Chapter - 1

INTRODUCTION

1.1. Background
1.2. Statement of the Research Problem
1.3. Objectives and Scope of the Study
1.4. Hypotheses
1.5. Methodology
1.6. Review of Literature
1.7. Contemporary Relevance of the Study
1.8. Limitations
1.9. Chapter Scheme
Chapter - 1

INTRODUCTION

1.1. Background

Every day millions of economic decisions are made by millions of people and organizations all over. Some of these decisions, especially those made by the government, have far reaching and long-lasting consequences. Studying each decision, however, even the major ones, would be a complicated task. Thus, the economists have found it useful to construct theories for the economy. The theory is a statement (verbal, graphical or mathematical), which contains important information bearing on a decision or problem. As such economic theories provide a framework for thinking. They help us identify and segregate the important information for making economic decision from the trivial or unimportant.

Theories are mainly used to explain past events and predict future events. If we can understand why an event happened in the past, then if the same causal factors should reappear, we should be able to predict the reoccurrence of the event. By identifying the prime causal factors of economic events, economists attempt to explain these events and thus predict future events. Economic theories are also known as Principles, Models or Hypotheses. Economists generally find that the easiest way to grasp the essential features of a subject (such as how an economic system deals with scarcity) is to first construct a 'Model', which is a precise description of how the environment affects behaviour. An Economic Model is an abstract, simplified representation of how decision makers interact, how their decisions are affected by the economic environment and the behaviour that results from these decisions.
Economic systems are very complex and limitations on our time, physical resources and the mental capacity prohibit us from understanding every detail and interrelationship. Economic Models help us to overcome these limitations by abstracting or taking out of the complex society in which we live, the essential features of the economy. Models thus permit us to develop basic principles, to use them to understand past events, and to predict whether alternative economic policies will fly or crash. Their purpose is to help us to see important features of the economy that the complexity of the real world would otherwise hide.

The term ‘Policy’ generally refers to the principles that govern action directed towards given ends. The study of ‘Policy’ concerns itself with three things – what we want, (the ends), how we get it (the means), and who are “we”, that is what is the nature of the organization or the group concerned. Ever since the birth of Economics as a field around 1776, economists have been concerned with and motivated by a desire to improve the economic policy of governments. In fact, Economics was originally called ‘Political Economy’. Whereas Adam Smith argued for a system of laissez – faire, Karl Marx, in contrast, favoured government control. Even today, the debate has been going on about the role of government. Policies aim at minimizing our problems and improving our lives. Theories help in formulating policies, and they serve as a guide to economic policies.

Detailed studies have been made on certain theories like the Marxian, the Ricardian and others by many scholars around us. The Researcher, in the Present Study, has made an earnest attempt at reviewing the Wage-Goods Model of P.R. Brahmamanda and C.N. Vakil to bring to light the Model's relevance in our contemporary economic environment.
A Brief Profile of P.R. Brahmananda

Palahalli Ramaiah Brahmananda was one of the eminent economists in India. He was born on 27th September, 1926, in Bangalore. He is to be remembered forever for his enormous contributions to the theory of Economics. He was the one who put forth new visions of his own very frankly as a solution to the deep-rooted problems of a developing nation like India. It is his valuable writings, with new ideas and visions, which inspire several generations of students for conducting research on the same.

Brahmananda, one of the founders of the Indian Economic Association (IEA), and the prestigious Indian Economic Journal, was greatly responsible for bringing in many top most economists from India and abroad to its fold, and helped it grow into the leading professional body of economists in India. He took a leading role in organizing the world congress of International Economic Association in New Delhi in 1986, and also took the initiative to establish the IEA Trust for Research and Development to promote teaching and research in different branches of economics in the country. According to Biswajit Chatterjee, his leadership qualities as the Director of the Department of Economics, University of Mumbai, and at the Indian Economic Association, and as the Managing Editor for the prestigious Indian Economic Journal for a long time, made him a permanent name in the history of institution building in India’.

Brahmananda has contributed about 801 writings of which 36 are books. In the opinion of D.S. Awasthi, the former Secretary and Treasurer, IEA, Brahmananda had touched almost all the branches of Economics, except a few. Some of the important and path breaking writings of him are as follows: ‘Planning for an Expanding Economy’ (1956, with C.N. Vakil),
Chapter-I

Introduction

‘The Economics of Welfare Maximisation’ (1959), ‘New Classical versus
the Neo-Classical Economics’(1967), ‘The Falling Economy and How to
Inflation by means of Stockless Money’ (1980), ‘Productivity in the Indian
Economics-A Historical Commentary from the Classical Angle’ (1999),
‘Money, Income, Prices in 19th Century India -Historical, Quantitative and
Theoretical Study’ (2001), - and many others.

The Wage-Goods Model

At the time of the formulation of the Second Five Year Plan, a new
strategy of development, termed the Wage-Goods Strategy, was
presented by late C.N. Vakil and P.R. Brahmananda during 1955-56 to the
Panel of Economists of the Planning Commission, as an alternative to the
heavy industry strategy of P.C. Mahalanobis. Though the earlier Papers of
Brahmananda (from 1951 onwards itself) presented the basic ideas of the
Strategy, the rationale and details of the Wage-Goods Strategy, was
this Strategy was rejected and instead, the Mahalanobis Strategy was
accepted by the Planning Commission for the Second and the Third Five
Year Plans as well. However, on account of the public agitations within the
economy, poverty eradication objective was included in the Plans and from
the Fifth Plan onwards, the Planners officially accepted one component of
the Wage-Goods Strategy, that is, removal of poverty. Later, some other
components of the Wage-Goods Strategy seem to have become officially
acceptable.

The Wage-Goods Strategy mainly emphasises on employment
expansion, poverty eradication, reduction in income inequalities, etc. It
insists on more investment in the Wage-Goods sector. It focuses mainly on the poor sections of society. According to Biswajit Chatterjee, certain interesting implications of this Strategy are, first, the Strategy gives priority to immediate consumption needs and well being of the people, without sacrificing the potentials for long-term growth and by giving importance to employment-intensive output growth, it suggests that the savings potentials of the economy will be enhanced. Secondly, acceptance of this Strategy at the initial stage of our economy, would have reduced,

a. dependence on foreign resources,
b. need for specific targeting for poverty alleviation through budgetary supports,
c. the foreign exchange constraint, because agricultural commodities and Wage-Goods could have been exported, and specific capital goods necessary for expanding the productive base of this Wage-Goods composite, could have been imported.

The emphasis of the wage-Goods Strategy has been on the labour-intensive techniques and it gives top priority to the growth of agricultural and village and small scale industries. It is crucial to safeguard our village and small scale industries which are being swallowed by the powerful multinational corporations that are entering into India as per the agreements of WTO, as this sector accounts for about 50 per cent of employment accommodating 18 million persons.

1.2. Statement of the Research Problem

The Study is confined to the review of literature of P.R. Brahmananda in the area of Planning and Development with a special focus on the Wage-Goods Model, where sincere attempts are made to bring to light the relevance of the Model at the All-India level with special
reference to Karnataka. The Study analyses the performance of the Planning process in general and the implications of the Mahalanobis Model in particular at the Macro level. Efforts are also made to analyze the performance of Planning in Karnataka and thus the Study brings forth the need for adoption of the Model in Karnataka State as well. The rationale behind restricting the Study to Karnataka is the dearth of studies undertaken in the field, in the study area. The Study also attempts at justifying the relevance of the Wage-Goods Model even in the globalized regime in India.

1.3. Objectives and Scope of the Study

The broad objective of the Present Study is to review, briefly, the contributions of P.R. Brahmananda to the world of Economic literature in general. The specific objectives are:

1. a brief review of the Growth Models prior to 1950s in India,
2. to review and analyze the Wage-Goods Model as an alternative development strategy in India,
3. estimation of Wage-Goods component of households' spending in the State of Karnataka,
4. to offer suggestions based on the results of the Study.

1.4. Hypotheses

The following hypotheses are set for the Study in the light of the above objectives.

1. The content of the Wage-Goods Model is less in the Plan Models adopted in Karnataka.
2. The Mahalanobis Model induced Capital intensive low employment growth in the economy.
3. Wage-Goods form a significant proportion of an average household budget.
1.5. Methodology

a. Study Area

The geographical area of the Present Study is restricted to the State of Karnataka. To make the Study a representative one, the Karnataka State is divided into two broad divisions, namely, the Northern and the Southern. The Chart given below shows the scope and stretch of the Present Study.

<table>
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<tr>
<th>Sampling Break-up</th>
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<tr>
<td>Karnataka</td>
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<tr>
<td>(Samples from Rural Area)</td>
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<table>
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<tr>
<th>North Karnataka</th>
<th>South Karnataka</th>
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<tr>
<td>Bellary</td>
<td>Dharwad</td>
</tr>
<tr>
<td>Kudligi (Most Backward Taluk)</td>
<td>Hubli (Developed Taluk)</td>
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<tr>
<td>Chickmagalur</td>
<td>Davanagere</td>
</tr>
<tr>
<td>Tarikere (Backward Taluk)</td>
<td>Honnali (More Backward Taluk)</td>
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<tr>
<td>MC Halli (Better village)</td>
<td>Kyasinkere (Moderate village)</td>
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( Samples from Urban Area) 
Shimoga Town

As presented above, two districts were chosen at random from each of the divisions i.e., Bellary and Dharwad from the North and Chickmagalur and Davanagere from the South division. One Taluk was chosen from each of the districts, on the basis of the D.M. Nanjundappa Committee
Report, viz., Kudligi, Hubli, Tarikere and Honnali as the most backward, the developed, the backward and the more backward taluks respectively as shown in the Chart. One village was selected from each taluk as the poor, developed, better and the moderate village on the parameters of literacy rates, population and irrigation based on the data provided in the Report 'District at a Glance' of the respective districts. And one Town was chosen at random, i.e., Shimoga (from Shimoga district) representing urban area.

b. Sources of Data

The Study, for its analysis, depends on both primary and secondary data. Secondary data were gathered from the Plan Documents, the RBI (Reserve Bank of India) Bulletin, and such other Reports and Research Journals published by the Government of India and the Government of Karnataka. Other materials were also collected from different websites.

Primary data were gathered through personal interview method with the help of well structured interview schedules. The Researcher, as a part of the primary investigation, approached the Statistical Inspectors and Village Accountants of the sample Taluks and Villages, respectively, and thus gathered additional information about the sample taluks and villages at the time of their selection. The Researcher gathered information from the households of various income groups, both in rural and urban areas. The data were collected during the months of April-May, 2007.

c. Sampling Design

The Present Study adopted Multi-Stage Random Sampling Technique. As mentioned above, samples were drawn from both rural and urban areas. 50 households of different income groups, chosen at random,
were interviewed in each of the villages in North and South Karnataka comprising of the small and marginal farmers (92 households), Agricultural labourers (54 households), non-agricultural labourers (29 households), petty traders (14 households), and others like carpenters, tailors and the like (11 households). Thus, in total, 200 samples are drawn from among the villages chosen. Likewise, 50 households are interviewed chosen at random, in one urban town, from 5 wards comprising the slum dwellers (12 households), low-income group (12 households), middle-income group (10 households), business men (10 households) and high-income group (06 households). Thus, 250 households of different income groups are randomly chosen for the Present Study, from rural and urban areas.

d. Analysis of Data

To draw the inferences and to verify the hypotheses set, the Present Study has made use of both primary and secondary data. The data gathered through primary investigation are analyzed with the help of the Simple Regression Model and by working out proportions. 't' test is applied to show the significance levels. Apart from this, for analyzing the secondary data, the Study has made use of simple mathematical tools like percentages, averages, conversions and ratios.

1.6. Review of Literature

A review of literature in the Study field is presented below.

a. Review of P.R. Brahmananda's Works

Some of the works of P.R. Brahmananda, in general, are being reviewed here.
An article of P.R. Brahmananda contained in 'Inflation in India', S.L.N. Simha (ed.) (1974), entitled 'The Nature and Genesis of the Indian Inflation', speaks of the uniqueness of Indian inflation, arguing that inflation in the Indian context occurs when the scale and rate of growth of bank credit have got so much out of alignment with the stock and the rate of growth of basic goods and their productivity in the system of production that the rate of price rise in basic goods appears as a parameter to all sections of the community. Showing that inflation witnessed in India does not fit into any historical pattern and does not suit any of the dominant models of the inflationary process developed in orthodox theory, Brahmananda suggests several policies to control inflation as suitable in the Indian context.

In his article titled, 'The Pure Theory of Agricultural Price' (1984) Brahmananda discusses the means of producing agricultural commodities and highlights the place of labour in their production. He gives a brief account of how agricultural prices are determined in the economy.

Another Paper of Brahmananda with the title 'Towards a New Adjustment and Reform Rationale', published in the volume entitled 'Indian Economy in Transition', edited by R.K. Sinha in 1994, brings out the reasons for and the ways of overcoming the Indian economic crisis. He has examined the structural adjustment / reform process as regards the revenue deficit, fiscal deficit, inflation rates, the growth rates of money, tax revenue, etc. He has also dealt with the drifts and trends in the international economic scene and explains what international integration is about. Finally Brahmananda, in this Paper, suggests some of the policy recommendations to be followed for formulating policies in the Indian context and calls for recasting our entire development and planning profile

In the article entitled ‘Are Public Sector Banks Insufficient?’ (2001), Brahmananda examines the efficacy of the public sector banks as compared to that of the private and foreign banks, taking into account their aggregate net profits, operating expenses like wage-costs etc. He points out the inefficiency of the public sector banks and urges the Reserve Bank of India to take some interest in equipping different banks, specially those in the public sector, with strong departments of economic research.

In ‘Relevance of Gadgil’s Economics’ (2002), Brahmananda upholds the ideas and views of Gadgil, one of the scholarly Indian economists, linking to Ranade’s positions with regard to the theoretical basis of classical economics and hypotheses underlying the general framework of a universal economic policy. He has also pinpointed some of the cudges taken up by Gadgil against western theoretical propositions under the Indian conditions. Brahmananda opines here that the Indian economics has rich tradition and appreciates Gadgil’s ideas as the rich legacy in challenging the postulates of mainstream economics in theory and policy.

Another article of Brahmananda titled, ‘Theory and Political Liberalism’ (2002), talks of the Rawl’s theory of social justice and compares it with Mahatma Gandhi’s idea of ‘Antyodaya’ which aims at the upgradation of the poor and generation of larger employment opportunities.

In a Paper entitled, ‘A Note on IEA’s Wage-Goods Approach to Development’ (2001), Brahmananda makes a reference to many of the scholars worked on the Wage-Goods Model and appreciates their take on the Model from their strands. In the Paper, he also touches upon some of
the concepts of the Wage-Goods Model, such as the Wage-Goods Multiplier, Employment Multiplier, etc. He has also highlighted the relevance of the Model in the realm of WTO agreements.

A fairly comprehensive review of Brahmananda's literature specifically in the area of Planning and Development, is presented in Chapter II.

b. Works on P.R. Brahmananda and His Literature

Brahmananda's literature has been reviewed by many other scholars.

Shri Bhagwan Dahiya, in the volume entitled 'Planning Theories and Techniques in India - A Critique' (1989), has made reference to the earlier version of the Wage-Goods Strategy presented by Vakil and Brahmananda in their work 'Planning for an Expanding Economy' in 1956. He has discussed the Model's assumptions, propositions and the three stages of economic planning for the implementation of the Wage-Goods Strategy as suggested by the authors.

S.K. Mishra, in his work titled 'Mahalanobis Approach to Planning in India' (1994), highlights Vakil and Brahmananda's views, arguments against the Mahalanobis Model. He also speaks of the three stage programme of the Model as advocated by the authors and makes a comparative analysis of Mahalanobis Model with that of the Vakil-Brahmananda Model and appreciates the latter's concern for controlling inflation and rapid growth of population.

M.J. Manohar Rao took a study on the Wage-Goods Model in two of his Papers entitled 'Planning for a Wage-Goods Economy: Some Reflections on its Optimization Frame Work' (1996), and 'Fifty Years of
Development Economics' (1999-2000) both of which point out some of the noble features of the Wage-Goods Model in contrast to the Mahalanobis Heavy-industry Model. Whereas the former contains the optimization exercises carried out by Rao using the mathematical version of the modified Wage-Goods framework like the output block, the employment block and the growth block, the latter shows the relevance of the Model in the current economic milieu of liberalization.

In his article with the title 'The Bombay Alternative' (2003), Meghnad Desai has dealt with the earlier version of the Wage-Goods Strategy of Vakil and Brahmananda (1956) focusing on the issue of how disguised unemployed could be transferred into productive workers, via consumption multiplier. He also touches on the concepts of investment – net revenue ratio, accumulation co-efficient, etc., as discussed by vakil and Brahmananda, and compares the views of Mahalanobis and the Bombay authors. Finally, he opines that India could have achieved faster output and employment growth had the Wage-Goods Strategy been followed in the early stages of Planning in India.

Raj Kumar Sen, in his article, 'On Professor P.R. Brahmananda and his Writings' (2003), has given a brief account of Brahmananda's life, his academic quests, his economic ideas and writings during recent years.

The article of Biswajit Chatterjee titled, 'Development Paradigm and the Indian Economy' (2003) reviewed different development paradigms, such as the Wage-Goods Paradigm, the Mahalanobis Paradigm, the Marxian Paradigm and the structuralist Paradigm. Another article of him, titled, 'P.R. Brahmananda, Development Economics And Monetary History in India – An Introspection' (2003-04) also reflects the relevance of the
Wage-Goods Model to India's Planning experiences. He upholds the unique qualities of Brahmananda's Researches in this article.

K. Thiagarajan and A. Vasudevan have taken an opportunity to pay a tributary note to P.R. Brahmananda's demise in their Papers entitled, 'Versatile Economist' (2003) and 'A Relook at the Blue Prints for Independent India' (2004), respectively. While Thiagarajan carved Brahmananda as an ardent critique of the Indian Five-Year Plans, remembering his illustrious contributions to economic thinking, Vasudevan praises Brahmananda's creative analytical alternative 'The Wage-Goods Model' and his concern for not only low growth but also for the widespread poverty and unemployment along with savings augmentation, controlling inflation, export promotion, etc., as implicit in the alternative strategy.

1.7. Contemporary Relevance of the Study

Many scholars have dealt with the Wage-Goods Model of Brahmananda and C.N. Vakil. But no detailed document is found on the same with regard to the State of Karnataka. The Study attempts at analyzing the significance of the Model in detail, with reference to Karnataka State. From this angle, the Study assumes relevance. It is an acceptable fact that the non-implementation of the Wage-Goods Model caused severe damages to the household budget. Moreover, in these days of increasing globalization, due to which our agricultural sector is in jeopardy, the implementation of the Wage-Goods Model appears to be apt and appropriate, necessitating a Study of this sort. And these days, during which the economy is suffering from the runaway inflation, which has touched a seven percent mark, mainly due to soaring prices of food, vegetables and other essential commodities implying feeble food security
in the country, the adoption of the Wage-Goods Model seems to be much more appropriate, for maintaining the macro economic stability in the economy. The Study finds significance from this point of view. The Study is also relevant from the angle of policy recommendations, based on the findings of the Study.

1.8. Limitations

It is an uphill task to review the entire contributions of Brahmananda to Economic literature, in a Study of this nature. The Researcher has not dealt with all the writings of Brahmananda even in the field of Planning and Development, keeping time and resources at the disposal and size of the Thesis in view. The Researcher sincerely admits that the Present Study cannot be a fitting tribute to Brahmananda, a distinct scholar.

The Wage-Goods Model is a universal Model, but in the Present Study, for convenience, its applicability is analyzed with regard to India and Karnataka, which can be considered a limitation of the Study. The Study defends the adoption of the Model only on logical basis. The Researcher, for analysis, has opted only a few important strategic variables while the other strategic variables are not taken into account. Data pertaining to employment elasticities, employment growth rates and poverty rates, for the earlier periods of Planning were not available for the macro analysis which can be considered yet another limitation. And so is the case in regard of the data on capital-output ratio and consumer price index for the analysis at the Regional Level.
1.9. Chapter Scheme

The Study, for convenience, has been divided into Seven Chapters, the contents of which are presented below.

The Second Chapter gives a picture of the journey of life and works of P.R. Brahmananda. It begins with an introductory note on his childhood, his academic profile and various academic positions followed by a summary of the Researches of Brahmananda in general. The Chapter brings out a comprehensive review of Brahmananda's writings on Planning and Development wherein the core issues of his Volumes and Research Papers in this area, are briefly presented. Opinion of other contemporary scholars on Brahmananda and his personality is also cited in the Chapter.

The Third Chapter sets a platform for the analysis of Wage-Goods Model by discussing the earlier theories of economic development and growth, from laissez-faire to a State-owned process as advocated by the economists of various Schools of Thoughts prior to 1950. The Chapter moves along a discussion on the views of mercantilists, physiocrats, the development and growth theories of Adam Smith, Thomas Robert Malthus, David Ricardo and Marx representing the Classical School and the theories of Capital Accumulation, the gradual and harmonious nature of development, international aspects of development propounded by the Neo-classisists. Later, the Chapter deals with the growth theories and models of the economists who strongly linked economic development with the intervention of the State, like J.M. Keynes and the Post-Keynesian economists, namely Harrod and Domar.

A detailed discussion on the Heavy Industry Strategy of P.C. Mahalanobis and the Wage-Goods Strategy of C.N. Vakil and Brahmananda, is brought out in the Fourth Chapter. A brief note on the
The evolution of Planning in India is given. The views and ideas of Mahalanobis Strategy are epitomized and his Four-Sector Model is presented with the technical parameters along with the criticisms levelled against the Model by several members of the Planning Commission and others, with a special emphasis on the comments passed by C.N. Vakil and Brahmananda. Then the Wage-Goods Model in its three versions, i.e., the Wage-Goods Strategy (1956) (presented by Brahmananda jointly with Vakil), the Extended Wage-Goods Strategy (1973), and the Revised Wage-Goods Strategy (1995) as advocated by Brahmananda, are depicted in detail supplemented by a critical note on the Model. An analysis of the implications of the Mahalanobis Model is made at the end of the Chapter in regard of income and employment targets, and other important consequences of the adoption of the Mahalanobis Model are also touched upon in brief.

The Fifth Chapter analyses the pros and cons of the Planning process at the Macro and Regional levels with the help of some of the important strategic variables such as plan outlays, output and sectoral growth rates, capital-output ratios, employment and unemployment rates, and poverty ratios and consumer price index, chosen separately for Macro and Regional analysis. The Chapter, based on this analysis, attempts at showing the significance of the Wage-Goods Model at the All-India level and in Karnataka State as well.

The Sixth Chapter is devoted to the analysis of Research findings, using the statistical tools like the Regression Model and ratio/ proportion method. It begins with an account of sampling details, and then turns to the analysis of income and expenditure of the households interviewed, with an analysis of other issues like the functioning of Public Distribution System in the areas surveyed, savings scenario, etc. Then the Chapter
analyses the living standards of the households and ultimately highlights the place of Wage-Goods in the household budget thereby bringing to light the relevance of the Wage-Goods Model.

The Seventh Chapter is a summary of the Research Findings, followed by certain remedial measures for the betterment of the poor as suggested by the Researcher, some avenues for further Research in the area and formal conclusion of the Study.