Chapter I

Nature of Conventional Economics

The question of ideological element in Economics is getting increasing attention now-a-days and its role has been treated in various ways. First, it has been contrasted with the scientific core of the subject, by implication being regarded as the inter-mixture or accretion of ethical postulates and value judgements. Thus it is an alien element in what should be designed as an objective and positive enquiry, which although inevitably encroaching upon most people's thinking about practical affairs, deserves to be purged by more rigorous analysis and precise definition. The proposition that on a competitive market factors of production are priced according to their marginal or incremental productivity is sometimes contrasted with the statement that people ought to be rewarded according to their contributions to production, and the latter abjured as an unscientific intrusion; or again theories about how income-distribution is in fact determined are contrasted with postulates about what income-distribution ideally should be. Sometimes, while this contrast between an ideological and scientific element in a theory is preserved, the boundaries of the former are more widely drawn to include other classes of statements than pure ethical ones. One finds for example
the metaphysical statements. Answering the question, "What are the criteria of an ideological proposition as opposed to a scientific one?" Professor Joan Robinson replied, "If an ideological proposition is treated in a logical manner, it either dissolves into a completely meaningless noise or turns out to be a circular argument". These she seems virtually to identify with "metaphysical propositions which are admittedly not without content" and although 'they do not belong to the realm of science yet they are necessary to it' and, in social sciences at least have played an important, perhaps an indispensable role. "Whether or not ideology can be eliminated from the world of thought in the social sciences, it is certainly indispensable in the world of action in social life".¹

Joseph Schumpeter, who among the modern economists had made the fullest and most serious contribution to this discussion, has adopted a rather different attitude to this question. He starts by denying that ideology is to be equated with value judgements. "An economist's value judgements often reveal his ideology but they are not his ideology".² He has called it vision, i.e. of the complex shape of reality and of the nature of the problems confronting mankind in any

given historical situation. "This vision", argued Professor Schumpeter, "Being ideological almost by definition, since it embodies the picture of things as we see them". Hence he concludes that while economic thought generally must almost inevitably be ideologically conditioned, economic analysis proper can be treated as independent and objective - a hard core of formal techniques and instruments that are governed by supra-historical standards and rules to be discussed and assessed independently. This Schumpeterian view, is clearly connected with the more crude and forthright 'box of tools' view of economic analysis as being purely instrumental, concerned with techniques capable of application to a wide variety of purposes and situations. As such it has no interest in normative judgements; and it is unconcerned with the specific purposes to which it is put—whether to clarify the problems of a profit making monopoly or those of the planners of a socialist economy. This conception of the pure economist's role has, naturally, been furthered by the vogue of mathematical methods and forms of standards in economics, to the point even of purifying the subject of notions, elements or relations incapable of being quantified and expressed in an equational system. Of this attempt to separate economic technique from its product it is, surely, appropriate to conclude this. "Either the analysis of which

Schumpeter speaks is a purely formal structure without any relation to economic problems or sets of questions to which it is being designed as an answer - in which case it does not constitute a set of propositions or statements with any economic content - or else it is logical system designed as the vehicle of certain statements about economic phenomena or activities.

Theoretical analysis and generalisation invariably build upon classification, in the sense of using what has first been classified as its material units or counters; and what is classification but a drawing of boundaries between discrete objects, which are in turn derived from the structural pattern one senses in the real world? Schumpeter himself makes this clear in his very definition of vision - "In every scientific venture the thing that comes first is vision", as he emphasises, "Before embarking upon analytic work of any kind we must first single out the set of phenomena we wish to investigate, and acquire intuitively a preliminary notion of how they hang together or, in other words, of what appear from our standpoint to be their fundamental properties". To say this is not to deny that a separate study could be made of economic theory in its analytical aspect alone and even a history be written of this aspect per se, viewed as the perfecting of a technical

apparatus. But what is dubious is whether if this were done one could regard it as a study of some separable and definable section of the subject itself, i.e., as a set of propositions or statements which the analytical apparatus has been designed to carry. This would seem to be an altogether different matter. Admittedly it may be hard to divide one's talk about the analysis as an instrument, and one's assessment of its role, from the particular use to which this analysis is put. But there is a crucial difference between discussion of the syntax of sentences and of the content of particular statements that are cast in any given syntactic form. What is questionable is whether in economic or in any branch of social science, if one pays attention to the economic contents of a theory as distinct from its analytical framework, any part of the theory can preserve the independence and neutrality claimed for the formal analysis itself. Such content must consist of some kind of statement about the shape and functioning of actual economic processes, however particularised or generalised the statement claims to be. This must, surely, be the case unless reference is being made to some entirely imaginary land of Cathay. Here the simile of a picture or map seems applicable, and no longer that of a tool or instrument. Into its formation Schumpeter's 'vision' must essentially enter the statement which theory enshrines, qua picture or map being entirely dependent upon and relative to such vision and the latter, as he himself
stresses, being always relative to a particular time and social place in the process of history. No examination of economic theory, still less historical examination of systems of theories, seems to be justified in denying or ignoring this relativity. A mathematical model can be examined in its purely formal aspect, as a consistent structure. At the same time, qua economic theory, its very structure is relevant to the statement it is making about reality. In choosing one structure in preference to another, the model builder is not only providing a framework within which human thoughts can operate but in laying emphasis upon certain factors and relationships and excluding others and in denying so he can be judged to be distorting or illuminating reality, and providing a basis for interpretation and prediction. This is not to say of course that any such distortion is a part of the conscious intention of the model builder, who may indeed have chosen its shape for purely formal reasons, because he regarded it as intellectually ingenious. But in the degree that he is influenced by its economic implications, its shape and projection will be influenced by his vision of the economic process, and by whatever socio-historical conditions shape and limit his mental picture of social reality.

If, however, some economic statements are capable of expression in purely mathematical form, it might seem as though the picture of economic reality they embody must be of too abstract a character to be affected by ideological
influences in any marked degree and even less to carry in themselves any particular bias. Hence the content of the statement as well as its form could be qualified as ideologically neutral and supra-historical. It has been often said that a system of simultaneous equations carries per se no causal implication. All that such a person does is to provide a description of a situation as a set of interrelations; a situation composed of a cluster of internally related elements and treated as being isolated, comparatively speaking, from what lies outside it, at least to the extent of not interacting with the latter. But it does no more than this.

Associated with the notion of economic theory as a purely formal structure is that of the reconciling role of such generalised economic analysis with respect to rival and opposed theories. This is a view of which a good deal has been heard recently in certain circles and is evidently germane to any critical examination of the history of economic thought. One example of it is the attempts made soon after the appearance of J.M.Keynes's General Theory\(^5\) to display the different emphasis and conclusions of Keynesian and pre-Keynesian doctrine as depending upon different values implicitly assumed for certain parameters or generalised

functional relationships and in some cases implicit assumptions of independence.

To question the status of an apparently mutual corpus of theory of this type is not equivalent to denying the existence of certain high level generalisations that apply to a variety of economic situations. Marxist writers, for example, have always granted that there are general statements that apply to all modes of production or socioeconomic systems, or at any rate to all systems embodying a common characteristic such as commodity production for sale in a market.\(^6\) Again to take an example from modern growth models for example, the Von Neumann Model,\(^7\) there are certain interrelationships between quantities in economic growth that will apply to any economic system, given only a minimum of common assumptions as to prices and price flexibility, technical possibilities and supply-elasticities. But it does not follow at all that these consist merely of analytical statements about an equilibrium of inter-related variables; if so their significance for practice would be distinctly trivial, and even as a framework for more concrete statement that would probably be ignored without much loss of

---

But there can be no question of denying a place in economic theory to statements of complex mutual or reciprocal interdependence, in addition to the more familiar statements of simple and direct causation of the type of "If A then B follow" or "A is a necessary and sufficient condition for the occurrence of B". The point is that these, in so far as they define the nature of the independence, speak about the shape and pattern of actual situations and processes, thus depending, in some degree at least, upon vision of the latter and are by no means purely formal. For example, let us take any statement that the level of present output, the growth rate of output and the quantity of labour inputs in the system are interdependent. It is true that this statement implies no direction of dependence, which is entirely reciprocal. But as soon as the assumption is introduced that any two of the quantities in our example are to be taken as given, in the sense of being treated as independent variables, it will follow of course that the other is ipso facto determined. Thus, if the labour force is given at any one date, as a feature of the demographic situation then for any given level of present final output there will be a certain rate of growth that is the maximum possible; so that if in addition a certain level of present output is taken as necessary, then the maximum feasible growth rate is determined as resultant. If, adding a fourth variable to the
situation in the shape of a choice between alternative methods of production, a given growth rate is postulated as the feasible policy objective of a planned economy, then it follows that there is a certain optimum choice of methods of production in the sense of one that will maximize the level of output consistently with maintaining the intended objective. Thus a transition from a mere statement of mutual dependence to an optimising theorem requires, on the one hand, the postulation of some normative objective as an accepted feature of actual situations such as given economic resources available to production.

The essential point here is that this transition is made as soon as one fills in the picture with any additional features of an actual situation. By doing so certain direction-pointers in the dependence are immediately implied. What is more this 'filling in of the picture' may be done almost unconsciously and hence be inexplicit because the human mind is apt to think of situations in wholes, even when it has the intention of abstracting certain features only from them and treating these in isolation. Then it is that the differences in depiction of a total situation dependent on differences of vision and perspective can become crucial.

This is an essential basis for policy, in telling it what it can and cannot do, and by what instruments it may pursue this or that objective. But theories of equilibrium
per se afford little guidance as to what objective policy should pursue among the range of possible alternatives; and alternatives evidently exist despite the determinism implied by economists' postulation of economic laws. This concern with policy-ends, and the means available to further them, represents the normative traditions in economics, which positivists have tended to eschew as an alien element and an intrusion into economic theory qua scientific discipline, concerned with positive statement about what is and not with what ought to be. Nonetheless it has commanded increasing respect and attention in recent decades, no doubt in response to the growing pressure of problems concerned with consciously devised state intervention in the economic sphere, and to-day increasingly with economic planning of the economy as a whole. Indeed in the actual development of theory, the positive and normative elements have proved hard to separate and have increasingly tended to fuse.

The history of economic thought from its very inception makes abundantly clear how closely the formation of economic theory was linked with the formation and advocacy of policy. Most of the economists make policy prescriptions and recommendations on the basis of their specialised knowledge. This practice is very common. It is a source of concern to many people that the economists who are eager to prescribe policies often disagree among themselves as to which policies should be followed, and even advocate conflicting policies.
This is a legitimate concern, especially since the basis for their differing views is often obscure not only to the interested listener, but even to the economists themselves.

The underlying preoccupation of the early economists of the age of Adam Smith was the notion of individual self interest as the economic driving force. From this was fashioned the general conception of an economic system propelled by a momentum of its own, and its motions shaped by specific economic laws that it was the unique contribution of classical political economy to disclose and establish. In Hegel's well known phrase, "Out of the actions of men comes something different from what they have consciously willed and intended". The idea of the potentially creative force of individual self interest harks back to the "private vices public virtues", despite Adam Smith's dismissal of this as wholly pernicious. The reason adduced was that it "seems to take away altogether the distinction between vice and virtue". But it is of course the substantial kernel within the metaphysical husk of Smith's "Unseen hand"; and to this even the 'Theory of Moral Sentiments' was germane as being

concerned with exploring human motivation which was core of the self-acting bourgeois order. In other words it allows every man as long as he observes the rule of justice, to pursue his own interest in his own way, and to bring both his own industry and his capital into the free competition with those of his fellow citizens. This was the case, for example, not only with the idea of division of labour as being limited by extent of trade but also that of beneficial role of individual self interest as expressed in his telling aphorism that, 'it is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner but from their regard to their own interest. We address ourselves not to their humanity but to their self love and never talk to them of our own necessities but of their advantages'.

The natural laws of this self regulating economic order was the dominant concern of classical political economy to enunciate. It was viewed in terms of market forces establishing certain natural values by dint of the operation of competition upon supplies and upon demand. Such natural values then became a term of comparison, or norm, with which all artificial prices established by interferences and obstacles in the shape of legal regulations, exclusive privileges of corporations, statues of apprenticeship, and

monopolies, could be contrasted and exposed. Market price on the other hand, depend on particular and adhoc configuration of supply and demand at any given time and place tended when conditions of freedom allowed, towards the natural level in the course of time, but in a changing or imperfectly free world was never coincident therewith. "The natural price...is as it were, the central price, to which the price of all commodities are continually gravitating".12

Already in the early lectures this conception was fully in Smith's mind: "Whatever, policy tends to raise the market price above the natural, tends to diminish public opulence"; "all monopolies and exclusive privileges of corporations for whatever good ends they were at first instituted, have the same bad effect as taxes upon exportation and importation which also hinder commerce".13 It is by far the best policy to leave things to their natural course. Thus in his Edinburgh lectures of 1750-51, Smith had preached the doctrine that things should be left to nature and that peace, low taxation and good administration of justice were all that was wanted for economic progress and throughout his tenure of the Glasgow Chair, he had always denounced the restrictions imposed by the mercantile system and had held up all sorts of

exclusive privileges as impediments to the progress of opulence. Of the 'arithmetical formularies' as he called them, of the Economic Table, he spoke somewhat disparagingly. In these lectures, 'produce' played a very small part and 'distribution' none at all. But in the 'Wealth of Nations' written afterwards, the annual produce is the chief subject-matter and its distribution between classes is in form at any rate, if not in substance, made one of the principal topics of general economic theory. Thus the questions that he asked in his earlier works were left out in his classic work 'Wealth of Nations' despite the fact that he waited for years to publish the latter in order to find in it a place for ethical issues.

During all these years economics shed its non-economic contents and concentrated on the economic man. Whenever the economic man was found to be inconsistent in his behaviour or to give preference to non-economic considerations or seemed to violate every economic law, this was all explained by the non-operation of the phrase "other things remaining the same".

After the death of Adam Smith, normative philosophy of economics gradually disappeared and from the almost last two hundred years positivism is having a field day. In defence of their theories classical economists such as David Ricardo, Thomas Robert Malthus, their differences notwithstanding,
carried a persistent campaign against the poor and sick. The poor had to be sacrificed in order to get the theory right and equilibrium established. Their loud opposition to the Elizabethan Poor Law of 1601\textsuperscript{14} led to its abolition in 1834 which produced the phases of worst misery in England.

Ricardo accepted in main the underlying principles of free competition. He, however, have a more explicit formulation of how the prices of different commodities would be determined. He made a sharp distinction between exchangeable value and wealth. "A man is rich or poor, according to the abundance of necessaries and luxuries which he can command, and whether the exchangeable value of these for money, for corn, or for labour, be high or low, they will equally contribute to the enjoyment of their possessor. It is through confounding the ideas of value and wealth or riches that it has been asserted that by diminishing the quantity of commodities, that is to say of the necessaries, conveniences and enjoyment of human life, riches may be increased. If value were the measure of riches, this could not be denied, because

\textsuperscript{14} The Elizabethan Poor Law of 1601 had established the compulsory poor rate on a permanent basis. The poor rate was a tax that was levied in every parish for the maintenance of its own destitute inhabitants. There was loud opposition to the law in England. Accordingly amendments were suggested and discussed everywhere. In 1834, the Poor Law amendment Act was passed, it was based on a report prepared by Edwin Chadwick in collaboration with one of the leading economist of that age Nassav Wiliam Senior, Schumpeter, J.A., History of Economic Analysis, op. cit., pp.271, 401.
by scarcity the value of commodities is raised; but if Adam Smith be correct, if riches consist in necessaries and enjoyments, then they can not be increased by a diminution quantity".15

At another place, he writes, "A nation is rich, not according to the abundance of its money, nor to the high money value at which its commodities circulate, but according to the abundance of its commodities, contributing to its comforts and enjoyments. Although this is a proposition, from which few would dissent, many look with the greatest alarm at the prospect of the diminution of their money revenue, though such reduced revenue should have so improved in exchangeable values, as to procure considerably more of all the necessaries and luxuries of life".16

Ricardo agreed with Smith's analysis regarding the coincidence of private and social interests. "The greatest benefit results to a country when its government forbears to give encouragement or oppose obstacles to any disposition of capital which the proprietor may think most advantageous to him".17 In both his pamphlets dealing with corn duties and

16. Ibid., vol. IV, p.22.
17. Ibid., p. 218.
protection to agriculture, Ricardo argued that the abolition of corn duties would contribute to an increase in the wealth of the community because it would enable a greater quantity of the produce to be produced. His remarks in the 'Essays on Profit' is emphatic in this connection. "I shall greatly regret that consideration for any particular class, are allowed to check the progress, of wealth and population of the country. If the interests of the landlord be of sufficient sequence, to determine us not to avail ourselves of all the benefits which would follow from importing corn at a cheap price, they should also influence us in rejecting all improvements in agriculture, and in the implements of husbandry; for it is certain that corn is rendered cheap, rents are lowered and the ability of landlord to pay taxes, is for the time, at least, as much impaired by such improvements as by the importation of corn. To be consistent then let us by the same act arrest improvement and prohibit importation".18

Thomas Robert Malthus, appears to have been disturbed by the divergences that arose between the free pursuit of private interest and the social interest. He was in search of an optimum balance in respect of several activities. He appears to have differed from Adam Smith's principle "that the best way of advancing a people towards wealth and

18. Ibid., p.41.
prosperity is not to interfere with them". He put forth three objections. In the first place, there could be dispute regarding the duties to be assigned to the sovereign. "To what extent education and the support of the poor should be public concern? What share the government should take in the construction and maintenance of roads, canals, public docks? What course it should adopt with regard to colonization and emigration and in the support of forts and establishment in foreign countries? On all these questions and many others, there may be differences of opinion, and on all these questions the sovereign and his ministers are called upon to decide".19 His second objection appears to have greater force and validity. "Secondly every actual government has to administer a body of laws relating to agriculture, manufactures and commerce which was formed at a period comparatively unenlightened, and many of which, therefore, it must be desirable, to repeal...To remain inactive in such a state of things, can only be justified by a conviction, founded on the best grounds, that in any specific change contemplated, taken in all its consequences, the balance of evil will preponderate; while to proceed straight forward in the right application of general principles without any reference to the difficulties created by the existing laws of the country, and its actual situation and circumstances,  

might plunge into such complicated distress, as not only to excite the public indignation against the author of such measures, but to bring permanent discredit upon the principle which had prompted them". The third objection referred to the problem arising out of the necessity of taxation. Malthus's conclusion was, "It is obviously, therefore, impossible for a government strictly to let things take the natural course; and to recommend such a line of conduct, without limitations and exceptions, could not fail to bring disgrace upon general principles, as totally inapplicable to practice".

Marxism, which was a critical response to this misery, also ironically rested itself on the classical political economy and provided defence for it. For the classical economists and especially for Marx, the study of political economy and the analysis of exchange value necessarily started from the socio-economic conditions that shape the class relations of society. More deliberately and explicitly, Marx always emphasized the distinction between the essential processes and relations in human society and the realm of appearances identifying exchange, or commodity money circulation with the latter, and social relations of production with the former. Concentration of attention upon

20. Ibid., p. 15.
21. Ibid.
exchange per se isolated from its socio-historical setting, was the source of false consciousness, and delusive theorizing. In this reference to 'fetishism of commodities' in 'Capital' he wrote, "A definite social relation between men assumes in their eyes the fantastic form of a relation between things". The boundaries of the subject as he drew them were accordingly not arbitrary; they were regarded, consistent with his interpretation of historical development, as necessary for embracing all the factors necessary to any explanation that was to be both complete and substantial.

However, though Marx and his liberal contemporaries looked upon the same phenomenon and analysed it with the same methods and tools they came out with opposite results and prescriptions. This was so because each side asked different questions. The crisis also emanated from the fact that both sides asked the same questions in an entirely different milieu. In retrospect it seems that Mill, who believed that there were no more of economic problems left to be solved and Marx who thought that only one problem left to be solved was the appropriation of the property owning classes, together created a tradition in economic theory which subsumed many social problems, be they the problems of the capitalist or the socialist society. If Mill, Marx, Keynes and others have

become a profitable industry, it is because problems have a habit of popping up and creating a demand and supply situation for themselves.

The half century following J.S. Mill\textsuperscript{23} that was characteristically dominated by general optimism, notwithstanding all the predictions of Marx to the contrary, strengthened the trend towards marking the science of economics free from all values except those of the market. Persistent technological advances further strengthened this trend and gave a powerful push to industry in the direction of producing a plethora of goods meant for human consumption. But under its influence it legitimised unlimited consumption and greed. In the industrialised countries, the situation of misery that was reflected in the unfulfilment of basic needs, was transformed into a situation of unfulfilled wants of infinite variety. The science of economics ceased to be dismal, it rather became an art of rat race. Rapid development in transport and communication was another push factor in this direction.

Lionel Robbins is credited with giving economics a scientific definition. In his own words, "Economics is the science which studies human behaviour as relationships

---

between ends and scarce means which have alternative uses".  

Robbins simply crystallised the substance and the meaning which others were already making use of. Marshall and Pigou had already defined economics as activities relating to money matters in terms of human choice and market forces. However, Robbins' definition have tightened all the loose ends of earlier definitions by insisting on the pursuit of purely material ends. He does not distinguish between material and non-material, between welfare and non-welfare but studies man's activities in regard to all the goods and services whether they are material or immaterial, provided they satisfy the wants of the people. Besides, whether the goods and services are conducive to human welfare or not, economics studies them if they satisfy the wants of some men. It is also worth noting that in view of Robbins, economics does not deal with the question as to what ends should be achieved i.e. what wants should be satisfied and what not, because in this regard man himself has to decide. Economics itself does not make a choice. Economists only tell in what ways the given ends or wants can be achieved with the minimum


possible resources. What end or what have been selected for satisfaction is no concern of economics. Whether the end chosen by man is good or bad, noble or ignoble, economics would study them, because the task of economist is not to praise or condemn but only to analyse and explain. To decide about the desirability or otherwise of a thing is beyond the scope of economics.

It follows from the definition of Robbins that economics is a science of choice. Since human wants are unlimited, means to satisfy them are limited and means have alternative uses. Thus it deals with how the resources of society would be allocated to the satisfaction of different wants. In other words, no matter how rich a society is, it is materially poor because the means always remain scarce in relation to wants. However, one merit of this definition was that it also focussed on the need to avoid waste. Any misallocation of resources amounted to economic waste. On the other hand, the way economic theory came to be formulated ignored the question of social wastefulness as distinguished from market wastefulness. The last mentioned problem was highlighted by Professor J.K. Galbraith who talked about private affluence and public poverty as the central crisis of the developed capitalist system.²⁷

Recently some economists in the industrially developed countries, especially USA and some western European countries, have explained that the basic problem now confronting them is the problem of affluence rather than scarcity. During the past century or two, there has been rapid economic growth in these countries which has brought unprecedented richness and prosperity for their citizens. As a result the standard of living of the people, there, have gone very high. It is said, they have won over the problem of scarcity and poverty and are facing the problems created by affluence and growth such as the problems of mental tensions, optimum use of leisure, longevity etc. Thus having achieved growth and affluence they are now thinking with reference to what may be called, 'beyond economic growth'.

The use of the term, the Affluent Society looks strange, since economists have always been laying a great stress on the point that basic economic problem a society has to counter is the problem of scarcity. It is true that USA and some western European countries have eliminated general poverty from their people and, with the phenomenal progress of science and technology, have achieved unprecedented affluence and abundance of production of goods with which they have been able to satisfy their wants to a greater extent. But from this, it can not be construed that the

economic problem of scarcity of resources have ceased to exist in the so called affluent world. The term scarcity is used in a relative sense in Economics, i.e. in the sense of scarcity of resources relative to the wants of people. With the technological advancement, no doubt that developed and rich countries have greatly increased their resources and production but with growth and developments new wants have been created. The problem of economic scarcity could be said to have been abundant in relation to wants which have been multiplying during the process of growth. So the problem of unlimited wants still exists in the affluent societies also.

Even otherwise, it is important to note that the two-third of the world is still lying in poverty. The problem of scarcity is present there in its full strength and the affluence for these people is still a far cry.

Until the turn of present century, it was not customary to draw a sharp distinction between positive and descriptive economics, on the one hand, and welfare and predescriptive on the other. Indeed economic doctrine was such that statements of economic policies were hard to separate from propositions of pure theory, policy often seeming to follow ineluctably from theory. With the publication of A.C. Pigou's 'Wealth and Welfare' in 1912 (revised as 'The Economics of Welfare' in 1920)\textsuperscript{29} it became generally realized that welfare economics

\textsuperscript{29} Pigou, A.C., \textit{The Economics of Welfare}, op. cit.,
could be usefully developed as a separate study and regarded as a body of principles to which policies decisions might possibly be referred.

Several of the key concepts in welfare economics were elucidated in the nineteenth century. The progenitor of general equilibrium analysis, Leon Walras\textsuperscript{30}, introduced the idea of a position of maximum welfare for society, a position he identified with the market solution of a purely competitive economy (1874-1877). However, the concept was more successfully established before the turn of century by Vilfredo Pareto\textsuperscript{31} (1896-97). Having discarded marginal utility in favour of the notion of ordered preference field for individuals, Pareto was able to define a social optimum as a position from which no change could be made that would make everybody better off.

Thus the welfare economics is that branch of economics which concerns itself with the principles by which alternative economic arrangements may be ranked in terms of social welfare. Although commonly regarded as a normative study, preliminary propositions of welfare economics that have reference to the welfare of individuals only need not be


normative. If, for instance, welfare is used as a synonym for happiness, the statement that a person's welfare increases with increase in his range of choice becomes a judgement of fact rather than of value. However, unless the welfare of each person in a community were increased, a value judgement about the distribution of welfare would be necessary to any conclusion that the welfare of the community as a whole, or social welfare has increased.

Treatment of innovations in the field of welfare economics have been discussed under the title of New Welfare Economics. The so-called new economics is dated from the appearance of a short note by Nicholas Kaldor (1939) in response to a paper by Roy Harrod (1938). Using as an illustration the repeal of the corn laws in Britain in 1834, Harrod argued that the gain to the community as a whole might be said to exceed the losses to the landlords only if all the people affected were treated as equal in some sense. Kaldor, however, denied the relevance of interpersonal comparisons of utility to the problem by attributing to the classical economists 'a more objective test of economic efficiency: a new economic arrangement is an improvement if

the losers thereby could be more than compensated by the gainers. Whether compensation should be paid in any instance was a political question on which the economist had no special authority to pronounce.  

But economists usually regard the analytical study of welfare as a boring irrelevance. They assume that no answers about welfare are possible without resort to so called value judgements and that every thing involving these must fall outside the boundaries of economics treated as a positive science. Yet questions involving welfare obtrude themselves into almost every discussion of economic policy, and "if the economist persists in closing his eyes to such questions, then it would seem that the economist, qua advisor had better be suppressed completely'. This is what Sir Roy Harrod once warned his colleagues would be the logical outcome of current tendencies in their thinking.  

The great depression (1929-34) knocked off the assumed optimism of old economic theories and the system based on


them. Lord J.M.Keynes put forward a new theory which, he insisted, was a total critique of neo-classical and classical theories. Keynes felt that classical policy of Laissez faire or non-intervention could not mend matters. It only deepened the depression as men were found running from pillar to post in search of jobs, raw materials lay idle along with no-vacancy signboard on the factory gates. Keynes was shocked to see the paradox of poverty amidst plenty and wanted to reform capitalism. "To Keynes, the Waste of Economic resources through unemployment seemed nonsensible and suicidal. He concentrated more of his energies on the solution of this problem than any other and he had considerable success".37

Keynes believed that employment depends upon investment and investment in a free market economy is highly capricious as the private investor come forward to invest only when the minimum profits are guaranteed. During depression, when private enterprise is in no mood to invest, state has to come forward to perform the regulatory role by investing funds in public works, giving thereby a fillip to the psychology of private investors, who also feel like investing funds as a result of a rise in the marginal efficiency of capital on account of public investment.

Both the classical and neo-classical economists were shaped by an environment of poverty, high population growth, inadequacy of production and inequality of distribution. The Keynesian theory was shaped by all this as well as by unemployment and insecurity of incomes and argued that economic problems could be solved by increasing production and technological development.

The mathematical revolution in economics, which claimed to analyse every issue rigorously, produced some kind of a counter revolution. Not only have the value premises have further weakened but what appeared to be great issues or controversies of Political Economy, have also been sought to be settled via mathematical models. J.R.Hicks and his school of thought synthesised the Neo-classical and Keynesian models\(^{38}\) Kaldor,\(^{39}\) Joan Robinson\(^{40}\) and their followers have equally meaningfully synthesised Marxism and Keynesianism. Those who still doggedly resist this synthesis have been obliged to fall back on theoretical empiricism. The profound impact of this synthesis has been the reduction in the number of paradigms in economics, so much so that Guy Routh has argued powerfully that economics of the last two hundred


years has in fact been dominated by a single paradigm. This means the exclusion from theory of important problems, categories of statements, variables which are not susceptible to mathematical manipulation. Trivialities have been piled upon to mathematical manipulation. Economic theory has been mystified as a great mathematical riddle. As Homa Katouzian has aptly remarked, "The greatest potential threat to economic science posed by mathematics, is the real possibility for mathematical forces over technologies to determine the substance and content of economic knowledge. Mathematical economics began by the application of terrestrial mechanics to economic problems. There is now a tendency to use concepts and methods of celestial mechanics".  

However, any serious economist, who believes that economics is more than a set of mathematical equations recognises that economics is in crisis outside the framework of equations. However, those who are seriously concerned with the nature of the crisis and with great economic problems of today disagree as much on the diagnosis as on the cure. 

Despite voluminous literature, the present state of economics seems to have no concern for the need for working


42. Quoted in Diwan, Romesh and Lutz, Mark (eds.), *Essays in Gandhian Economics*, (New Delhi, Gandhi Peace Foundation, 1985), p.XVI.
out strategies and policies that are problem oriented. Basically there is a clash of values in all theories of economics. But the values remain hidden. Economism is based on strong value premise of which the central core is materialism defined in terms of raising the standard of living or maximising consumption and thereby optimising the pattern of production. Historically two aspects of theory and practice of economics deserve mention. Everyday economics of production and exchange keep changing very fast in contrast to changes in scientific and biological evolution. Secondly, economic theories, no matter however faulty, continue to survive and have respective schools vigorously propounding them. Value systems change but they remain hidden, surely, the ways theories are formulated leave no scope for shifting from wrong values to right ones.

At the level of practice, economics has become more and more anti-humanistic. In the name of efficiency, productivity, good management, and reasonable return on capital, the corporate sector, with its growing monopolistic and oligopolistic and transnational character, has become the centre not only of economic power but also of the draconian and violent political power. The countervailing power of the state economic sector instead of countervailing the corporate sector, has become its ally. The alliance however, is losing its legitimacy because it has failed to tackle the major economic issues of unemployment, poverty, inflation,
inequalities etc. Besides, the rise of new problems such as pollution, ecological imbalances, exhaustion of natural resources and massive diversion of resources to nuclear armaments etc. - problems which were kept separate - now demand a joint solution. However, the economic complexities and crises have not yet produced a corresponding political consciousness for a new political order that can integrate facts, problems and values.

The production philosophy of modern industrial society is dominated by the corporate greed, technological determinism and ecological carelessness. Vast sums of money are spent in influencing government policies by companies which spread this pollution. Technological determinism include not only high technology but large capital and energy per unit of production. The energy crisis is a direct product of this modern industrial system. Unless the modern economic and technological systems are drastically changed, the crisis will ever stay with us. But then modern economic laws and theories do not deal with these issues.

The breakdown of wage price theories is another big crisis of Economics. The rise to power of big unions and their closed shops and then mafia-like bosses, emergence of big multinationals, credit based consumption on a nationwide scale, and the strength of labour-liberal politicians continued for several decades. The coalition was
ideologically hot bed for consumerism, economism and high technology. However, because of profound internal and structural changes, the coalition has broken down to the disadvantage of the organised labour. Prolonged unemployment has put workers against workers, employed against unemployed, men against women. The opting out of labour from the unions in order to get better economic bargains and the rise of political conservatism have wrecked the old comfortable arrangement under which labour market created a working equilibrium and protected workers. But what has remained of the old arrangement are the craze of material gains, greed and insensitivity in workers and capitalist alike, and the alliance against the rest of the community. Now that structure of the labour force has undergone profound changes, workers no longer hold the central position, the power of the trade union is broken, job security has taken precedence over better conditions of work and the old economic arrangements have been thrown out of gear. So far the unorganized labour has suffered but now it is the organised labour which is at a disadvantage.

Explosion of knowledge and rapid progress in technological development, are creating new problems. Technology has taken the place of philosophy and it threatens to become the supreme value. In the last 50 years the world has produced goods and services which could not produce in the last 2000 years. There is no dearth of production but
still 40% of the population especially in the third world are living below poverty line. These people are struggling for their basic needs of good, shelter and clothing, while a microscopic minority is rolling in wealth and the money is being concentrated in their hands. Wasteful consumption and luxurious living have become the mainstay of a system which sustain itself on a built-in accumulation of capital and growth. In fact, this new syndrome of luxury, waste, growth and decline in public service has become the main component of the new economic theory. Maintaining the rich has become the necessary cost of social production. As Harry Johnson says, "luxurious living, which drives the whole machine, become the necessary cost of production, so that the margin of resources available for social uses as defence is unduly small in relation to national income".43

"Looking at the state of the world economy, global inequalities, poverty, corruption, insensitiveness of the multinationals and the brutality of the super power", writes Professor J.D. Sethi, "One gets the impression that the economists are the highest paid legitimisers of this state of affairs. They may be Neo-classicists, or Keynesian, or Marxists, but they all seem to coverage on protecting the

It is in this context that the study of the economic philosophy of Mahatma Gandhi has become relevant and urgent.

44. J.D.Sethi's foreward in Diwan Romesh and Lutz Mark, (eds.) op. cit.,p.XXII.