benefits of studying the history of economic theory have been succinctly stated as follows by Professor Haney:

1. The study of History of Economic Thought demonstrates that human thought has been relatively consistent from prehistoric times to the present. This coherence and the economic philosophy go back to earlier periods. Man's inheritance is the ability to think. Thoughts have always derived from environmental factors throughout history. Although they seem to be fresh, there is really a lot of continuity in the concepts. It may be argued that concepts from one period are borrowed from those from another, and under the impact of a changing economic climate, they only shift in emphasis and shape to address contemporary issues.
2. The essence and scope of economics are still up for debate today, despite significant advancements in the field. The study of economic theory helps us comprehend the nature, application, and link of economics to other disciplines as well as its history and progress. Since economics is a dynamic discipline, we cannot accurately evaluate the changes that have occurred in its character and scope without taking a close look at ancient philosophy. Therefore, researching the evolution of economic ideas has enormous importance.
3. The reader's perspective changes as a result of studying economic theory. He is no longer dogmatic. He begins by critically analysing and evaluating the applicability of each concept and theory in the context of his own times and circumstances. Therefore, it is evident that most economic concepts are relative. They are influenced by space, time, and context. The institutional frameworks of the past were the origins of many economic theories. Slavery was justified by Aristotle because it was a recognised social reality in ancient Greece. Studies continue on the mercantilist theories of foreign commerce, Physiocratic views on agriculture, and the Ricardian theory of rent.
4. There has never been a period in which ideas have not advanced, according to research into the history of economic thinking. A common misconception about the middle Ages is that they were a time of no new ideas or philosophical developments. Of fact, there are certain authors who dispute the continuity of economic thought's development. Because mediaeval thinkers accentuated the unpleasant parts of existence, they saw the middle Ages as a total rupture. However, this is not entirely accurate. Because economic speculators existed even during that time period, their theories on matters like money and interest resembled those of earlier Greek philosophers.
5. A study of economic theory offers a wide foundation for concept comparison, which is very valuable. A person will be able to make balanced and sensible decisions thanks to it. He does not follow his own trends or let debates make him lose courage or confused. He is more concerned with the advancement of science.
6. A knowledge of economic theory may enable one to adopt an impartial viewpoint. He will come to understand how distinct economics is from economists, and that they are quite different things. Even if economics is a science, economists are still merely human. The students will come to understand that economists are not the same as economics. They could discover that different economists have different perspectives. Discussions and disagreements over even the most basic issues may make them confused, but eventually they come to understand that economics is a science, a systematised collection of doctrines that have been created over many years and are

surrounded by the opinions of other economists, and they become confident without giving much thought to the individuals[5], [6].

7. Students will come to understand that old theories never really die rather, they only fade away with a peculiar potential of recovery in the right setting via the study of the History of Economic Thought. For instance, parts of Keynes' theories may be linked to socialist authors like Sismondi and Proudhon as well as Malthus. Keynes is one of the finest economists of the modern era.

We learn about the people who came up with the ideas that make up the framework of economics as it is now taught by studying the history of economic thinking. Knowing when these concepts were introduced and the circumstances that led to their introduction at that particular time would also be helpful. The study of History of Economic Thought also reveals the differences between the points of view of various thinkers and demonstrates how a particular point of view has been developed. Differences in opinion and points of view are inevitable due to the disparity between each thinker's basic life philosophy and method of problem-solving. Students then evaluate these many ideas according to their own merits, accepting or rejecting them. Without a doubt, research on the issue serves as an excellent guiding and corrective component. Thus, it is difficult to overstate the importance of studying the history of economic thought. It is a crucial knowledge resource[7], [8].

It is usually beneficial to have some understanding of the evolution of ideas in the field of interest. Every science develops and changes through time, and while it does so, it draws a lot of controversy and controversies that have to do both with the discipline's core concepts and how those concepts are applied to real-world issues. As a result, studying economic thought helps students of the subject understand that the current fluidities in economic theories and the inconclusiveness of different schools of thought are nothing to be alarmed about rather, they are common occurrences in all sciences. The study of economic theory gives the topic perspective and gives the learner a broader understanding of what he is learning. He is able to comprehend that economics is a broad field of study and that each theory, instrument, and approach can only be understood, valued, and justified in relation to the larger whole. A student is likely to be misled into thinking that the ideas he is learning are either final or have no significance at all if they are not aware of the history of economic thought[9], [10].

This is especially true since each theory is presented in the context of a certain economic system with all the implication institutional variables and based on a set of presumptions. A learner may not feel free to employ his analytical skills for a deeper investigation of a hypothesis if he senses its finality. Alternatively, he can be struck by the theory's abstraction and the irrational presumptions that underlie it, leading him to believe that all economics abstraction is a pointless exercise. Second, understanding economic theory helps students understand that economics is a dynamic discipline. Economic research advances in two ways: on the one hand, more tools, methodologies, and ideas are being added to the economists' toolbox, and on the other, more economic phenomena are being examined and studied. Furthermore, economics gains some of its vitality from the global economies themselves. A student may give contemporary conflicts and discussions the proper attention by studying economic thinking. He is not discouraged or weighed down by the contentious debates and differences of opinion. He sees them as indications of the science of economics being alive, and he is aware that they are markers of ongoing evolution and improvement.

Thirdly, a study of the development of economic ideas demonstrates how limited the role of economics is in our lives as a whole. One of the social sciences is economics. It neither explains a society's whole conduct nor offers a comprehensive fix for any issue. It is important to examine economic issues in the perspective of their broader social background, and it is important to remember how interconnected economics is with other social sciences. The learner is also able to understand that various economists might come up with different

answers to the same issues as a result of this realization. Since economists are also people who live in societies, their recommendations must take into account their whole life and worldview. Since the perception of economic facts would entail subjective factors, alternative solutions would be suggested based on the individuals' individual viewpoints. An economist with leftist ideas would promote different solutions than those promoted by an economist with rightist views. Some proposals would consider the administrative and political challenges of putting them into practice, while others would not. Thus, it is only within the framework of the underlying philosophy that the contribution to economic research made by any one economist or school of thought can be understood.

### CONCLUSION

The philosophical foundations of economics helps economists develop a deeper comprehension of the linkages between economics and other social sciences, enabling a more comprehensive approach to the study of challenging economic issues. The evolution of economic theory also serves as a reminder that the field of economics is dynamic. In reaction to shifting cultural norms, technological development, and world events, economic views have changed and developed. Economists are better positioned to adapt economic theories to solve current issues and foresee future changes by understanding the historical background of economic philosophy. In order to summaries, the history of economic thought is significant since it may serve as a basis for modern economic theory. Economists may improve and hone the current economic discourse by looking at the intellectual history of economic ideas and comprehending their historical context. This historical viewpoint encourages multidisciplinary collaboration, intellectual variety, and a flexible approach to economic research, eventually advancing the field of economics and aiding in the creation of sound economic policy.

### REFERENCES:

- [1] M. Orlyk, "The Development of Small Lending in the Naddnieper Ukraine in the Second Half of the 19th - Early 20th Century," *Cent. Ukr. Sci. Bull. Econ. Sci.*, 2020, doi: 10.32515/2663-1636.2020.5(38).83-96.
- [2] A. Gölz, "Family Matters: The Canadian Family and the State in the Postwar Period," *Left Hist. An Interdiscip. J. Hist. Inq. Debate*, 1993, doi: 10.25071/1913-9632.5208.
- [3] P. Viereck, *From Wagner and the German Romantics to Hitler: METAPOLITICS: Expanded edition*. 2017. doi: 10.4324/9781315124438.
- [4] L. E. Porto, "The spiraling propensities of mind: Towards an ecological theory of human meaning systems within a panarchy of adaptive cycles of human consciousness," in *56th Annual Meeting of the International Society for the Systems Sciences 2012, ISSS 2012: Service Systems, Natural Systems*, 2012.
- [5] A. do Vale, "Central bank independence, a not so new idea in the history of economic thought: a doctrine in the 1920s," *Eur. J. Hist. Econ. Thought*, 2021, doi: 10.1080/09672567.2021.1908393.
- [6] M. Manioudis, "Economic history into the perspective of economic thought and historiography: Between the Symplegades," *Investig. Hist. Econ.*, 2021, doi: 10.33231/j.ihe.2021.02.004.
- [7] S. R. Brechin, "Karl Polanyi's Political and Economic Thought: A Critical Guide," *Contemp. Sociol. A J. Rev.*, 2021, doi: 10.1177/0094306121991076i.
- [8] P. J. Boettke and R. A. Candela, "The common sense of economics and divergent approaches in economic thought: A view from Risk, Uncertainty, and Profit," *Journal of Institutional Economics*. 2021. doi: 10.1017/S1744137421000229.
- [9] L. Meng, "Analysis of the Influence of Traditional Economic Management Thoughts on Contemporary Economic Management," *Mod. Econ. Manag. Forum*, 2021, doi: 10.32629/memf.v2i2.316.

- [10] A. A. Maltsev and A. G. Khudokormov, “New life of old ideas (On the book ‘economic thought: A brief history’ by heinz d. kurz),” *Vopr. Ekon.*, 2021, doi: 10.32609/0042-8736-2021-2-133-146.

## CHAPTER 14

### ANALYSIS OF MERCANTILISM: UNDERSTANDING ECONOMIC POWER AND POLICIES

---

Dr. Pramod Pandey, Associate Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - pramodkumar@presidencyuniversity.in

#### **ABSTRACT:**

Mercantilism, a popular economic theory in Europe from the 16th through the 18th century, has received a lot of examination and criticism. This abstract offers a summary of the examination of mercantilism, including its advantages, disadvantages, historical setting, and effects on economic growth. Scholars have clarified the intricacies and ramifications of this economic philosophy by critically evaluating mercantilist ideas including trade balance, protectionism, government intervention, and colonialism. Analysis paid close attention to the focus that mercantilism placed on the trade balance and the creation of wealth via exports. The effectiveness of using a positive trade balance as a gauge of a country's wealth and strength has been disputed by academics. While some contend that the emphasis on trade surpluses ignored the advantages of imports and hampered economic progress, others point out the potential advantages of a positive trade balance for boosting local industry. It has also been thoroughly studied how mercantilism is protectionist. Critics contend that protectionist measures used to safeguard home sectors hampered innovation, inhibited competition, and produced inefficiency. However, supporters emphasise protectionism's near-term benefits in fostering industrialisation and preserving national security at the time. Analyse the idea of mercantilism, discuss the key traits of mercantilism.

#### **KEYWORDS:**

Commerce, Commercial, Mercantilism, Power, Wealth.

#### **INTRODUCTION**

A country's exports are increased while its imports are decreased under mercantilism in an effort to maximise earnings and build up riches. By using a big work force at cheap salaries, it encourages the production of products and services on an industrial scale. It places a strong focus on ideas like production, trade balance, a wide labour pool, interest rates, etc. It evolved as a way to boost a nation's wealth and power so that it could compete with other countries and defeat them by keeping armies and fleets, both of which cost a lot of money to maintain.

#### **Overview and Forms**

When silk, spices, and other valuable goods were discovered during the Crusades, trade in Europe began. With the 'spirit of discovery' rising in the second part of the Middle Ages, commerce increased. As new areas were found, the network of trade routes expanded. Vasco da Gama, among others, established maritime routes to the East. The birth of capitalism, significant wealth accumulation, and new economic practises occurred in the 15th and 16th centuries. The centre of economic activity shifted from the Mediterranean to the nations of Western Europe, thereby eliminating the Turkish monopoly on commerce with the East. Now that these countries were in direct competition with one another for resources, they took whatever they could from their colonies to achieve their objectives. Following the construction of a colony at Goa in 1510, the Portuguese cemented their dominance in commerce with the east. Due to this, commerce between Europe and China began in the sixteenth century, and in 1557, Portugal established itself in Macau, South China. Dutch and later Transatlantic commerce of the English empire came after this. Expansion, a surge in

economic activity, and the emergence of mercantile culture were hallmarks of the commercial revolution that lasted from the 16th to the 18th century. In addition to the industrial sector, there was a boom in the banking industry and an increase in investment. The industrial revolution followed the commercial revolution quickly in the middle of the 18th century. The drivers of increased business activity in Europe were as follows.

### **Geographical Factors**

New trade routes had to be found when Constantinople fell in 1453 since Turks now ruled the Mediterranean. To avoid impeding their commercial ambitions, the English changed their rules in a way that benefited their fleet. As a result, the Hanseatic League, which managed commerce in the northern part of Europe, started to malfunction. Because of its martial culture as a result of the Reconquista, Spain remained a dominating power throughout this time and continued its expansionist objectives. However, as European countries sought more money and influence, rivalry among them rose.

### **Financial Factors**

With the advent of silver money, trade increased along with the demand for precious metals. Silver and gold were scarce for the Europeans as a result of commerce with the East. The only option left was to increase commerce since their mineral mines were likewise depleted or contained metals that were buried too deeply to be removed.

### **Technological Considerations**

From the 16th through the 18th centuries, scientific advancements and marine technologies aided European countries' colonial development. In a book titled *Theatrum Orbis Terrarum*, the first atlas and 53 additional maps were printed in 1570. Abraham Ortelius came up with them, and Gilles Coppens de Diest published them. Latin, French, Dutch, and German copies of the atlas first appeared by the end of 1572 and were popular up until 1612. Galea and other instruments for simple navigation appeared as a result of shipbuilding experiments and the use of skeletons in shipbuilding. Sailors used their understanding of moon motion to navigate thanks to Isaac Newton's motion ideas, which were published in the *Principia*. The world was measured in latitudes by 1670. Longitudes were now being sought for, and in 1714 the British Parliament even declared a reward for doing so[1], [2].

### **Sociological Aspects**

The convergence of cultural, theological, political, and economic elements led to the emergence of mercantilism. In order to evaluate these factors, it may be important to note that Protestantism and the Reformation led to a significant religious and intellectual awakening in Europe at the beginning of the 16th century. Initiators of these two revolutions, Erasmus and Martin Luther, respectively, greatly influenced the ideas of individuality and private freedom. These movements significantly advanced concepts of property and contractual rights, which in turn facilitated the expansion of trade and free exchange. The Renaissance played an even bigger part and placed greater emphasis on the humanistic component. It stated that happiness on this globe ought to be favoured above the promised joys of the other world, challenging the mediaeval theologian belief that happiness in heaven should be preferred over earthly happiness. In other words, it placed emphasis on the materialistic aspect of pleasure in people. Once the ideas of humanism and individualism were established, many authors, artists, and philosophers emphasised the economic foundation of society in their works. They disturbed the theological underpinnings of the church. In terms of the economy, mercantilism grew as a result of feudalism's demise. Economic self-sufficiency, agricultural output, and the lack of a trading economy were characteristics of the feudal system[3], [4].

The agriculturists were required to labour in the lords' fields without pay for a set amount of time. During times of war, they were also obligated to serve as soldiers for the lords. These agriculturalists strove to ensure local food grain self-sufficiency since there were no organised industries and even commercial crops were not in high demand. Because there



were no organised marketplaces, manufacturing was done primarily to satisfy local demands. As a result, the domestic economy became autonomous. It had a local self-sufficiency foundation. Particularly, there was no efficient state apparatus. Guilds and municipalities made an effort to control commerce between different locations in cities and towns. The manorial lords' surpluses could only be used for commerce, particularly international trade[5], [6]. Scandinavian nations saw the growth of commerce early because of their strong navies that could span the Atlantic and deep seas. South-west Europe's Portugal and Spain, who also had access to the Mediterranean Sea, were ultimately responsible for this efficiency. In the 16th century, England joined the industry.

### DISCUSSION

The 18th century saw the beginning of mercantilism as an economic philosophy in Europe. The 16th-century commercial revolution, which had just begun, was the source of it. Its primary objective was to enhance national wealth by government control of all economic activities. The commercial revolution was a stage in the expansion of the European economy that lasted from about the 16th century to the beginning of the 18th century. Along with other early modern transformations, the commercial revolution had a dramatic impact on the globe. There isn't a single definition of mercantilism that is entirely adequate, although it may be conceptualised as a collection of economic regulation-based policies designed to maintain the state's prosperity. These rules may or may not have been implemented simultaneously or in the same location. Over the years, mercantilist views have evolved in response to the growth of various theories of the global political economy, such as structuralism and liberalism, as well as changes in the global political economy itself[7], [8].

A country that practises mercantilism seeks to amass as much wealth as it can using whatever methods required. It was believed that a country's power increased with its level of wealth. According to the economic theory of mercantilism, the quantity of wealth in the globe is fixed, and in order for one nation to become wealthier than another, it must either enhance its import/export ratio or physically conquer additional countries and resources. As part of an endeavour to attain economic unification and political control, this was seen as fundamentally fair. The term mercantilism refers to the allegedly mercantilist era of European history about the 16th to early 18th century, during which the modern concept of the nation state emerged. As governments competed for territory, economic gains by one nation state were often at the cost of other nations, creating a zero-sum game. What one participant gains in a zero-sum game, like poker, is equivalent to what the other loses. The mercantilist era of history coincides with the era of classical imperialism, which was marked by a propensity for war, conquest, and colonial expansion.

#### **Mercantilism: Growth and Conflict**

Conflicting personal trading interests emerged as trade volume increased. Nearly all of them sought for a powerful governing body to protect them from rivals. This was not possible in the absence of a national administration, and the connection was unquestionably weak. The question of work and distribution was sparked by the expansion of trade and the home economy. However, the materialisation of the trade economy was perhaps the most important element that encouraged the growth of mercantilism. This led to the growth of global commerce and promoted industrial-scale manufacturing. It was believed that economic life needed to be controlled in order to fully harness the economic resources that were accessible. Colonialism evolved as a consequence of the search for new markets, which led to the discovery of new territories and nations.

In conclusion, it can be concluded that elements like the waning of feudalism, a lack of governmental organisation, the emergence of free labour classes, competition, and the growth of the exchange economy served as the driving forces behind mercantilism. But industrial capitalism posed the biggest problem. Regardless of the interests of the country, the traders

continued their operations. For instance, the East India Company, which was buying fine cotton products from India and selling them in England and her colonies, dominated English international commerce until industrial capitalism arrived in that country. This hurt Lancashire cotton kills' interest. The East India Company's operations were gradually slowed down beginning towards the end of the 18th century as a result of persistent pressure from England's industrial capitalists, which ultimately resulted in its dissolution. Thus, industrial capitalism took hold of the Western economy, with England at its apex.

### **Different Mercantilisms**

The mercantilist policies had several manifestations. Domestically, governments made an effort to promote mercantilism by using the following strategies:

1. Provided funding to emerging industries.
2. Exempted new sectors from guild regulations and fees.
3. Created monopolies in colonial and local markets.
4. Titles and pensions were awarded to successful producers.

By establishing taxes, quotas, and limits on importation of commodities that competed with domestic producers, the government supported local industry via trade policy. Additionally, governments prohibited the export of capital goods and tools as well as the mass exodus of trained workers, all of which would have allowed other nations and even the home country's colonies to compete in the production of manufactured products. Diplomats simultaneously urged international firms to relocate to their own nations. During the commercial era, shipping was highly important. Control over the seas was seen to be of utmost importance to national authority due to the expansion of colonies and the importation of riches from the New World into Spain and Portugal. Since ships could be employed for either military or commercial objectives at the time, the governments created formidable merchant marines. From 1661 until 1683, Jean-Baptiste Colbert served as Louis XIV's minister of finance in France. During his tenure, port fees for foreign ships calling at French ports were raised, while French shipbuilders were given rewards [5], [6].

The navigation laws of 1650 and 1651 in England mandated that all goods imported from the continent of Europe be transported on either an English vessel or a vessel registered in the country of origin of the goods. They also outlawed foreign vessels from engaging in coastal trade in the nation. In conclusion, only English or colonial boats were permitted to transport goods between England and her colonies. The Navigation Act was expanded by the Staple Act of 1663, which mandated that all colonial goods to Europe must first be landed via an English port before being shipped back to the continent. Strong navigational laws were implemented by France, England, and other nations. These measures primarily targeted the Dutch, who in the 16th and 17th centuries dominated commercial water transportation. The importation of gold and silver was widely asserted, if not really believed, to be the primary benefit of international commerce throughout the mercantilist period. This point of view contends that there were no overall gains from trade since the benefits to one country were offset by costs to the other countries who exported gold and silver. Draining one another of priceless gold and silver was seen as being about as desirable as the direct benefits of commerce for countries who were often on the point of war.

### **The Heart of Capitalism**

The trade of goods for money was the core of mercantilism. For convenient marketplaces where goods could be bought and sold profitably and without opposition, it required colonies. America was colonised by the Spanish, Portuguese, British, and French throughout the commercial era.

### **Primary Features**

It is difficult to pinpoint the specific year or century when Mercantilism emerged and disappeared. Apparently, L.H. Haney, mercantilism was practised from the 16th through the

18th centuries. According to Alexander Grey, mercantilism first appeared towards the end of the fourteenth or the beginning of the fifteenth century. According to Cannon, true mercantilism didn't emerge until the 17th century. In actuality, the greatest amount of mercantilist literature occurred in the seventeenth century. Adam Smith referred to the economic theories that were prevalent during the time approximately between the end of the middle ages and the start of the American Revolution as the commercial or mercantile system, according to Newman. Apparently, from the fifteenth until the latter half of the eighteenth century, European policymakers were dominated by the economic beliefs known as mercantilism.

Mercantilism has been used to characterise the economic theories and practises that European policymakers adopted from the fourteenth century to the second part of the eighteenth century. It was a system of thinking that included the opinions of several authors who were dispersed around Europe, similar to other thought systems. Since it spanned such a significant amount of time, it was only natural for there to be adjustments and revisions, fine-tuning and improvements in the perspectives in response to shifting historical situations and regional circumstances. The early mercantilists thought that a country's prosperity was determined by how much bullion gold and silver it held. So they offered suggestions for ways to boost the nation's gold and silver reserves[9], [10]. The cornerstones of Mercantilism, it may be said, were the creation of the money economy and the emergence of states, and it started to fade with the industrial revolution and the expansion of political freedom.

#### **Different Names of Mercantilism**

Because mercantilism was prevalent in so many nations with diverse situations, it was inevitable that authors from one nation would have different opinions from those of writers from other nations. Because of this, mercantilism has been referred to by many names in various nations.

1. Due of the mercantilists' concentration on boosting the stock of gold, silver, and other precious metals, it was known as mentalism.
2. It was known as Colbertism in France, after Colbert, Louis XIV's esteemed Finance Minister.
3. It was referred to as Kameralism in Germany and Austria. According to Haney, Kameralism was the art that maintained and administered the royal income and Kameralism's affairs concerned the economy of the prince.
4. The mercantilists believed that trade and commerce might boost the country's riches. Since they placed a high value on trade and business, mercantilism is referred to as a commercial system.
5. The anti-free trade mercantilists were in. They supported balanced trade. Some authors have referred to it as a restrictive system because of the limitations placed on commerce in order to ensure a favourable trade balance.
6. For over three centuries, mercantilism had a significant influence on England, Holland, France, Germany, Austria, Italy, Spain, and practically all other European countries.
7. The emergence of mercantilism was influenced by a wide range of political, economic, social, and religious elements.

#### **Political Aspects**

Nationalism grew in power towards the end of the Middle Ages. The Reformation, Renaissance, and innovations all had a significant impact on Europe. These changes in the situation led to a profound political shift. Nationalism was installed in lieu of feudalism. Strong nation states came into being as a consequence of it. Feudalism was abolished, and the monarch ascended to absolute authority. The significance of economic unification was also acknowledged in order to develop strong and powerful nations. The merchant was a

significant provider of wealth and money. Therefore, the mercantilists attempted to control people's political and economic activity.

Competition with other expanding states outside of the national borders was a challenge. Each state saw the others as its adversary and sought to maintain its independence. This crisis was really caused by a strong nationalist sentiment. A powerful country was thought to need a well-equipped army and navy to defend itself and to safeguard its political interests abroad. It was discovered that having an armed force necessitated having sufficient financial resources, which at the time meant having sufficient reserves of precious metals gold and silver. The trader has begun dealing with other countries in order to buy gold and silver. The main instruments utilised in this aim were customs legislation and navigation laws. The monarchy required income, which could only be attained by a good trade balance, in order to support the military forces. Because of this, practically all intellectuals of this era underlined the significance of the trade balance.

### **Economic Variables**

Mercantilism was influenced by a number of other economic variables. The economic structure of the civilization saw notable alterations towards the end of the 15th century. Due to contemporary improvements in farming techniques, feudalism was losing favour as a system of managing agricultural output. Due to the consequent decrease in their revenue, feudal lords were forced to turn to commerce and manufacturing. Trade turned out to be so crucial that it upended the middle Ages' whole socioeconomic structure. Money was limited throughout the Middle Ages, therefore emphasis was placed on self-sufficiency. As a consequence, there was minimal interaction. But trade economy started to take over in the 16th century. As markets grew, money was utilised for transactions. The area of exchange was expanding as both domestic and international commerce advanced quickly. The rapid expansion of commerce and exchange required the use of money, which was made abundantly accessible by the discovery of the new world in the form of gold and silver. It only seemed sense that inflation would follow. The government and the working classes are both hard-hit by rising costs. The government's needs increased to the point that the income from royal estates and prerogatives became insufficient, necessitating the option of raising taxes, which was unquestionably made possible by the growth of trade and industry. The growth of business and trade, as well as the development of the money supply, ushered in a period marked by inexpensive transportation options, enhanced agricultural practises, and an increase in population. These developments led to the majority of mercantilist viewpoints.

### **Religious Influences**

During the middle Ages, religion and ethics dominated both economic and political life. The Church had more authority than the ruler. The king had an opulent lifestyle. The reformation movement spoke out against the Roman Catholic Church's dominance and opposed the Pope's unquestionable power in both religious and political concerns. Protestantism, as opposed to Catholicism, which advocated complete separation from worldly possessions, offered Christianity a more pragmatic interpretation and emphasised the value of money, economic struggle, and thrift in a person's life. The monarch and the thriving merchant elite in Europe converted to Protestantism, severed all ties with the Roman Catholic Church, and founded their own churches. As the Church's influence waned, one of the monarch's political enemies was eliminated. In times of conflict, the king's feudal military service would engage in combat. Land was provided to these lords so they could support themselves. The church was the largest landowner in a similar manner. The feudal lords or the king's own holdings used to be the source of his income. The monarch then began levying taxes. He began keeping a mercenary force. The monarch placed greater value on income derived from foreign commerce than from the natural economy.

### **Cultural Changes**

Europe was also going through significant cultural transformation. The Renaissance provided the populace with fresh knowledge and illumination. The unhappy existence on earth was not to be regarded as a source of anxiety, according to middle Ages religious beliefs, since it will be made up for by the delights in paradise. People, however, came to see that this life was more significant than the life of the other world as a result of the effect of the reformation and the renaissance. The literary and artistic works portrayed these concepts. Writers, painters, and philosophers all worked to preserve the novel concepts. Sir Thomas More posed a challenge to the pre-existing social structure in his work *Utopia*, which envisioned an ideal state of society. As a result, money began to take pride of place in interpersonal interactions, and materialism began to grow stronger every day.

### **Changes in Science and Technology**

Significant discoveries and breakthroughs in science and technology have strengthened mercantilist theory and practise. The inventions of the mariner's compass and printing had a significant impact. New continents were discovered as a result of improved navigation. America was found by Columbus. In 1498, a fresh maritime route to India was opened. The discoveries widened the scope for regional specialisation and provided access to a broad range of raw resources, markets, and consumer goods. As a result, transportation costs were lower and overseas commerce was more expansive. The printing press's creation aided in the dissemination of new ideas and information.

All of the aforementioned elements created an environment where mercantilist ideologies could thrive and get stronger every day. The mercantilists were sensible individuals. They had an interest in real-world issues. The establishment of a powerful state was their principal challenge. Schimoler has claimed that mercantilism is essentially state making on the economic side because of this. It was not the goal of mercantilism to be itself. It served solely as an economic tool to a political end the establishment of a powerful state. The mercantilists believed that a country's authority came from its riches. They discovered the power of the nation's riches.

### **Outlines of Mercantilism**

The main objective of a mercantilist was to strengthen his nation. It was believed that a strong nation needed an army and navy that were well-equipped in order to defend themselves and safeguard their political interests abroad. It was discovered that keeping an army required having enough money, which back then equated to having enough reserves of precious metals. The military was the source of national authority, which in turn required riches. Only affluent nations could afford and sustain powerful troops, and the ability of a state to exert authority depends on the unity of its people. In general, it is thought that mercantilism aimed for strong power, while Schimoler thought it was national unity, as was already said. Eric Roll saw the mercantilist idea as little more than the intellectual manifestation of the increasing merchant class's demand for money. They need a powerful state to guard them as well as money for commerce, which back then was made up of gold and silver.

## **CONCLUSION**

The function of governmental involvement in mercantilism has come under criticism. The efficiency of government regulation, subsidies, and monopolies in attaining economic objectives has been studied by academics. Although some contend that government interference resulted in inefficiencies and rent-seeking behaviour, others recognise its contribution to promoting economic growth, coordinating operations, and building important industries. Additionally, mercantilism's effects on colonialism and international commerce have been well studied. The exploitation of resources, the eviction of indigenous communities, and the creation of trade monopolies are just a few of the economic effects of colonialism that have been studied by academics. There is ongoing discussion on how these

colonial activities may ultimately affect economic growth, inequality, and the balance of power in the world. We now have a deeper grasp of mercantilism, including its advantages, disadvantages, and historical significance. Scholars have contributed useful insights into the effects of mercantilist policies on economic growth, trade, government involvement, and colonial expansion by critically analysing its principles and taking into account the intricacies of the historical environment. Such research advances knowledge about the development of economic theory and its implications for current economic theory and policy.

**REFERENCES:**

- [1] P. J. Boettke and R. A. Candela, "The common sense of economics and divergent approaches in economic thought: A view from Risk, Uncertainty, and Profit," *Journal of Institutional Economics*. 2021. doi: 10.1017/S1744137421000229.
- [2] K. Quinn, "Knowledge and humanity: The history of economic thought as a refined liberal art," *Econ J. Watch*, 2021.
- [3] D. Parisi, "Italian Catholics and the History of Economic Thought (1943-2000)," *Pensiero Econ. Ital.*, 2021, doi: 10.19272/202106302014.
- [4] I. Maes, "Economic thought at the European Commission and the creation of EMU (1957-1991)," *Hist. Econ. Thought Policy*, 2021, doi: 10.3280/spe2010-002004.
- [5] R. Looney, "Recent Developments on the Rare Earth Front - Evidence of a New Technocratic Mercantilism Emerging in China?," *World Econ.*, 2011.
- [6] R. Biegón, "A populist grand strategy? Trump and the framing of American decline," *Int. Relations*, 2019, doi: 10.1177/0047117819852399.
- [7] L. Meng, "Analysis of the Influence of Traditional Economic Management Thoughts on Contemporary Economic Management," *Mod. Econ. Manag. Forum*, 2021, doi: 10.32629/memf.v2i2.316.
- [8] A. A. Maltsev and A. G. Khudokormov, "New life of old ideas (On the book 'economic thought: A brief history' by heinz d. kurz)," *Vopr. Ekon.*, 2021, doi: 10.32609/0042-8736-2021-2-133-146.
- [9] K. Erjavec, E. Erjavec, and L. Juvančič, "New wine in old bottles: Critical discourse analysis of the current common EU agricultural policy reform agenda," *Sociol. Ruralis*, 2009, doi: 10.1111/j.1467-9523.2008.00477.x.
- [10] Y. Shi, "The Formation of Marxist Theory of Surplus Value," *Front. High. Educ.*, 2020, doi: 10.36012/fhe.v1i2.1433.

## CHAPTER 15

### CHARACTERISTICS OF MERCANTILIST ECONOMIC IDEOLOGY

---

Mr. Ram Srinivas, Assistant Professor,  
Department of Master in Business Administration (General Management),  
Presidency University, Bangalore, India.  
Email Id: - ramsrinivas@presidencyuniversity.in

#### **ABSTRACT:**

During the 16th to 18th centuries, the mercantilist economic philosophy predominated in Europe. It was distinguished by a set of guiding ideas and directives designed to advance national riches and power. The main aspects of mercantilism are examined in this abstract, including as its emphasis on trade balance, protectionism, government involvement, and the creation of riches via colonisation and bullions. The historical evolution of economic philosophy and its influence on determining economic policy throughout the mercantilist period may be better understood by understanding these qualities. Another essential component of mercantilism was protectionism. The mercantilist school of thought held that monopolies and trade restrictions used to safeguard local businesses would strengthen a country's economy. The establishment of monopolies, the regulation of commerce, and the provision of subsidies to support domestic businesses were all actively undertaken by governments. Mercantilists thought that in order to coordinate economic operations and accomplish national economic objectives, government involvement was required. One of mercantilism's main goals was the amassing of wealth, especially in the form of precious metals. Bullions, which focused on accumulating gold and silver reserves via trade surpluses, was supported by mercantilists as a policy. This amassing of precious metals was thought to increase a nation's military might and serve as a barometer of its economic might.

#### **KEYWORDS:**

Agriculture, Balance, Commerce, Economic, Wealth.

#### **INTRODUCTION**

Money and silver were seen by mercantilists as symbols of riches. They thought that by placing limits on the export of gold, a nation with mines might get gold and silver and amass those priceless commodities. However, if a nation doesn't have any mines, it can only get gold and silver via trading. Silver and gold imports must be permitted, and trade must be managed accordingly. A favourable balance of trade, or more specifically, an excess of exports over imports, is required for a nation to have more bullion. Trade, in the view of mercantilists, was the most significant employment. Agriculture was listed as being the least important out of all industries including manufacturing. Agriculture may have provided food for the populace, but it did not bring in any foreign exchange in the form of gold or silver. They thus believed it to be less significant than commerce and industry [1], [2]. The following characteristics best describe the mercantilist economic ideology. In their policies, the mercantilists only gave consideration to national advantages. Placed a strong emphasis on national policies to increase the stock of precious metals, sought a favourable trade balance by directly promoting export and restricting imports and their ultimate goal was the establishment of a powerful state.

**Economic Mercantilism Ideas:** Mercantilist authors have differing opinions on a wide range of beliefs that are commonly referred to as mercantilist theories. Mercantilism has a practical foundation. It was the result of the wisdom of the day's politicians, public employees, and business titans as a practical philosophy. Professor Scott claims that the term mercantilism refers to a set of theories, yet it would be fair to state that throughout the 15th and 16th centuries, theorising about economic issues was far from the authors' primary focus. Simply

put, the focus of thinking changed from political and religious issues to economic ones, and previous mercantilists should get all the credit for this. The first writings on mercantilism were scattered and incomplete, and it wasn't until the 17th century that they began to appear as books. The mercantilist doctrine, in Eric Roll's opinion, was simply the intellectual manifestation of the financial requirements of the emerging merchant classes. The following notions represent their primary points of view:

**The Function of Money:** The nation's greatest significant source of strength was thought to be its financial system. The mercantilists believed that the amount of money, often in the form of precious metals or treasure, had a significant impact on a country's economic prosperity. As a result, the mercantilists gave the gathering of valuable metals a lot of attention. It was believed that a nation's safety depended on having a sufficient quantity of bullion made of gold and silver. It has been claimed that mercantilists erroneously equated riches with money. However, it is safe to assume that they saw precious metals as a symbol of riches.

**Child wrote:** That gold and silver should be taken as the measure and standard of riches was well founded [3], [4]. The majority of mercantilists agreed that precious metals were the most significant source of wealth. Because gold and silver were strong and had a high value per unit, they recommended keeping money in these metals. William Petty stated that the great and ultimate effect of trade is not wealth at large, but particularly abundance of silver, gold, and jewels, which are not perishable nor so mutable as other commodities, but are wealth at all times and places, so that the raising of such, and the following of such trade, which does store the country with gold, silver, jewels, etc., is profitable before others.

Mercantilists held that output or employment and the standard of money in circulation were closely related. They were aware that the nation had both employed labour and natural resources. They thus thought that an increase in the money supply would aid in boosting manufacturing output and exports. They thus place a strong focus on methods and means to maximise exports while reducing imports in order to increase the stock of precious metals. All nations without their own mines are enriched with gold and silver acquired by increasing export and decreasing imports, said Mun. Unambiguously saying, Gold is a wonderful thing, whoever possesses it is master of everything he desires, Columbus. With the gold, one may enter heaven with their soul.

**2. Nationalism:** They underlined the power and prosperity of their country as the pivot around which their principal principles were based. Schmoller and Heckscher believed that the emphasis was on maintaining the nation's economic unity, which logically indicated a strengthening of the state's authority. The king subjected every element of life to control. The mercantilists believed that for society's economic issues to be managed effectively, government involvement was required. The main objectives were military expansion and the exploitation of new nations. Economically, the growth of trade and commerce, and politically, winning wars, were the obvious objectives that could not be attained without a powerful fleet. Low labour costs and affordable food were thought to be crucial for lowering production costs and increasing export volumes.

In order to increase exports and decrease imports, the government imposed high import tariffs to deter the importation of foreign products and offered incentives like bounties and other tax breaks to boost exports. In the Mercantilist system, the government permitted the direct immigration of foreign labour to launch new enterprises. In order to promote manufacturing, it set prices and salaries. It passed navigation Acts to promote shipping and navy operations. It granted trade businesses a number of benefits. In order to secure raw resources and a market for the final commodities, it also aided in the founding of colonies. Because the state was involved in so much economic activity and regulation, mercantilism has been called a permanent government activity policy [4], [5].



**3. Commerce Balance:** It was believed that the only way to get gold and silver was via international commerce. Thomas Mun was certain that all nations without their own mines might become wealthy by acquiring gold and silver via commerce from other nations. He said that overseas commerce is the typical way to expand our riches and value. They promoted international commerce as a means of boosting a country's wealth and resources.

#### DISCUSSION

The core tenet of mercantilist ideology was the concept of trade balance. Nearly all of them did not specify when they spoke of a beneficial trade balance whether they meant a favourable balance with each nation or a favourable balance overall. The lone exception who made it extremely obvious was Thomas Mun. The mercantilists thought that in order to achieve a favourable trade balance, government involvement was required. The mercantilists pursued a strategy of discrimination, restriction, and protection in the marketplace with the goal of attaining a favourable trade balance. Because there was a plentiful supply of unskilled labourers, the mercantilists prioritised exporting goods with a high manpower need.

The mercantilist ideal seemed to be exports alone in return for precious metals with no imports. Raw material exports were to be limited, while imports particularly of opulent goods were to be kept to a minimum. In reality, however, they felt that imports should only be made when absolutely necessary, such as when a product or service cannot be produced locally or if doing so would involve the transfer of resources from an export industry. Child argues that trades involving shipping should be promoted more than others since, in addition to the profit generated by the commodities, the freight, which is often more than the value of the items in such transactions, generates profits for all countries. The same opinion was shared by Sir Thomas Mun. The mercantilists usually spoke of an overall balance of foreign payments, although without mentioning it by name.

Mercantilists believed that a large and quickly growing population would make the country militarily powerful and increase its potential for production. They thought that a growing population would result in both a rise in the number of prospective soldiers and sailors and a rise in the number of productive labourers. They believed that the nation would be able to effectively compete on the global market if there was an inexpensive and plentiful supply of workforce. People are the real strength of a country, claims Davenant[6], [7]. The mercantilists' conceptions of production were quite basic. The belief was that the application of human work to resources is a necessary part of the manufacturing process. As a result, they promoted increasing both labour and production resources. Agriculture was considered unimportant by mercantilists. They contended that unlike international commerce, agriculture did not immediately contribute to the power and prosperity of the country.

According to mercantilists, agriculture was the least productive industry, while foreign trade and commerce were the most productive. After merchants, artisans came in second. They believed that industrial sectors should get the most attention from the government since they were more intimately linked to international trade than agriculture was. They also made a difference between work that is productive and unproductive. Manufacturers, farmers, and merchants were categorised as productive people by mercantilists, whereas professionals like priests, attorneys, physicians, and business owners were categorised as unproductive. According to Petty, work is the mother and the active essence of wealth is the land. In his statement that the wealth of all nations arises from the labour and industry of the people, Davenant saw labour as the most significant aspect. Thus, it is evident that the only elements of production valued by mercantilists were land and labour. Two primary schools of thought existed among mercantilist authors on the question of interest, one of which defended interest charges and the other of which opposed them.

The person who advocated for taking an interest was Thomas Mun. He felt that money lending gave underprivileged businessmen access to finance. The mercantilists supported a

low interest rate for financial reasons. They believed that only a low interest rate, which could only be achieved if there was a sufficient supply of money, could allow for successful economic growth. Additionally, only a sufficient money supply would allow for full employment of workers and other production-related resources. Therefore, they contended that the growth of wealth would tend to reduce interest rates and increase loan availability. According to Thomas Mun and his disciples, the country's industrial circumstances would determine whether the interest rate was high or low. Manley and Locke argued that a high rate of interest results from a lack of money, while a low rate results from a surplus.

The majority of the authors opposed having a high rate of interest. Interest was seen as unearned revenue by Davenant. The users who are the genuine drones of a commonwealth living off of honey without doing any work, he said, should be taxed. The production issue absorbed the mercantilists' attention the most. They did not place much emphasis on distributional issues, particularly those that included paying rent and wages. Petty claimed that the worth of work relied on its output, but these concepts were never really explored and can only be taken as trite statements. Cantillon asserts that the worth of work is equal to the value of the materials needed to support it. He so provided the foundation for the subsistence theory of pay.

The mercantilists supported a system of numerous taxes. According to the fundamental tenet, individuals should contribute in proportion to the advantages they get from the state. According to Grotius and Pufendorf, taxes on man should be based on the protection-related advantages he receives. While Hobbes believed that man should pay taxes based on the expenses he makes. Petty has the most rational opinions on taxes. According to his remarks, it is generally agreed upon by all that men should contribute to the public charge, but in accordance with their share and interest that they have in public places, that is, in accordance with their Estate and Riches. Other mercantilists who worked for the government in that capacity also offered their opinions. In general, mercantilists supported modest custom excise taxes, an interest tax, etc. Their main taxing principle was equality.

Value was thought to as a commodity's inherent quality. It relies on the usefulness of the item or on a person's capacity for satisfaction. There are two different kinds of value described in mercantilist literature: intrinsic value and extrinsic/market value. The ability of commodities to meet human needs and desires determines intrinsic worth, whereas manufacturing costs determine extrinsic value. Prior authors saw a commodity's inherent value as its value. They underlined the arbitrary factor known as utility. The value that subsequent authors considered to be extrinsic was known as artificial value or trade value. Natural value based on cost and market value based on supply and demand were two different types of value that Locke and Fortrey had established.

### **Mercantilism's Decline**

Towards the close of the eighteenth century, mercantilism was on the decline in England and other areas of the globe. The primary causes of mercantilism's demise were as follows:

1. The policy of plenty started to take the place of the policy of power as a result of Adam Smith's ideas.
2. The value of bullion gold and silver and coins has decreased due to local and international financial development.
3. As the market economy grew, it became clear that equipment, industries, and real estate were more valuable assets than gold and silver.
4. The Industrial Revolution's economic expansion allowed society to depend more on laissez-faire and competitive forces than it did on fostering and controlling monopolies.
5. People learned from the vast advancements in science and technology that a nation might get wealthy not just by enslaving its neighbours but also by more effectively

controlling the forces of nature. It was also discovered that all countries' wealth may rise at once.

Economic life was heavily restricted throughout the mercantilism era. Numerous laws and regulations were in place to preserve product quality. However, these laws, which were originally essential, eventually became a roadblock to advancement and were removed. However, it's important to keep in mind that mercantilism's tenets are still present in today's world. There are concepts and practises in use today that approximate mercantilism. Mercantilism is criticised. Numerous authors have challenged mercantilist doctrines and practises. In truth, the decline of mercantilism started when some of the more liberal mercantilist thinkers began criticising the measures taken by Colbert in France and the monarch of England. In France, mercantilism faced a barrage of criticism. Conflicts were mostly brought on by a deplorable state of agriculture, unjust taxation, and a decaying judicial system. Violent demonstrations against Colbert's policies were sparked by these reasons.

Among these authors, William Petty, Locke, and Dudley North were the most prominent. While Locke promoted the benefits of individual liberty and questioned the fundamental tenets of mercantilism, William promoted trade freedom. According to Dudley North, wealth is more diverse than just gold and silver. He placed a high priority on domestic commerce, agriculture, and industry. He opposed giving any certain group of merchants any special advantages. When Adam Smith's book *The Wealth of Nations* was published towards the end of the 18th century, Mercantilism started to fall out of favour[8], [9]. It is said that mercantilism was not a school of philosophy grounded on science. The following were the arguments made against mercantilism and its practises:

1. The Mercantilists are charged with adopting a static strategy in which a nation's benefit could only come at the expense of another.
2. The mercantilists made the mistaken assumption that a favourable trade balance was the only way to make the nation prosperous.
3. They undervalued the significance of other commodities and placed too much emphasis on gold and silver.
4. It is also said that the mercantilists were only echoing the desires of the emerging merchant classes and that state authority was supported because it was complementary to and necessary for commercial power.
5. They misjudged the value of agriculture and other sectors of human industry while exaggerating the significance of commerce.
6. Their concepts of value and utility were nebulous and complex.
7. Their concepts of money and interest were flawed.
8. They supported lower salaries since doing so would allow for the maintenance of cheap manufacturing costs and strong export earnings.
9. The often stated idea that a nation can only get wealthy at the cost of other countries was the most deceptive tenet of mercantilism.
10. They highlighted the world's enormous and dense population, wealth, and international commerce with a surplus balance.
11. The mercantilists believed that money and gold were the true indicators of riches. Adam Smith argued against mercantilist theories. Smith argues that through implementing the division of labour idea, countries may become richer.

The mercantilist system is not without flaws. It was not a universally applicable economic strategy, and it could not serve as a body of theory to guide the politicians of the day. By putting too much emphasis on bullion, as if it had such immense magical power to make it the sole worthwhile goal of national policy, they misunderstood the value of the means and the objective. They believed that money and the work that produces it are the ultimate goals

of human life, and they supported raising the nation's overall production. Therefore, it's important to consider the historical context and challenges that existed at the period of mercantilism when examining its concepts. Mercantilism was largely a product of its time, like all other ideas. Under the conditions, mercantilists had a solid case for thinking that money was necessary for advancing trade and commerce.

Being merchants, they need sufficient capital to develop trade, and they placed a strong focus on raising the money supply while paying little attention to the possibility of inflation. According to Haney, They are far from a mass of absurdities. They placed a strong focus on exports mostly due to the fact that at the time, war was a daily occurrence, and they saw national self-sufficiency as an essential requirement. The balance of trade theory may be justified as a short-term solution rather than a long-term national strategy in order to fulfil the demands of the moment. They also felt that the state should have absolute authority in all matters so that a country could grow and compete with other countries without being hindered by obstacles brought about by individual interests. This led them to believe that the interests of the state and the individual were incompatible with one another.

Therefore, mercantilism was a set of regulations that the government put in place to control trade and industry in order to ensure a sizable net profit for the government in the form of treasure[10], [11]. As commercial capitalism increasingly gave way to industrial capitalism, theoretical logic and thinking evolved in support of laissez-faire and free trade. Their devotion to the state also stemmed from business concerns. In addition to being effective managers and dealers, mercantilists advanced concepts that helped shape a number of contemporary economic theories. Important mercantilists: Mercantilists were people from a variety of backgrounds. Antonio Serra was an Italian, Philipp Wilhelm Von Hornick was a pamphleteer, Thomas Mun was an English businessman, and J.B. Colbert was a French minister. In France, Antoine De Montchrestien produced hardware.

### CONCLUSION

Mercantilism gave a lot of importance to maintaining a positive trade balance. In order to achieve a favourable trade balance, which was seen as a source of national wealth and power, this required increasing exports while minimising imports. Mercantilists pushed for regulations like tariffs, quotas, and subsidies to support exports, safeguard home industries, and lessen dependence on imports. Additionally, colonisation and the founding of foreign colonies often went hand in hand with mercantilism. In order to maintain a positive trade balance and ensure resources for economic growth, colonies were considered as suppliers of raw materials and marketplaces for completed commodities. To increase economic benefits, mercantilist policies promoted colonisation and the creation of trade monopolies. Understanding the mercantilist economic ideology's qualities will help us better understand how economic thinking has evolved through time and the policies that were implemented at this time. Even while more liberal economic theories have largely superseded mercantilism, its impact may still be observed in certain protectionist measures and the pursuit of trade imbalances in modern economic policy.

### REFERENCES:

- [1] S. Billows, S. Kohl, and F. Tarissan, 'Bureaucrats or Ideologues? EU Merger Control as Market-centred Integration\*', *J. Common Mark. Stud.*, 2021, doi: 10.1111/jcms.13130.
- [2] R. Torres-Sánchez, 'Mercantilist Ideology versus Administrative Pragmatism: The Supply of Shipbuilding Timber in Eighteenth-Century Spain', *War Soc.*, 2020, doi: 10.1080/07292473.2021.1860320.
- [3] Y. Yadgarov, S. Tolkachev, and V. Ostroumov, 'The Money Factor from the Perspective of the Adherents of a Subsistence Economy and Mercantilism', 2018. doi: 10.2991/jahp-18.2018.19.

- [4] G. M. Anderson and P. J. Boettke, 'Soviet venality: A rent-seeking model of the communist state', *Public Choice*, 1997, doi: 10.1023/a:1017996425179.
- [5] A. G. Hopkins, 'Globalisation and Decolonisation', *J. Imp. Commonw. Hist.*, 2017, doi: 10.1080/03086534.2017.1370218.
- [6] J. Krause, 'Die transatlantischen Beziehungen nach den US-Wahlen vom November 2020: Perspektiven der Wiederannäherung', *Zeitschrift für Parlam.*, 2021, doi: 10.5771/0340-1758-2021-2-338.
- [7] R. Clark, 'Robinson Crusoe's implausible palisades: Privateering, colonialism, realism, myth and the south-sea bubble', *Etudes Anglaises*. 2019. doi: 10.3917/etan.722.0167.
- [8] I. Oh, 'Comparing State Economic Ideologies and Business Ethics in East Asia', in *The Political Economy of Business Ethics in East Asia: A Historical and Comparative Perspective*, 2017. doi: 10.1016/B978-0-08-100690-0.00001-4.
- [9] D. Gaines, 'Geographical perspectives on disability: a socio-spatial analysis of the mentally disabled population in Russia', *Middle States Geogr.*, 2004.
- [10] D. Yates and I. Katznelson, 'City Trenches: Urban Politics and the Patterning of Class in the United States.', *Polit. Sci. Q.*, 1983, doi: 10.2307/2150521.
- [11] B. Wagner-Rundell, 'Holy war and republican pacifism in the early-eighteenth-century Commonwealth of Poland-Lithuania', in *Ideology and Foreign Policy in Early Modern Europe 1650-1750*, 2016. doi: 10.4324/9781315587783-12.

## CHAPTER 16

### PHYSIOCRACY DEVELOPMENT: THE EVOLUTION OF AGRICULTURAL ECONOMICS

---

Nimit Kumar, Assistant Professor,  
College of Agriculture, Teerthanker Mahaveer University,  
Moradabad, Uttar Pradesh, India,  
Email id: - nimittomar008@gmail.com

#### **ABSTRACT:**

The term physiocracy refers to the set of economic ideas and practices that emerged in France in the eighteenth century. 'Rule of Nature' is the meaning of the phrase physiocracy. Physiocrats are recognised as economists who have made significant contributions to the expansion and advancement of physiocracy. In other words, a group of authors known as the physiocrats created a corpus of economic theory in France throughout the eighteenth century. Their works were published between 1756 and 1778. The notion that agriculture was the primary productive activity and the only source of all wealth was founded by physiocrats, who are sometimes referred to as the forebears of the French Revolution. Despite the physiocrats' relatively brief writing careers, their theories had a significant impact on economic theory. They are considered as the creators of political economics because of this. One definition of physiocracy is a response to mercantilism and related ideas. Be familiar with the physiocracy's history, fundamental principles, and theoretical underpinnings. Talk about the ideas of the natural order, the Tableau Economique, the importance of agriculture, and taxes in physiocracies. Describe further key ideas, physiocracy's decline, and critique.

#### **KEYWORDS:**

Commerce, economic, Mercantilism, Physiocracy, Power.

#### **INTRODUCTION**

The then-existing economic circumstances in France, which were mostly the outcome of mercantilist policies, served as the foundation for the physiocracy. Many economic, political, and social forces contributed to its inception. In the paragraphs that follow, we briefly list these factors. French physiocracy was essentially a backlash against mercantilism. Agriculture was in terrible shape at the time. To demonstrate how the pursuit of mercantilist policies was detrimental to the development and prosperity of the country, an economic theory was required. The theoretical groundwork to criticise mercantilism was also given by the physiocrats. The fundamental goal of the physiocrats was to acknowledge the French economy via tax reform and by encouraging an effective and extensive agricultural system. The Louis XV and Louis XVI era policies, which were blinded by the I am state dogma, resulted in a sharp decline in France's economic and social circumstances. The level of corruption and deterioration in court life was at its peak. The monarch was interested in living a lavish lifestyle that included pomp, excess, and vice. The French government's finances were in poor condition. The government began taking out loans with disadvantageous terms after becoming bankrupt due to pointless wars and the opulent lifestyle of the court. In order to replenish the coffers, high taxes were levied. The state's two primary sources of income were taxes and loans. Other sources of income were quite poor. The commercial community had likewise suffered greatly under the burden of taxation. Warfare that kept happening and going on gave fuel to the flames. All of these circumstances supplied plenty of inspiration to philosophers in the 17th century, notably Boisguilbert and Vauban, who offered concepts that were novel and gave the French people cause for optimism. The wretched circumstances in France were the primary cause of physiocracy.

During the reigns of Louis XV and Louis XVI, France's tax system experienced the worst system of taxation in her economic history, when the direct tax system was the norm. Taxes have a regressive nature. While farmers had to pay high taxes, the religious class and the nobility, who held roughly two thirds of the land, were excluded from paying taxes on their agricultural properties. Peasants and craftsmen bore the brunt of the levy while aristocrats and clergy were excluded. The tariff imposed on salt was the worst of all levies. Every individual above the age of seven was required by law to buy at least 7lbs of subpar salt each year. Only eating could be done with this salt. Anyone who used it for anything else was subject to a severe fine. Taxes were levied at that time at many points throughout the supply chain, from manufacture to consumer disposal. The cost of goods went up as a result of these levies. Once again, farmers were expected to cover the costs associated with using the roads and bridges.

The way that tax collecting treated peasants was really abhorrent. Farmers' torturous lives served as more fuel for physiocrats ideas and actions. Numerous tactics were used by the lords and other rich people to take advantage of the French peasants. The landowners kept a sizable portion of the harvest. The government imposed a high tax burden. Due to additional taxes that the growers were had to pay, there was a less market for their goods. The mercantilist policies that supported manufactured products limited the markets for rural commodities. Policies that were mercantilist had lost their relevance. With the advent of industrial farming and scientific production methods, agriculture in England underwent a revolution. Therefore, the strengthening of agriculture received emphasis in France as well. Canutillo underlined the value of domestic commerce and thought that the only autonomous producers were landowners. This made people in France aware that agriculture had been neglected in favour of commerce and manufacturing. These shifts in public opinion further upended mercantilism's foundations and increased the value of agriculture.

The modification of mercantilist policy was also brought about by a number of subjective influences. Political theorists began imagining more logical, straightforward rules that would be founded on justice-based ideas, and people would have begun critiquing these policies even during Louis XIV's reign. The significance of the person in their debate was emphasised by the political and moral thinkers of that era. They highlighted that politics and philosophy must be centred on the human being. Natural science made significant progress, and a propensity to use their solutions to solve economic and societal problems emerged. In subsequent years, the influence of England and English Thought, which Louis XIV's French subjects were mostly unaware of, became so great that numerous English-authored publications were translated into French. Physiocracy was the end effect of each of these variables taken together. The Physiocratic school's beliefs were elaborately explained in Quesnay and Mirabeau's publication of *Philosophies Rurales*. The most significant and influential works were Turgot's *Reflexions* and DuPont's *Physiocratic*, both published in 1769. The physiocrats articulated and refined their beliefs in these texts. The physiocracy theoretical underpinnings were the concepts of natural order, net product agriculture's predominance, and the distribution of wealth social classes and the *Tableau Économique*.

### DISCUSSION

The doctrine of the law of nature was first put forth by Greek and Roman moralists and jurists. According to this doctrine, man was a living being and a part of all human society who was motivated by the urge for self-preservation and created the natural resources such as land, trees, and forests, among other things, that are provided by nature and are essential for physical existence. Roman jurists believed that at the natural stage, man is free and equal. According to John Locke, by the law of nature mankind are one community and make up one society [1], [2]. The physiocrats conception of natural order differed significantly from that of the ancient Greek and Roman jurists and philosophers, and they were unfamiliar with the new

revolutionary concepts. In fact, physiocracy has been referred to as the science of the natural order since, in its view, God has provided the natural order as an ideal one.

The positive order created by man was quite different from the natural order. In other words, a society that was ruled by natural laws would be considered ideal, but a society that was regulated by good rules created by the government would be considered flawed. The bright individuals could see the natural order clearly. The physiocrats conception of natural order was a reflection of their moral and theological beliefs. They had faith in God. They also believed that God is responsible for creating the natural order. They believed that only the natural order can promote human pleasure, with Quesnay stating that natural order is merely the physical constitution which God himself has given the universe [3], [4]. The two types of rules that regulate human society, according to physiocrats, are positive laws and natural laws. In the past, before there was a state or government, human society was controlled by natural laws, which protected man's basic rights. Positive laws, on the other hand, were made by man and were required solely because a punishment was associated with them. The natural rules were therefore firmly superior to the positive laws.

The word natural contrasts with a social structure that may have been created by man himself. The natural order, however, is not the same as the natural condition. The components of a civic existence are present. The physiocrats were not opposed to the advancement of civilization rather, they believed that Property, Security, and Liberty constitutes the whole of the social order. They held the view that all social strata were interdependent and ultimately dependent on nature. The natural order implies that man can only experience the highest levels of enjoyment and financial success in an environment that is free. The logical conclusion was that the government should not meddle too much in economic matters. It must limit itself to safeguarding people and property. To put it another way, they supported *laissez-faire*. The goal of all economic endeavours, according to physiocrats, should be to get the maximum amount of enjoyment with the least amount of investment. When everyone follows through on this, the natural order will be better guaranteed rather than in danger.

In a free system, the interests of the individual are best served, and those of the individual and the society coincide. The physiocrats held that each person could be trusted to choose for himself the most effective means of achieving maximum gain because they felt that each person's interests were equal with those of society. The physiocrats were against almost all types of governmental limitations. They were pro-*lâchez faire*. It denotes both domestic and international commerce that is free. This philosophy holds that the preservation of life, liberty, and property is the exclusive responsibility of the government. Therefore, the government won't have much job to do. The phrase *laissez faire* does not imply inaction. There will be plenty of opportunity for solitary endeavour. The only change will be a strict minimization of governmental duties. In a nutshell, the physiocrats found that the natural order was the best and most beneficial one[5], [6].

### **Agriculture Primacy**

Mercantilists argued that foreign commerce, which mostly included precious metals, was the source of riches. Land, in the opinion of physiocrats, had a prominent role as a production agent. They believed that of all professions, agriculture was the best. They believed that agriculture was the source of all prosperity, and that this wealth was made up of actual product. Physiocrats believed that agriculture produced considerably more than was necessary to meet their needs. Anything generated in excess of what was needed for the farmers' nourishment was utilised to fulfil the requirements of those working in trade, industry, and other professions. They established the concept of net product, which they defined as the excess coming from the reward of nature. The amount of wealth created in agriculture alone outweighed the amount of money consumed. They see industry and



commerce as subsets of agriculture. According to Le Tronsne, labour applied anywhere except to land is absolutely sterile for man is not a creator[7], [8].

The physiocrats never said that industry, commerce, or professions were worthless, despite the fact that they claimed they were sterile. They meant unable to create a surplus when they said sterility. In other words, industry was ineffective since it didn't generate any new money. They defined the sterile class as those who relied on second-hand income or who traded or transferred property without producing any surplus. They only duplicated the value that was already there in the form of raw materials and labour subsistence. As a result, business, industry, and international trade were dead or ineffective. They held the belief that although God gave the fruits of the land, man, who is incapable of creating, produced the works of the arts. In agriculture, nature worked in harmony with humans to produce a surplus known as the net product.

The physiocrats split society into three classes the owners, who own the land and get payment for its net production the productive class, which consists of farmers who cultivate the soil and the third class, which is sterile or unproductive. The wage earners who are not included in the Physiocratic categorization make up a further class. According to the physiocrats, the ability of the farmer to invest a sizable sum of money and generate a sizable net output is what drives the whole country. The size of the net product will be less the lower the ability of the farmers to invest money, and the larger the net product, the more pain the country would experience. They pushed for a minimal tax on agriculture. They also wanted the government to refrain from taking any actions that might harm agricultural investment. The aforementioned explanation makes it very evident that only work used in agricultural activities is productive, whereas labour used in all other vocations is useless.

#### **Tableau economies: The Movement of Wealth and Social Classes**

The physiocrats expanded their net product-based theory of the distribution of wealth in society. They were the first to try to systematically study the flow of wealth in the economy. Quesnay deserves praise for organising and synthesising the whole concept. Harvey's theory of blood circulation has been investigated by Quesnay, who applied this biological concept to the study of economics. It was possible to synthesise production and distribution by trying to analyse this phenomena. This set the groundwork for many upcoming economics topics of research. In 1758, Quesnay presented his theories on the distribution of wealth in the form of a table known as the Tableau Économique. A visual picture of the flow of wealth is provided by the Tableau Économique.

According to Mirabeau, There have been, since the beginning of the world, three great inventions which, independent of many other inventions which have enriched and embellished them, have primarily given stability to political societies. The first is the development of writing, which alone gives human nature the ability to transmit its laws, contracts, chronicles, and discoveries without modification. The creation of money, which unites all relationships between civilised cultures, is the second. The circulation of wealth, represented by Quesnay, has been compared to the revolution that has been caused in biology by the discovery of the circulation of the blood. The third is the economical table, the result of the other two, which completes them both by perfecting their object the great discovery of our age but from which our prosperity will reap the benefit.

#### **Social Groups**

The cultivators of soil are members of the productive class. They get riches from the soil and pay rent to landlords who cover cultivation costs or provide yearly advances to cultivators for seeds, a farmer's and their family's sustenance, the upkeep of animals, and the purchase of equipment. Members of the Proprietary class include landowner's landlords, the monarch and his advisors, as well as members of the aristocracy and the church. This group included everyone doing a non-agricultural job. This class was made up of traders, artisans, craftsmen,

manufacturers, shopkeepers, domestic workers, and other professions. Since soil is the sole source of money among the aforementioned three groups, farmers fall within the category of the productive class. Quesnay divided society into the three aforementioned groups and then followed the flow of money or income between them in the following way.

The major message is that landowners contribute to output by paying for land repair costs and making payments to keep cultivators in work. In result, the growers are able to get excess over and above all of these costs. This is the net product that is paid as rent to the landowners. The landowners may and should provide new yearly advances to the cultivators out of these proceeds so that they may generate a comparable net output the following year as well. It goes without saying that agricultural productivity would fail and there will be a decrease in rent revenue if the landowners don't pay back these yearly loans. The landowners split their rent payment among purchases of industrial commodities and food-related agricultural products. The industry distributes its spending on food and agricultural raw materials and on spending inside the industrial sector in a similar manner. Landowners are fed by the agricultural sector, which also supplies raw materials to industry and buys completed industrial products from that sector. This keeps the cyclic cycle going year after year. With the use of the following illustration, we can understand this wealth transfer.

Farmers are members of the productive class, which creates all wealth. Let's assume that each year's total production is worth 10 million francs. Four million francs of this are needed by the agricultural class farmers for upkeep. There is no need for these 4 million francs. Following is how the leftover product, which is worth 6 million francs: The sterile class sells their wares to the productive class for 2 million francs because the productive class needs them. Landowners and the government get the remaining 4 million francs in the form of rent and taxes. On these 4 million, the proprietary class subsists. It spends \$2,000 on food and \$2,000 on manufacturing. The physiocrats said that even if the sterile class did not create anything, they were nonetheless given 4 million francs two million from the productive class and two million from the proprietary class. The four million francs are used by the sterile class to purchase from the productive class the necessities of existence and the raw materials for industry.

As a result, the 4 million francs that the sterile class receives go back to where they came from: the farmers. Thus, the producing class now has the initial 10 million francs. The cycle has over. Additionally, the process never ends. As a result, agriculture is the foundation of social life. And it is obvious that agriculture, whose development should be supported under the following circumstances, is essential to the success of the whole country. Freedom of cultivation refers to the absence of any restrictions on agriculture.

Freedom of international commerce uninterrupted and unhindered movement of manufactured and agricultural goods across the country. The renowned input-output analysis was created by Leontief, who also used Quesnay's economic table as a foundation. It may be relevant to mention at this point that only Karl Marx, a top-tier economist of the 19th century, acknowledged Quesnay's qualifications as an economist. In reality, Quesnay's net output is comparable to Marx's surplus value on the whole. In the words of Schumpeter, Exactly as Quesnay let land alone be productive of surplus value so Marx let labour alone be productive of surplus value, this argument is made very obvious.

The net product idea and the Physiocratic taxation theory are intertwined. They believed that the producer, the business owners, and the craftsmen all contributed to the national revenue. However, the sovereign only receives a fourth of the national revenue. They held the opinion that a surplus could only be produced by the land. They thus contended that because the net output was excess, taxes should be paid from it. They further claimed that since the product is sold to landowners, they must shoulder the tax burden. They claimed that taxes were to be paid by the owners in the amount of one-third of the net output[9], [10]. To pay for the state's

costs, taxes were necessary. The physiocrats maintained that the king should receive a generous taxation. They acknowledged the sovereign as a co-proprietor of land due to the long-standing custom as well as the state's genuine assistance in the advancements made by the proprietors in the initial preparation of the land for cultivation, in maintaining and improving its fertility. It does this through building and maintaining the public infrastructure that is necessary for the success of agriculture, including roads, bridges, canals, and other public works.

The monarch and the landed gentry therefore belonged to the class of landowners with comparable rights, obligations, and revenue shares. The physiocrats supported a single tax on net agricultural output. They attempted to address each of the potential defences raised against a single land tax while anticipating all potential counterarguments. They responded to the argument that making one class bear the full burden of taxation was unjust and that the burden should be equally distributed among all classes by saying that the statesman's ideal was the complete elimination of all taxes, which could only be accomplished by taxing net product. The fact that a single land tax, as advocated by the physiocrats, was not random was its greatest benefit. A natural form controlled it. The French Revolution was greatly influenced by these physiocrats ideals. Their system directly contributes to the mistrust of indirect taxes. Their taxation theory is considered as a superb illustration of why direct taxes are preferable than indirect taxes. The fact that they wanted the state to modify its demands in accordance with its income was the most intriguing aspect of the whole conversation.

### **Other Important Physiocracy Concepts**

**1. State's Duties:** The state's duties would be minimised under the natural order of physiocrats. Very little laws would exist. From their writings, it is highly likely that they intended to keep the number of laws to a minimal, repealing those that were pointless and enacting those that were necessary to protect the natural order. Quesnay asserts that government should be centralised in the hands of a single individual, who should be constrained by the laws of nature. The state was to be the law giver, not the law maker, since they intended every law to be an expression of the Divine wisdom that governs the cosmos. Therefore, they wanted to see the most power with the least amount of legislative effort. Thomas Aquinas said that all those things that behave according to nature are best, for nature always works for the best. Every natural government is now run by a single person. He said that just as one ruler is the finest kind of governance, a tyrant is the worst. They asserted that the head of state ought to be a protecting sovereign rather than a despot.

They held the opinion that a multi-person government causes strife and turmoil. They didn't support democratic governance. In a similar vein, they opposed parliamentary governance. Neither parliamentary regimes nor democratic self-government were their ideal both were abhorred. Additionally, they did not fit with a third sort of government made up of traders, artists, manufacturers, and merchants. They believed that a single authority with sovereign powers that operated in accordance with natural laws and derived positive laws from these laws was the ideal kind of governance. The physiocrats supported a national assembly, but they wanted it to be powerless in terms of legislation. The national legislature would be little more than a council of state whose major duties would be to oversee public works projects and distribute tax burdens. The maintenance of the natural order and the protection of private property, in the view of physiocrats, was the primary duty of the state. The dissemination of knowledge and the formation of public opinion was the state's second crucial duty. Building and maintaining public infrastructure was the state's third and most crucial duty.

**2. Trade:** Physiocrats believed that all exchanges were ineffective. They believed that the sole meaning of trade was the transfer of a good or service with an equivalent worth. As a result, it is not a way to accumulate more riches since everyone contributes equally, but it is a way to fulfil desires. Industry and trade were thus seen as being unproductive. The

mercantilists believed that overseas commerce was the only way to raise a country's prosperity. However, the physiocrats believed that no true wealth was created by overseas commerce. They also believed that international commerce was ineffective. The physiocrats were not completely opposed to international commerce, however they believed that a nation should trade with other nations the things that it cannot produce and that are in excess of its own needs. The physiocrats opposed mercantilism, which sought to achieve a favourable trade balance. However, they supported free trade.

They thought that *laissez faire* would result in the total extinction of trade. They supported commercial freedom because they believed it to be in line with the natural order. According to the natural order, everyone would be free to purchase and sell whenever and wherever he pleased. Free trade required the complete elimination of all restrictions put forward by mercantilists that sought to limit the export of goods to other nations and impede the free interchange of goods. Their idea of free commerce served as the foundation for Walras' free trade theory. The physiocrats believed that only unrestricted competition with foreign traders could result in the best price, and that only the highest price would allow them to build up their riches and sustain their people via agriculture. As a result, it is necessary to see the physiocrats as free trade's creators. Their idea of free commerce was a response to the mercantilists' strategy of limited trade, which they both practised and promoted.

**3. Interest:** Because loans made for agricultural purposes were profitable, the physiocrats permitted interest on such loans. They opposed giving any independence to the lenders of money. They favoured having the government set the interest rate.

**4. Population:** The physiocrats claimed that the multiplicity of men was a natural consequence to the natural order when it came to population. Some physiocrats were upbeat and supported population growth. However, some of them were worried about population growth. According to Riviera, As it is in the physical order that men who are thus united in society multiply promptly, by a natural and necessary parallel to that multiplication they are reduced to lack the means of subsistence if they do not simultaneously multiply those means of cultivation.

**5. Value:** Condillac was the only physiocrats to see value as the cornerstone of economics as a science. He underlined that usefulness was the foundation for value. He said that although value is not a characteristic of matter, it does reflect our perception of its use, which is related to our need. It changes in size in response to the growth and contraction of human demands. Condillac has thus established the psychological theory of value's base. Additionally, he understood that value rises with scarcity and falls with plenty.

**6. Wage:** When compared to other physiocrats, Condillac's views on pay were far more progressive. The Iron Law of Wages was a principle held by the physiocrats. Turgot, for instance, claimed that employees' wages only amount to what is required for their sustenance. There was no mention of the Iron Law of Wage by Condillac. Condillac, however, argues that wage represents the share of the product which is due to the workers as co-partners. He thought that the forces of supply and demand influenced the price of goods.

### **Critique and Physiocracy's Decline**

French physiocracy was essentially a backlash against mercantilism. Physiocrats were not without their flaws. It was unclear what they thought about interest, value, and salaries. The three classes of society—the nobility, merchants and manufacturers, peasantry, and labouring population—were completely excluded from political participation, according to the physiocrats, who also believed that absolute royal authority was the best form of government. On the other hand, they were ardent supporters of individual liberty. They were mistaken to believe that agriculture was the only productive occupation because commerce and industry are equally significant, and they were wrong to believe that the peasantry and the labouring population were

Despite the fact that manufacturing and trade are products of utility, which is a sort of production, they were considered unproductive. The physiocrats misunderstood what production was. Production, in the eyes of contemporary economics, implied the development of utilities. However, physiocrats failed to grasp this obvious reality. They consider the development of new commodities to be production. They supported individual liberty. They opposed all forms of limitation in people's lives. They made significant contributions to taxation theory. They supported direct taxes as opposed to indirect taxes, which had a negative impact on the lower members of French society at the time. The physiocrats supported total commerce and industrial independence. However, complete industrial and commerce independence is not advised. There won't be much room for social activity if we uphold the laissez-faire concept. Physiocrats wanted to improve agriculture. They believed that the only true source of prosperity was land. They had an abundance only from their land. As a result, taxes should only be borne by the landowner.

While praising unfettered competition in all business dealings and transactions, they nevertheless urged governmental control of interest rates and rejected the freedom of money lending. They saw trade as both important and advantageous and yet as a financial burden on the populace. The distribution hypothesis was the Physiocratic system's worst flaw. They consider rent to be a complimentary gift from nature. However, Ricardo has noted that nature's niggardliness rather than its generosity is the reason rent develops. While Cadillac rejected the notion that factories are sterile, the Italian writer Galliano questioned the notion of natural order. Numerous factors conspired to prevent it. They were unpopular for their opinions on monarchy and dictatorship. Many rational individuals did not find their beliefs compelling. The industrial and business classes were harsh opponents of them.

### **Physiocrats Contributions**

The physiocrats have contributed to economic theory in both theoretical and practical ways. The notion that every social occurrence is governed by law and that the goal of scientific investigation is to identify this rule. The physiocrats primary priority was economic growth. They came to see how crucial agriculture was in generating a surplus for capital creation. As a result, they underlined the need of converting traditional agriculture into large-scale agriculture based on cutting-edge techniques. The notion that what is best for the individual is also best for everyone, and that personal interest, if allowed to itself, would figure out what is most profitable for it. However, there were many supporters of this liberal theory before the physiocrats. The physiocrats had discovered the interdependence of various groups in the economy, leading to the notion of free competition, culminating in the development of 'bon prix', which is the most beneficial price for all parties and means the elimination of all usurious gains. For the current input-output analysis of Leontief and general equilibrium analysis of Walras, Quesnay's description of the distribution of wealth among various groups served as a model. An incomplete but thorough examination of capital allocation and production.

A good breakdown of revenues and the rules governing how they are distributed. The physiocrats were the first to evaluate capital and recognise the significance of capital production in economic growth. Several arguments in behalf of landed property that have long since come to be regarded as classics. Limitation of the State's powers a first-rate illustration of the advantages of direct taxation over indirect taxation. The freedom of labour. Free commerce inside a nation. An ardent argument for the freedom of overseas trade. They separated economics from other sciences, such as law, and gave it a scientific foundation by using scientific methods their emphasis on the surplus or net product was notable, particularly in relation to the later development of the rent concept their arguments for capital formation through reduced consumption by the wealthy their contributions to the theory of taxation and their thought represents significant advancement towards a true social science.

## CONCLUSION

Physiocrats have a significant role in the evolution of economic philosophy, notwithstanding the criticism. Despite having such a brief life, they had a significant overall impact. According to Alexander Grey, Even a Smith admirer may have no scruples in finding in the physiocratic group the real beginnings of modern economics. By promoting a single land tax, they exposed the concepts of shifting and incidence of taxes in the area of taxation. The discovery and intellectual articulation of the circular flow of economic life, according to Schumpeter, was made by the physiocrats and served as the major branch via which all subsequent analysis-related development was accomplished.

### REFERENCES:

- [1] A. Hornborg, "Uneven Development As A Result Of The Unequal Exchange Of Time And Space: Some Conceptual Issues," *J. Fur Entwicklungspolitik*, 2010, Doi: 10.20446/Jep-2414-3197-26-4-36.
- [2] Y. Charbit, "The Political Failure Of An Economic Theory: Physiocracy," *Population (Paris)*, 2002, Doi: 10.2307/3246619.
- [3] M. Sonenscher, "French Economists And Bernese Agrarians: The Marquis De Mirabeau And The Economic Society Of Berne," *Hist. Eur. Ideas*, 2007, Doi: 10.1016/J.Histeuroideas.2007.07.004.
- [4] M. Prista, "The Social Appropriation Of The Portuguese Inner Colonisation In Boalhosa," *Shs Web Conf.*, 2019, Doi: 10.1051/Shscnf/20196309003.
- [5] X. Zhang And T. Wang, "Critical Examination And Source-Tracing In China Of Economic Thought Of Francois Quesnay From The Perspective Of The Construction Of Socialist Political Economics With Chinese Characteristics," *China Polit. Econ.*, 2021, Doi: 10.1108/Cpe-06-2021-0007.
- [6] M. G. Kolokoltsev And N. Y. Kolokoltseva, "History Of Narodnik Economic Thought About The Capitalist Path Of Russia's Development," *Vestn. Altaiskogo Gos. Pedagog. Univ.*, 2021, Doi: 10.37386/2413-4481-2021-1-72-75.
- [7] L. Casonato, "Israel Kirzner's Presence In The History Of Economic Thought: A Review Of His Professional Engagement In Honor Of His 91 Years," *J. Des Econ. Des Etudes Hum.*, 2021, Doi: 10.1515/Jeeh-2020-0002.
- [8] C. P. Baloglou, "Bessarion On Economics And Geopolitics," *Vestn. Volgogr. Gos. Univ. Seriya 4 Istor. Reg. Mezhdunarodnye Otnos.*, 2021, Doi: 10.15688/Jvolsu4.2021.6.15.
- [9] N. E. Devletoglou And I. H. Rima, "Development Of Economic Analysis.," *Economica*, 1968, Doi: 10.2307/2552168.
- [10] T. Wahnbaeck, *Luxury And Public Happiness: Political Economy In The Italian Enlightenment*. 2010. Doi: 10.1093/Acprof:Oso/9780199269839.001.0001.

## CHAPTER 17

### ANALYSIS OF SCHOOLS OF SOCIALISM

---

Anand Joshi, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India.  
Email Id: - anandjoshi869@gmail.com

#### **ABSTRACT:**

There has been a great deal of examination and criticism of the many schools of socialism, which reflects the variety of viewpoints and strategies within this ideological framework. The examination of several schools of socialism is summarised in this abstract, emphasising their major traits, theoretical underpinnings, and political ramifications. Scholars have made a significant contribution to a nuanced knowledge of socialist thinking and its consequences for economic and social systems by critically analysing the advantages, disadvantages, and historical settings of different schools. The comparison of various socialist ideologies has focused on divergent methods for attaining economic equality and correcting social inequalities. It has been examined how the conventional Marxist-Leninist school has influenced revolutionary movements, state planning, and difficulties in putting socialist principles into practice. Describe the various socialist schools of thought. Examine the socialist utopian school. Describe the socialism practised by Christians.

#### **KEYWORDS:**

Education, Market, Natural, School, Socialism.

#### **INTRODUCTION**

This school is distinguished by its focus on class conflict and centralised control. Potential restrictions on personal liberties and economic efficiency have been brought up by critics. Another well-known school, democratic socialism, has received a lot of attention recently. Researchers have examined how democratic ideals could mesh with socialist ones, highlighting the significance of political engagement, social welfare initiatives, and economic controls to reduce income disparity and advance social fairness. The viability and longevity of democratic socialist initiatives inside capitalist systems have been questioned by critics [1], [2]. With its focus on decentralised decision-making and the elimination of hierarchical systems, anarchist socialism has also been examined.

As alternatives to classic state-centered socialism, academics have looked at the possibility for self-governance, voluntary cooperation, and community-based projects. The difficulties of maintaining law and order and enacting collective action in the absence of official authority are often brought up in criticism. Market socialism is yet another school that has been in-depth analysis. To combine the effectiveness of market forces with the abolition of capitalist exploitation, its proponents call for a combination of market processes and community ownership. Analysis has looked at the possible advantages and disadvantages of market socialism, as well as concerns with income distribution, financial incentives, and the harmony between market dynamics and planning. Socialism is a populist economic and political system that is built on the people owning the means of production also known as collective or common ownership, as was covered in previous articles. These tools, equipment, and manufacturing facilities are used to create products that are directly intended to suit human needs. Though the Communist Manifesto, a publication by Karl Marx and Friedrich Engels in 1848, predates socialism by a few decades, both left-wing economic schools of thought communism and socialism reject capitalism. Communism and socialism are collective nouns for these two ideologies. There are several socialist schools of thought. The Christian and utopian schools of socialism in this unit [3], [4].

### **Different Socialism Schools**

Socialism comes in a variety of forms, and no one definition can include them all. However, social ownership is a characteristic that all of its varieties share. Forms of socialism include a variety of economic and social systems characterised by social ownership, democratic control over the means of production of businesses, and organisational self-management, as well as political ideologies and movements associated with socialism. Let's talk about two important socialist schools.

#### **Utopian Socialism**

The previous systems, such as Utopian socialism, gained distinction when, in the second part of the 19th century, the revolutionary dogmas of Marx and his school had been most obvious in the social movement. The beliefs and endeavours of Robert Owen fell under this umbrella. The moniker was in some ways justified by the ideal societies that these philosophers and their followers promoted and put to the test in all real-world situations. However, whereas Plato, Thomas Moore, and Tommaso Campanella created their fantastical commonwealths with no expectation that they would come to pass, the Utopians of the 19th century were fervently convinced that their various systems were destined to drastically alter social life in the not too distant future. These philosophers showed little to no interest in the political changes that were so hotly debated during their time.

When society is reorganised based on the right ideas, they said, politics will vanish along with societal ills. These socialist utopians believed that all of history's schools had discovered evidence that humankind's natural progress towards its goal had been slowed down and diverted by misunderstandings and mistakes about the fundamentals of communal existence a correct understanding of those concepts would inevitably result in a resumption of progress[5], [6]. Everyone agreed that poverty and its effects were one of, if not the primary cause of, the maladies that affected humanity. Everyone concurred that the prevalence of poverty was due largely, if not exclusively, to the exaggerated recognition of self-interest as the mainspring of human action and that the current system of industry and commerce, based on this principle and operating by unrestricted competition, must unendingly increase the suffering of the race. All scored the injustice of unearned wealth as vehemently as they lamented the sufferings of undeserved poverty. All of them criticised the current economic system. However, Robert Owen believed that money was essential, according to the limitations set by his system.

However, St. Simonians declared that the right to unearned property, insofar as it depended on inheritance, must be abolished as the most important means to the realisation of social justice. Owen claimed that when his simple rational laws for the creation of what is good for men should prevail, there would be no useless private property. The belief that nature intended for the individual to be the foundation of social life rather than the collective, according to the Utopians, has been the mistake that has led humanity astray. It is not the planned creation of previously isolated persons for the advancement of their various self-serving goals rather, society is a natural outcome of human emotion rather than reason. Men come together inexorably via sympathy, the sense of a likeness, and benevolence, or wanting the best for everyone, is the natural principle of association. These fundamental elements have almost entirely been overlooked in social life theory and practise. Rivalry, competition, strife, and war are the accepted methods for determining how individuals and peoples relate to one another, and the internal affairs of the community are to be directed towards one another. To change all this and bring humanity back under the rule of nature's peace and order is the stated goal of all Utopians.

### **DISCUSSION**

The initiatives of the different schools to accomplish this goal had certain characteristics, but they were mostly unlike from one another. Owen and the Oceanites focused much of their



attention on improving circumstances in the industrial sphere. The stubborn British factory owners were persuaded to implement philanthropic measures for the welfare of the workforce by precept and by example, and the Oceanites enthusiastically supported the legislation that was finally passed in spite of the vehement opposition of the laissez-faire economists. The formation of cooperative organisations among the working classes to meet their needs, however, was the most distinctive aspect of their activity. In the 1820s and 1830s, this kind of voluntary organisation for the manufacture and exchange of goods acquired tremendous popularity and widespread fashion. The much-needed solution for avoiding the negative effects of the conflict between capital and labour was welcomed as cooperation. The success of this invention supported Owen's conviction that he had found a solution to society's problems as a whole, and he went out with obsessive zeal to implement his plan for a new order in the world.

A community of families with 500 to 3000 people living on a plot of land big enough to sustain each family will make up the unit of this new order. A council made up of all community members between the ages of thirty and forty is responsible for managing the community's internal affairs. A similar council made up of community members between the ages of forty and sixty is in charge of managing connections with other communities. For bigger regions, similar councils will be formed to unite these major communities[7], [8]. All of the councillors are expected to conduct themselves in accordance with Owen's code of conduct, which is based on the natural rule that each person's character is not created independently but rather as a product of his upbringing and education. The main directives of the law guarantee that all children of both sexes, who are placed in the community's care from birth, get the same general routine of education, domestic teaching, and employment. Members who, in spite of their education, exhibit irrational behaviour are to be sent to the facilities for the physically, mentally, or morally infirm, where their recovery will be impacted by the mildest kind of care. If any governing council violates the basic principles of human nature, it will be replaced by a new one made up of community members between the ages of twenty-five and thirty or older.

There is no explanation of how this replacement is to be carried out, and the only mention of coercive government is in the phrase relating to the hospitals. The future of the world's current political systems is not debated, although it is clear that they will gradually vanish in the presence of the new order. Robert Owen's plan to escape civilization's faults gained expression in the phalange, a popularised form of communal existence. He was more interested in the family than the industry, and rural output than industrial production. He developed the real principles of association in a complex system where much keen and stimulating contemplation was rendered worthless by pompous nomenclature and confused presentation. The notion of what he has dubbed passionate attraction was the standout aspect of his social philosophy. This philosophy holds that every kind of connection, and in particular that cooperative union through which the basic requirements of physical existence are supplied, must be based on the emotions or sentiments of men rather than their intellect.

All men naturally detest the endless, boring effort required to create life's needs. Naturally, some kind of labour or some alternation in kind of labour gives every man relative if not absolute pleasure. The negative aspects of social life, whether in ancient or contemporary times, are caused by ignorance of or contempt for these fundamental truths. Slavery, serfdom, and the wage system, along with the governmental institutions that support them, are merely different manifestations of the distortion that results from certain classes' deliberate liberate association attempts to shift all of the unpleasant social labour onto others while keeping the pleasant for themselves alone. According to Robert Owen, the solution is to change social structure in accordance with the principles he has uncovered. It is necessary to make work more appealing and productive than it ever was in past times. Every kind of preference,

ability, and other asset must be acknowledged and used in the quantities that research demonstrates are necessary for the well-being of the group as a whole and of each individual member.

A society that Owen referred to be real socialism often consists of five hundred households and between fifteen and eighty-eighty individuals. It should be made up of businesspeople, workers, and talented individuals who all contribute in their own unique ways to the happiness and productivity of the community's life. Every member would work with enthusiasm as a consequence of the organisation and specialisation of the duties necessary to the industries, which would lead to the availability of vocations to fit every taste. Instead of competitive thirst for riches, passive attraction would govern communal life. The system shouldn't show any wages. Each kind of required work must be done by the members, and involvement in the typically disagreeable tasks is encouraged in a variety of creative ways. Every member of the society is required to be a shareholder, and their share of the profits will be decided by a scale that allocates a predetermined proportion to skill, labour, and capital.

However, each member must be guaranteed a minimum income that will allow him to live without worry for himself or his family, as well as the right to work in jobs that are suitable for both his preferences and his abilities. According to Robert Owen, with the implementation of such a system of social organisation, poverty will vanish, true liberty will be guaranteed to every person, the real natural rights of man will be acknowledged, happiness and order will be widespread, and as a result, government, at least insofar as its coercive activities armies, scaffolds, prisons, and courts of justice will no longer have any justification for existence. Never does Owens make even the tiniest allusion to violent revolution. He is unwavering in his belief that the big truths he has revealed will prevail on their own.

### **Christian Socialism**

Christian Socialism, often known as contemporary Christianity, was a new kind of Christianity. It was an initiative that got its start in the middle of the 19th century. This movement places a strong focus on integrating Christian social teachings into contemporary industrial life. Laissez Faire Individualism is another name for Christian Socialism. It refers to the demand made by all Christian activists for the inclusion of social programmes in all political and economic operations on behalf of all other members of society, regardless of their socioeconomic status. Therefore, any movement that seeks to combine socialism's fundamental goals with Christianity's moral and ethical principles is said to be practising Christian socialism.

### **Henri de Saint-Simon's contribution to Christian Socialism**

French businessman Henri de Saint-Simon is renowned for his contributions to sociology. On October 17, 1760, in Paris, France, he was born into a poor aristocratic family. He had a pretty uneventful education in school and was enlisted in the military at the age of 17. He was a member of the army unit sent to aid the American Colonies in their struggle for independence. In 1781, he was again sent to Yorktown as an artillery captain. He travelled to France during the French Revolution and, with a friend's assistance, purchased a fresh piece of property. He participated in the French Revolution, was detained in the Palais de Luxembourg during the reign of terror, and benefited greatly from the fall in value of the revolutionary currency by becoming very wealthy. He continued to have a splendid life. In a few years, he had come himself dangerously close to going bankrupt. He began studying science, enrolling in classes at the École Polytechnique, and hosting eminent scientists. 'New Christianity' was introduced by Henri de Saint-Simon with a focus on the underprivileged. His adherents formerly believed that a spirit of affiliation or connection with religion would serve as the governing force that would eventually replace the prevalent essence of egotism and hostility in society. They held the opinion that inheritance rights should be abolished in

order to put the economy's wealth in the hands of potential investors so they might utilise it while society is disposing of itself[9], [10].

### **British Christian Socialism**

Some British individuals, like Frederick Denison Maurice, author Charles Kingsley, John M. Ludlow, and many more, utilised Christian Socialism for the first time in Britain. After the 1848 Chartist agitation failed, they all launched a movement that developed in England. In order to secure support for the Kingdom of Christ, its true authority over the realms of industry and trade, and for socialism its true character as the great Christian revolution of the 19th century, the movement's primary goal was to promote capitalism.

### **John M. Ludlow's Contribution**

Given his upbringing and education in France, John M. Ludlow was moved by Philippe-Joseph-Benjamin Bache's writings and the rise of cooperative societies there. He then enlisted the help of clergymen to advance the use of Christian principles in industrial organisation. Socially conservative Christianity and laissez-faire views in the industrial sector were fiercely criticised by Ludlow's supporters. Ludlow's movement has the advantage of replacing rivalry with collaboration. With this as their guiding principle, Ludlow's adherents joined other cooperatives movements and provided financial support to numerous tiny cooperative societies that supported co-partnership and profit sharing in the workplace. They were in charge of founding the Working Men's College and the Council for Promoting Working Men's Association in London in 1854. Many members persisted in promoting cooperatives. Numerous Christian Societies Organisations were founded in England in the 1880s and 1890s.

**France and Germany** Movements similar to the Ludlow movement emerged among French Protestants in the later 19th century. The Protestant Association for the Practical Study of Social Questions, which opposed bourgeois Protestantism and disapproved of a rigorous egalitarian socialism, was founded in 1888. The movement for Christian social action was linked to violent anti-Semitic agitation in Germany in the late 19th century.

### **Activity in the United States**

Henry James Sr., the father of author Henry James and philosopher William James, spearheaded the American movement for Christian Socialism. In 1849, he made the case that socialism and Christianity had comparable goals. The Society of Christian Socialists was established in 1889. Early in the 20th century, the Social Gospel Movement gained popularity. This was due to Christian Socialism, which emphasised the social component of redemption.

## **CONCLUSION**

Analysis has also focused heavily on the historical conditions in which various schools of socialism have developed and emerged. The impact of social, economic, and political circumstances on the evolution and application of socialist philosophy has been studied by academics. The study considers the significance of historical occurrences like the Russian Revolution, the rise and collapse of the Soviet Union, and the growth of socialist movements around the world. In conclusion, studying the many socialist schools offers insightful understandings into the variety of socialist thinking and its effects on social and economic systems. Scholars contribute to a more comprehensive knowledge of socialist ideas and their potential for resolving social disparities, economic structures, and political systems by critically assessing the strengths, limitations, and historical circumstances of various schools. Such analysis contributes to continuing discussions about the viability and merits of different strategies within the larger socialist framework.

**REFERENCES:**

- [1] N. Bandelj and D. Purg, "Networks as resources, organizational logic, and change mechanism: The case of private business schools in post-socialism," *Sociological Forum*. 2006. doi: 10.1007/s11206-006-9039-x.
- [2] S. Wiguna, R. Febriyanni, N. Arafah, and R. Akmalia, "Efektivitas Kepemimpinan Kepala Sekolah dalam Meningkatkan Kemampuan Guru Menyusun RPP di MAS Al-Ikhwan Serapuh," *TRANSFORMATIF*, 2021, doi: 10.23971/tf.v5i2.3301.
- [3] L. Meng, "Analysis of the Influence of Traditional Economic Management Thoughts on Contemporary Economic Management," *Mod. Econ. Manag. Forum*, 2021, doi: 10.32629/memf.v2i2.316.
- [4] M. Lundahl, D. Rauhut, and N. Hatti, *Poverty in contemporary economic thought*. 2021. doi: 10.4324/9780429331312.
- [5] T. C. Sherman, "Education in early postcolonial India: expansion, experimentation and planned self-help," *Hist. Educ.*, vol. 47, no. 4, pp. 504–520, Jul. 2018, doi: 10.1080/0046760X.2017.1413214.
- [6] H. Khaloie, S. A. J. Hoseini, and H. Kharazmi, "Comparative analysis of the school of socialism in the novel 'the cloudy years' by Ali-Ashraf Darvishian and Maxim Gorky's works (the mother and the trilogy)," *Res. Contemp. World Lit. Pazhuhesh-e Zabanha-ye Khareji*, 2021, doi: 10.22059/jor.2019.271961.1782.
- [7] J. A. McKernan, "The Origins of Critical Theory in Education: Fabian Socialism as Social Reconstructionism in Nineteenth-Century Britain," *Br. J. Educ. Stud.*, 2013, doi: 10.1080/00071005.2013.824947.
- [8] R. Neumann, "Socialism in High School Social Studies Textbooks," *Soc. Stud.*, 2012, doi: 10.1080/00377996.2011.566590.
- [9] P. Devine, "Market Socialism or Participatory Planning?," *Rev. Radic. Polit. Econ.*, 1992, doi: 10.1177/048661349202400305.
- [10] H. Aravik, A. I. Hamzani, and N. Khasanah, "Dari Konsep Ekonomi Islam Sampai Urgensi Pelarangan Riba; Sebuah Tawaran Ekonomi Islam Timur Kuran," *Islam. Bank. J. Pemikir. dan Pengemb. Perbank. Syariah*, 2021, doi: 10.36908/isbank.v6i2.177.

## CHAPTER 18

### ANALYSIS OF INSTITUTIONAL ECONOMICS

---

Anand Joshi, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India.  
Email Id: - anandjoshi869@gmail.com

#### **ABSTRACT:**

With an emphasis on the function of institutions in influencing economic behaviour and results, institutional economics has become an important area of research within economics. This summary gives a general overview of the study of institutional economics, emphasising its salient features, theoretical underpinnings, and contributions to the comprehension of intricate economic processes. Scholars have critically analysed institutional economics' advantages, disadvantages, and practical applications to give insight on how institutions, economic systems, and society evolution interact. The importance of institutions in determining economic behaviour and results has been highlighted in institutional economics analysis. The framework under which people, businesses, and governments function is provided by institutions, including official and informal rules, conventions, and organisations. Researchers have looked at how institutions affect economic decisions, transactions, and market functioning. A fuller understanding of the function of trust, property rights, contracts, and social norms in economic transactions has been made possible by this research. The study has concentrated on conceptual frameworks that show how institutions, human behaviour, and economic results are interconnected and provide insights into the dynamics of economic systems. Describe institutional economics as a concept. Discuss Gunnar Myrdal's viewpoints. Describe Thorstein Veblen's philosophy.

#### **KEYWORDS:**

Economics, Economist, Function, Institutional, Vehicles.

#### **INTRODUCTION**

The advantages of institutional economics include its capacity to explain path dependency, institutional change, and long-term economic growth. In order to explain how institutions affect incentives, innovation, and social collaboration, scholars have used institutional analysis to examine historical and inter-country changes in economic performance. The investigation has emphasised the importance of governance frameworks, social norms, and institutional quality in promoting economic development. Institutional economics has come under fire for possible flaws and methodological difficulties. Researchers have questioned the limitations of demonstrating causation in institutional research as well as the difficulties of quantifying and assessing institutions. Additionally, criticisms have brought up issues with institutional determinism's potential and certain institutional economists' disregard for human agency and market pressures [1], [2].

Understanding how institutions and the evolutionary process affect economic behaviour is the main goal of institutional economics. Its initial focus was on Thorstein Veblen's instinct-driven opposition between technology and society's ceremonial domain. Its name and fundamental components come from a 1919 essay in the *American Economic Review* by Walton H. Hamilton. Because of the dynamic interaction between these many institutions such as people, businesses, governments, and social norms, institutional economics emphasises an understanding of institutions and economies at a larger scale. Many different intellectuals have shared their opinions on the subject. We will talk about Gunnar Myrdal and Thorstein Veblen's ideas in this unit. Karl Gunnar Myrdal was a Swedish economist and sociologist who was born on December 6th, 1898. Together with Friedrich Hayek, he shared the 1974

Nobel Memorial Prize in Economic Sciences for their pioneering work in the theory of money and economic fluctuations and for their incisive analysis of the interdependence of economic, social, and institutional phenomena. Myrdal's early contributions to price theory as an economist were the impact of uncertainty and expectations on pricing. Because social and economic activities tend to accumulate into positive or negative cycles rather than expanding towards stability, Myrdal rejects the notion of development poles.

There is a tendency for a negative accumulation under laissez-faire settings in emerging nations. Theoretically, Myrdal's hypothesis contradicts the idea that economic causes alone may be solely responsible for the issues in emerging nations. All social ties must be considered relatively and broadly. Due to the increase effects in more developed areas and contemporary or modern sectors and the backwash effects in less developed areas traditional sectors, differences are likely to increase both at the national level different stages of development between regions and at the international level trade between industrialised and developing countries. The course of events is determined by the initial state and the change-causing variables. Circular causality typically results in heightened regional dualism in emerging nations. Over the years, the idea of circular and cumulative causation CCC has played a key role in political economics. Torstein Veblen 1857-1929, who tested the development of institutions, is credited with developing the idea. In a different research, Gunnar Myrdal 1898-1987 used the circular and cumulative causality CCC framework to evaluate the underdevelopment of Asians and African Americans.

#### DISCUSSION

The Circular and Cumulative Causation Model of Myrdal: Swedish economist Gunnar Myrdal created the circular cumulative causality hypothesis in 1956. The centre variables and their relationships are defined in this multi-causal method. Its implication is that altering one institution's structure would always result in similar modifications to other organisations. These changes are circular in that there is no end to them and they keep happening all around us in a loop that prolongs in a negative manner over and over again. A sudden shift might generate confusion, thus the transition happens gradually instead. Working together at the UN Economic Commission for Europe, Gunnar Myrdal and Nicholas Kaldor created the idea after appropriating it from Knut Wicksell. While Kaldor focused on the demand-supply dynamics in the industrial sector, Myrdal focused on the social provisioning feature of development.

#### Dynamics

Myrdal discussed factors that are important for an economy's growth, including the availability of natural resources, historical production practises, national consistency, religious ideals, and political, social, and economic leadership. According to Myrdal, the immediate impact of shutting down certain manufacturing lines in a town is a decrease in employment, income, and demand. Myrdal noted during the multiplier analysis that other economic sectors are also impacted by the closure of these production lines. He continued by stating that the shrinking of the market in that region tends to discourage new investments, which in turn causes further declines in income and demand. If nothing is done to reverse the trend, businesses and workers will move to other areas[3], [4]. A state of non-equilibrium is created, or, in Myrdal's own words, as follows. A fallacious comparison to avoid while developing a theory to explain changes in a social system is the idea of stable equilibrium. The mere notion that a social process follows a direction is what is incorrect with the stable equilibrium assumption when applied to social reality.

Even if it moves in a convoluted manner in that direction towards a position that in some way may be characterised as a state of balance between forces. This theory is supported by an additional, more fundamental premise, which holds that changes in the system often result in modifications that, on the whole, proceed in the opposite direction of the original change. In

contrast, there isn't a propensity for the social system to automatically stabilise itself in the usual scenario, which is the topic I want to elaborate on in this book. The system is never advancing towards a state of equilibrium between the forces rather, it is always moving away from it. A change often results in supportive changes rather than opposing ones, which push the system much farther in the direction of the initial change. A social process tends to become cumulative and often pick up pace at an increasing rate as a result of such circular causality. In order to capture the social facts as they systematise into a blueprint when viewed under a bird's-eye viewpoint into this general vision, the specific characteristic, Myrdal wrote in his *Economic Theory and Underdeveloped Regions* that The disagreement progresses on a broad and methodological plane on the logic that the theory is conferred as a multipart of broad structures of thought.

In addition, Myrdal created the Circular Cumulative Causation CCC concept and believed that it differs from the idea of unchanging stability in terms of what might be regarded as the most important factors influencing the evolution of social processes. These qualities describe these processes' behaviour in two different ways. Up to this point, his work did not include providing statistics or other information on solo economies. According to him, there is no tendency towards regular self-stabilization in the social system in the normal scenario. The system itself is always moving away from a state of balance between the forces rather than towards it. Myrdal often used the word approach in his subsequent publications, characterising it as anything that contains ideas. Myrdal used this phrase to refer to a grouping of techniques, such as the concepts, models, and theories we use, and the way in which we select and arrange observations and present the results of our research[5], [6].

Thorstein Veblen's full name was Thorstein Bunde Veblen. He was born in Manitowoc County, Wisconsin, on July 30, 1857, and passed away in the vicinity of Menlo Park, California, on August 3, 1929. Thorstein was a social scientist and economist from the United States. Thorstein used an active and evolving strategy to teach institutional economics. The *Theory of the Leisure Class* 1899 is one of his most well-known works in the area of institutional economics. He gained fame in literary circles as a result of this idea. He created two still-used ideas, conspicuous consumption and pecuniary emulation, while studying the lifestyle of the rich. Veblen came from Norway. He was an English ignoramus. He attended school and began studying English, although he had a Norwegian accent when he spoke it. In less than three years, he earned his degree from Carleton College in Northfield, Minnesota. He demonstrated that he was a talented student. He continued on to study philosophy at Yale and Johns Hopkins Universities, earning a Ph.D. from Yale in 1884.

When he was unable to locate a position that would fit him as a teacher, he went back to his father's home in Minnesota, where he spent his time reading further research on institutional economics. In 1888, he wed Ellen Rolfe, a member of a wealthy and influential family. In 1891, he enrolled in Cornell University as an alumnus fresher. He fascinated J there. Laurence Laughlin valued Veblen so highly that when he was asked to lead the new University of Chicago's department of economics in 1892, Laughlin brought Veblen along as an associate professor of economics. He started teaching in 1896 when he was 39 years old. When Ellen Rolfe filed for divorce, he married Anne Fessenden Bradley, a divorcee he had known for a long time. Veblen and Anne raised Anne's two kids in accordance with the pragmatic principles he outlined in *The Theory of the Leisure Class*.

*The Theory of the Leisure Class*, his first work, was written by him and released in 1899. It clarifies the core of the majority of his ideas. Veblen sought to apply Darwin's theory of evolution to the study of a person's modern economic existence. He believed that although the industrial system required individuals to become attentive, efficient, and cooperative, the top business executives were just concerned with acquiring money and flaunting their fortune their outlook was survivalist, a holdover from a barbaric past. Veblen looked at the 'modern

survival of processes in the aristocracy's pastimes, attire, pastimes, religion, and aesthetic preferences. Veblen developed a reputation as a social critic when the book came to their notice and started to be seen more as satire than as science.

He elaborated on his evolutionary topic of the mismatch between the contemporary industrial process and the irrational methods of business and finance in 1904 when he wrote *The Theory of Business Enterprise*. He released *The Instinct of Workmanship and the State of the Industrial Arts* in 1914, where he outlined his theory that commercial activity was at odds with people's propensity for productive endeavour and that too much energy was being lost due to ineffective institutions. Through the publication of *An Inquiry into the Nature of Peace and the Terms of Its Perpetuation* in 1917, Veblen gained recognition on a global scale. He argued that the competing demands of national corporate interests were the primary cause of contemporary conflicts and that a lasting peace could only be achieved at the cost of the rights of ownership, and of the price system in which these rights take effect.

Later in 1918, he joined the editorial board of *The Dial*, a literary and political publication in New York, where he contributed a number of essays that were later collected in a book titled *The Vested Interests and the State of the Industrial Arts* 1919. *The Engineers and the Price System* 1921 is a book that was subsequently released as a collection of additional pieces from *The Dial*. These essays expanded on Veblen's ideas for changing the economic system. According to him, engineers should take over the management of industry since they have the expertise to do it and would do so in a way that prioritises efficiency above profit. The short-lived 'technocracy' movement during the Great Depression was based on this idea.

In his last work, *Absentee Ownership and commercial Enterprise in Recent Times. The Case of America* 1923, he once again emphasised the conflict between the industrial arts and commercial enterprise while also being poorly written and repetitive. Veblen had both friends and detractors among economists, albeit the latter were more numerous. Veblen's German contemporaries Max Weber, whose theories are more nuanced than Veblen's, are largely responsible for the academic critique of contemporary industrial society. Even his closest followers disliked his anthropological and historical approach while admiring his novel concepts.

### **Governmental Socialism**

Thorstein Veblen laid the foundation for the institutional economics viewpoint with his criticism of conventional static economic theory. Veblen, who was both an economist and a sociologist, disagreed with his contemporaries who saw the economy as a separate, static entity. In contrast to his peers, Veblen was certain that social structures were deeply established in the economy. Veblen examined the connections between the economy and social and cultural phenomena rather than separating economics from the social sciences. Economic institutions are often seen as the main driver of cultural evolution in the study of institutional economics. Economic institutionalism hasn't evolved into a significant school of economic thought, but it has influenced economists to look at economic issues from a social and cultural standpoint. It also prompted economists to think of the economy as a living example of constrained rationality.

### **Conspicuous Consumption Theory**

An economic notion called conspicuous consumption describes and explains the consumer's practise of consuming goods in greater quantities or of better quality than is practicable. Thorstein Veblen, an American economist and sociologist, first used the phrase in his book *The Theory of the Leisure Class* in 1899. The concept of conspicuous spending may be shown by taking into account the reasons why one would choose to drive a luxury vehicle over an economy vehicle. Any sort of automobile or vehicle, in this example may be used to go from one place to another, but using a luxury vehicle often attracts attention to the driver's apparent affluence. The benefit of conspicuous spending may be seen in the economists'



hypothesised concept that consumer's get 'utility' from the consumption of goods. Veblen identified two specific ways that goods might provide usefulness.

To put it another way, the first is what he termed the serviceability of the product, or the item's ability to perform its intended function for instance, both luxury and affordable automobiles are capable of travelling to a certain location. A good's honourable nature is its additional quality. Driving a premium automobile demonstrates that the user has the means to operate a car that is attractive to others. The car's efficiency is just one factor in this admiration another is the clear demonstration of riches it provides. As a result, the automobile serves as an outward indicator of social standing[7], [8]. Such ostentatious spending is inefficient as a result of the dual nature of goods. He didn't mean it negatively when he used the word wasteful, but rather as a technical phrase to describe how more resources are needed to produce luxury goods than to produce non-luxury goods. Veblen's analysis of contemporary society was centred on the paradox that, despite enormous technological capability for product creation, corporate activity limits production to that which can be sold economically.

According to Veblen, the purpose of advertising is to create a demand among customers for goods whose usage conveys status and distinction. Ads help to narrow the gap between client expectations and the productive potential of technology. Veblen saw advertisements as waste because of this, but waste that is necessary in a contemporary economy that is centred on the idea of company profit-making. An essential component of Veblen's study is the understanding that all goods have components for serviceability and waste. For instance, having a car implies that you are wealthy enough to avoid using public transportation, but having a luxury automobile also confers a better social standing since it shows that you do not need to utilise either public transportation or an economy vehicle[9], [10].

### CONCLUSION

Institutional economics has been used in a wide variety of contexts. Institutional analysis has been used by academics to investigate the policy implications of topics including regulation, labour markets, environmental economics, and development economics. Insights into the creation of efficient institutions, the function of institutions in lowering transaction costs, and the significance of institutional change in promoting economic development and stability have all been revealed by the investigation. In conclusion, institutional economics study has advanced our knowledge of how institutions influence economic development, results, and behaviour. Scholars have shed light on the intricate linkages between institutions, economic systems, and society dynamics by critically studying its major features, theoretical underpinnings, and applications. This study contributes to the understanding of economic phenomena in practical situations and feeds policy discussions as well as institutional reform initiatives.

### REFERENCES:

- [1] A. Spithoven, "Similarities And Dissimilarities Between Original Institutional Economics And New Institutional Economics," *J. Econ. Issues*, 2019, Doi: 10.1080/00213624.2019.1594532.
- [2] D. North, "The New Institutional Economics And Development," *Econwpa Econ. Hist.*, 1993.
- [3] V. Valentinov, "Sustainability In Classical Institutional Economics: A Systems Theory View," *Sustainable Production And Consumption*. 2021. Doi: 10.1016/J.Spc.2021.09.001.
- [4] F. Canitez, "Urban Public Transport Systems From New Institutional Economics Perspective: A Literature Review," *Transp. Rev.*, 2019, Doi: 10.1080/01441647.2018.1552631.
- [5] S. Nambiar, "Capabilities And Communities: A Perspective From Institutional

- Economics,” *Eur. J. Dev. Res.*, 2021, Doi: 10.1057/S41287-020-00341-5.
- [6] K. A. Whalen And C. J. Whalen, “The Circular Economy And Institutional Economics: Compatibility And Complementarity,” *J. Econ. Issues*, 2018, Doi: 10.1080/00213624.2018.1495985.
- [7] M. A. Abdallah, “Theorizing And Rooting In The Jurisprudence Of Minorities In Islamic Economic Thought,” *Int. J. Humanit. Educ. Res.*, 2021, Doi: 10.47832/2757-5403.3-3.10.
- [8] M. Mistri, “The Institutional Approach In The Economic Thought Of Carlo Cattaneo,” *Stud. Econ.*, 2021, Doi: 10.3280/Ste2008-095002.
- [9] O. Orlova-Kurilova, “Signs Of Innovation In Entrepreneurship From The Standpoint Of The Evolution Of Economic Thought And Strategic Management,” 2021. Doi: 10.36074/Logos-01.10.2021.V1.02.
- [10] G. Bahtiyar And H. Bakir, “The Great Recession And New Directions For Economic Thought,” In *New Normal And New Rules In International Trade, Economics And Marketing*, 2021.

## CHAPTER 19

### CRITICISM OF BRITISH ECONOMIC POLICY

---

Anushi Singh, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India,  
Email Id: - Anushigaur@Rediffmail.Com

#### **ABSTRACT:**

British economic policy has received a lot of criticism throughout the years, with academics and experts pointing out many flaws, failures, and contentious choices. This summary gives a broad overview of the criticism levelled at British economic policy, outlining the main causes for worry such as budgetary management, austerity measures, income disparity, regional differences, and the effects of Brexit. This critique is critically analysed to provide insights into the difficulties and complexity of economic policymaking in the British setting. Fiscal management and government expenditures are two key areas of criticism. British economic policy, according to critics, has been marked by erratic fiscal restraint, high levels of public debt, and insufficient investment in vital industries like infrastructure, education, and healthcare. These worries have led to concerns about the capacity to promote social and economic advancement as well as the long-term viability of the public sector's finances. Extensive criticism has also been levelled at the austerity measures put in place in reaction to the global financial crisis. Describe Romesh Dutt's and Wesley Clair Mitchell's contributions to institutional economics. Talk about the lives of Wesley Clair Mitchell and Romesh Dutt. Describe Romesh Dutt's and Wesley Clair Mitchell's economic theories.

#### **KEYWORDS:**

Economic, Government, Policy, School, Strategy.

#### **INTRODUCTION**

The British government's economic strategy has come under fire for regional discrepancies. Regional disparities, notably those between London and other areas, are said to have received inadequate attention and funding, according to critics. Regions outside of London are finding it difficult to draw in investment, generate employment, and achieve balanced economic growth as a result of the concentration of economic possibilities and resources in the city. Brexit, the decision to leave the European Union, has drawn a lot of criticism and concern over its economic ramifications. Critics claim that Brexit has harmed trade ties, lowered investor confidence, and increased corporate uncertainty, possibly having an effect on economic growth and jobs. The difficulties of negotiating new trade deals, managing regulatory divergence, and the probable loss of access to the EU single market have all been causes of worry [1], [2].

According to critics, the focus on budgetary consolidation and expenditure reductions disproportionately hurt weaker groups, escalating income disparity and hindering economic recovery. With requests for alternative policy methods to solve economic issues, the effect of austerity on public services, welfare programmes, and social cohesion has been a source of disagreement. Wesley Clair Mitchell and Romesh Dutt are two of the most renowned economists. With their ideas on land revenue and the self-generation hypothesis, respectively, Dutt and Mitchell have made significant contributions to the study of economics. When it comes to the study of institutional economics, they represent many concepts. In fact, these ideas have broadened the scope of institutional economics. Wesley Clair Mitchell and Romesh Dutt's lives and ideas will be discussed in this unit in the framework of institutional economics [3], [4].

### **Romesh Dutt**

Romesh Chunder Dutt was a prominent Bengali Kayastha family member and an Indian civil servant who was born on August 13, 1848. He was also well-known as an economist, author, and translator of the Ramayana and Mahabharata, two sacred texts. His ancestors had a distinguished literary and scholarly history. He was the son of Bengal's deputy collector, Isam Chunder Dutt, and Thakamani Dutta. He attended the Hare School in Kolkata after having attended many Bengali District schools. He was cared after by his uncle Shoshee Chunder Dutt, a gifted writer who took over the role of his guardian in 1861 when his father passed away unexpectedly in an accident. His uncle, who used to sit with him and analyse passages from the works of the English poets, had an impact on him. He was related to Toru Dutt, a renowned Bengali poet of the late nineteenth century. In 1864, he applied for admission to the Presidency College of the University of Calcutta.

In 1866, he passed the test, came in second on the merit list, and was awarded a scholarship. Without asking his parents' permission, he and two companions left after finishing school to continue their studies in England. He worked in a variety of administrative positions after passing the ICS test. Satyendra Nath Tagore was the sole Indian at the time who met the requirements for the Indian Civil Service. He aspired to go in Tagore's footsteps. He began working for the Indian Civil Service in 1869, and he was chosen to lead the Indian National Congress in 1899. Later, the University of London hired him to teach Indian history there as well. After arriving back in India, he held a number of administrative positions until being named commissioner of the burden division in 1894. He retired from the ICS job after 26 years of fruitful service to the government and immediately started writing.

### **British Economic Policy**

Romesh Dutt criticised the British administration in his writings for failing to improve India's economic circumstances. India was not industrialised during the colonial era, but British economic policies caused a severe decline in handcraft output. To sustain the existing economic situation, industrial output was not, however, expanded. As a result, farming became the backbone of the Indian economy. His first work on the economic issues facing farmers, *The Peasantry of Bengal*, was published in 1875. In his 1901 book *Indian Famines, Their Causes and Prevention*, he built on the concepts he introduced in this work. In this book, he discussed the overvaluation of land income and petitioned the government to extend the Permanent Settlement to the Ryotwari regions as well as to establish the rents that the ryots must pay to the mediators on an ongoing basis. *The Economic History of India under Early British Rule. From the Rise of the British Power in 1757, to the Accession of Queen Victoria in 1837, and the Economic History of India in the Victorian Age* are two important works he produced in the topic.

His well-known *Open Letters to Lord Curzon on Famines and Land Assessments in India* included the notion of land revenue, to which Lord Curzon's Government provided an official response in the shape of Resolution of 1902. Later, he began to speak in favour of the East Indian Association or London Indian Society candidate for the House of Commons. He also served as the Calcutta Kolkata newspaper *The Indian Mirror's* London correspondent. He claimed that India was not benefiting from British rule. For instance, when the British introduced railroads, they did so to move commodities produced in British industries, destroying India's traditional modes of transportation in the process. In his opinion, the Indian economy was not undeveloped rather, the British were impeding its development. He rejected the Marxist view that British colonisation was a positive development[5], [6].

### **DISCUSSION**

**Economics Thoughts:** His two significant writings include his economic ideas. *The Economic History of India during Early British Rule: From the Ascendance of British Power in 1757 to Queen Victoria's Accession in 1837* and *Indian Famines, Their Causes and Prevention*. His

first book discusses economic colonisation, while his second focuses on the state of Indian agriculture and the causes and solutions to famines. He asserts that there is a direct connection between political and economic circumstances. The primary causes of poverty in India were: A lacklustre output. The tax code. Cottage industries' breakdown. Poor productivity was caused by unfavourable weather conditions, infertile soil, conventional farming methods, population growth, a lack of education, poor agricultural prices, the land tax system, and the general agrarian structure. The country's agrarian structure was a significant barrier to its economic growth and general wellbeing. Taxes paid by Indians were 40% more than those paid by British taxpayers. As a result, there were fewer sources of national revenue and Indian industries rapidly deteriorated. Therefore, the British's self-centred and poor financial planning was to blame for India's poverty.

Many strategies were put out by R. C. Dutt to eradicate poverty in India. He envisioned a total reworking of Indian society's economic foundation. The main recommendations were: Cottage industry revival to end underemployment. Irrigation facility conservation to lessen dependency on monsoon Public debt should have lower interest rates. A decrease in government spending. A decline in retail sales in England. Dutt suggested a strategy for enhancing the land revenue system. The length of a land deal should not exceed 30 years. The cess on land tax shouldn't be more than 6%. Landlords' earnings received on behalf of the state shall not exceed 15% of the product in regions where permanent settlement has not yet been established. Land income collected in areas in accordance with governmental directives shall not exceed 20%.

Additionally, he proposed the elimination of excise taxes on the Indian mill industries, a reduction in the rate of interest on unpaid taxes, the establishment of a sinking fund, and the division of Britain's civil and military costs. Increased hiring of Indians in the civil service, restrictions on building railroads using state money, etc. Dutt was the ideal representative of the new generation of educated Indians since he was both a civil servant and an open-minded political leader from the liberal school. Romesh Dutt was recognised as one of the architects of modern India and was all that the burgeoning Indian intellectuals desired to be. He used economics, politics, and history to illustrate the effects of British control in India and the causes of its poverty. He not only identified the root reason but also suggested solutions. His previous expertise as an administrator aided him in evaluating India's economic situation. He thereby earned a significant position in India's economic and political history. R. C. Dutta passed away on November 30, 1909.

### **Wesley Clair Mitchell**

One of the most prominent members of the institutional school was Wesley C. Mitchell. He is known for his meticulous research on green backs and business cycles. He was the oldest son of a Civil War soldier and was born on August 5th, 1874, in a small town in Illinois. Despite coming from a low-income home, he was able to attend university. Wesley Clair Mitchell enrolled at the University of Chicago in 1896, initially intending to study classics, but he soon changed his major to economics. Thorstein Veblen and John Dewey had an impact on Mitchell in Chicago, where he earned his Ph.D. under J. Adolph C. Miller and Laurence Laughlin discuss money. After working at Columbia University for a while, he held several significant jobs. For his excellent contributions to the discipline of economics, he also served as a visiting professor at the Universities of Oxford, California, and Cornell. He also got honorary degrees from the Harvard, Columbia, Paris, Princeton, California, and Pennsylvania universities [7], [8].

Mitchell served as the NBER's first director of research after helping to form the organisation in 1920. Mitchell oversaw the NBER's first work on income redistribution and then led the organisation towards the quantitative research on American economic cycles for which it has become renowned. During the interwar years, he was in charge of transforming Columbia into

one of the most illustrious fortresses of the American Institutionalist School. In the years after the war, Mitchell's work was mostly continued by his pupils. Although Mitchell adhered to the institutionalist school and rejected agent-based theory, his writing was replete with speculative insights about society and the economy. On October 29, 1948, he passed away. Among Mitchell's economic suggestions were approach to study, institutional strategy, economic guidance theory, economic planning and welfare, the business cycle.

### **Studying Strategy**

Mitchell emphasised the use of quantitative analysis for economic research. He was able to provide a systematic description of recurrent variations using this quantitative approach. The long-standing methodological debate between the historical and classical schools didn't interest him. Beyond the limitations of equilibrium, he broadened the scope of economics.

### **Institutional Strategy**

According to Mitchell, everyone has a gut instinct that varies depending on the individual. According to Mitchell, these associations arts, writing, speech, and religion provide a standard behaviour, habits of feeling, acting, and thinking that are eventually implanted in a social institution. The conduct of an individual that results from inherited capacities is an irrational form of behaviour. Social organisations can effectively govern human conduct. They serve as a reminder of the cerebral power of humans in the past. They serve as the cornerstone for a person's well-balanced conduct. Mitchell said that America did not need to examine an individual's inside makeup and rank their positive and negative traits.

Instead, he urged people to focus on behaviours that society has gradually shaped, or on things outside of the self. Mitchell examines the origins and development of institutions and traditions, adding to them issues with wealth, banking, and labour. He emphasised the physical component of economic activity in his subsequent research. He claimed that the absence of an institutional framework in conventional economic theory made it flawed. Mitchell was certain that the institutional approach would aid in the advancement of economics as a study of human behaviour and, therefore, as a force for influencing social change. The use of money, in his opinion, would broaden the scope of economic theory.

### **Economic Guidance Theory**

In his economic guidance theory, Mitchell puts forward the idea that ownership and management were first alienated in corporate enterprises. As a consequence, a small number of directors and management held the majority of the authority. Those in charge of a corporation's operations do so for personal gain. He discovered that the government cannot be blamed for this when he published about this notion in 1913. According to Mitchell, if economics were to be a science of human behaviour, it would put a greater emphasis on human wellbeing than on resource allocation. Therefore, he suggested that two topics in economics be looked at the factors that determine wellbeing and the strategies for boosting it. For Mitchell, welfare meant having a plenty of stuff as well as a fulfilling career filled with intriguing tasks. The welfare concept should be established in a manner that will benefit many different fields of activity using quantitative methodologies. The most crucial and challenging role, in his opinion, was economic planning. He was of the opinion that business-only planning would fail. Through his lectures and speeches, he made it abundantly evident that planning was necessary for a stable economy but that piecemeal planning was flawed because it failed to take into account how interrelated the social and economic processes were. He believed that the job of national planners was done to gratify the desires of the people.

### **Economic Cycle**

Measuring Business Cycles, a book Mitchell wrote, contains his most important research on business cycles. He gathered a sizable amount of statistical data for his work, using it to conduct a thorough analysis of the individual cycles, groups of cycles, and components of the

cycles. The frequency curves were put to use by him. He also conducted a proportionate analysis of the various patterns in price changes throughout the course of the cycle. Following a review of broad economic associations and a thorough statistical investigation of numerous economic elements like prices, interest rates, etc., the research assesses the theories that are now in use. Mitchell asserts that the examination of trade cycles is not regarded as a subfield of economic theory. To learn more about how the current economic system functions, studying trade cycles was more important and useful. He was aware of the unfairness between production and distribution due to economic cycles. Unbalances cause the market to become oversupplied. Both men and robots are jobless. Because there is little business planning, business cycles recur. Factors like market growth, dominance, population movement, etc. cause business swings[9], [10].

According to Mitchell's self-generation thesis, each stage of a trade cycle would inevitably lead to the next. He said that the business crises were one characteristic of a repeating cycle. Depression likely followed a crisis, then came recovery, then prosperity, then another crisis, and so on. The slackening or speeding of the stages of the commerce cycle was caused by several reasons, including internal political circumstances, modifications to the monetary and banking systems, war, peace, new industrial techniques, international relations, etc. He suggested that the trade cycle has a variety of effects on various trades. Mitchell affirmed that there would be a rise in pricing levels, strong business prospects, improved levels of production and demand for products, as well as an increase in employment, throughout the restoration phase. Business confidence, greater investment, and significant orders for equipment cause prices to rise even more. A crisis or recession then develops as a result of the interaction of two elements, namely the ongoing rise in operating costs and pressure on the financial and investment markets.

He said that trade cycles were caused by the current economic system, which is characterised by high levels of capital investment, intermediaries, credit elasticity, and a lack of flexibility. Since Mitchell's study of trade cycles is based on statistical and historical evidence, it is more thorough, useful, and authentic. Even while other economists had conducted research on various elements of the issue, Mitchell was the only one to provide a statistically supported study of all trade cycle stages. Despite having many advantages, the idea is not without detractors. Modern authors have criticised it in a number of ways. It just leaves other problems in the rear-view. Additionally, it handles cyclical oscillations as machine motions. According to Homan, it is a static theory in which economic institutions are a component that is not extremely changeable but rather generally steady.

#### **Mitchell's Economic Ideas: A Critical Assessment**

The most prominent proponent of institutionalism was undoubtedly Mitchell, who conducted a thorough analysis of economic cycles. *Measuring Business Cycles*, one of his works, is a masterpiece of economic writing. Mitchell's use of statistical techniques and quantitative analysis has improved the applicability of economists' research. He suggested using the inductive approach for studying economic issues. He had gained even more respect among American economists since gathering data is more meticulous, taxing, and time-consuming. He had come to understand the complexity of contemporary economic life and the limitations of using traditional analysis to solve its issues. Therefore, he pleaded for the inclusion of the study of all related fields, including history, statistics, sociology, etc. According to Mitchell, improvements in economics and other social sciences may and will assist to lessen economic system flaws including the recurrence of depressions and unemployment, inequality of opportunity, concentration of power, and material uncertainty.

#### **CONCLUSION**

In British economic policy, income inequality has grown to be a major problem. The richest people profit disproportionately from economic development, according to critics, while

many families experience stagnating salaries and rising living expenses. This widening of income gaps is a result, they claim, of the existing economic paradigm. Public unhappiness and social polarisation have been exacerbated by ineffective policies that reduce economic inequality and advance social mobility. In conclusion, there has been intense criticism of British economic policy on many different fronts. The criticisms include budgetary administration, austerity policies, economic inequality, geographical imbalances, and the consequences of Brexit. These comments are a reflection of the difficulties and compromises that come with formulating economic policy, and they add to the continuing discussions about how to deal with these problems and create a more equitable and sustainable economic future for the UK.

#### REFERENCES:

- [1] P. Arens, 'Strictly Non-committal: British Economic Policy and the Commonwealth', *Round Table*, 2018, doi: 10.1080/00358533.2018.1527507.
- [2] P. A. Hall, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comp. Polit.*, 1993, doi: 10.2307/422246.
- [3] A. Booth, 'New revisionists and the Keynesian era in British economic policy', *Econ. Hist. Rev.*, 2001, doi: 10.1111/1468-0289.00195.
- [4] M. J. Oliver and H. Pemberton, 'Learning and change in 20th-century British economic policy', *Governance*. 2004. doi: 10.1111/j.0952-1895.2004.00252.x.
- [5] P. A. Hall, 'The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s', in *Structuring Politics*, 2010. doi: 10.1017/cbo9780511528125.005.
- [6] J. Buller and M. Flinders, 'The domestic origins of depoliticisation in the area of British economic policy', *Br. J. Polit. Int. Relations*, 2005, doi: 10.1111/j.1467-856X.2005.00205.x.
- [7] H. Pemberton, 'Relative decline and British economic policy in the 1960s', *Hist. J.*, 2004, doi: 10.1017/S0018246X04004078.
- [8] A. Webster, 'The strategies and limits of gentlemanly capitalism: The London East India agency houses, provincial commercial interests, and the evolution of British economic policy in South and South East Asia 1800-50', *Econ. Hist. Rev.*, 2006, doi: 10.1111/j.1468-0289.2006.00366.x.
- [9] M. Ricketts and E. Shoesmith, 'British economic opinion: positive science or normative judgment?', *Am. Econ. Rev.*, 1992.
- [10] J. H. Richardson, *British economic foreign policy*. 2017. doi: 10.4324/9781315099446.



## CHAPTER 20

### EXAMINE THIRUVALLUVAR'S THEORY IN ECONOMIC THOUGHT

---

Vivek Anand Singh, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India,  
Email Id: - vivekanand.ima@gmail.com

#### **ABSTRACT:**

The Thirukkural, the masterpiece of the legendary Tamil poet and philosopher Thiruvalluvar, is a timeless work of literature that explores a variety of human experiences and knowledge. In order to better understand Thiruvalluvar's thesis in the context of economic philosophy, this abstract will explore his observations on economic ethics and their consequences for society advancement. The Thirukkural, which incorporates Thiruvalluvar's philosophy, provides insightful viewpoints on economic principles and the significance of ethical behaviour in economic activity. His teachings place a strong emphasis on the significance of moral conduct, justice, and honesty in business dealings, understanding that material success should not come at the price of moral principles or societal well-being. This abstract also examines Thiruvalluvar's ideas on social advancement and economic success. The idea of Thiruvalluvar extends beyond just economic factors and emphasises how interdependent economic health and societal growth are. His teachings place a strong emphasis on the need of striking a balance between worldly success and moral principles, social fairness, and the welfare of the oppressed. This ABSTRACT investigates the relevance of Thiruvalluvar's economic ideas in the modern era.

#### **KEYWORDS:**

Budget, Moral, Teaching, Thiruvalluvar, Theories, Wealth.

#### **INTRODUCTION**

Thiruvalluvar's economic philosophy is based on the idea of Aram, which includes morality, fairness, and virtuous behaviour. He places emphasis on the need for people and communities to participate in economic activities that are consistent with the values of integrity, justice, and fairness in the distribution of wealth. The idea of Thiruvalluvar opposes exploitative business practises and promotes economic relations that put the interests of all parties involved first. Thiruvalluvar's teachings provide insights on constructing an equitable and sustainable economic system in a period characterised by globalisation, quick technology breakthroughs, and economic inequities. His focus on moral conduct in business interactions chimes with the expanding interest in CSR, fair trade, and ethical shopping [1], [2].

We looked at several economists' perspectives on institutional economics in the earlier sections. We shall examine Indian intellectuals' economic theories in this section. The Grand Old Man of India, Dadabhai Naoroji, was a pioneering political and social figure in India who later joined the Indian National Congress as one of its founding members. He is most known for his drain of wealth argument, which criticised British rule in India, in terms of economic theory. During the Indian Independence Movement, Gopal Krishna Gokhale was one of the foundational social and political figures. The section also discusses Thiruvalluvar's and Mahadev Govind Ranade's economic theories. Following completion of this module, you will be able to:

1. Describe the economic theories of Indian philosophers.
2. Gopal Krishna Gokhale's economic theories.
3. Describe the economic ideas of Mahadev Govind Ranade and Dadabhai Naoroji.

### **Thiruvalluvar**

Thiruvalluvar, also known as Valluvar, was a well-known Tamil poet and philosopher. His parents' names were Bhagavan and Aadhi, but his birthplace and date are still unclear. Little is known about his family history, religion, or location of birth. Although there is still some uncertainty, it is thought that he resided at Mylapore, which is modern-day Chennai. Because only three faiths existed in the Indian subcontinent during his time—Hinduism, Jainism, and Buddhism—it is thought that he may be a Jain or a Hindu. *Tirukkural*, a collection of couplets on ethics, society, and love, is one of his best-known works. This book is regarded as a superb and well-liked piece of Tamil literature. Regarding Valluvar, the literary thinker of Tamil literature, there is no trustworthy material available. His writings and other biographers' interpretations of his life and background vary. The major source of information on Valluvar's life is his masterpiece, *Tirukkural*. Zvelebil claims that Valluvar was maybe a well-educated Jain with a variety of viewpoints who was closely associated with the early Tamil classical period's literary works and had some familiarity with Sanskrit legal and scholarly manuscripts.

He has been credited as being influenced by all of the main Indian faiths as well as 19th-century Christian missionaries. His ethical, social, political, economic, theological, intellectual, and spiritual areas have motivated many academics throughout history. He has earned appreciation for his literary accomplishments, which are regarded as Tamil culture's masterpieces. The Valluvar was variably dated between 400 and 1000 CE by European authors and missionaries in the 19th and early 20th centuries. Blackburn claims that the current scholarly consensus places the author and the work in the 500s CE. The Valluvar Year was formally recognised by the Tamil Nadu government in 1935 and was introduced to the calendar at Maraimalai Adigal's suggestion. The Valluvar year is therefore determined by adding 31 to any Common Age year. The teachings of Valluvar reveal the literary and cultural ideals of Tamil Nadu in the 13th and 14th centuries. The text of Valluvar may be read and used in several ways. Almost every Indian religion, including Christianity, has claimed the poem and its author as their own, despite historians' assertions that Valluvar is either a Jain or a Hindu.

These beliefs, however, are consistently refuted by academic research and are not supported by it. For instance, when the royal missionaries arrived in India after the Christian claims first surfaced, they were disregarded. In the Southern region of India, several different groups revere Valluvar as a saint and divinity. As the 64th Nayanmar of the Saivite tradition, Valluvar is worshipped by a number of groups, including those in Mylapore and Tiruchuli. Valluvar temples may be found all across the southern half of the nation. The most notable temples are in Chennai's Mylapore, where they date back to the early 16th century. As part of the Pongal festivities, the Tamil Nadu government recognises January 15 as Thiruvalluvar Day in honour of the poet. The inaugural Thiruvalluvar Day celebrations took place on May 17 and 18, 1935. The classical music and popular culture of South India have both been affected by Valluvar's compositions. Artists and composers from the Carnatic music genre, including M. Selected couplets by M. Dandapani Desikar were tuned in the 19th and 20th centuries.

Although opinions among academics on the *Tirukkural* period differ, it is generally accepted that it occurred during the Sangam Age in Tamil Nadu, which is dated to approximately the third century A.D. His work is characterised as realistic idealism. Aram virtue, Porul wealth, and Inbam love, which come after Dharma religion, Artha polity, Kama love, and moksha salvation, respectively, which are the four pillars of Hinduism are essential for ultimate salvation or *virtu* and are mentioned in *Tirukkural*. There were three sections in the book *Arathuppal*, and *Kamathuppal*. Numerous Indian and international languages have been adapted from the *Tirukkural* text. Constanzo Beschi's translation into Latin in 1730 made the

book better recognised among academics in Europe. One of the most renowned contributions to Tamil literature is Tirukkural. Valluvar is honoured and well-regarded in the Tamil culture as is revealed by his work, which has been called by nine diverse names: Tirukkural the sacred kural, Uttaravedam the ultimate Veda, Thiruvalluvar eponymous with the author, Poyyamoli the false less word, Vayuraivalttu truthful praise, Teyvanul the divine book, Potumarai the common Veda, Muppai the three-fold path, and Tamilmurai the Tamil Veda.

### DISCUSSION

**Economic Thoughts:** Valluvar's unending contribution, Tirukkural, a compendium of principles, contains his economic ideas. Factors of production, agriculture, public finance, poverty and begging, wealth, ethics, and welfare state are among Valluvar's top seven economic theories.

**Production Factors:** Thiruvalluvar has often alluded to the elements of production, including land, labour, capital, organisation, time, and technology. For instance, he had said that the elements of an economy are an unfailing crop, a competent body of individuals, and a group of persons whose wealth knows no decline Kural 61. He believes that using the right technology and doing the task at the right moment can help you rule the world. He has also emphasised the need of conserving. Because without capital, profit cannot be earned. Valluvar saw agriculture as the most essential kind of economic activity. He said that the actual intellectuals and capitalists the crucial components of an economy were the agriculturalists.

**Public Finance:** Under the headings of public income, financial management, and public spending, Valluvar has provided further detail on public finance. He named them as follows Production of money, Revenue collection, Revenue management, Public spending. Valluvar opposed taxing the general populace. The three primary sources of income are as follows. Wealth that naturally accrues, Customs charges and Tributes paid by the vanquished monarchs, sometimes known as reparation. In terms of public spending, Valluvar supported a balanced budget with a concentration on public works, social services, and defence. Valluvar opposed receiving outside assistance as well. He contends that a nation must be self-sufficient in order to be regarded as independent.

**Begging and Poverty:** In his opinion, poverty is the root cause of all pain. He believed that the biggest social sin was begging.

**Wealth:** In his view, having money is merely a means to a goal. He advocated for acquiring money via moral and upright ways. He criticised accumulating money and referred to it as riches that brings no benefit. He saw work as the most valuable resource and output as the true source of prosperity.

**Morals:** The foundation of all of his teachings was morality. He opposed using criminal means to accomplish the goals. He believed that prostitution, drinking, and gambling were the three vices that were most detrimental to a society's socioeconomic well-being.

**Welfare state:** He argued in favour of a welfare state, which would be free of sickness, illiteracy, and poverty. These characteristics of a welfare state include:

- a. No illness.
- b. Abundant riches.
- c. Strong crops.
- d. Happiness.
- e. Protection of the populace.

The most crucial aspect of a peaceful state, however, is one where there are no several parties, where there are no internal dissensions where there are no internal enemies, according to Valluvar.

### **Gopal Krishna Gokale**

At Katulk in Ratnagiri, Gopal Krishna Gokhale was born on May 9th, 1866. The family's financial situation was so dire that only his older brother's sacrifice of his own education allowed him to complete his studies when his father passed away. He graduated with a B.A. degree in 1884 and enrolled at Bombay's Law College, but he was unable to finish the programme. The concepts of Gokhale were strongly impacted by M.G. He looked up to Dadabhai Naoroji, who was his idol, Ranade, who he considered to be his master in politics and public life, and renowned Bombay attorney Pheroza Shah Mehta. Gokhale became a Life Member of the Deccan Education Society in Poona Pune right after receiving his degree. He was asked to give a lecture at the newly founded Fergusson College in 1885. He took early retirement in 1902 in order to focus on public service. He was admitted to the Indian National Congress in 1889. He was chosen to serve as Honorary Secretary of the Sarvajanic Sabha at Poona in 1890, which Ranade headed as its most powerful member. He was appointed Secretary of the Bombay Provincial Conference in 1893. He and B were appointed Joint Secretaries of the Indian National Congress in 1895. Tilak, G.

### **Economic Concepts**

Gokhale's political thought includes his economic and social theories, as was already said. In the strictest meaning of the word, he was not an economist. He lacked profound sociological knowledge and was not a social thinker. However, Gokhale had to consider a variety of socioeconomic difficulties as a leader of the Congress and a legislator, which led to the development of his economic and social theories. His method of thinking, which had a significant impact on the societal shift occurring at the time, was mirrored in these thoughts[3], [4].

In terms of his economic theories, Gokhale owes a lot to M. G. Ranade and German economist Professor List. The classical economists like Adam Smith and Ricardo were different from Ranade and List. Because political economy is a hypothetical science, according to Ranade, its propositions are not based upon axiomatic truths like those of Euclid and do not absolutely and universally hold good, like the latter, true in all times. As a result, even if an economic strategy worked for England, it might not work for India. Ranade disagreed with the traditional English economists' call for free trade in India on this basis. Ranade argued that the state should take the initiative in expediting the industrialization process after seeing that Germany's ability to turn into a top-tier modern power was due to state initiative. Ranade shared Professor List's belief that a nation's trade policy is a part of its overall economic strategy.

As a result, Ranade believed that the government should guarantee or subsidise private efforts until private enterprise could support itself...should advance loans to private capitalist at low interest and help them in the choice of places and the selection of the form of investment. Ranade said that poverty was India's biggest issue and that it could not be solved until the industrialization process began. Ranade supported governmental involvement in the economy of the nation since the British administrators' policies of free trade and open competition did not support the expansion of India's industrialization. Furthermore, it was useless to have a surplus budget when the average person's budget was out of balance. In a time of fiscal excess, Gokhale suggested that the government take the following actions:

- a. A decrease of 25–30% in the state's need for land.
- b. The establishment of a fund with millions of pounds to free Indian farmers from debt.
- c. The creation of agricultural banks based on the Egyptian model, which will activate cooperative credit organisations.
- d. Supporting industrial and technical education and authorising higher spending for this reason.
- e. Primary education is free and required.

**f. Betterment of local government finances.**

Gokhale established the Servants of India Society in 1905 with the goal of educating individuals to dedicate themselves to serving India as national missionaries and to advance the national interests of the Indian people using all legal methods. Gokhale established the Ranade Institute of Economics in 1908. Gokhale was a leading reformer who fought against the caste system and untouchability, argued for women's independence, and promoted female education. Gokhale believed that the arrival of Western education and its liberalising effect in India was a tremendous gift for the populace. He firmly believed in the idea that widespread education was a need for developing a sense of national political awareness. He argued that all schools in India should immediately provide free elementary education.

Regarding Gokhale's views on nationalism and how the nationalist movement operated, he pushed for greater autonomy for Indians who would work with the government to enact reforms, win those reforms through constitutional means and persuasion, and then build on those reforms until, at long last, India became a self-governing Dominion within the British Commonwealth of Nations. While acknowledging the advantages of British rule generally, he never shied away from denouncing the Government's unfair policies and tyrannical behaviour[5], [6]. According to him, the economic effects of British rule in India were utterly catastrophic and led to horrifying poverty. He said that the most pressing need in India at the time was industrial education. He argued that outdated techniques in agriculture should be altered as much as possible. Improved agricultural tools and the introduction of agricultural science were urgently needed.

Gokhale admitted that while the handloom was performing well and had a bright future, machines would still need to do the bulk of the labour in the textile sector. He used the public stage to express his thoughts on social, economic, and political transformation in great detail. In the Imperial Legislative Council, he delivered some of his most notable remarks, particularly those on the annual budgets from 1902 to 1908. Gokhale often travelled to England. His first trip there, in 1897, was related to the Welby Commission. His analysis of key events in the history of Indian finance, his examination of the structure and budget of the Indian Army, and his emphasis on the subordination of taxpayer interests to those of the European services and the exclusion of Indians from the higher echelons of public service made his testimony stand out. Gokhale had a very prominent role when the Indian National Congress was first formed. He was revered by the populace and feared by the government. He supported the moderate political movement in opposition to Tilak's radical movement. However, he gave social change the same priority as political advancement. Gokhale spent over three decades giving his exceptional abilities to his nation and people in a manner that few could match.

**Ideas for Agriculture**

Gokhale believed that having a surplus budget was useless if the average person's budget could not balance. If the budget had a surplus, the excess would have to be used to support state development initiatives. Gokhale was also aware of the condition of Indian agriculture. He saw that India's agriculture sector was experiencing a severe downturn and that the crop yield per acre was poor. He objected to the state's proposal for a rise in land income under these conditions. He made it plain that he believed indirect taxes and land revenue combined burdened the poor in an intolerable way. He wanted irrigation and scientific farming to be prioritised by the state as means of ensuring agricultural prosperity. He disagreed with the excise charge on cotton textiles, which he said was put in place to balance off the import levies. Such a responsibility, in Gokhale's opinion, would only burden the poor.

In accordance with the theories of German economist Professor List, Gokhale argued for the protection of India's emerging industries on the grounds that it was an underdeveloped industrial nation. Gokhale noted: He List claims that when a country is industrially

backward enters the vortex of global competition with countries that use steam and machinery in their production, the first effect is to sweep away local industries and the country is temporarily forced back to agriculture. The state's responsibility enters at that point, he claims. When such a situation arises, the state should take action and, through a wise system of protection, it should support such industries so that the nation can resume its industrial path with the aid of cutting-edge machinery and, ultimately, successfully compete with the rest of the world. India need to heed List's counsel. In other words, Gokhale supported industrial growth, pushed for governmental involvement in the industrialization process, sought protection for emerging enterprises, and laid the path for the growth of capitalism [7], [8].

### **Indigenous Capitalism's Underlying Principles**

Gokhale supported the cause of Swadeshi in addition to criticising the British government's budgetary policies. He did not link the boycott to Swadeshi, however. The Swadeshi movement was an economic and nationalistic movement, according to Gokhale. Regarding its patriotic component, it represented a commitment to the country but also a march towards its mate. By determining the demand for locally produced goods, it guaranteed a ready market for those goods and provided a constant boost to production. According to Gokhale, the issue of production was one of capital, initiative, and talent, and anybody who could contribute in even one of those areas might be referred to be a worker for the Swadeshi cause. Gokhale had no qualms about requesting official support for the Swadeshi movement. Gokhale aimed to establish the basis of indigenous capitalism via the Swadeshi movement. Gokhale supported Ranade's social reform agenda [9], [10].

Gokhale shared Ranade's view that social as well as political changes were necessary. Ranade had pushed for a number of reforms as early as 1890, including the following: polygamy should be outlawed no one should marry after the age of sixty and efforts should be made to advance female education. The boys and girls should not be married before the ages of ten, twelve, and fourteen, respectively. Ranade generally agreed that all of these changes should be implemented gradually and that, when absolutely required, the state may be used to enact legislation to effect social change. Ranade thought that popular initiation rather than imposed laws would generally be more effective in bringing about social change. But unlike Tilak, Ranade was not completely opposed to the state interfering to support social changes. Gokhale used the same strategy as Ranade. He believed that the government needed to support society's progressive components. So, he agreed with the motion on the Civil Marriage Bill. With the backing of a powerful and informed minority Gokhale wished for the state to go on with social reform initiatives. Gokhale argued for government action to control the nation's social and economic life. As a result, the function he envisioned for the state was substantially different from the one that classical liberalism gave it.

### **CONCLUSION**

Thiruvalluvar's economic ideas may help us better understand the moral implications of economic decision-making. His beliefs support ethical business conduct that fosters community harmony, environmental sustainability, and the search for the greater good. The philosophy of Thiruvalluvar provides an all-encompassing strategy for economic growth by integrating material advancement with ethical and social advancement. The Thirukkural, which summarises Thiruvalluvar's philosophy of economic thinking, offers an original viewpoint on economic ethics and social advancement. His teachings place a premium on moral conduct, justice, and fairness in business dealings above just money gain. The economic ideas of Thiruvalluvar continue to motivate people and decision-makers to adopt business strategies that are morally just and socially beneficial, paving the path for a more just and sustainable future.

**REFERENCES:**

- [1] J. Schumpeter, *The theory of economic development*. 2021. doi: 10.4324/9781003146766.
- [2] D. Sainsbury, "Toward a dynamic capability theory of economic growth," *Ind. Corp. Chang.*, 2021, doi: 10.1093/ICC/DTZ054.
- [3] M. S. de Alencar, *Economic Theory*. 2021. doi: 10.4337/9781782548508.00039.
- [4] J. W. Stoelhorst and P. J. Richerson, "A naturalistic theory of economic organization," *J. Econ. Behav. Organ.*, 2013, doi: 10.1016/j.jebo.2012.12.012.
- [5] R. M. Solow, "A contribution to the theory of economic growth," *Q. J. Econ.*, 1956, doi: 10.2307/1884513.
- [6] F. Emami-Langroodi, "Schumpeter's Theory of Economic Development: A Study of the Creative Destruction and Entrepreneurship Effects on the Economic Growth," *SSRN Electron. J.*, 2018, doi: 10.2139/ssrn.3153744.
- [7] I. Smirnov, "A question about the existence of Russian economic thought," *Moscow Univ. Econ. Bull.*, 2021, doi: 10.38050/01300105202133.
- [8] H. Aravik, A. I. Hamzani, and N. Khasanah, "Dari Konsep Ekonomi Islam Sampai Urgensi Pelarangan Riba; Sebuah Tawaran Ekonomi Islam Timur Kuran," *Islam. Bank. J. Pemikir. dan Pengemb. Perbank. Syariah*, 2021, doi: 10.36908/isbank.v6i2.177.
- [9] I. Khaldun and A.-S. Tri Agung Saputra, "Islamic economic thoughts according to," *J. Islam. Econ.*, 2021.
- [10] M. S. B. M. Noh, "The Economic Thought of Syeikh al Mutawalli Al-Sya'rawi from His Book of 'Tafsir Al-Sya'rawi,'" *IQTISHODUNA J. Ekon. Islam*, 2021, doi: 10.36835/iqtishoduna.v10i2.1007.

## CHAPTER 21

### CONCEPT OF BHAI DADA NAOROJI THEORY IN ECONOMIC THOUGHT

---

Vipin Jain, Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India,  
Email Id: - vipin555@rediffmail.com

#### **ABSTRACT:**

Bhai Dada Naoroji, a well-known economist and social reformer from India, presented a complete theory that attempted to solve the economic difficulties India saw during the colonial period. This abstract intends to investigate the socioeconomic theory of Bhai Dada Naoroji, highlighting its importance in comprehending India's economic progress. The exploitation and deprivation of the Indian populace during British colonial authority gave rise to Bhai Dada Naoroji's idea. His writings place a strong emphasis on the need of indigenous industry, economic self-sufficiency, and social change to raise the people and advance economic development. The interdependence of economic growth, social fairness, and political freedom is acknowledged by Naoroji's thesis. The fundamental ideas of Bhai Dada Naoroji's theory are discussed in this abstract. His views included a wide range of economic topics, including as land reform, labour rights, fiscal policy, and the need of education for economic development. For India to become less economically dependent on colonial powers, Naoroji emphasised the need of fair taxation, equitable income distribution, and the development of native industry. We may understand colonial India's socioeconomic problems and the suggested remedies for its economic growth by analysing Bhai Dada Naoroji's thesis. His thesis offers a sophisticated analysis of the interconnectedness of social injustice, political oppression, and economic exploitation. In order to create sustainable and fair economic systems, it is crucial to implement inclusive economic policies, equal income distribution, and social reforms.

#### **KEYWORDS:**

Country, Civil, Military, Payments, Poverty.

#### **INTRODUCTION**

Dada Bhai Naoroji is widely known for the idea of the drain theory in terms of economic theory. The drain idea became synonymous with Indian economic nationalism in the latter two decades of the 19th century and the first decade of the 20th century. Its core point that the financial system used to preserve British rule in India resulted in a transfer of wealth and revenue from India to Britain and imposed a bleeding drain on the Indian economy was not limited to academic literature. It was mentioned in remarks given at open forums, the Indian National Congress' presidential addresses, and articles published in prestigious daily newspapers, most notably the Amrita Bazar Patrika. It became an article of religion among patriotic Indians, and for some people it still is [1], [2].

#### **Drain Theory**

Dadabhai Naoroji initially proposed the drain hypothesis in a collection of speeches and writings that was later collected in 1901 under the title Poverty and un-British Rule in India. R.C. Dutt, G.S. Iyer, G.K. Gokhale, and P.C. Ray contributed minor additions to the theory. The drain idea has been attributed to Naoroji by posterity, and with good cause.

Naoroji doesn't make a strong case for his uniqueness. Instead, he asserts that the idea of economic drain is well-established and credits many British writers to whom he expressly admits his debtor developing it. Sir John Shore, who stated in his minute to the Fifth Report of the Eastern Indian Company in 1787 that the company's trade produced no equivalent



returns to India, Mr. Frederick John Shore, a Bengali civilian, who stated in 1837 that India had lost a significant portion of the wealth she once possessed, and Mr. Saville Marriot, a Commissioner of Revenue in the Deccan, who stated in 1837 that the majority of the negative aspects of our rule in India were directly caused by, are just a These ideas trade with no equal returns, wealth drain, and yearly tribute formed the foundation of Nairobi's thesis of external economic outflow[3], [4]. The drain idea was neither formalised nor rigorously developed by Naoroji or his successors. It was spoken in a number of different ways, and there are still many possible interpretations of it.

For instance, it has been seen as an illustration of imperialism's economics at work, as an outmoded byproduct of mercantilism, as a manifestation of nationalist passion against foreign control, and as an early precursor to more contemporary neo-Marxist notions of unequal trade. However, the idea seems to have had a solid core if one simply considers the manner in which it was created by Naoroji and his close associates. This is made very evident by two writers' recent descriptions of the drain idea, both of whom have quite different fundamental viewpoints. I'll start with Bipan Chandra. The transfer of wealth to England, in the eyes of the Indian national leadership, was one of the major factors contributing to poverty in India. In reality, a significant portion of the national unrest throughout the study period was motivated by the drain theory, or the idea that some of the country's wealth or total yearly output was being shipped to England while India received little economic or material compensation. Or to put it another way, India was being forced to provide a kind of indirect tribute to the English country.

According to Barber, Indian nationalists hold to the drain hypothesis, which holds that the unilateral transfers that India was compelled to make to British, systematically stripped the country of resources and thus perpetuated poverty. Overall, publications by Indian nationalists around this time reveal that they had a very particular kind of drain in mind rather than using the word drain to describe all of the negative aspects of foreign control. As Dharma Kumar has noted, the issue of whether India gained value for the sterling payments made or if it was compelled to pay too much hinges on whether there was a drain from Indian, and this is a subject that can only properly be argued item by item. Indian authors saw the remittance to England of a percentage of the wages, earnings, and savings made by civil, military, and railroad workers of British descent, as well as by professionals like attorneys and physicians, as being the most significant factor. These placed a significant strain on the resources of a very impoverished nation, as did the payment of pensions and furlough allowances for British officers by the government of India in sterling.

The high cost in pounds of Indian government was linked to British policies, such as the exclusion of Indians from the civil service's top echelons[5], [6]. Raja Ram Mohan Roy said in 1831 that hiring Indians in favour of Europeans in the majority of administrative and judicial positions might significantly lower government spending. Even less enthusiasm than the East India Company had shown for such a strategy was displayed by British colonial leaders. Lord Ripon, who was sympathetic to Indian ambitions, made efforts in this direction, but these were derailed by the pressure of official opinion, which supported maintaining the civil services white. The argument over decreasing the maximum age restriction for recruitment to the civil service, which became a subject of intense discussion in India during the 1880s, served as an example of the disparity between the British and Indian points of view. Only twelve Indians had been hired between 1853 and 1883. It was believed that Indians, who on average graduated at a greater age than their British counterparts, had an increasingly difficult time competing as the maximum age restriction for applicants was gradually lowered from twenty-three to twenty-two, then to twenty-one, and finally to nineteen. On the British side, it was said that the major purpose of the alteration was to encourage English applicants to apply for the test and immigrate to India while still relatively

young. However, Indians, not without cause, believed that the move was made specifically to exclude them. The decrease of the age restriction was one of the few topics on which Indian opinion was unanimous or more acrimonious, according to Gopal, with the emotions sparked being far out of proportion to the numbers impacted.

### DISCUSSION

Over time, the advantages granted to government employees of British descent also rose. They were given exchange compensation in the amount of 15-20% in 1893–1894 in order to preserve the gold worth of the remittances nevertheless, Gokhale criticised this action for increasing the outflow. Indian economists made a variety of reasons in support of hiring Indians for the civil service. The drain would be lessened, of course, was the first benefit. One more was that it would boost effectiveness. Adam Smith had, after all, stated that monopolies generate inefficiency. When Indians would encourage study and contribute to India's long-term development, why should Britain maintain its position as the exclusive provider of administrative services? The drain notion does seem to have received some kind of support at this point in time, at least as far as this specific item is concerned. Military spending was another issue that Indian opinion was very worried about. The cost of military supplies provided to India and the various military fees that the Government of India paid in England constituted a drain, just like the remittances of a portion of salaries, incomes, and savings by British military personnel and the payment of pensions and other allowances of British army officers by the Government of India in sterling.

All of these things were included in the so-called home charges. 130,000 Indian and 66,000 British soldiers were financed by Indian tax payers in 1880. An English barrack in the Oriental seats, as Lord Salisbury put it, from which we may draw any number of troops without paying for them [7], [8]. The regulation, established in 1858 and carefully followed later, that there should be one British soldier for every three Indian troops in India and that no Indian should have a commission was a significant factor in the army's high cost. The Indian budget had to be used to cover both the costs of the Indian army and the costs associated with British soldiers stationed in India. Additionally, the British often employed Indian soldiers in their colonial conflicts. Frequently, Indian earnings had to be used to cover all or a substantial portion of the costs associated with such battles. During the Boxer uprising of 1900, Indian soldiers participated in the siege of Peking. They also served in the Abyssinian campaign of 1864, the second Afghan war in 1878, the Egyptian expedition of 1882, and on many other occasions overseas.

India was regarded quite differently from the colonies, as Lawrence noted in 1864. Nobody would consider asking any of the latter to cover a fraction of Afghanistan's costs. No statesman would accuse Australia or Canada. All of this not only placed a heavy financial load on India, but also required payments to be made partially or entirely in sterling. Many Indian economists and intellectuals, most notably G.K. Gokhale, were calling attention to these kinds of issues. They had a point, as later study has amply shown. India was a developing nation that was being required to contribute far more money to imperial defence than was appropriate. It was being expected to carry not just a sizeable share of the expenses that ought to have been borne by other areas of the empire, but also a piece of the British burden. The direct expenses of both Indian and British soldiers stationed in India as well as a portion of the cost of Indian troops employed in mostly imperial exploits were covered by India. Thus, the sub-continent provided the whole British Empire with a military reserve. Remittances sent in sterling for interest on loans for the creation and maintenance of public facilities, such as railroads and irrigation systems, were the third item Naoroji and some of his supporters included in the drain. However, the argument for classifying this item as a drain is even less compelling. Naoroji acknowledged this and stated:

Please don't misunderstand me I believe that India has unique duties to England over these debts. I don't bring up this point in an accusatory manner all I'm trying to say is that although interest may be a component of India's exports, it is not a component of the country's trade, even if it were entirely generated by the railroads. However, when it came to interest on unproductive loans, such those needed for military expenses, such a criterion was not necessary. Naoroji's 'physiocratic' conception of the function of services was mirrored in his unwillingness to recognise interest payments as a legitimate item of international trade. He was still unfamiliar with the concept that payments for intangible exports were just as legal as those for tangible exports. He had a similar problem understanding how payments for transport services were included in national income together with the value of the products moved.

### **Criticisms**

Let's go on to the drain theory's detractors and start by looking at the British reaction, which was unsurprisingly negative. Older perspectives, like those of Sir John Shore, to which Naoroji had called attention while formulating the theory, were no longer regarded favourably. The drain idea was seen as a challenge to the tenets of British authority in India. Academics and government spokespeople stepped out in support of the Raj. The most persuasive response was provided by Sir Theodore Morrison in his 1911 book *Economic Transition in India*, which Keynes praised in the following year's issue of *Economic Journal*. Morrison did not contest the reality of the idea of an economic outflow, however. He defined the drain similarly to Naoroji, as the value of that portion of India's exports in goods or money for which she receives no material equivalent. Both Indian proponents of the drain hypothesis and its British detractors agreed that India did not obtain an equivalent return for certain of its exports. They disagreed on how much of a role this really played.

Morrison said that drain theorists had vastly overstated the size of the drain. This was partially due to the fact that they had neglected to account for pertinent deductions while determining the export surplus. For instance, they overlooked the reality that a portion of the export 'surplus' was offset by invisible imports including shipping costs, insurance premiums, and spending by Indian tourists and students overseas. Morrison argued that neither had taken into consideration the imports of gold and silver. Second, interest on foreign money made up a portion of the so-called outflow. Morrison claimed that the capital itself was productive. It was used in the construction of jute mills, tea plantations, irrigation systems, and railroads. All of them enabled long-term economic development in addition to contributing to national revenue. Indians should be thankful to British investors for making up for the lack of native financial resources instead of complaining about a drain. India benefited even more from this relationship with the British since it was able to borrow money on the most affordable capital market in the world. Even if it had been possible, borrowing in India would have been far more costly.

In fact, India was able to save money because of how inexpensive its public debt was, and this amount was not very far from being enough to wipe out the entire political drain. Morrison acknowledged that India was handled differently than other colonies in terms of various Home Charges, but he insisted that the total was not significant. More significantly, India benefited from the advantages of strong governance, including peace and order, protection from outside attack, and a modern, effective administration. India had therefore obtained a government that was friendly to economic evolution and less expensive than she could have done it herself. Morrison only makes a good in parts case against the drain idea. It has previously been shown that Indian statistics estimates of the drain's size were often biased higher.

Morrison's own treatment, on the other hand, is biased and selective. Consider his claim that Indian authors had neglected to account for the import of bullion when estimating the export

surplus. This is not the case, for example, with Gokhale, who in his 1905 presidential speech to the Indian National Congress alluded to the net excess of exports over imports including treasure when he spoke of the great and ruinous drain of wealth from the country. Similar to this, he leaves out the fact that G.V. The similar argument has been made by Joshi, a well-known proponent of the drain hypothesis. Joshi had advocated for using pound loans rather than rupee loans to fund projects like building a railway, both because sterling loans were more affordable and because it would be undesirable to divert India's limited financial resources away from industrial investment. Once again, Morrison makes no mention of the nationalist argument's main teeth the demand for Indenisation of the services[9], [10].

### **Critiques of the Drain Theory from India**

The drain idea was criticised by authors from other countries as well. Many Indian nationalist authors also argued against it in one way or another. Bankim Chandra Chatterjee studied the outflow theory from the perspective of Bengal's agricultural economy in a series of pieces that were published in the prestigious Bengali Journal, *Bangadarshan*. He, like others, did accept one aspect of the idea, namely that remittances from wages received in India by government officials of European descent sapped money from the nation. However, he believed that it was incorrect to assume that this outflow contributed to growing poverty in India. In arguing that the sum involved was minimal and that it was more than made up for by the excellent management brought on by British rule, Chatterjee foreshadowed Morrison. Furthermore, Chatterjee asserted that poverty, particularly in rural Bengal, was not rising. Bengal was impoverished compared to other European countries, but there was no reason to think she was any poorer now than she had ever been. Contrarily, there was enough of data to support the idea that wealth was rising.

The improvement in administration itself has contributed to this. The general populace no longer feared robberies, break-ins, foreign attacks, or government officials who were no longer free to steal the money of common people by whatever means necessary. Higher levels of security and savings have fostered a rise in population. If someone wishes to save, he can be confident that he and his progeny would be able to enjoy the fruits of it. This in turn has increased the area under cultivation. According to Chatterjee, a growth in trade volume was another factor in greater prosperity. Those who believed that a rise in commerce implied a decline in prosperity were simply misinformed. This was true for both imports and exports. The idea of uneven trade, which was a component of certain forms of drain and is still relevant today, was then attacked by Chatterjee. According to Chatterjee, if we spend \$6 on purchasing British fabric, we will get a commodity in return. We lose if we pay more than the reasonable price. However, the pricing is not unjust if we can get that fabric somewhere for less than '6.

As a result, there is no loss to the nation. Once again, home manufacturing need not be preferable to imports. This implies that Chatterjee is not very significant since one must take into account the price per unit at which the fabric is sold. If we had purchased 6 worth of cloth from a domestic weaver, the money would, it is true, have remained in the country rather than being remitted abroad. We would have purchased the cloth from the domestic weaver rather than a foreigner if he could have done so at the same price '6. However, the foreigner wouldn't have attempted to sell it in such situation either. Buying from the less expensive foreign supplier benefits consumers. What about the weaver's loss? Weavers lost business because people in India preferred to purchase foreign fabric rather domestically produced clothing since it was less expensive. However, Chatterjee contends that the solution was for them to learn new trades. 'Some manufacturing lines had decreased demand, while others experienced increasing demand.

Additionally, there was a rise in demand for Indian products in British markets. If there was a problem, it was the unwillingness of our people to abandon their traditional line of work, not

the growth of commerce. Foreign businessmen were not stealing our money either via imports or exports. Contrarily, our wealth was rising as a result of international commerce. Ranade, a far more significant opponent of the notion, discussed the drain in his opening remarks at the first Industrial Conference in Poona in 1890. He did concur that costs for administration, defence, and the payment of pensions to British personnel stationed in India could 'so far as they are not required for the defence and good governance of India' constitute a drain on resources. However, we must also consider the fact that we are enabled by reason of this British connection to levy an equivalent tribute from China by our opium monopoly in contrast to this. Ranade believed that the drain issue was mostly a political one. Not to divert and waste your energies in the fruitless discussion in the question of tribute, which had better be left to our politicians, he urged his readers in one of his writings. India's industrial development was hindered by several and more significant issues, including a lack of effective organisation, leadership, financial systems, and a skilled work force.

### **Long-Term Relevance**

This section examines the drain theory controversy's historical development and long-term applicability. Three succinct observations make up the sub-section. The first of them is methodological and deals with the economic examination of unilateral capital transfers between nations that are done for non-commercial purposes alone. Such payments have been covered in recent economic literature under the heading the transfer problem. Keynes' study of the economic repercussions of Germany paying the war reparations required by the Treaty of Versailles at the conclusion of the First World War is a well-known example. The relationship between such capital transfers and the conditions of trade is given careful consideration in this research. Both Naoroji and Dutt failed to approach the issue from this angle. Some other Indian authors on the drain do, however, demonstrate an understanding of the significance of its trade theoretic component.

This is what they deduced after reading J.S. Mill, whose work had long been admired by Indian economists, had established the connection between reciprocal demand and commodity terms of trade. Iyer claims that the drain is caused by both a direct, unreturned expenditure as well as the fact that it forces India to trade her goods on less favourable terms, as pointed out by J. In a well-known passage, S. Mill. The quote goes as follows: A country that makes regular non-commercial payments to foreign countries loses not only what it pays, but also something more, because it is forced to exchange its production for less favourable terms from foreign commodities. If Iyer or other members of the school had expanded on the idea, they may have helped advance trade theory. As it is, it continues to be ancillary to their examination of drain. The drain's size is the subject of the second point. As we've seen, Naoroji defined drain as the continuous flow of resources from India to England without India receiving a comparable economic benefit. Therefore, he thought that the surplus of exports over imports, or unrequited exports, was a good measure to gauge the drain. According to Bipin Chandra, this excess was simultaneously referred to as the proof of the existence of the drain, the form of its remittance, and the measure of its extent in the works of Naoroji and his disciples. Naoroji and others generated estimates of the drain over different time periods using this basic methodology. They were also stated as a percentage of Indian income, either gross or net, and either in terms of rupees or pound. The estimations vary greatly among themselves while sharing a same technique. R.C. was obligated to provide a well-known figure. According to Dutt, one-fourth of the revenues derived in India was remitted annually to England. Thus, out of the £647 million in total money received during the final ten years of Queen Victoria's reign, a sum of £159 million was paid out. Several historians have attempted to re-estimate the outflow in recent years. They contend that the export surplus measure, even after corrections, overestimates the drain. Instead, they

define the drain as the portion of home charges that may be considered wasteful or ineffective.

Additionally, they often represent the outflow as a percentage of gross domestic product rather than of governmental revenue. The estimations that arise are modest. Between 1870 and 1900, the outflow barely accounted for .04 to .07 percent of India's national output, according to Mukherjee 1972: 205. Even if all Home Charges are considered to be ineffective, Charlesworth 1982 notes that the drain would still barely exceed 0.5 percent of national income. These results have caused the drain idea to be somewhat devalued in modern historical literature. Although the Indian army's main duty is to keep India safe so that this money may be collected, military spending is the single largest burden on Indian finances, accounting for around 40% of the Government of India's total expenditure. Similar to spending on famine policy, there was no explicit or tacit effort made to design a cost-benefit strategy. In hindsight, the drain theory's insight into the connection between economic growth and the balance of payments may be its most significant contribution. Over the last several decades, emerging nations in the early stages of fast expansion have nearly always struggled with their balance of payments.

Exponents of the drain hypothesis could nonetheless detect a certain incongruity between India's economic backwardness and her constantly good balance of trade, despite the fact that they lacked this experience to use as a guide. India had an almost nil rate of economic development towards the end of the 19th century and was a relatively underdeveloped nation. The accumulating export surpluses were not an indication of an imminent boom, but rather of a growth-delaying investment pattern. The complacent official perspective offers very little insight into what was happening, whereas the drain idea at least partially does. Ranade identified the theory's fundamental flaw. While there is no doubt that the financial policies imposed on India by the British featured some element of drain, it is doubtful that either of these factors was the primary contributor to poverty or the primary restraint on India's economic progress. The emphasis of Indian economic philosophy was narrowed by its preoccupation with drain, which also served to distract from the more urgent issues that Ranade wanted to bring to light.

### CONCLUSION

The importance of Bhai Dada Naoroji's theory to India's economic development is also examined in this abstract, along with its effects. His socioeconomic outlook influenced the discussion of economic policy in the years leading up to Indian independence and provided a solid basis for later Indian nationalist movements. In the years after independence, Naoroji's philosophy helped pave the way for the development of swadeshi indigenous enterprises, economic independence, and social justice. Finally, the idea of Bhai Dada Naoroji's theory in economic thinking gives insightful perspectives on the socioeconomic outlook of a trailblazing Indian economist and social reformer. His theories are still relevant today, emphasising the value of social justice, fair income distribution, and economic self-sufficiency in fostering inclusive and sustainable development. Analysing Naoroji's thesis may help us understand India's economic past better and provide insight into how to deal with current issues like economic inequality and exploitation.

### REFERENCES:

- [1] A. K. Dasgupta, "A history of Indian economic thought," *Choice Rev. Online*, 1994, doi: 10.5860/choice.31-5549.
- [2] V. Visana, "Vernacular liberalism, capitalism, and anti-imperialism in the political thought of dadabhai naoroji," *Hist. J.*, 2016, doi: 10.1017/S0018246X15000230.
- [3] L. H. Handoko, "History of Islamic Economic Thought: A Content Analysis," *Libr. Philos. Pract.*, 2020.

- [4] S. Al-Daghistani, "Semiotics of Islamic Law, Maşlahā, and Islamic Economic Thought," *Int. J. Semiot. Law*, 2016, doi: 10.1007/s11196-016-9457-x.
- [5] S. Sharma, "The death of Political Economy: A retrospective overview of economic thought," *Economic Research-Ekonomska Istrazivanja* . 2020. doi: 10.1080/1331677X.2020.1761854.
- [6] D. Lourenço and M. G. Moura, "Tony Lawson and the history of economic thought," *Cambridge J. Econ.*, 2020, doi: 10.1093/cje/beaa030.
- [7] D. Bögenhold, "History of Economic Thought as an Analytic Tool: why Past Intellectual Ideas Must Be Acknowledged as Lighthouses for the Future," *Int. Adv. Econ. Res.*, 2020, doi: 10.1007/s11294-020-09775-3.
- [8] M. C. Marcuzzo, "Is history of economic thought a 'serious' subject?," *Erasmus J. Philos. Econ.*, 2008, doi: 10.23941/ejpe.v1i1.10.
- [9] Q. A. Bakir and Z. K. Nawaf, "The impact of Islamic economic thought on Europe," *Dirasat Hum. Soc. Sci.*, 2020.
- [10] M. Belloc, S. D'Alessandro, M. Di Maio, F. Drago, and P. Vertova, "Technology and the environment in the history of the economic thought," *Int. J. Glob. Environ. Issues*, 2008, doi: 10.1504/IJGENVI.2008.019367.

## CHAPTER 22

### CONCEPT OF MAHADEV GOVIND RANADE IN ECONOMIC THOUGHT

---

Pankhuri Agarwal, Associate Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India,  
Email Id: - dreams.pankhuri@gmail.com

#### **ABSTRACT:**

A well-known Indian social reformer, economist, and political theorist named Mahadev Govind Ranade had a considerable impact on economic theory in the late 19th and early 20th centuries. This abstract explores Mahadev Govind Ranade's contributions to economic philosophy and the ramifications of his theories for the future of India's economy. Economic self-sufficiency, industrial growth, and social welfare were the guiding elements of Ranade's economic philosophy. To lessen India's economic reliance on other nations, he emphasised the need of strengthening domestic industries and industrial capacities. Ranade saw the need of balancing social justice and the advancement of society's most vulnerable groups with economic success. The fundamental ideas of Mahadev Govind Ranade's economic philosophy are examined. He pushed for the creation of cottage industries, agricultural advancements, and infrastructural initiatives to increase India's economic potential. In order to generate a skilled workforce and encourage entrepreneurship, Ranade emphasised the need of education and skill development. His views were a direct result of his strong opposition to economic inequality and the need for inclusive development. For modern politicians and economists looking for fair and sustainable economic models, Ranade's focus on indigenous industries, education, and development that is inclusive is instructive.

#### **KEYWORDS:**

Argument, Economic, Employment, Investment, Savings.

#### **INTRODUCTION**

Ranade's economic publications all focus on the issue of poverty. He made no effort to quantify the severity of poverty, just asserting that it was pervasive and endemic and that it was self-evident. Ranade said the following in his opening remarks at the First Industrial Conference at Poona in 1890: We merely need to analyse the most basic features of our economic status and stroll through our streets to see that we are a people with limited resources. Many of our population just make a few annas every day. Many more millions of people constantly go hungry and live on the precipice of hunger and slow death, which is where they fall when a single monsoon fails [1], [2]. Ranade reflected the dominant perspective of Indian economic literature by presuming the reality of mass poverty and highlighting the tight connection between poverty and famine. Ranade believed that poverty was a carryover from the pre-British period, in contrast to others like Naoroji or Dutt. He asserts that it is not a recent development and was not brought about only by foreign invasion and rivalry.

It's a very, very ancient inheritance. In fact, Ranade saw the increased awareness of poverty as a sign of the advancements brought about by British rule, saying, if we feel it more keenly now, we feel it because we are roused from the sleep of ages, and our eyes have learned to see, and our ears have learned to hear. We carry a unique and distinctive tone throughout Ranade's work, as is the case here. Ranade considered it to be an open but uninteresting subject whether poverty in the 19th century was more pervasive or extreme than that which had existed previously. Instead of economics, it was of interest to historians. Ranade stated: The question of our comparative improvement or decline under foreign rule is similarly a



question of antiquarian history in his introductory speech to the First Industrial Conference in Poona in 1890. The practical issue that has to be taken seriously by everyone is not only the relative but also the absolute poverty and general powerlessness of the nation today. Looking back with bitterness or rage would not be helpful. The issue was how to address this sense of powerlessness, and the solution required a diagnosis that included examining the root causes of poverty. Ranade cited the over-reliance of the Indian economy on agriculture as the main contributing factor. Again, Ranade didn't make any inflated predictions for the past or make an effort to link every economic problem to the British takeover.

Neither has the old Indian economy shown a balanced condition of growth. Ranade said the following in his opening remarks at the Poona Industrial Conference in 1890: The coordination of industries, which controls the proper ratios of men who cultivate the land and raise raw materials, with those who manufacture these materials, and still others who exchange and distribute them, and whose three-fold activity interacts to make a nation thrive, was never a very significant aspect of our collective social polity[3], [4]. Like almost other pre-modern nations, India had a strong agricultural base. However, things had become worse. Whatever advancements we may have made in other areas, he continued in the same conference. There can be no doubt that we have recently become more dependent upon the single resource of agriculture, precarious and contingent as that resource is upon influences we cannot control or count upon with certainty.

Increasing economic engagement with the outside world has led to this development. A reduction in production and employment in indigenous craft industries has been caused by free trade and competition from goods of contemporary industrial sectors. The decrease itself was unavoidable since imported, machine-produced products were less expensive than the same items manufactured in-country by handcraft. Even without any assistance from the Indian government, British manufacturers and traders would ultimately have established their supremacy in the Indian market. However, the government's attempts to promote British goods helped hasten the process of domestic industry's demise far more quickly than was necessary and hindered the transition from taking place in a more orderly and progressive manner. An example of such customs charges on producers of cotton, silk, and woollen clothing as well as on worked metals, which resulted in the loss of employment for a very large number of skilled craftsmen.

They were forced to compete with low-paid agricultural labourers on the job market. The approach was characterised by a growing reliance on agriculture[5]. Every class of craftspeople spinners, weavers, dyers, oilmen, papermakers, producers of silk, sugar, and metal, among others who are unable to compete with Westerners turn to the land, leave the cities, and travel into the countryside, where they become lost among the vast number of helpless people who are unable to deal with scarcity and famine. However, the process's side effects and long-term consequences could be far more detrimental. It is clear that the process of ruralisation in contemporary India is one of rustication, which involves a loss of strength, intellect, and independence. A few changes such as the expansion of seaports, military bases, and railway stations had the opposite impact, but they were insufficient to counteract the forces of the economy that were pushing towards ruralisation. To stop and reverse the process, industrial growth was necessary[6].

### DISCUSSION

A variant of what has become known as the balanced growth argument in current development economics literature is one that Ranade often references in his work. He adopts Friedrich List's German school of historical economics to describe economic development as the complete and comprehensive growth of society's productive forces. This calls for effective coordination across many sectors, since no one sector can guarantee sufficient and long-term demand for its product. Coordination between *agarstaat* and *industriestaat*, and

more broadly between rural and urban employment, is necessary, according to List's language. A significant rise in industrial employment and production is therefore a prerequisite for continuous economic development, given the baseline state of the Indian economy. However, government economic policy in India often tended to exacerbate the current imbalance rather than attempt to fix it. Ranade often voiced this criticism of the government's economic strategy, notably in his early publications. India was instructed to focus all of its efforts on increasing raw exports, and at any costs, canals, railways, and better communications were to be pushed forward to make it easier to export raw materials and import English manufacturers. India's own industrial requirements were comparably unimportant. In the passage that follows, he makes his point even more forcefully.

This dependency has come to be regarded as a plantation, growing raw produce to be shipped by British agents in British ships, to be worked into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere. A second argument is based on the idea of stages of growth, which is connected to the first argument but logically separate from it. Once again, Ranade takes a cue from Prof. List, who lists the historical phases that a normal economy must go through: hunting, agriculture, agriculture with manufacturing, and trade. By differentiating between an existing stages of agricultural plus handicraft and one of agriculture plus industry plus commerce, which he held up as the next stage to which India should aim to go, Ranade modified the programme to suit Indian circumstances. This type of taxonomy is at best only suggestive, but it gave Ranade a handy tool to push for industrialisation.

It also explains why he always seemed to associate industrial prosperity with an open economy. Thirdly, the manufacturing sector gave greater room than most other industries for what Ranade termed art manipulation, or the use of contemporary technology into the manufacturing process. This explains why it is discovered that a society's total production per capita is closely correlated with the percentage of its labour force employed in manufacturing, a finding that was promptly recorded by Richard Jones, one of Ranade's favourite English economists. A nearly connected argument is based on the idea that growth is a kind of learning. Ranade said that manufacturing work was a more effective learning environment than conventional agricultural work and may even be superior to formal schooling. When the nation was given the opportunity to start over and factories and mills of all sizes were built throughout the country, the current state of paralysis would end and be replaced by a flurry of activity that would revitalise the nation's activities far more effectively than schools and colleges could.

Ranade's conception of India's industrialization was motivated by his notion of economic growth as a historical process. There can be no question that all other treatments can only serve as short palliatives and that the permanent rescue of the nation rests on the expansion of Indian manufacturers and trade. Economic growth often involves a shift from primary to secondary manufacturing, and more broadly, from goods whose value added in production was low to those whose value added was noticeably high. Additionally, it required active involvement in the global economy. Other economists from his day or our own who advocated industrialization as a way to boost economic development in underdeveloped nations often focused on the local market and preferred substitution as the fundamental guiding principle[7], [8].

Some even believed that autarky was essential for emerging nations to gain autonomy in their growth. Ranade, on the other hand, focused on export-driven development and an open economy framework. Ranade said the following during the Poona Industrial Conference in 1893. What we must do is learn through organised cooperation to compete with the foreigner, bringing in as much raw material from abroad as we require, processing it here, and sending the same quantities in less bulky but more valuable forms to replace our raw material exports

after they have undergone artistic manipulation and given our industrial classes a job. Although a large portion of the raw materials would come from indigenous sources, it was also planned to import raw materials from other countries for use in the development of manufactured products in India. This would guarantee that the quality of exported manufacturing was maintained at a high level throughout the early phases of industrialisation. When our land is not suitable for their manufacturing, we either need to upgrade our raw resources or import them.

Ranade supported international imports of capital equipment and skilled labour for the same reason. He advised us to freely import foreign expertise and equipment until we fully grasp our teachings and are self-sufficient. Ranade wasn't a traitor, but this final comment angered nationalists like Tilak, whose newspaper *Kesari* published an essay on the dangers of foreign investment with the headline Mahadev in singing the praise of foreign capital is a traitor to his country. He was simply a development economist who understood that challenges to establishing industrial progress in a nation like India may stem from the country's extensive agricultural history. We have been rustivating for far too long it's time to put our skillful hands to fresh labour and flex our muscles for harder, more reliable job. Both overseas commerce and foreign money may be useful in completing that aim.

India's industrialization will not be a simple process. Political, social, and economic barriers were in the way, and they were strong. The lack of investment funding was the economic barrier to industrialisation that Ranade stressed the most. Just as India's land yearns for water, so the nation's industry is parched from a lack of capital. A national need is for capital that is eager for investment and comfortable with low interest rates. Low savings contributed to the lack of investment money, and a significant amount of total savings went towards buying precious metals for storage. Ranade provided estimates of the scope of hoarding in a speech to the Indian Industrial Conference in 1890. We import precious metal bullion, including 3 crore of gold and 9 crore of silver, valued a total of 12 crore per year. Seven crore of the silver are delivered to the Mint by us each year, and the remaining silver is absorbed like gold. The whole gold vanishes and is absorbed by the land. Since 1834, this consuming procedure has virtually destroyed close to 450 crore of money that might have been used for other purposes.

Ranade pointed out that although 25 crore individuals had saved 450 crore over 50 years, it was not a symbol of tremendous affluence and that we had really been worse off by either purchasing it or wasting it. The lack of overall savings was made worse by flaws in the institutional framework for industrial financing. Men in a few big 'Presidency' towns with limited ties to the rest of the nation controlled the majority of the savings that were accessible. The practise of creating joint stock companies was not established, and available funds were placed in industry rather than in government securities or presidency, exchange or post office savings banks. India thus had access to more finance than it could use. Money is there and waiting for a safe investment. There is a sizable, open expanse of industry that is in need of funding and provides the safest investment for its lucrative employment. To make both of them operate in harmony and collaboration, it is vital to have the talent and patience to match one's ability to the other's goals. Ranade cited the absence of an entrepreneurial heritage as a barrier to growth in addition to bad government policies and flaws in industrial financing. He thought that most modern Indians lacked initiative and drive and tended to reject the pursuit of riches as a life goal out of religious convictions. In these conditions, the government had a crucial role to play in promoting the industrialisation process. Laissez-faire theory holds that the government shouldn't interfere with the economy. Only those exceptions were allowed that were necessary to carry out the fundamental responsibilities of government, including defending people from external assault and maintaining law and order. Intervention to enforce contracts was necessary and ethical yet, assistance to private

enterprise was not. Ranade didn't directly disagree with such idea. He reasoned that in certain cases, it may even help the sector expand far more than direct assistance would have. However, this was not the case in India. A large portion of Indian industry was in a condition of decline or perhaps collapse due to historical circumstances. Ranade stressed that the government must take action to support the expansion of local private industry.

### **Mahadev Govind Ranade**

All of Ranade's economic writings centre on the problem of poverty. He did not attempt to measure the degree of poverty instead, he just said that it was widespread, endemic, and self-evident. At his inaugural comments at the First Industrial Conference at Poona in 1890, Ranade said the following. We just need to examine the most fundamental aspects of our economic situation and take a walk around our neighbourhoods to see that we are a people with little resources. Many people in our society only earn a few annas every day. When a single monsoon fails, millions more people who are continuously hungry and on the verge of starvation and a lingering death fall. By assuming the existence of widespread poverty and emphasising the close relationship between poverty and famine, Ranade echoed the prevalent viewpoint of Indian economic literature.

Ranade, in contrast to Naoroji or Dutt, thought that poverty was a holdover from the pre-British era. He claims that it is not a new development and that competition and foreign invasion are not the only factors that contributed to it. It is a really old legacy. We carry a particular and distinctive tone throughout Ranade's work, as is the case here. In fact, Ranade saw the increased awareness of poverty as a sign of the advancements brought about by British rule, saying, If we feel it more keenly now, we feel it because we are roused from the sleep of ages, and our eyes have learned to see, and our ears have learned to hear. Ranade believed that the question of whether poverty was more intense or ubiquitous in the 19th century than it had been in the preceding century was an open but uninteresting one. It was of importance to historians rather than economists. In his opening address to the First Industrial Conference in Poona in 1890, Ranade said the question of our comparative improvement or decline under foreign rule is similarly a question of antiquarian history. The current state of the nation's practical situation, which includes both relative and absolute poverty as well as a widespread sense of helplessness, must be treated seriously by everyone.

Looking back with resentment or anger would be useless. The problem was how to deal with this feeling of helplessness, and the remedy called for a diagnosis that included looking at the underlying reasons of poverty. The primary contributing cause, according to Ranade, is the Indian economy's over-reliance on agriculture. Once again, Ranade avoided making exaggerated projections for the future or attempting to attribute every economic issue on the British rule. The old Indian economy hasn't either shown a balanced state of growth. In his inaugural comments at the Poona Industrial Conference in 1890, Ranade said the following: Coordination of industries, which regulates the right proportions of men who cultivate the land and raise raw materials, with those who manufacture these materials, and still others who exchange and distribute them, and whose three-fold activity interacts to make a nation thrive, was never a particularly significant aspect of our collective social polity[9], [10]. India has a solid agricultural foundation, much like the majority of pre-modern countries. But things had become worse. In the same conference, he added that there can be no doubt that we have recently become more dependent upon the single resource of agriculture, precarious and contingent as that resource is upon influences we cannot control or count upon with certainty.

This development is the result of increased economic involvement with the outside world. Free trade and competition from products of modern industrial sectors have led to a decrease in output and employment in indigenous craft industries. Since imported goods created by machines were less costly than equivalent goods made locally by handicraft, the decline was

inevitable. British producers and dealers would have eventually established their dominance in the Indian market even without any help from the Indian government. Although it wasn't required, the government's efforts to promote British products hastened the decline of local industry and prevented the transition from happening in a more orderly and gradual way. An example of such customs fees imposed on manufacturers of cotton, silk, and woollen garments as well as on those who create wrought metals, which contributed to the loss of employment for a very significant number of experienced artisans. On the employment market, they were compelled to compete with low-paid farm labour. An increased dependence on agriculture was a defining feature of the strategy.

Every class of craftspeople, including those who make silk, sugar, and metal, among others, turn to the land, leave the cities, and move into the countryside, where they get lost among the countless helpless people who are unable to deal with scarcity and famine. These craftspeople include spinners, weavers, dyers, oilmen, papermakers, and producers of silk, sugar, and metal. The technique's side effects and long-term repercussions, however, can be far more negative. It is obvious that rustication, which implies a loss of power, intelligence, and independence, is the process of ruralisation in modern India. Although certain modifications, such as the rise of seaports, military installations, and railway stations, had the opposite effect, they were inadequate to halt the economic forces that were moving the country towards ruralisation, and industrial growth was required to stop and reverse the trend. Ranade often makes use of a variation of the argument that has come to be recognised as the balanced growth argument in the literature on development economics today. He uses the German school of historical economics founded by Friedrich List to define economic progress as the full and thorough expansion of society's productive powers. Since no one sector can provide adequate and sustained demand for its product, efficient cooperation across multiple sectors is required. According to List's words, coordination between agricultural industries, as well as more generally between rural and urban jobs, is required. Given the baseline condition of the Indian economy, a considerable increase in industrial employment and output is therefore a must for ongoing economic progress.

However, rather than attempting to correct the present imbalance, Indian government economic policies often sought to make it worse. Ranade often criticised the government's economic policy, especially in his early writings. India was given the order to concentrate all of its efforts on boosting raw exports and, at all costs, to forward the construction of canals, trains, and improved connections to make it simpler to export raw resources and import English manufacturers. Comparatively speaking, India's industrial needs were insignificant. The author makes an even stronger argument in the passage that follows: This dependency has come to be regarded as a plantation, growing raw produce to be shipped by British agents in British ships, to be worked into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere. The foundation of a second argument is the concept of stages of growth, which is related to the first argument but logically distinct from it. Ranade once again adopts Prof. List's list of the historical stages that a typical economy must go through, which includes hunting, agriculture, agriculture plus industry, and commerce. Ranade altered the strategy to fit Indian conditions by distinguishing between an existing stage of agriculture plus handicraft and one of agriculture plus industry plus commerce, which he held up as the next stage to which India should seek to move. Though just suggestive at best, this kind of classification provided Ranade with a useful tool to promote industrialization.

It also explains why he constantly seemed to link industrial success to a free market. Thirdly, the manufacturing sector allowed for more art manipulation, or the use of modern technology into the production process, than most other sectors did. This explains why it is found that a society's total output per capita is strongly connected with the proportion of its labour force

working in manufacturing. Richard Jones, one of Ranade's favourite English economists, immediately noted this correlation. The argument that growth is a kind of learning is the foundation of a virtually related argument. Manufacturing employment, according to Ranade, provides a more conducive atmosphere for learning than traditional agricultural labour and may even be preferable to formal education. The current state of paralysis would end and be replaced by a flurry of activity that would revitalise the nation's activities far more effectively than schools and colleges could when the country was given the chance to start over and factories and mills of all sizes were built throughout the country.

Ranade's view of economic progress as a historical process led to his understanding of India's industrialisation. There is no doubt that the growth of Indian manufacturing and commerce is necessary for the nation's long-term recovery and that all other remedies can only work as temporary palliatives. Economic expansion often entails a switch from primary to secondary manufacturing and, more generally, from items with a visibly low value contributed in production to those with a high value added. It also needed active participation in the world economy. Other economists from his day or now who promoted industrialization as a means of fostering economic growth in developing countries often concentrated on the local market and favoured substitution as the key guiding principle.

Some even held the view that autarky was necessary for developing countries to achieve autonomy in their development. Ranade, on the other hand, concentrated on an open economy framework and export-driven growth. During the Poona Industrial Conference in 1893, Ranade said the following what we need to do is develop organised cooperation so that we can compete with the foreigner. To do this, we must import as much raw material from abroad as we need, process it locally, and then export the same quantities in less bulky but more valuable forms to replace our raw material exports after they have undergone artistic manipulation and provided work for our industrial classes. It was intended to import raw materials from other nations to be used in India's production of manufactured goods, even if a large amount of the raw materials would originate from domestic sources. This would ensure that during the early stages of industrialization, the standard of exported production was kept high. When our soil is unfit for their production, we must either improve our raw materials or import them.

For the same reason, Ranade encouraged the importation of capital goods and trained labour from other countries. He recommended us to freely acquire foreign know-how and apparatus until we properly understood our lessons and were independent. Ranade wasn't a traitor, but his last remark infuriated nationalists like Tilak, whose newspaper *Kesari* published an essay on the risks of foreign investment with the headline, Mahadev in singing the praise of foreign capital is a traitor to his country. He was just a development economist who recognised that obstacles to establishing industrial progress in a country like India may arise from the nation's extensive agricultural history. It's time to use our skilled hands to do new tasks and stretch our muscles for a tougher, more dependable job since we have been rustivating for far too long. International trade and foreign currency might both be helpful in achieving that goal.

India's industrialisation won't happen quickly. Strong obstacles in the form of political, social, and economic impediments were in the way. Ranade emphasised that the biggest economic obstacle to industrialization was a lack of investment capital. A national need is for capital that is ready for investment and comfortable with low interest rates. Just as India's land yearns for water, so the nation's industry is parched from a lack of capital. The paucity of investment capital was exacerbated by low savings, which were mostly used to purchase precious metals for storage. In a speech to the Indian Industrial Conference in 1890, Ranade offered estimates of the extent of hoarding. We import bullion made of precious metals, including 3 crores of gold and 9 crores of silver, worth a combined 12 crores annually. Each year, we give seven crore of the silver to the Mint, and the remaining silver is assimilated like

gold. The whole gold disappears and gets assimilated by the earth. This time-consuming process has effectively wasted close to 450 crore of money since 1834 that might have been utilised for other things.

Ranade emphasised that even though 450 billion had been saved by 25 crore people over the course of 50 years, it was not a sign of extraordinary wealth and that we had really been worse off by either buying it or squandering it. Due to problems with the institutional structure for industrial finance, there were less savings overall. The bulk of the available savings were held by men who had no connection to the rest of the country and lived in a few large Presidencytowns. It was not common procedure to form joint stock corporations, and available capital were invested in business rather than in government securities or presidency, exchange or post office savings banks. As a result, India had access to more funding than it could use. Money is available and ready for a secure investment. A big, wide expanse of industry exists that requires finance and offers the most secure investment for its attractive employment. It is essential to have the skill and patience to match one's abilities to the other's ambitions in order to make them both work in harmony and partnership.

Ranade listed poor government policies, problems with industrial finance, and a lack of entrepreneurial tradition as obstacles to progress. He believed that the majority of contemporary Indians lacked initiative and motivation and tended to reject the pursuit of wealth as a life goal due to their strong religious beliefs. In these circumstances, the government was essential in advancing the industrialization process. According to the *laissez-faire* doctrine, the government shouldn't meddle in the economy. Only those exceptions were permitted that were required to carry out the basic duties of government, such as protecting citizens from external attack and upholding law and order. While support to private industry was not ethical, intervention to enforce contracts was required and necessary. Ranade didn't expressly object to the notion. He reasoned that in certain circumstances, it may even aid in the sector's expansion far more than direct aid would. This wasn't the situation in India, however. Due to historical factors, a significant chunk of Indian industry was in a state of decline or perhaps collapse. Ranade emphasised the need for the government to intervene to promote the development of regional private enterprise.

### CONCLUSION

In conclusion, Ranade was neither an enthusiast nor a radical, and unlike other contemporary development economists, he did not believe in any kind of miraculous solution, including socialism, *laissez-faire*, technology transfer, the big push, or foreign assistance. He had a strong awareness of the challenges impeding India's industrialization. He believed they were partly the result of a foreign government's inflexible and dogmatic beliefs, which lacked any genuine commitment to India's economic development, but they were also the result of a stagnant past.

### REFERENCES:

- [1] Q. A. Bakir and Z. K. Nawaf, 'The impact of Islamic economic thought on Europe', *Dirasat Hum. Soc. Sci.*, 2020.
- [2] M. Belloc, S. D'Alessandro, M. Di Maio, F. Drago, and P. Vertova, 'Technology and the environment in the history of the economic thought', *Int. J. Glob. Environ. Issues*, 2008, doi: 10.1504/IJGENVI.2008.019367.
- [3] S. Figuera, 'Considerations on islamic economic thought regarding monetary matters in the middle ages', *OEconomia*. 2018. doi: 10.4000/OECONOMIA.2928.
- [4] H. M. Trautwein, 'Inequality and trade: Some insights from the history of economic thought', *Int. Trade J.*, 2019, doi: 10.1080/08853908.2018.1503105.
- [5] M. Desmarais-Tremblay and A. Svorenčík, 'A prosopography of the European Society for the History of Economic Thought', *Eur. J. Hist. Econ. Thought*, 2021, doi: 10.1080/09672567.2021.1987495.

- [6] S. K. Rizkiah and A. Chachi, 'The Relevance of Ibn Khaldun's Economic Thought in the Contemporary World', *Turkish J. Islam. Econ.*, 2020, doi: 10.26414/a074.
- [7] A. Adji, 'Stigler's Influential Contribution To Economic Thought', *J. Indones. Econ. Bus.*, 2017, doi: 10.22146/jieb.22981.
- [8] T. Aziz, 'Prophecy, Piety, and Profits: A Conceptual and Comparative History of Islamic Economic Thought', *Journal of King Abdulaziz University, Islamic Economics*. 2020. doi: 10.4197/Islec.33-2.14.
- [9] D. Guizzo, 'Why does the history of economic thought neglect post-Keynesian economics?', *Rev. Keynes. Econ.*, 2020, doi: 10.4337/roke.2020.01.09.
- [10] J. M. Menudo and J. M. O'Kean, 'The market of entrepreneurs in the history of economic thought. History of a failure', *Investig. Hist. Econ.*, 2019, doi: 10.1016/j.ihe.2017.11.001.



## CHAPTER 23

### MAHADEV GOVIND RANADE'S AGRARIAN POLICY

---

Roma Khanna, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India,  
Email Id: - romakhanna11@gmail.com

#### **ABSTRACT:**

During the late 19th and early 20th centuries, Mahadev Govind Ranade, a renowned social reformer, economist, and political theorist from India, made substantial contributions to the country's agriculture sector. In this abstract, Mahadev Govind Ranade's agricultural policy will be investigated, along with its effects on Indian agriculture and rural development. With his agricultural policy, Ranade aimed to help Indian farmers and rural populations overcome their problems. He supported measures that sought to increase agricultural output, boost the rural population, and advance general rural development since he understood how important agriculture was as the foundation of the Indian economy. The main tenets of Mahadev Govind Ranade's agricultural strategy are covered in this abstract. His policy framework placed a strong emphasis on the need of land reforms, including steps to safeguard the rights of tenant farmers, control land ownership, and encourage fair land distribution. In order to boost agricultural output and rural lives, Ranade also recognised the necessity of irrigation infrastructure, better agricultural practises, and financing availability.

#### **KEYWORDS:**

Farming, Industrialization, Policy, Ranade, Rural, Tax.

#### **INTRODUCTION**

The variety and shift in profession that industrialization would bring to a nation with a long history of agriculture was a very difficult task. It assumes a shift in habits, the development of culture and an entrepreneurial spirit, mental alertness, emotional pliability, readiness to face and overcome opposition, organisational facility, social ambition and aspiration, and a mobile and restless condition of Capital and Labour all characteristics that have been slowly developing over centuries of freedom and progress. Ranade never believed that such items could be obtained quickly due to his historical perspective on the study of economic progress. He was arguing that it was time to start and that they may ultimately be purchased. While Ranade focuses on the obstacles along the way in his essay, he had no doubts regarding long-term success as long as certain crucial measures were done. This optimism was motivated by the notion that India's inherent advantages were just as extraordinary as the challenges she faced. Natural talents, untapped but limitless resources, peace and order, access to the whole globe, and our wonderful position as the emporium of Asia are valuable assets that will be secured if we make an effort to earn them by working hard [1], [2].

Ranade eventually came to the conclusion that even in the medium term, the prospects for industrialization were rather promising. Here, he broke with other economists who had a gloomier perspective, such as Dutt and Naoroji. In his writings around the turn of the century, Ranade noted that it seemed as if the trend towards an increased reliance on agricultural activities was finally ending. In the last 20 years, there has been a very discernible break from the unhindered ruralization of a broad continent that had been occurring up to that point. He saw a shift in the balance towards industrial advancement to have already started. Ranade did not have a lot of data to back up this conclusion at the time, but he could see some

encouraging indicators, including jute and paper mills in Bengal, cotton mills in Bombay, Nagpur, and Ahmedabad, as well as pioneer attempts to build an iron industry in different regions of the nation. Natural resources were not only in plenty, but daily need was also rising in volume and urgency. Technical justifications in Dr. Watts' Report provide reason for optimism on the availability of raw resources for India's industrial development. The rest was provided by Ranade's inherent optimism. He believed that a lack of nerve and a propensity to turn back from our present opportunities to a past which cannot be recalled represented the actual threat. Ranade often forewarned his compatriots about this risk, particularly in his latter works.

### **Agrarian Policy**

Ranade connected stagnation with the dominance of agriculture. Such domination, in his opinion, signified rustication, a decline in strength, intellect, and independence. The key to achieving economic growth was the balanced and all-around development of productive forces. This suggested the development of industry and commerce, particularly the industrial sector and international trade, for a developing country like India. Growth in agriculture remained crucial because many of the sectors in which India had a natural edge were based on it and because an overwhelming part of the people relied on it for their livelihood. Industrialization, however, was the way of the future. The best way to understand Ranade's thoughts on agricultural policy is from this viewpoint. In India, the proper technique of calculating land income has historically been considered as being directly tied to issues of agricultural policy. Ranade produced a number of articles on the subject and put forward some significant changes to the current framework.

Our discussion in this area will be focused on his reform suggestions. His focus was on how continuous gains in output might be best accomplished here, as it was on industrialization-related concerns. He believed that India's current method for calculating land income was completely unsuitable for this purpose since it discouraged profitable land investment. Only an agricultural development based on capitalist principles might unlock the land's productive potential. Although it was a lengthy process, land revenue laws may aid in starting it. He said that the only way to address the agricultural issue was via a permanent ryotwari settlement established in grain to be converted into monetary values every twenty to thirty years. Ranade suggested that the income from land should be set permanently at a percentage of the gross staple output, with the percentage based on the idea that the government and private owner should get equal shares of the net profits in kind. These 'kind' contributions would be converted into money values in line with the current trend in pricing, taking into account rising production costs, since the government wanted cash rather than grain for its own dealings.

All that would be required of the government would be to keep accurate records of pricing fluctuations. Ranade asserted three important benefits for his suggested plan. In the first place, it would lessen conflict between the sowcar lender and the ryot peasant and encourage everyone involved to make profitable land investments. Second, the land would come into the possession of individuals qualified to utilise it in a legal and suitable manner under the permanent settlement. The current approach was helplessly battling to maintain a landless, impoverished peasants and break the inherent bond between money and land. The apathetic and indolent ryot would make way for better individuals who would take his position to the benefit of the common interest when this policy gave way to the new regime. A class of landlords would eventually emerge throughout the nation, whose aim would be to make the most of the soil's resources and the significant public works built by the government. Over time, the cautious and frugal classes would succeed to land ownership. Neither will small-scale peasant farming completely disappear, leaving behind a terrible issue of landlessness. According to the proverb, Finding one dead level of small farmers all over the land is no less

an evil than a complete divorce from the land of those who cultivate it. By establishing a society based on the Prussian model with a high number of productive peasant farmers and a relatively small number of huge landed estates, both ills may be avoided. Thirdly, since the assessment in money would decrease when prices decreased, the pressure on the ryots would not be as great under the new system as it was under the previous one when peasants complained about the weight of the land tax when prices were low.

### DISCUSSION

Ranade looks at two potential arguments against his approach. The first is the potential for a lack of income due to the loss of unearned increment. He dismisses this argument because if prices rose as a result of widespread affluence, the money commutation of the grain assessment would also increase in the same amount, offsetting the income for the growth in spending demand. The government would also be free to levy special rates for facilities or irrigation actually supplied by it at public expense, according to another clause. Additionally, there were little incentives for agricultural advancement under the current system, leaving limited room for income growth. The increment, whether earned or unearned, would be so large with the extension of the permanent settlement that both direct and indirect taxes would result in additional revenue from all sources that would more than make up for the deficit caused by the loss of this unearned increment. The second argument is that the Indian peasant is so stingy, illiterate, and uninformed that no amount of government intervention could possibly improve his situation. Ranade's response was based on 'historical' logic.

It is shown earlier in this Unit that Ranade generally favoured a historical-inductive over a logical-deductive approach to economics. He believed that the latter approach's shortcomings were especially crucial when dealing with issues involving dynamic change. It could be more useful to look at historical experience in this case. To better understand the process of economic growth, Ranade has researched a number of European countries. He regularly brought up England in the early 1880s. France and Germany were used as examples of development, and these nations were also used to highlight the advantages of an autonomous peasantry in terms of economics. These values, like as thrift, effort, and technological ingenuity, could, however, only be put to use after institutional barriers had been eliminated. In response to the accusation that the Indian peasant lacked the qualities specified. Ranade said that it had happened elsewhere as well. For instance, the French farmer was not always the sober and responsible citizen that he is now there was a period when Arthur Young lamented the plight of France's agrarian classes.

All of this amazing progress is the result of property and free institutions working their magic [3], [4]. The overarching goal of all changes was to eliminate everything that has previously prevented a person from achieving the level of wellbeing that he was capable of achieving through effort, to the best of his abilities. The same outcome would occur if the same theory were applied to India. Ranade's strategy for agricultural policy has two more facets that need consideration. One has to do with the age-old debate in Indian economic theory over whether land income was a rent or a tax. British officials had a tendency to believe that because the state was and always has been India's universal landlord and received its money from land in the form of tenant-paid rent. Ranade continually maintained that this viewpoint was incorrect and that land-revenue constituted a tax. Both cultivated and unused areas were not subject to the state's ownership rights. It didn't have a monopoly or a right to differential rent instead, its interest was limited to a claim for a portion of the output.

According to Ranade, current opinion, including that of the Court of Directors, the Secretary of State, and an infinite number of court judgements, supported this viewpoint. He may have also mentioned J.S. Mill, who claimed that land in all of India was commonly recognised as private property that was liable to the collection of tax in a Return on Indian Tenures to the House of Commons in 1859. Ranade said that this viewpoint was likewise consistent with the

conclusions of earlier Indian lawgivers. James Mill, among other British authors, had in fact adopted the other viewpoint and saw the state as an all-encompassing landlord. This was due, in part, to their utilitarian aggressiveness, which Ranade ascribed to the dictatorial aspect that imperial administrations always had. These authors were all too quick to believe the Muslim rulers' assertions that the state controlled the land, giving tenants only flimsy and transient rights to their possessions. The British should abandon the autocratic ways of the Muslim sultans and return to the more moderate demands of the government typifying the better aspects of Hindu culture.

The government must go back to the old Hindu traditions, where the king's power was restrained by the rights of the people, among whom the king was more of a father and a manager than a conqueror or a sovereign lord, and cultivated land belonged in absolute right to private owners who paid as tax a fixed share of the produce to the government, according to Ranade in his book *Essays on Indian Economics*. The rate at which land-revenue is taxed may vary depending on whether the land belongs to private persons or the state. The rivalry among landlords helps keep that amount from becoming too high in a system where land is considered as being privately held. However, since land was considered to be a state monopoly in British India, this cheque could not be used. As a result, land-revenue assessments increased nationwide to a degree for which the government was now humiliated. A prosperous agricultural industry could only be attained with the restoration of private land ownership. The two biggest barriers to the expansion of material wealth were the state's monopoly on land and its authority to raise assessments at its discretion. The goal of Ranade's plan was to eliminate both barriers simultaneously.

The feasibility of small farming was a second topic that was directly tied to Ranade's suggested solution to the agricultural crisis. He was more interested in the more specific issue of whether small-scale farming was profitable under the circumstances that really existed in India than the more general one of whether agriculture benefited from economies of scale. The fact that a significant percentage of the peasants 50–60%, according to Ranade were reliant on sowcars for both production and consumption loans and that they often found it hard to repay their obligations from the net gain of agricultural industry demonstrated that it was not the case. The sowcars took risks and offered a necessary service, even if they sometimes charged high rates of interest. As essential to the ryot as the seed he plants or the rain that irrigates his crops, the sowcar was.

Agriculture would cease to exist without the sowcar, and he was equally important to government operations since, although being paid for directly by ryots, a significant percentage of land income was actually loaned by sowcars. The changes Ranade was recommending were intended to eliminate the ryots' state of powerlessness and to provide a setting in which new, more structured and effective, sources of agricultural financing may emerge. In the course of transformation, the state played a crucial role. He writes, Let the State interfere not only with a minimum piecemeal dose of judicial reform, but by the whole dispensation of a large administrative relief in *Essays on Indian Economics*. It will provide a sufficient fund for agricultural relief improvement without the need to take out even a single rupee in new loans if it provides subsidies or guarantees to private banks against risk during the first experimental years, enables them to free the peasantry of their ancestors' debts, and permits the land revenue to be redeemed or permanently settled at a moderate figure once and for all.

The ryot needed to be liberated and given the impression that the land belonged to him just as much as his house or clothing. The remainder would be handled by the 'magic of property'. There were other solutions to the ryots' difficulties than Ranade's. Both in British governing circles and among Indian nationalists, there was a sizable body of thought that was oriented towards the idea that the ryot could survive without much more substantial and ongoing

assistance from the government than Ranade envisioned. The solution was to pass legislation that would shield peasants from sowcars' exploitation. In reality, some of these precautions had been put in place, particularly in the wake of the riots in Deccan in the beginning of the 1870s. Ranade himself was intimately involved with the Deccan Agriculture Relief Act of 1879, one of these laws' most significant components[5], [6].

The legislation, by all accounts, was quite successful in achieving its immediate goal of improving the financial situation of the riots. The act had helped the riots to a rise in the standard of living, more variety in pursuits, a more secure sense of ownership in land, greater self-control, greater intelligence to deal with the Savkars, and increased opportunities to borrow money when necessary, according to Ranade's review of its workings. However, despite criticism from critics like Sir Raymond West, he maintained that this was the result of the famine and represented a necessary transition to a more secure system of rural credit. As a result, the total amount of credit had decreased because creditors were less willing to lend on the security of personal property. The goals of Ranade's own suggestions were to create a system that was both secure and unbreakable. Legal reform and relief measures might only provide a short-term palliative. Furthermore, even the finest of them had flaws. The Stamp and Court Fees Acts, for instance, assisted in formalising the judicial administration of debt relief measures, but they also increased the cost of debts because a renewal required not only the payment of stamps, court costs, solicitors' fees, etc., but also an increase in the principal by the amount of interest charged on the costs of the law[7], [8].

They introduced a new kind of uncertainty to the natural uncertainties already there that hampered agricultural decision-making. According to the adage the recuperative powers of nature and art are limited and cannot stand the dead weight of prohibitive rates of interest made necessary by disorganised credit, and the uncertainties, delays, and costs of civil proceedings, nature and art are unable to recover from these problems. The riots may get respite from government intervention in the factors determining land tenure via law or the courts, but there would not be a long-term solution to the agricultural issue. A long-term solution needs to be financially feasible and embrace the facts of the situation. Differences in saving rates, education levels, IQ levels, skill sets, and foresight were the main causes of wealth and income disparities between people and groups. Social action should aim to raise the general or average level of accomplishment rather than attempting to remove such inequalities. Perfect equality was neither attainable nor, maybe, desirable since it would likely result in dead mediocrity. The wealthy and enlightened individuals who would make high farming viable and drive agricultural innovation had a position among the rural elite. Others would adhere to. This was the justification for Ranade's two-tier agricultural method[9], [10].

To sum up, Ranade's economic policymaking was influenced by one overarching goal: the expansion of productive capacity. This held true for both business and agriculture. Government had a crucial part in both, but it did so by initiating, encouraging, and allowing rather than by directing, seizing, or controlling. And rather than foreigners who did not experience such a deficit but had political power with the Indian government, support should be provided to native manufacturers who had trouble accessing finance and lacked entrepreneurial abilities. Ranade emphasised that the government had actively promoted the growth of cinchola, tea, coffee, tobacco, and sericulture. It was customary for it to launch a company on its own initiative and turn it over to foreign adventurers after success was certain. In addition, the state had built freehold estates and sold wastelands wholly to the European planter elite, while steadily refusing to grant the same boon to the native population. Ranade said that this amounted to a reward for foreign investors who neither contributed to the cost of land development nor took on the associated risks. It just

established a foreign monopoly in a domestic investment sector. Ranade put far less onerous requests on the government on behalf of the Indian ryots.

While Indian economists embraced Ranade's ideas for industrial growth, they were less supportive of his push for the capitalist development of agriculture. Even Ranade's supporters often differed. One of them was G.V. Joshi, who supported small-scale peasant farming and advocated for strict tenancy laws, affordable loans, and low land taxes to preserve it. Such a strategy called for precisely the kind of ongoing, protracted, legal, and monetary government interference in agricultural activities that Ranade had denounced. Even though the government of Bombay did not implement Ranade's land policy and neither did the government of India, Ranade's opinions had some influence. For instance, the Bombay administration did make certain changes to the legislation controlling land-revenue assessment starting in 1884. The direction it took was to provide a significant amount of permanence. The classifications of soil that had been developed were accepted as fixed: no tax increase was to be made due to improvements made by the holder changes in assessment were to be made only on consideration of things like a change in the general level of prices benefit accruing from the construction of railways and similar public works and limits were imposed on the amount of reimbursement at any given time.

### CONCLUSION

The influence of Mahadev Govind Ranade's agricultural policy on Indian agriculture and rural development is also explored in this abstract. His policy recommendations shaped land tenure systems, agricultural credit institutions, and rural development initiatives in India. A more just and sustainable agricultural sector was made possible by Ranade's idea for agrarian reform. For tackling issues like land inequality, resource access, and agricultural sustainability that affect farmers and rural communities, we can learn a lot from Ranade's agrarian policy. Finally, Mahadev Govind Ranade's agrarian policy exemplifies his forward-thinking attitude to India's agricultural and rural development. His land reform, agricultural modernisation, and rural upliftment-focused policy recommendations had a lasting impression on India's agrarian industry. The agricultural policy of Ranade offers a framework for resolving the difficulties that farmers confront and advancing inclusive and sustainable rural development in the modern day.

### REFERENCES:

- [1] S. Ivanova And A. Latyshov, "Sustainable Entrepreneurship: Agrarian Policy In South Korea," *Entrep. Sustain. Issues*, 2018, Doi: 10.9770/Jesi.2018.5.4(4).
- [2] T. Rejekiningsih, C. Muryani, And D. Lukitasari, "Study Of The History And Dynamics Of The Agrarian Policy In Transforming The Indonesia's Agrarian Reform," *Yust. J. Huk.*, 2019, Doi: 10.20961/Yustisia.V8i2.33610.
- [3] S. Ivanova And A. Latyshov, "Sustainable Entrepreneurship: Agrarian Policy In South Korea The International Journal Entrepreneurship And Sustainability Issues Sustainable Entrepreneurship: Agrarian Policy In South Korea," *Hal.Archives-Ouvertes.Fr*, 2018.
- [4] A. Zimmerman And F. Pinheiro, "Appearances Can Be Deceptive: Political Polarization, Agrarian Policy, And Coalitional Presidentialism In Brazil," *Polit. Policy*, 2020, Doi: 10.1111/Polp.12345.
- [5] A. Adji, "Stigler's Influential Contribution To Economic Thought," *J. Indones. Econ. Bus.*, 2017, Doi: 10.22146/Jieb.22981.
- [6] L. F. Aguado, L. Palma, And N. P. Pavón, "Fifty Years Of Cultural Economics. Exploring The Historical Roots Of Economic Thought," *Cuad. Econ.*, 2017, Doi: 10.15446/Cuad.Econ.V36n70.53813.
- [7] Đ. Benić, "Islamic Economic Thought In Medieval Period," *Ekon. Pregl.*, 2017.

- [8] A. G. Mejía, “The Concept Of Technology In The History Of Economic Thought. From The Classics To Schumpeter, Evolutionism And Today\*,” *Libr. Empres.*, 2017.
- [9] A. Roncaglia, *A Brief History Of Economic Thought*. 2017. Doi: 10.1017/9781316798416.
- [10] E. Moyano-Díaz, G. Palomo-Vélez, P. Olivos, And J. Sepúlveda-Fuentes, “Natural And Urban Environments Determining Environmental Beliefs And Behaviours, Economic Thought And Happiness,” *Psyecology*, 2017, Doi: 10.1080/21711976.2016.1272875.

## CHAPTER 24

### INVESTMENT IN RAILROADS AND ECONOMIC GROWTH

Charu Agarwal, Assistant Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India.  
Email Id:- charu.management@tmu.ac.in

#### ABSTRACT:

Due to its historical and current implications for economic growth, transportation effectiveness, and sustainability, investment in railways has drawn a lot of attention and been the topic of much examination. This abstract gives a general summary of the studies around railway investment while stressing its effects on the economy, society, and environment. Scholars have advanced our knowledge of railway investment's significance in influencing transportation networks and advancing sustainable development by critically analysing the advantages, difficulties, and policy issues related to railway investment. The ability of railway investment to promote economic development has long been acknowledged. The benefits of rail infrastructure for trade facilitation, regional integration, and industrial growth have been studied by academics. By providing effective transportation networks for the movement of products and people, railroads have traditionally played a significant role in assisting sectors like mining, manufacturing, and agriculture. The study has shown how rail investment has the potential to boost overall economic competitiveness, raise productivity, and create jobs. Additionally, there has been a lot of focus on the environmental sustainability of railways. Researchers have contrasted the environmental impact of train travel with that of other modes, such as air and automobile travel. Because they generate less greenhouse emissions per passenger or tonne of freight, railroads are often seen as being more ecologically benign and energy-efficient.

#### KEYWORDS:

Construction, Investment, Railroad, Railway, Transportation.

#### INTRODUCTION

Considering its historical significance and current relevance in influencing transportation networks and fostering sustainable development, investment in railways has been a major subject of inquiry and analysis. This review paper offers a thorough examination of the effects of railway investment on the economy, society, and environment. This study attempts to provide a thorough knowledge of the advantages, difficulties, and policy concerns associated to railway investment by reviewing the body of literature and empirical data. Policy suggestions for encouraging profitable and sustainable investment in railways. Identifying future research and analytic areas. This study adds to a greater knowledge of the role of rail infrastructure in sustainable development by offering a thorough examination of the economic, social, and environmental implications of investment in railways. It is a useful tool for decision-makers, academics, and other interested parties who want to realise the potential of railways as a crucial element of the contemporary transportation system [1], [2]. The potential of investing in rail to alleviate traffic, reduce dependency on fossil fuels, and lessen the effects of transport on the environment has been highlighted by the report. Analysis has also focused on the social advantages of railway investment. Researchers have looked at how better rail accessibility might increase access to healthcare, job prospects, and education especially for rural and marginalised people. Railroads may promote social inclusion by linking isolated areas, lowering transportation costs, and enhancing mobility for those who



would otherwise have few alternatives for transportation. The research has brought attention to the potential for rail investment to support inclusive and equitable development. Railway investment in India was a contentious issue throughout the latter part of the 19th century. Should the current railway network be expanded further, or should public monies be allocated to other projects like those for irrigation or education instead? The debate centred on this and lasted long into the twenty-first century.

The Secretary of State for India was under intense pressure from British business interests to keep allocating large quantities of money to railway construction. Indian opinion, on the other hand, called for a temporary suspension of government investment in railroads and an increase in the scant funds allotted for irrigation, education, and welfare goods. Gokhale, Ranade's student and protege, whose opinions on several economic issues will be discussed in a later part, encapsulated the Indian perspective in the question: Are railway all? Is learning worthless? Irrigation is it useless? One must go back to the early history of railway construction to comprehend the Indian economists' characteristic lack of excitement for railroads. The Lancashire mills' requirement for high-quality, clean Indian cotton was the primary drive for railway building in India. Long distance cart transportation of cotton caused it to get contaminated with dirt. The only means of solving the issue was through rail. Military strategy was the other key factor.

In order to transfer soldiers and supplies quickly and reliably, railroads were required. They represented a bet on the Empire. Around 1850, these two separate threads came together, and it was what ignited India's railway development. Private railway firms founded by English businessmen in the 1840s completed the building of all railway lines. They had contracts with the Indian authorities, who were originally represented by the East India Company and thereafter by the Indian government. The two most significant aspects of these early contracts were: first, the Indian government agreed to provide the railway companies with free, 90-year leases of land for the purpose of building railways. Second, the enterprises received a guarantee against currency losses and a rate of return on the money they invested that ranged between 4.5 and 5% annually. One rupee was exchangeable for 1s.10d. The Old Guarantee System 1844–69 is a term used in Indian economic history to refer to the railway construction under these contracts[3], [4].

### DISCUSSION

It fostered excessive capitalization and high construction costs per mile, which turned out to be far more than in England, Canada, or Australia, contrary to what basic economic theory would have us believe. The corporations' guarantee that the Indian government would cover operational losses, if any, out of public money, did nothing to increase their motivation to reduce operating expenses. After the system was abandoned in 1869, the state controlled and mostly funded railway development for the next ten years via loans. Nevertheless, as the decade came to a close, the rupee's decline in value challenged the government's ability to balance its budget since it had a sizable amount of sterling obligations to fulfil. The expenses of giving aid to those affected by the several famines that took place between 1874 and 1899 added to this. As it became more and more difficult for the government to allocate income surpluses for railway construction, it once again partnered financially with private British railway firms at the beginning of the 1880s. This time, however, the firms in charge of managing the railroads were promised a certain rate of interest, typically 3.5 percent, on the amount of their capital investment and paid a 40% share of net profit[5], [6].

The railway lines remained the property of the government. The idea of compensating for changes in the rupee-to-sterling ratio was retained but somewhat changed, with a portion of the exchange risks being borne by the railway firms. Although the net revenues of railway firms only started to outpace the promised interest in the last year of the century 1899–190, the New Guarantee System was less wasteful and less burdensome for Indian taxpayers than

the previous system had been. The major interest in Ranade's opinions on whether or not public investment in railroads is desirable comes from this context. The significant economic and social advantages that such investment was bringing about were underlined by the government and its spokespeople. Indian views were more doubtful. Ranade made an effort to weigh the advantages and disadvantages rationally. Initially, he said, railroads are advantageous. They enable both internal and external commerce, provide a cheap means of mobility for people, and could even foster a sense of national unity. However, it was necessary to take a deeper look at workable alternative types of investment when, as was the case in India, their extension is made the ultima thule of State action on its economic side.

Depending on the situation, there were a number of such options to take into consideration. The government argued that expanding the railway network would prevent hunger by enabling speedy distribution of food to regions suffering from drought. Irrigation canals, as opposed to railroads, were considered to be a more effective kind of public works for this purpose by Indian intellectuals. Ranade supported the government's position on this matter, primarily because the irrigation projects that were being explored at the time as a means of preventing starvation were mostly of the non-perennial kind [7], [8]. With the exception of those irrigation works supported by the perennial streams of the Himalayas or in the Madras Deltas, the water supply of irrigation works typically fails in years of drought and scant rainfall, and the works as a result do not provide the anticipated relief in times of scarcity. On the other hand, railroads are always equally serviceable. Again, irrigation works could not be developed at all in several regions of India due to the lack of perennial streams and adequate locations for water storage. Railways were the only means for provision against famines and scarcity in such places as well.

Irrigation wasn't the only essential option to take into account, however, on a larger scale. Public spending may also be made with the express intent of promoting industrial growth. Ranade said that the justification for continuing to spend heavily in the railroads was weak in this particular instance. Communication facilities are obviously great benefits, but the ability to cultivate more advanced product and expand manufacturing and industrial activity is much more desirable. Only by using explicit choice criteria for public investment can the debate over whether kind of investment is preferable be resolved analytically. Ranade and other economists of his day did not approach these issues in this manner. To his credit, Ranade did not focus just on the investment's immediate effects on production and employment rather, he also took into account how much it would unintentionally facilitate long-term learning. The long-term perspective advocated industrial investment over transportation expenditure because the construction of railways can never be compared, in terms of their educational influence, to the setting up of mills or Steam or Water Power Machinery for the production of manufactured produce in all parts of the country.

The direct economic advantages of railway investment had also not been notably large. The expensive cost of building, the free land granted to British construction firms, and the significant amounts paid in sterling as interest arrears compensation all contributed to the comparatively poor financial return to the government. The immediate effects on Indian industry were largely negative. The railway policy pursued by the government has... except in a few Presidency towns, killed our local indigenous industries and made people even more helpless by increasing their dependence and pressure on agriculture as their only resource Essays On Indian Economics. It is important to note that Ranade's criticism had nothing to do with the railroads themselves or even the sudden and fierce competition from imported products that those businesses had to deal with as a consequence of their expansion. Competition was, after all, a logical outcome of India's economy being made open to international commerce. Furthermore, Ranade had pointed out that when addressing the issues with India's economic growth, it wasn't only a matter of foreigners competing against Indians

rather, it was a contest between science and talent and laziness and stupidity. If, as Ranade puts it, railways had been built by private enterprise without the assistance of public funds, no objection could be urged against the effects of this foreign competition. But that was not the case.

Even if there were significant political and military benefits for the government, Ranade said that it was very implausible that such a situation could have represented an ideal economic allocation of resources from the perspective of Indian society. Ranade stressed that money utilised for investment in railroads may have been utilised in other ways, as did other Indian economists of his day. In particular, railway investment was considered a viable alternative to industrial investment. Economic historians and development economists today often see investments in industry and railroads as complementary rather than substitutive. Long-term industrialisation is anticipated to benefit from the development of infrastructure, such as transportation. Ranade was aware of this point even though he did not immediately answer it. His articles often stressed the fact that the government's extremely significant investments in public works had not produced an adequate rate of financial or economic return. He linked this to the lack of economic development, which was in turn regarded to be directly accountable for the stagnation of the industrial sector.

He thought that the expansion of infrastructure would not be sufficient for development to occur given the unique, persistent, and substantial hurdles encountered by Indian business. It was vital for the government to take decisive action to promote industrial private investment. The expansion of railways alone would not result in faster economic growth because they do not increase the country's intensive strength, which together with other factors contributes to a better organisation of its industries and serves as a solid base for its expansive greatness. In addition, more than only building trains was important for the expansion of industry. It was also important to consider the railway pricing structure. Freight rates were set up in such a way that equivalent items travelling over the same distance between two locations in the country's interior were taxed at a higher rate than raw materials going to and manufactured goods coming from the ports. Such a strategy was scarcely intended to encourage domestic industrial development. On the contrary, it had a tendency to raise the cost of manufacturing products in India and to obstruct the growth of new industrial hubs. This may help to explain why Ranade and other Indian economists of his day seldom discuss the boost to economic growth brought on by the construction of transport infrastructure in their books.

### **Economics Methodologies**

Nearly all, Ranade's economic articles focused on particular issues with Indian economic policy. But on occasion, he also spoke on the issue of what kind of analytical framework would be most effective for studying such issues. His publications on methodological difficulties are interesting not so much for their own sake as for the real development of Indian economic thinking in the 20th century. In particular, it contributed to the shift away from the classical political economics tradition and towards the historical-institutional approach championed by the German School.

Ranade's main criticism of the classical school of economics was that it relied heavily on certain underlying assumptions being true for its claims to be true. Classical political economics had restricted rather than universal application since those assumptions were based on situations in England rather than necessarily those abroad. He argued that the fundamental premises underpinning the truths of economic science not only may not apply to India, but also did not, in a statement that is often cited. Ranade wrote: With us a typical individual guy is, to a significant part, the exact antipodes of the economical man in his book *Essays on Indian Economics*. When it comes to deciding a person's place in society, his family and caste have greater influence than they do individually. Self-interest, manifested as a desire for riches, is present but neither the sole nor main driver. There are other goals that

are pursued besides acquiring riches. Except inside some specified groves or groups, neither the ability nor the desire exists for unrestricted and unrestrained rivalry.

Competition is greatly outmatched by custom and state law, and status has a greater impact than contract on behaviour. Neither labour nor capital is adaptable or sophisticated enough to move from one location to another. Wages and profits are neither flexible nor sensitive to changing conditions they are fixed. Productivity is essentially stable, with the bumper crop of one year being required to cover the uncertainties of alternating poor seasons. Population follows its own law, declining due to illness and starvation, while productivity is practically constant. In such a society, the axiomatic inclinations are not only not necessary, but they are also actually deviated from their intended course[9], [10]. Since then, many of the opinions Ranade articulated have been repeated, and some have even been utilised by sociologists to argue that economists' theories do not apply to developing nations though see Dasgupta 1974. Factors of production are static since they aren't enterprising and intelligent enough, according to Ranade, to migrate from one area to another.

In contrast, he contends in his essay on Indian Foreign Emigration that while there was significant internal migration in India, from densely populated areas to sparsely populated ones, this internal migration did not provide sufficient room for the movement of labour and that emigration abroad would be a more practical solution to the problem of population pressure on the land. He notes that quite a few Indians immigrated to the British, French, and Dutch foreign territories, but with encouragement from the Indian government and nonprofit groups, many more would do the same. This blatantly presupposes that workforce is educated and entrepreneurial enough to move from one location to another, and that they should be given every incentive to do so. This may be assumed to be true of capital a priori.

How much human action is driven by self-interest is a bigger and more complicated subject than how mobile labour and capital are on their own. Economic analysis does imply that self-interest plays a major and typically predominate role in circumstances that fall within its purview. However, Ranade goes beyond this in the section cited by assigning to economists the far greater belief that the pursuit of riches is the single objective pursued by humans, as opposed to being one among many. There is not much proof that Adam Smith and his adherents ever held this opinion. Ranade often assumes self-interested conduct when he suggests strategies to promote economic growth in India, even if he does so only implicitly. This was shown before in his explanation of an immigration programme. People don't only think in words while deciding whether to migrate or not.

### CONCLUSION

The difficulties and policy concerns related to railway investment have also been examined. Researchers have looked at the financial sustainability of rail projects, the necessity for strong regulatory systems, and the significance of public-private partnerships in luring capital and guaranteeing successful operations. The report also emphasised how crucial long-term planning, upkeep, and modernisation of train infrastructure are to maximising the returns on investment. In conclusion, research on railway investment shows that it has the potential to spur economic development, improve social inclusion, and promote environmental sustainability. Scholars have shed light on how rail investment might influence transport networks and advance sustainable development by critically assessing the advantages, drawbacks, and policy concerns related to it. This research helps to realise the potential of railways as an essential element of contemporary transportation networks by providing information for policy debates and investment choices.

### REFERENCES:

- [1] S. H. Al-Lehyani, "An economic reading in the Book 'Al-Mabsoot' by Imam Sarakhsi," *J. King Abdulaziz Univ. Islam. Econ.*, 2017, doi: 10.4197/Islec.30-3.3.

- [2] J. Lange, R. Schumacher, and A. Svorenčik, "From antiquity to modern macro: An overview of contemporary scholarship in the history of economic thought journals, 2015-2016," *Hist. Econ. Ideas*, 2017, doi: 10.19272/201706102007.
- [3] S. Suh, W. Suh, and J. I. Kim, "Risk analysis model for regional railroad investment," *Eng. Comput. (Swansea, Wales)*, 2017, doi: 10.1108/EC-10-2015-0323.
- [4] A. Alesina, S. Hohmann, S. Michalopoulos, and E. Papaioannou, "Intergenerational Mobility in Africa," *Econometrica*, 2021, doi: 10.3982/ecta17018.
- [5] G. S. Ford, "Infrastructure Investment in the Railroad Industry: An Econometric Analysis," *SSRN Electron. J.*, 2020, doi: 10.2139/ssrn.3608440.
- [6] A. Meisel-Roca, M. T. Ramírez-Giraldo, and J. Jaramillo-Echeverri, "Demasiado tarde, pero rentables: los ferrocarriles en Colombia durante el período 1920-1950," *Investig. Hist. Econ.*, 2016, doi: 10.1016/j.ihe.2015.07.009.
- [7] A. Meisel-Roca, M. T. Ramírez-Giraldo, and J. Jaramillo-Echeverri, "Too late but profitable: Railroads in Colombia during 1920–1950," *Investig. Hist. Económica - Econ. Hist. Res.*, 2016, doi: 10.1016/j.ihe.2015.07.009.
- [8] L. Hultkrantz, N. A. Krüger, and P. Mantalos, "Risk-adjusted long-term social rates of discount for transportation infrastructure investment," *Res. Transp. Econ.*, 2014, doi: 10.1016/j.retrec.2014.09.020.
- [9] D. P. Gross, "Collusive investments in technological compatibility: Lessons from u.s. railroads in the late 19th century," *Management Science*. 2020. doi: 10.1287/mnsc.2019.3504.
- [10] O. M. Adetunji and A. A. Owolabi, "Valuation of Interacting Time-to-Build and Growth Real Options in Infrastructure Investments," *Int. J. Econ. Financ.*, 2016, doi: 10.5539/ijef.v8n12p202.

## CHAPTER 25

### ANALYSIS OF WELFARE ECONOMICS AND ITS IMPACT

Bindoo Malviya, Professor,  
Teerthanker Mahaveer Institute of Management and Technology,  
Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India.  
Email Id: - bindoomalviya@gmail.com

#### ABSTRACT:

A subfield of economics called welfare economics aims to assess and enhance societal welfare and well-being. The main principles, approaches, and political ramifications of welfare economics are explored in this abstract in order to give an understanding of it. In order to maximise social wellbeing, the distribution of resources and the allocation of goods and services are evaluated by welfare economists. It comprises a range of methodologies, including normative analysis, which focuses on setting standards for social welfare, and positive analysis, which looks at the actual effects of economic policy on welfare. The core ideas of welfare economics are explored in this abstract, including utility, social welfare functions, and Pareto efficiency. Utility is the sense of contentment or wellbeing that people experience after using products and services. Individual utilities are combined in social welfare functions to assess total society well-being. The goal of Pareto efficiency is to allocate resources in such a way that it is impossible to improve the situation of one person without making it worse for another. To aid in decision-making, they include evaluating the costs and advantages of various choices, taking into account both market and non-market elements.

#### KEYWORDS:

Economics, Market, Society, Utility, Welfare.

#### INTRODUCTION

The study of how the allocation of commodities and wealth impacts societal wellbeing is known as welfare economics. It speaks directly to the study of income distribution and financial efficiency, as well as how these two factors impact the general welfare of individuals in the economy. In practice, the study of welfare economics involves instruments for keeping an eye on public policy in order to achieve favourable social and economic outcomes for everyone in society. However, this area of research relies on predetermined standards for how wellbeing may be identified, assessed, and contrasted for both individuals and society as a whole. In welfare economics, attaining Pareto efficiency is seen as the pinnacle. Pareto efficiency refers to the economic scenario in which no longer can resources be utilized to help one person without worsening the status of another. Although it does not specify an objective, moving the economy towards Pareto efficiency may result in a general increase in societal welfare. It makes no discussion of how economic resources should be distributed and utilized by people and markets in order to maximize social wellbeing. To accomplish this goal, welfare economists have proposed many sorts of social welfare functions. The value of these tasks is then maximized by working around the public policy for social welfare. You will understand the definition of welfare economics in this lesson, as well as how it influences and works in the context of education, health, and poverty.

#### Welfare Economics' Meaning

A positive and normative quality may be found in economics. The main focus of studying the positive features of economies, particularly in microeconomics, is on how to allocate resources as efficiently as possible at the micro level, or how individual consumers and

businesses may maximise their respective goal functions consumers' utility functions and companies' profit functions. The consideration of these components of economic theory may lead one to believe that the overall production of goods and services available to society will be at its maximum if each individual business optimises its resource allocation with a view to optimising its profit function. Additionally, when each individual consumer maximises the use of resources for their utility function, the overall utility received by the whole community will also be maximised. In other words, the entire economic wellbeing of the community will be maximised if both businesses and consumers maximise their respective goal functions. Private and public interests may and do clash, thus this may not be the case. As a result, best resource allocation from an individual's perspective could not pass muster under criteria for optimum resource allocation from a societal perspective.

The maximisation of social welfare is one of several economic issues that positive microeconomics leaves unsolved. Additionally, it makes no recommendations for suitable policy actions that may maximise the economic prosperity of the whole society. Welfare economics is the area of economic study that is focused on these issues. Regarding welfare economics' beginnings, it is quite challenging to identify the time in the development of economic thinking that serves as its foundation. Furthermore, it would be incorrect to claim that a one economist was responsible for the development of welfare economics since welfare economics does not appear to have at any time wholly engaged the labours of any one economist.<sup>1</sup> Some people consider Pigou's *Wealth and Welfare* and his subsequent book *Economics of Welfare* to be the two books that officially established welfare economics as a distinct field of economics. However, Hla Myint noted in his *Theories of Welfare Economics* that the classical economist had a lot to say on a topic that could be logically brought within the purview of welfare economics. But Pareto often comes first in textbooks when discussing welfare economics[1], [2].

The study of the collective economic well-being of society's members is known as welfare economics. The factors that affect the overall economic wellbeing of a community are the focus of welfare economics, in the words of Oscar Lange. According to Reder, welfare economics is a subfield of economics research that aims to formulate and apply ethical standards to economic decisions[3], [4]. Theoretical welfare economics is described by Mishan as that branch of study that attempts to formulate propositions by which we may rank on the scale of better and worse, alternative economic situations open to society in his overview of welfare economics.<sup>4</sup> The goal of welfare economics is to compare several economic conditions and decide which one produces the highest level of economic wellbeing. The field of economics known as welfare economics may alternatively be described as the branch that assesses different economic circumstances i.e., various patterns of resource allocation from the perspective of the overall economic well-being of society[5], [6].

The Welfare Economics Methodology: Whether welfare economics is a positive pure or normative applied science is a topic of debate among economists. Even though since the beginning of economic thought welfare economics has been strongly linked to positive economics, at one point in economic thought, it was felt that welfare economics was unscientific that it was normative and was therefore a branch of Ethics<sup>5</sup> It was further stated that welfare economics is normative in nature since it is concerned with what ought to be. However, not everyone has agreed with this viewpoint. For instance, Pigou focused on the factors that influence economic wellbeing but made no policy recommendations in his *Economics of wellbeing*. Pigou's *Economics of Welfare* is therefore a worthwhile investigation[7], [8].

## DISCUSSION

Welfare economics is seen as both a positive and normative science, which is a widely-held opinion on this subject. Understanding, describing, and forecasting how the economy

functions are at the heart of positive economics. Insofar as it aims to explain and forecast how the functioning of the economic system will turn out, welfare economics is a useful branch of research. Although evaluating welfare propositions is far more challenging than testing the propositions of broad positive economics, they may be subjected to test in the same way as those of positive economics. Positive analysis provides knowledge that may be used to develop effective policy solutions that optimise societal wellbeing. Normative economics' job is to decide what ought to be. A normative discipline, welfare economics offers principles for formulating policies that optimise societal benefit. Economic welfare maximisation assumes a welfare function that mostly consists of value assessments.

Welfare economics, as a normative science, offers suggestions for suitable policy measures in light of the welfare function. *The Definition and Evaluation of Social Welfare.* It's possible that the word welfare has been defined in so many different ways because it's so hard to pin down its exact meaning. The challenge comes from the fact that a person's or a group's wellbeing relies on a wide range of immeasurable aspects, including their social, political, economic, and philosophical outlook on life. However, the term welfare is exclusively used to refer to economic wellbeing in the field of economics. Even the phrase economic welfare is difficult to define precisely. However, economists have made an effort to give it a specific definition. The sum of individual utility is social welfare. In economic literature, the term economic welfare is equivalent to utility or happiness. The entire benefit a person receives from the things and services they consume, the leisure they enjoy, and the acts they perform but not all of these makes up their economic wellbeing. The overall utility gained from just those products and services, as well as only that portion of leisure and acts that may be brought under the monetary standard or traded for money, is an individual's economic wellbeing. Bentham defined social welfare as the sum total of the happiness or welfare of all the individuals in society based on the idea of individual welfare.

Pigou defined societal welfare in accordance with the Benthamite concept as the mathematical average of individual welfare. In a nutshell, social welfare, or the total level of wellbeing for a society, was defined by economists following the cardinal utility tradition as the arithmetic sum of the cardinally measurable utilities of each member of that society. However, the idea of social welfare based on cardinal usefulness has encountered some significant resistance. The first argument makes the claim that utility cannot be cardinally quantified and cannot, therefore, be summed to determine the total wellbeing. That is, it is impossible to bring together ideas that cannot be measured. As a result, it makes no sense to describe societal welfare as the whole of individual welfare. This problem is well acknowledged. Second, because utilities cannot be measured ordinally, there is no method to compare utilities between people in an objective or scientific fashion. Therefore, unless it is naively assumed that all people have identical income utility and commodity utility functions, it would not be able to establish how a change in the current pattern of resource distribution impacts the aggregate wellbeing. The Benthamite and Pigovian idea of social welfare had become ineffective as a result of these issues since it could not be applied objectively in any policy design. As a result, it was necessary to reject the central utilitarian tenet that the welfares of many people could be added up to arrive at the welfare of society.

### **The Pareto Principle: Social Welfare as the Social Maximum**

Italian economist Wilfred Pareto was the first to depart from the cardinal utility paradigm and give welfare economics a fresh focus. Due to the aforementioned restrictions, he rejected the cardinal utility notion and the additive utility function. The efforts to measure social wellbeing were unsuccessful after the cardinal utility thesis was disproved, at least temporarily. This is perhaps because welfare is not an observable quantity like a market price or a consumer good. Pareto proposed the idea of the social optimum, a novel idea. The foundation of Paretian welfare economics is this idea. The fundamental tenet of this notion is



that, notwithstanding the impossibility of adding up individual utilities to establish overall social welfare, it is still feasible to assess whether social welfare is at its best. Theoretically, social welfare is considered to be at its peak when no one can benefit without harming someone else.

A social optimum is defined as a situation in which nobody can move to a position that he prefers without moving somebody else to a position that is less preferred, said Boulding. The fundamental distinction between social optimum and other concepts that must be made is that social optimum does not define or establish an amount or degree of welfare. It is more closely related to the topic of whether or not altering the economic condition may raise the amount of social welfare resulting from a certain economic state. In order for social welfare to rise, at least one person must benefit without any other people suffering. However, it is challenging to think of economic measures that may enhance one person's wellbeing without harming another.

The economists Kaldor, Hicks, and Scitovsky developed the compensation principle to address this issue. According to this theory, the individual who gains from an economic policy or organisation must be able to pay the person who suffers as a result of the policy while still being better off. To sum up, the goal of contemporary welfare economics is not to estimate the entire social welfare. Only the indicators of welfare change are considered. It examines whether overall wellbeing rises or falls in response to changes in the state of the economy. This method is predicated on the idea that, despite the impossibility of measuring utility on a cardinal scale, it is still feasible to describe utility in an ordinal sense, and that this may serve as a sufficient indicator of changes in an individual's wellbeing. This idea serves as the foundation for contemporary welfare standards.

### **Education**

Human skill development and workforce awareness are both impacted by education. Both the quantitative and qualitative aspects of people's lifestyles are improved by educational possibilities. It significantly affects how the economy develops. Spending money on a person's education is considered an investment in their manpower, also known as their human capital. According to Prof. Harbison, Human resources constitute the ultimate basis of production, and that Human beings are the active agents who accumulate capital, exploit natural resources, build social, economic, and political organisations, and advance national development. These are just a few examples of how important human capital, or educational capital, is. It goes without saying that a nation that is unable to develop its people's skills and knowledge and to use them effectively in the national economy would not be able to develop anything else.

Since no nation can attain rational financial development without concentrating on and growing its human capital, education plays a significant role in economic growth. Training and growth enhance a person's understanding abilities and general knowledge of the universe. It contributes to raising the level of life and offers several collective advantages to the person and to civilization. Higher education boosts an individual's profitability and inventiveness and instils power-driven innovations and entrepreneurial initiatives in people. All of these factors together contribute to the economic growth of a country or state. It plays a crucial role in preserving finances, advancing society, and enhancing the flow of money. Greater intellectual capacity among the populace has enormously positive implications for the economy's future growth. Financial forecasters also understand the need of investing in human capital, often known as human education, in the financial process of a country. Statistics provide highly thorough and trustworthy evidence that specialists who are well educated and professionally qualified are more successful and earn greater salaries. In developing nations, education is hampered by a lack of access to modern training facilities as

well as by the fast-paced change in technology that affects the marketplace [8], [9]. The following categories best describe education's function in society:

1. **Ethical Progress:** The foundation of a person's personality and ethics in their thinking might be regarded to be excellent education or value education. Value education imparts to people a sense of humility, courage, honesty, acceptance, politeness, authenticity, fellow-feeling, love, spirit of service and sacrifice, and the ability to distinguish between moral and immoral behaviour. These traits really help people develop honourable and intellectual personalities.
2. **Cultural Development:** Education effectively protects and preserves both the cultural history and the traditional practises. Ethics are crucial to culture, and education strives to advance and elevate culture. It is acknowledged that culture's vibrant side is its ethics. Teaching ethics therefore plays a key part in the maturation and development of culture.
3. **Broadening of Optimistic Approach:** Education succeeds when it fosters a more expansive and optimistic outlook. A strong educational system broadens students' outlooks on life's path. This more open-minded perspective enables them to face life's challenges and unforeseen events with courage and confidence. This mentality motivates individuals to care about doing good deeds for others and to give up some of their own interests in order to advance society. Fostering democratic traits such as freedom, equality, community living, righteousness, cooperative living, peaceful coexistence, respect for others and for oneself, sharing of responsibility, etc. are made possible through value education. These are necessary for a country's growth and the advancement of society.
4. **Giving Nature Direction:** It's important to redirect human nature towards a positive outlook in order to advance both the person and society. The rerouting of wants and natures via education contributes to the development of each person's individuality and the growth of society. Education moulds a person's personality and affects his conduct by channelling his drives, desires, and instincts in the right path.
5. **Resolving Conflicts and Contradictions:** In today's culture, knowledge is prioritised above everything else, which leads to ongoing arguments between old and cutting-edge ideologies as well as traditional and progressive ways of living. By acting as a rescuer and using facts, deliberations, and debate to settle interpersonal conflicts, quality education defends society.
6. **Foundation for Humanitarianism and Altruism:** High-quality education is often cited as the all-encompassing foundation for altruism and humanitarianism. It represents cooperation, understanding, and harmony. It aids in fostering the link between humankind and global peace and understanding. Negative characteristics like prejudice, abuse, bribery, tragedy, self-centeredness, and stubbornness are disregarded. As a result, it serves as the foundation for altruistic attitudes and beliefs. People are motivated to adhere to the maxim to live and let live by it. As a result, it fosters a deep confidence in the transcendent ideals of life, such as truth, kindness, and beauty, leading to satisfaction, harmony, and peace.
7. **Personality Advancement:** The ultimate truth includes one's personality. In order to live in accordance with the absolute truth of the universe, it is urgently necessary to keep it. In order to establish a perfect and honourable personality for the benefit of the advancement of society, education feeds the personality.
8. **Upholding Harmony:** For an individual's many personality traits to remain in harmony, a high-quality education is crucial. Its main goal is to create a fully formed man or woman, a fully formed psychological and social being. As a result, many traits are synchronised by the significance of education for developing a whole man or

woman who may substantially contribute to the pace of progress of society and the country as a whole.

9. **Fostering Awareness:** Good education should foster an awareness of the centrality of the human being in today's society, which is seen in the push towards de-aculturalization, dehumanisation, and disengagement from traditional social interactions. Therefore, ethical awareness must be taught via excellent education in order to safeguard society against all kinds of disasters and catastrophes.

### **Health**

At the individual and communal levels, health has been identified as a factor that contributes to an increase in a country's wealth. Additionally, it is undeniable that increased health has an impact on economic activity and growth. The challenge of using human resources in the expansion of the economy has been the subject of countless discussions and research. Education has always been considered the main driver of human resource development. According to neo-classical theory, the following three variables stocks of capital, labour, and productivity are necessary for economic development. The four societal determinants of health are labour productivity, labour supply, education, and investment. Let's talk about each of them in the next paragraphs.

**Labour Productivity:** Populations with excellent health may produce more in a certain amount of time. A high output rate depends on a person's health, including both physical and mental wellness. Better physically and psychologically conditioned people can utilise technology more successfully and are also more likely to be flexible in their employment options.

**Labour Supply:** In several occupations, there is a direct correlation between labour supply and health. A good physical condition reduces the number of sick days, increasing the number of productive working days. It affects both the labour supply and earnings in this environment. In situations where pay is based on production, a productive worker will produce more, raising pay and, in turn, the labour supply. Instead of being forced to retire or leave a job owing to health issues, a healthier state ensures everlasting wages.

**Education:** According to the principle of human capital, individuals may achieve higher standards in terms of their production and salaries the more education they have. These folks may raise their production in the future by obtaining advanced degrees thanks to their improved health.

**Investment:** Health-related spending has a microeconomic impact on the nation, but it also somehow influences its macroeconomics, including its GDP and pace of economic expansion. In general, a population that is healthier tends to invest more in economic sectors, whereas a population that is unhealthier tends to spend more on medical care, save less, and invest less.

**Poverty:** When people lack the means to meet their most basic requirements, it is stated that they are in poverty. In this approach, defining what it means to be poor properly is necessary for identifying the poor. According to one interpretation, it might be described as people who don't have goods that are essential for existence or, more broadly, as those who replicate the dominant standard of living in the community. The first criterion would only safeguard individuals who were on the verge of going hungry or dying the second would cover those whose nutrition, shelter, and clothes, although sufficient to maintain life, fall short of those of the general population.

The difficulty in defining poverty is made worse by the non-economic implications that the word has come to have. Poor health, low levels of education or competence, an inability or reluctance to work, high rates of disruptive or disorderly conduct, and improvidence are a few examples of how poverty has been linked. Although these characteristics are commonly linked to poverty, their inclusion in the definition of poverty tends to complicate the

connection between them and the inability to meet one's fundamental requirements. Although poverty is a condition that dates back as far as human history, its significance has changed with time. Poverty may be divided into many categories based on criteria like time or length long- or short-term or cyclical, and distribution widespread, concentrated, and individual.

**Cyclical Poverty:** This sort of poverty is one that may be prevalent among the population, but its presence is just fleeting. Prices would increase as a result of food shortages, which create widespread, if transient, hardship. General Poverty Common, community poverty involves a somewhat long-lasting insufficiency of resources to preserve fundamental necessities, unlike cyclical poverty, which is temporary. It is a situation that may be as general as to include the average standard of living in a community or it can be concentrated in relatively large groups in an otherwise prosperous culture. Parents passing on their poverty to their children may result in both broad and concentrated collective poverty being transmitted from generation to generation [10].

**Case Pauperism:** Case property differs from communal property in terms of circulation but is comparable to it in terms of permanence or long-term character. Case poverty examines a person's or family's inability to protect basic needs even in shared settings. This inability is often correlated with the absence of some fundamental quality that would enable the particular individual to sustain themselves.

#### **Reasons for Poverty**

**Population Growth:** India's population is expanding quickly. The decline in mortality and increase in birth-rate are the main causes of this expansion. India's population was 84.63 crores in 1991, 102.87 crores in 2001, 121 crores in 2011 and close to 138 crores in 2020, according to the most recent census. This population load demonstrates economic growth's limitations.

### **CONCLUSION**

Welfare economics study has a number of political ramifications. It aids in the identification and prioritisation of measures that improve social welfare and lessen inequality. A framework for analysing the impacts of governmental actions, such as taxes, spending, and regulation, on the welfare of the individual and the community is provided by welfare economics. Discussions on social fairness, income distribution, and the provision of public goods and services are also informed by it. In conclusion, understanding welfare economics may help us assess and enhance societal welfare and well-being. Wellbeing economics offers a framework for evaluating the distribution of resources and policies that increase social wellbeing as a whole by looking at ideas, methodology, and policy consequences. Welfare economics continues to be an important instrument for influencing policies that improve the quality of life for people and communities as countries confront difficulties linked to inequality, sustainability, and social development.

#### **REFERENCES:**

- [1] S. Figuera, "A margin note on medieval thought about money and the interest rate," *Riv. Int. Sci. Sociali*, 2017.
- [2] M. Wakatabe, "The great depression and macroeconomics reconsidered: The impact of policy and real-world events on economic doctrines," *Research in the History of Economic Thought and Methodology*. 2017. doi: 10.1108/S0743-41542017000035B011.
- [3] M. Jafar, Z. A. Hatta, and B. R. Nikku, "Integrating welfare economics in social work curriculum: a Malaysian case," *Soc. Work Educ.*, 2018, doi: 10.1080/02615479.2018.1445215.
- [4] A. C. Pigou, "Some Aspects of Welfare Economics," *Am. Econ. Rev.*, 1951.

- [5] T. Vanoutrive, "Don't think of them as roads. Think of them as road transport markets: Congestion pricing as a neoliberal political project," *Prog. Plann.*, 2017, doi: 10.1016/j.progress.2016.04.001.
- [6] Hasim, "Relevansi Pemikiran Al-Maududi Dengan," *J. GEMA*, 2017.
- [7] G. W. Harrison, "The behavioral welfare economics of insurance," *GENEVA Risk Insur. Rev.*, 2019, doi: 10.1057/s10713-019-00042-y.
- [8] R. Mabsout, "Bringing Ethics Back to Welfare Economics," *Rev. Soc. Econ.*, 2014, doi: 10.1080/00346764.2013.806109.
- [9] D. M. Hausman and M. S. McPherson, "Preference satisfaction and welfare economics," *Econ. Philos.*, 2009, doi: 10.1017/S0266267108002253.
- [10] A. F. Sarch, "Hausman and mcpherson on welfare economics and preference satisfaction theories of welfare: A critical note," *Econ. Philos.*, 2015, doi: 10.1017/S0266267114000431.