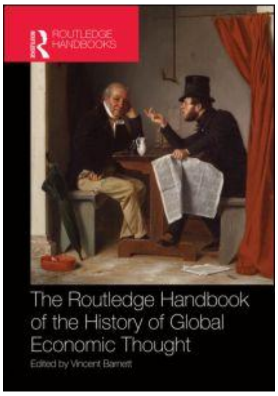

Routledge Handbook of the History of Global Economic Thought

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As human civilization evolved and developed a workable theory of the nation-state, economic thought gradually became more distinct from other subjects. By virtue of being an old civilization, India has a long tradition of progressive 'economic thinking' understood in a broad sense. Of course historically, Indian political economy is rooted in the social, cultural and political conditions of India (Parthasarathi, 2012). Though India is very diverse culturally, certain basic value systems and a traditional understanding of life have made its 'thought' compatible across different regions of the country.

Economic thinking in India is based fundamentally on the liberty and freedom of individuals within the ambit of the family system, which is also placed within wider society. But unlike Western 'standalone' individualistic culture, 'family-based' individualistic culture is the bedrock of Indian socio-economic values (Mukherjee, 1916). Therefore the family household is usually the basic unit considered in Indian economic thought, rather than the solitary individual.

The secular development of Indian economic thought can be classified into four phases:

(1) The ancient Indian phase that produced very diverse traditions of 'economic thought' which are completely different to what is considered as economics today.
(2) The pre-independent phase from around 1850, when the nationalist school attempted to unite the different provincial forces and provided various platforms for discussions about then-prevailing Western economics and also indigenous Indian thought. This phase helped Indian thinkers to look again at their own traditions and to work on a new framework for a future India. This continued until the beginning of the twentieth century and was usually critical of classical economics, because the British government in India invariably used classical economics for policy-making and often underestimated the relevance of Indian economic thought.
(3) The independent India phase after 1947, when the scenario became completely different as far as economic thought was concerned, partly because of the influence of Marxism. At the same time, the emergence of powerful analytical currents like neoclassical and Keynesian economics had sidelined the indigenous ideas of Indian economists in the first half of the twentieth century. This third phase continued until 1991, when an economic crisis was

triggered by excessive government/state control, which had believed for decades in the theories of Marxism and Keynesianism.

(4) A liberal economic phase that was thrust upon the country as a way out of the crisis after 1991. This helped the country to move out of crisis quickly and sustained India on a completely different path, and created a new passion for free market economics amongst some. Now the debate amongst Indian economists is between three basic schools of thoughts: free market, Keynesian and Marxist.

Ancient economic thought

Schumpeter said that 'the history of economic thought starts from the records of the national theocracies of antiquity whose economies presented phenomena that were not entirely dissimilar to our own' (1954, 49). As Ajit Dasgupta (1993) explained:

> the third argument advanced by Schumpeter in favour of studying the history of economics is that it throws light on the workings of the human mind. For a history of economic thought in India this is, I believe, especially important . . . In ancient cultures the workings of the human mind tended to be closely linked to religion. A history of economic thought must therefore take the religious factor into account. If one is writing a history of economic thought for a country outside the mainstream of Western culture, this could give rise to special difficulties. These were particularly emphasised by Max Weber in his highly influential work on the sociology of religion.

However, Dasgupta included a caveat that 'studying the history of Indian economic thought can indeed help illuminate the workings of the Indian mind. The illumination would be the more effective if we discarded the distorting mirror of Weberian sociology'. Hardly anyone has followed these warnings, without which the crux of his interpretation would be misleading.

Many unique features of Indian economic thinking were depicted in ancient texts from the very early period of civilization, and they invariably contain an ocean of economic ideas conceived very broadly (Thanawala, 1997; Ambirajan, 1997). According to Ambirajan (1936–2001) 'many of the classical Indian writings on ethics, economics, law or philosophy are somewhat like mathematical theorems whose proofs have not been written out. Hence we have to work out how and why these terse statements came about' (1997, 32).

The classical literature relevant for understanding ancient economic thought in India includes *Vedas*, *Arthasasthra*, *Ramayana*, *Mahabharata*, *Manusmriti*, *Sukraniti*, *Nithisasthra* and *Thirukkural* (Basu and Sen, 2008). Kautilya, the foremost economic thinker of ancient India, treated economic topics along with political and military matters in his *Arthasasthra*. Indeed, *Arthasasthra* is one of the earliest tracts of economic science, written at least twenty centuries before Adam Smith. Another source of ideas on economics was the *Santi Parva* of the *Mahabharata*, an epic wherein advice concerning the accumulation and distribution of wealth was interspersed with advice on how to run a country (Ambirajan, 1997).

But the two outstanding works among the ancient literature are *Thirukkural* and *Arthasasthra*. These texts have many original economic ideas premised within social and political contexts. *Thirukkural* (couplets or aphorisms), which is believed to be written 2,400 years ago by Thiruvalluvar, a Tamil Poet, has 1,330 couplets in 133 chapters covering all aspects of human life in relation to the state, economy and society. Moreover, *Thirukkural* is a universal work as it deals with a wide range of issues from ploughing a piece of land and the method of ruling a country, to the code of purposeful life in society (Kalam, 2010). The book is divided into three broad sections that discuss virtue, wealth and human emotions (love).

Arthasasthra discusses various elements of economics, the title being translated as the science of political economy or science of material gain. It is now accepted that its author Kautilya was a contemporary of Aristotle. At the centre of Kautilyan economics is an obligation of the state to provide for the welfare of the people. *Arthasasthra* also deals extensively with international trade, taxation and the labour theory of value. According to Charles Waldauer (Waldauer et al., 1996), Kautilya

> explicitly recognizes that international trade (trade among kingdoms) in goods and services is a major vehicle for increasing the sovereign's wealth as well as that of his subjects. Kautilya also counsels his monarch that the wealth and well being of the realm can be most advanced by a fair and efficient system of taxation, one which will supply the king with tax revenue while not stifling economic growth. Finally Kautilya advocates a wage system which rewards workers for the value they have created and encourages them to work harder and more efficiently.

The most common features in both *Thirukkural* and *Arthasasthra* are the wisdom of wealth creation and prosperity within society engendered by individual economic agents, as well as the importance of family culture with or without the help of a modern notion of the state. Both elements are intertwined and equally necessary.

The nineteenth century

Since the middle of the nineteenth century, when the movement for independence gained momentum, the debate between different currents of thought in India was usually expressed in relation to the functioning of the British government in the undivided Indian sub-continent. On the one hand, there were mass movements against the British Raj for reforming the social, economic and political systems. On the other hand, there were disturbing trends within Indian society, including the domination by one community of others on the basis of social norms such as caste, which were often accentuated by British colonial rulers for political gain.

Against these movements, many thinkers studied the systemic issues at hand, the method of economic analysis and its uses, including varieties of historical economics. Most of the prominent leaders highlighted India's rich tradition of knowledge in the ancient and later periods. According to Shib Chandra Dutt (1934, 5), during this early period, 'a considerable portion of economic thinking in India is of an economic-political character. To socio-economic questions a part of the thinking has addressed itself, while economic history has arrested the attention of a large number of scholars'. Thus, the first new wave of Indian economic thought was born against the backdrop of the emergence of systemic social reforms as well as the independence movement.

A basic impetus for social reforms in India was given by Rammohan Roy (1772–1833), who 'stressed the importance of private property' in general, and particularly for women as early as 1822 (Spengler, 1971). In his 1822 work, *Brief Remarks Regarding Modern Encroachments on the Ancient Right of Females according to the Hindu Law of Inheritance*, (3–4), Roy argued that in ancient India women had property rights in an absolute form, and he referred to key legal authorities as support. According to Roy, in ancient India, property rights for women were not restricted. Roy was one of the early proponents of liberalism in India, expounding the values of individual freedom and liberty, constitutional methods for achieving independence, and a free press. He strongly believed that without liberty, human development could not be achieved. According to S.P. Aiyar (1985), Roy was quick to perceive the significance of the great changes on which India was poised during the first quarter of the nineteenth century.

Following in the footsteps of Roy, there were other pioneers of Indian economic thinking. A promising new line of ideas began with the works of Dadabhai Naoroji (1825–1917), Mahadeo

Govind Ranade (1842–1901), Romesh Chunder Dutt (1848–1909) and Gopal Krishna Gokhale (1866–1915). There were also several social reformers, philosophers and radicals like Swami Vivekananda (1863–1902), Sri Aurobindo and Bankim Chandra Chatterjee (1838–94), who contributed significantly to economic thought.

Dadabhai Naoroji is often given the title 'Grand Old Man of India' for his contributions to Indian economics during British rule. He was a Professor of Mathematics and Natural Philosophy at the Elphinstone Institution in Bombay in 1855. He published a book in 1876 entitled *Poverty of India* based on papers read before the Bombay Branch of the East India Association. He outlined reasons for the drain of India's wealth to Britain, which he argued was taking place at a time when the country was in dire need of industrialization and other reforms. Naoroji, a proponent of free trade, was one of the first to calculate the economic costs of the drain of resources from India. He estimated a £200–300 million loss of revenue to Britain that was not returned. This book brought his ideas to the public at large and become a stepping stone for the emergence of movements to end British rule.

According to R.P. Masani (1939, 192–3):

> Dadabhai's paper was the most illuminating document ever published on that most contentious problem of Indian economics. His method of approach was rough and ready . . . Nevertheless, his estimate of the national income was roughly as accurate as it could then have been, and the best corroboration of his calculations was the estimate given by Evelyn Baring (Lord Cromer) and Sir David Barbour in the year 1882.

However, later Indian economists like Benoy Kumar Sarkar (1887–1949) disagreed with Naoroji's argument about the draining of resources from India to Britain. In fact, Sarkar 'rejects the theory of exploitation and holds that just as India is drained of her raw materials or her foodstuffs through her connection with Great Britain, similarly India has been draining Great Britain of her capital, her organizing ability and her expert training for her own development' (Dutt, 1934, 179). Thus, Naoroji's calculation had ignored the intangible elements of the relationship, such as knowledge transfers. John Maynard Keynes was Sarkar's mentor, and Sarkar began studying at King's College, Cambridge, in 1911 and stayed in England until 1920: Keynes's own analysis of India was similar to Sarkar's on the drain issue. Keynes remarked about Sarkar that 'He is a strange and charming creature' (Moggridge, 1992). Indeed, the relationship between Keynes and Sarkar was quite intimate. However, the broader debate moved on to what is usually known as the negative policies of the British government in India.

M.G. Ranade was among the first generation of thinkers who made important contributions to Indian political economics, as it was famously called. From 1893 until his death in 1901, he served as Judge of the High Court of Bombay. He published a book entitled *Revenue Manual of the British Empire in India* in 1877, which documented the provincial systems of land revenue sources. Ranade also published *A Note on the Decentralization of Provincial Finance* in 1894. His lectures, delivered during 1880–93, were published as *Essays on Indian Economics* in 1898. They provided a critical view of established economic theories, including the cultural aspects of Western and Indian traditions. This book has been called one of the greatest works of Indian economics.

Ranade not only debated all the prevailing issues of the British Raj, but also gave consideration to the usefulness of classical economics in India, particularly methodology. He studied the economic systems of European countries and arrived at the conclusion that the inductive or historical method of analysis was the best. He railed against what he called 'the Deductive School' of Adam Smith, David Ricardo and Thomas Malthus and instead argued, 'The Method to be followed is . . . the Historical Method, which takes account of the past in its forecast of the future; and Relativity, and not Absoluteness, characterizes the conclusions of Economical Science'.

Thus he called for a specifically 'Indian Political Economy' (Gallagher, 1988, 14). Ranade argued that 'The same Teachers and Statesmen, who warn us against certain tendencies in our Political aspirations, forget this salutary caution when the question at issue is one of Indian Economics. They seem to hold that the Truths of Economic Science . . . are absolutely and demonstrably true, and must be accepted as guides of conduct for all time and place . . . Social, Juristic, Ethical, or Economical differences in the environments are not regarded as having any influence in modifying the practical application of these Truths'. Ranade thus believed that the principles of classical economics may not be applicable to countries other than Britain.

John Adams (1971) has argued that Ranade was an Institutionalist and took much from the German historical school, especially Sismondi, Hamilton, Carey, Ludovico, Muller and List. However, Ranade was arguing in the context of Britain's imported economic policies, and had imbibed India's long-standing value systems: Indian nationalism was emerging. Ranade was conscious of the cultural element involved with economic prosperity, although some feel that 'Ranade's complete rejection of the Western classics was somewhat extreme' (Pani, 2011). Still, he was to some extent influenced by Institutionalists like J.R. Commons, Thorstein Veblen and the historian Henry Maine. In fact, all of these thinkers were influential in India.

Romesh Chunder Dutt was a civil servant, political economist and writer. His publications dealt with British economic policies in India: *England and India* (1897), *Famines in India* (1900) and an *Economic History of India*. According to D.R. Gadgil, Dutt's work 'contains, in essence, a preview of what came later to be called the economics of colonialism' (Dutt, 1968). One of Dutt's telling analyses was that 'while British Political Economists professed the principles of free trade from the latter end of the eighteenth century, the British Nation declined to adopt them till they had crushed the Manufacturing Power of India, and reared their own Manufacturing Power . . . in India the Manufacturing Power of the people was stamped out by protection against her industries, and then free trade was forced on her so as to prevent a revival'. Thus, Dutt concluded that as a consequence of deindustrialization, there was increased dependence upon agriculture, which also came under severe pressure with British rule, chiefly because of high taxation (Parthasarathi, 2001). These conclusions were later corroborated by David Clingingsmith and Jeffrey Williamson (2005).

Gopal Krishna Gokhale pioneered a new radical economic thought in India. Initially he taught mathematics and for a time lectured on English, but then turned his attention to history and economics. He was also a Fellow at Bombay University. He was largely responsible for the drafting of new courses in history and economics. Gokhale was a strong advocate of the decentralization of power, particularly in matters related to finance. In 1896, he gave evidence before the Royal Commission under Lord Welby, which made his reputation as one of the foremost Indian economists. In a speech delivered at the Annual Financial Statement discussions in the Supreme Legislative Council of British Rule, Gokhale argued for a free banking system and against the government monopoly of currency and legal tender. He favoured the gold standard and specifically stated that 'an automatic self-adjusting currency' would be a better way to manage the demand for currency, which would automatically adjust with trade in the market (Ambedkar, 1947, 240).

The early twentieth century

The growth of neoclassical economics in the twentieth century has had significant impact on Indian economists. As argued controversially by Parthasarathi (2012): 'the growing influence of neoclassical economics and its universalization has eliminated the need for a historical approach in contemporary Indian economics'. Many leading twentieth-century Indian economists, either directly or indirectly, were trained in Western ideas, especially at the London

School of Economics (LSE), Cambridge and Oxford. Individuals like Harold Laski, Lionel Robbins, Joan Robinson, Hicks, Kaldor, Allen, Lerner, Kalecki, Shackle, Karl Popper and Friedrich Hayek were all major influences. Early Indian economists and others who studied at the LSE included B.R. Ambedkar, B.R. Shenoy, Sardar Tarlok Singh, V.K. Krishna Menon, K.R. Narayanan, Minoo Masani, C.R. Pattabhiraman, R.K. Amin, Mahesh P. Bhatt, and C.D. Rajesvaran. Many were influenced by Laski's school of politics and economics. Ramachandra Guha (2003) explained that 'LSE did indeed have a deep impact on the policies and politics of independent India. I forget who it was who said . . . that "in every meeting of the Indian Cabinet there is a chair reserved for the ghost of Professor Harold Laski'". P.G. Mavalankar, who studied under Laski in England, founded the Harold Laski Institute of Political Science in Ahmedabad in 1954 with funds from the Indian government.

The Department of Economics at the University of Madras was one of the earliest established in India in 1912. Subsequently, the Department of Economics at the University of Allahabad and the University of Calcutta were both created in 1914 (the university was inaugurated by H. Stanley Jevons in 1915). The Department of Economics of the University of Mumbai was established in 1921. At College level, the Sydenham College of Commerce and Economics was created in 1913 and is also one of the earliest colleges created in Asia. Similarly, the Department of Economics at St. Agnes College in Mangalore in south India was one of the oldest departments established in 1921.

Alongside this growth of economics departments, in the first half of the twentieth century, colonial India produced several economists of repute who anticipated debates in development economics well before it became part of the mainstream. J. Krishnamurty (2009) has studied 'the lives and careers of the first generation of Indian professional economists', who did cutting-edge work on what was later to become development economics. He traced contributions made during the period 1900–45 by B.R. Ambedkar, Brij Narain (1889–1947), L.C. Jain, C.N. Vakil (1895–1979), Radhakamal Mukherjee (1889–1968), Rajani Kanta Das, Jehangir C. Coyajee (1875–1943), V.G. Kale (1876–1946), Gyanchand (1893–1983), P.J. Thomas (1895–1965), P.S. Lokanathan (1894–1972), V.K.R.V. Rao (1908–91) and B.P. Adarkar (1903–88). For example, in a 1929 paper on indigenous banking, L.C. Jain lamented the slow but sure disappearance of many indigenous banking systems which were centuries old, and the loss of ancient banking methods and practices which, if retained and judicially mixed with modern developments, could be a source of strength to the Indian banking system as a whole.

Brij Narain contributed something distinct on universalization. He said in 1934 that 'the study of economics, coupled with careful observation of facts, shows that economic life and development are governed by laws of universal validity. This realisation has not yet come to India'. Narain was influenced by economists like W.E. Weld and Othmar Spann, who rejected the idea of economics tailored for each country. A year before India attained independence, Narain published a book on *The Economic Structure of Free India* (1946), where he argued for the appropriate type of economic system that India should adopt, after rejecting Gandhi's village Swaraj system. Narain considered two basic systems, *laissez-faire* and the planned economy.

B.R. Ambedkar (1891–1956) was an authority on Indian currency and banking in the early decades of the twentieth century. He was familiar with the works of Carl Menger, but he remained independent, favouring empiricism and logic, rather than any particular system or ideology (Chandrasekaran, 2011a). Ambedkar pursued Gokhale's idea of free banking when he was studying at the LSE for his PhD, completed under Edwin Cannan.

One of Ambedkar's most illuminating works was the Statement of Evidence given before the Royal Commission under Hilton-Young on Indian Currency and Finance 1924–5. Ambedkar said:

> one of the evils of the Exchange Standard is that it is subject to management . . . by adopting the convertible system we do not get rid of the evil of management which is really the bane of the present system . . . When the management is by a bank there is less chance of mismanagement. For the penalty for imprudent issue . . . is visited by disaster directly upon the property of the issuer. But the chance of mismanagement is greater when it is issued by Government because the issue of government money is authorised and conducted by men who are never under any present responsibility for private loss in case of bad judgment.

His recommendations for free banking were ignored not only by the Commission but also the Indian government. The Commission submitted its Report in 1926 and its recommendations were instrumental in the establishment of the Reserve Bank of India.

Ambedkar was trained in the West, receiving a Masters' degree in economics from Columbia University in 1915. His major works included: *Administration and Finance of the East India Company* (1915), *The Problem of the Rupee* (1923), *The Evolution of Provincial Finance in British India* (1917) and *Provincial Decentralisation of Imperial Finance in British India* (1921). Many of his ideas reflected a path-breaking interest in the Austrian school of economics (Chandrasekaran, 2011b). There is a close similarity between Ambedkar's ideas and those of Carl Menger, Ludwig von Mises, F.A. Hayek and William Graham Sumner. Ambedkar was one of the earliest Indian economists to understand the central issue of the use of knowledge in society. His theory of free banking was built on Menger's works as well as Gokhale's treatise on finance and money. Ambedkar's (1947, 279) view of the distinguishing differential quality of money (its almost unlimited saleableness) was influenced by Menger's idea of the sale-ability of money, as expressed in his 1892 article 'On the Origin of Money'.

Further, Ambedkar understood the impossibility of a successful centralized administration or planning for British rule in India in a society so extensive and diverse. Taking into account the Hayekian knowledge problem, Ambedkar advocated an absolute form of decentralized planning. In his thesis 'The Evolution of Provincial Finance in British India', Ambedkar (1925, 179) said 'a Central Government for the whole of India could not be said to possess knowledge and experience of all various conditions prevailing in the different Provinces under it. It, therefore, necessarily becomes an authority less competent to deal with matters of provincial administration than the Provisional Governments'. Ambedkar also made important contributions to development economics; a paper published in 1918 'on the problem of small holdings in Indian agriculture is almost prophetic in its anticipation of several themes in later development economics, including the existence of disguised unemployment in farming. He showed why India needs to industrialize to absorb this surplus labour' (Rajadhyaksha, 2013).

B.K. Sarkar was one of the most prominent Indian social scientists of the period before independence (Sen, 2013). In 1925, he started as a lecturer at the Department of Economics, University of Calcutta, and in 1947 he became a professor and head of the department. Sarkar published works on a variety of topics, and edited two leading journals, *Economic Progress* and *Journal of the Bengal National Chamber of Commerce*. Further, he was one of the early founders of the Indian school of sociology. His major writings included: *Economic Development* (1926), *Studies in Applied Economics and World Economy* (1932), *Indian Currency and Reserve Bank Problems* (1933) and *Imperial Preference vis-à-vis World-Economy in Relation to International Trade and National Economy of India* (1934).

Radhakamal Mukherjee was Professor of Economics and Sociology of the University of Lucknow. He wrote 50 books ranging from rural studies to class analysis, personality theory to regional ecology, population problems to mysticism and Indian arts (Celarent, 2013), and he was one of the leading economists of modern India. His early work dealt with issues of 'Indian' economics and its relation to universal economics. Mukherjee published various books including: *The Foundations of Indian Economics* (1916), *Principles of Comparative Economics* (1921), *Borderlands* *of Economics* (1925), *The Institutional Theory of Economics* (1939), *Economic Problems of Modern India* (1939), *The Economic History of India, 1600–1800* (1940) and *The Culture and Art of India* (1959). In *The Foundations of Indian Economics*, he said that 'in India we have heard and seen enough of theories as well as practices attempting to force economic systems and methods which have not been wholly successful in the West, but which are unsuited to the socioeconomic traditions of the country . . . the time has come for a clear analysis of the social and ethical ideals of India to which all economic institutions must be adapted'.

Mukherjee was an early proponent of the Indian family thesis: 'Founded on the virtues of affection and self-control, this system tends to develop a spirit of self-sacrifice, and mutual control and dependence, which are quite opposed to the competitive individualistic spirit . . . while in the West it is the individual's own scale of wants, his standard of comforts . . . which regulates the growth of the population, in India the family mode of enjoyment or standard of life is the main factor'. Mukherjee was also a proponent of Institutional economics in India (Sinha, 1992), and he was strongly influenced by Veblen, Mitchell, Commons and Hobson. In his book *The Institutional Theory of Economics* (1939, 89), Mukherjee wrote that 'Institutional economics deals not only with the abstract laws governing the relations between restricted or scarce goods and satisfactions or services, but also with the entire social and institutional structure and standards which blend and interpenetrate with and over-reach economic values'. He was an Intuitionalist but in a less-developed context.

Keynes and Indian currency

The legendary figure Vedagiri Shanumugasundaram (b. 1926), who taught Indian economic thought while serving as Head of the Department of Economics at the University of Madras, expressed a blind adoration so characteristic of recent Indian scholarship: J.M. Keynes had become the synonym of economics (1979).

Keynes published his first book *Indian Currency and Finance* in 1913, analysing the workings of India's monetary system. In the same year, he was appointed as member of the Royal Commission on Indian Currency and Finance chaired by J.A. Chamberlain. Many of the chapters were already drafted before Keynes was appointed, while Sir Shapurji Burjorji Broacha was the only Indian member. Both Keynes's book and the Commission's report created a heated debate. J. Shield Nicholson criticized the Commission's report and believed that 'a large part of the report is substantially in accord with the treatment (sic) by Mr J.M. Keynes in his recent book' (Doraiswami, 1914). One of the key aspects was that Keynes believed that the gold-exchange standard was suitable for India, rather than the traditional gold standard. This was strongly contested by many within India and abroad as well.

S.V. Doraiswami was a well-known economist from Madras (now Chennai) who criticized Keynes's arguments. In December 1914, Doraiswami published his own book entitled *Indian Finance, Currency and Banking*. He had already published his views in outlets like London's *Statist*, and his book was reviewed internationally. According to Doraiswami, Keynes 'seems to have dominated the Commission, and he holds the view that the gold exchange standard marks an advanced stage in monetary evolution. I am not aware of any economist of repute who holds that view. Be that as it may, the Indian currency system should not be tampered with to suit the whims of an armchair doctrinaire' (1914, 109). Doraiswami believed that a central bank 'should be an instrument for allowing and encouraging the free and unfettered inflow of gold to India' (168). Further, he went on to argue that 'a gold standard without a gold currency is an absurdity' (7).

Moreover, in the early 1920s, B.R. Ambedkar also criticized Keynes's arguments on the gold-exchange standard. Ambedkar (1923, 256) declared that 'if stability of purchasing power in terms of commodities in general is the criterion for judging a system of currency, then few students of economics will be found to agree with Prof. Keynes'. Ambedkar argued that the gold-exchange standard did not have the institutional stability of the gold standard, as in the former system additions to the supply of currency depended on the actions of the issuer, and in the Indian context at least, he demonstrated that prices varied significantly more under the former system than the latter. He (1923, 257) continued, 'Keynes scoffs at the view that there cannot be a gold standard without a gold currency as pure nonsense. He seems to hold that a currency and a standard of value are two different things. Surely there he is wrong. Because a society needs a medium of exchange, a standard of value, and a store of value to sustain its economic life, it is positively erroneous to argue that these three functions can be performed by different instrumentalities'.

Bhalchandra P. Adarkar (d. 1988) was unique among Keynes's many Indian students both personally and intellectually. Adarkar was Professor of Economics in Allahabad University. He produced works such as *Theory of Monetary Policy* (1935), *The Indian Constitution* (1938) and *Indian Fiscal Policy* (1941). His contributions on monetary theory, federal finance and fiscal policy are classics (Khatkhate, 1988). The high esteem in which Adarkar was held by Keynes, who was not only his supervisor for the Economics Tripos at King's but also a mentor (Chandavarkar, 1988), was shown by the fact that in 1932 Keynes wrote: 'I consider him to be the most promising Indian student of economics, as far as original work is concerned'.

After independence

After India attained independence in 1947, the country took the path of a socialist and centralized regime, largely influenced by the rise of Marxist-Leninist philosophy, ignoring the millennia-old indigenous traditions of Indian philosophy and cultural values. Indian economic planning was initially modelled by P.C. Mahalanobis using the existing Soviet literature on planning techniques, with little opposition from most Indian economists. But as Milton Friedman said 'there is only one prominent professional economist, Professor B.R. Shenoy of Gujarat University, who is openly and publicly and at all effectively opposed to present policies and in favour of greater reliance on a free market. He is a remarkable and courageous man'.

Shenoy was a student of Austrian economist F.A. Hayek in the early 1930s at the LSE. In his book *Post-War Depression and the Way-Out* (1944) he pointed out the dangers of financing the Bombay Plan of government intervention through newly created money and bank credit, i.e. through massive deficit spending. Other important works by Shenoy include *Ceylon Currency and Banking* (1941), *The Sterling Assets of the Reserve Bank of India* (1953), *Problems of Indian Economic Development* (1958), *Fifteen Years of Indian Planning* (1966), *Indian Economic Crisis: A Program for Reform* (1968), *Food Crisis in India: Causes and Cure* (1974) and *Economic Growth and Social Justice* (1977).

For decades before the 1991 economic crisis, Shenoy advocated sound finance based on free market ideas, but his voice was ignored. His contemporaries had a blind faith in centralized planning, and these policies were responsible for creating a crisis in India's foreign exchange in the early 1990s. Shenoy died in 1978, after which the thrust of economic policy moved away from the worship of planning, and most economists now agree that India's long tryst with Nehruvian socialism was an economic disaster.

Initially, some Indian economists had argued in favour and some against neoclassical economics. The critics based their arguments on its suitability for the Indian economy. However, neoclassical economics eventually became the most popular of all economics in independent India. Indeed, Nachane (2008, 85) stated 'belief that neoclassical economics is universal (widely prevalent among large sections of the Indian intelligentsia) is attributable the fact that the subject of Indian Economics . . . now survives only as an exotic species . . . the spirit of independent thinking that characterised the writings of 19th-century nationalists such as Dadabhai Naoroji and Mahadev Govind Rande, and of their intellectual heirs . . . has virtually disappeared from the current generation'.

D.M. Nachane (2008) pointed out the 'virtually unshakeable position that neoclassical economics occupies currently in mainstream economic thinking'. But his view on 'what exactly constitutes neoclassical economics and when it originated' is interesting. As pointed out by Nachane, 'Dasgupta refrains from the appellation neoclassical while referring to the works of Jevons, Walras, Menger, J.B. Clark, Wicksteed and others, preferring to use the term marginalist instead'. Dasgupta believed the term neoclassical was suited only for Marshall, whose 'analysis of equilibrium points to a dynamic element'. Further, in Nachane's words 'Dasgupta's position is thus close to Veblen (1900) and contrasts strongly with the more inclusive use of the term neoclassical introduced by Hicks (1932) and Stigler (1941)'.

Nachane's basis for neoclassical economics was that 'modern orthodox economics incorporating the important contributions to information theory, transaction costs and externalities by Arrow, Stigler, Stiglitz, Townsend, Coase, etc., does not constitute a departure from neoclassical economics, only its continuation and reaffirmation under more general boundary conditions' (2008, 82). Dissatisfied with the role of neoclassical economics in India, Nachane concluded that 'the economics profession in India will overcome its traditional intellectual dependency on Western mainstream economics, and imbibe a little bit of the spirit of free inquiry and critical appraisal of dogmas, that characterised A.K. Dasgupta's life and work'. Noted Keynesian economist A.K. Bagchi (1976, 81) also criticized neoclassical economics, arguing that it 'has no tools for dealing with essentially non-capitalist social formations or their interaction with capitalist formations'.

Amartya Sen (b. 1933) is undoubtedly the greatest economist of independent India and has contributed to both economic theory and policy. Sen is a product of the long tradition of West Bengal achievements, being the second Nobel Laureate from West Bengal after Rabindranath Tagore, who won for Literature in 1913. Bengal was the early powerhouse of colonial India before the British administration was shifted to Delhi. Sen's corpus of works since 1970 has fulfilled his basic objective to expand the scope and flexibility of three central tools of economics: the concept of preference, rational choice theory, and social choice theory (Anderson, 2005). He has also contributed to welfare economics on topics such as poverty, famine and inequality, this work re-energizing the field of development economics. In 1998, he was awarded the Nobel Prize for Economics for 'his contributions to welfare economics'. In his Nobel lecture, Sen discussed the challenges faced by social choice theory, by sketching a perceptive view of the origin of that theory. His basic argument for expanding the scope, objectives and boundary of social choice theory were drawn from Kenneth Arrow's *Social Choice and Individual Values* (1951).

In 1953, Sen was only in his late teens when he went to study in Cambridge at Trinity College for a BA in Economics, although he already had a BA in Economics from Calcutta University. After finishing the BA he enrolled for a PhD. But he later returned to Calcutta on a two-year period of leave from Cambridge and was appointed as Professor of Economics and founding Head of the Department of Economics at Jadavpur University, Calcutta. At that time, Sen was 'not yet even 23' years old, and this created a storm at the university. After two years at the department he returned to Cambridge to complete his PhD. Sen wrote his thesis on 'The Choice of Techniques' under the supervision of Joan Robinson.

When Sen was at Cambridge, a heated debate between the Keynesians (Richard Kahn, Nicholas Kaldor and Joan Robinson) and the neoclassicals (Dennis Robertson, Harry Johnson, Peter Bauer and Michael Farrell) was occurring. But Sen had 'close relations with economists on both sides of the divide', and he maintained this position throughout his career. However, he did make greater criticism of the neoclassical school, and it seems that Sen underwent a significant ideological migration (Briggeman, 2013). Both the left and right have claimed Sen, but he said that he had read the writings of both and agreed with neither (Goyal, 1999).

Sen's first major book was *The Choice of Techniques* published in 1960, based on his PhD thesis. It explored choices over the optimal combination of techniques for industrial production, whether to use more labour-intensive methods of production or capital-intensive methods, assuming there was abundant labour and scarcity of capital (Atkinson, 1999). Sen criticized purely market-based criteria for choice of technique and criteria that sought to modify the market solution only by taking account of market failures in the static allocation of resources. But he recognized that market prices and costs should shape planners' choices, when such prices could not be altered without imposing too high a fiscal burden or social cost (Bagchi, 1998).

In 1970 Sen published a book on *Collective Choice and Social Welfare*, which was concerned with investigating the dependence of judgements about social choice and public policy on the individual preferences of members of a society. He argued that, just as social choice was based on individual preferences, the latter in turn depended on the nature of the society in which they occurred. Thus, rules of collective choice were linked to specific social structures.

Another contribution of Sen was on the behavioural theory of self-seeking egoistic agents which he called rational fools (1977). His theory of rational fools combined two different philosophical schools, the rationalistic school and the phenomenological school. Sen argued that adopting too narrow a definition of 'rational' behaviour neglected important factors such as commitment, but in a way that neglected the distinction between reason as such, and knowledge as the basic problem of human activity. Thus his criticisms were mainly targeted at the neoclassical rather than the Austrian approach.

Sen's work on the 'capabilities approach' to development created a new methodological debate among economists. Capabilities are the alternative combinations of functionings that a person is feasibly able to achieve. Sen argued for five components in assessing capability: the importance of freedoms in the assessment of a person's position; individual differences in the ability to transform resources into valuable activities; the multivariate nature of activities producing happiness; a balance of materialistic and non-materialistic factors in evaluating welfare; and concern for the distribution of opportunities within society. This work helped to make the capabilities approach a paradigm for policy debates in human development. Sen refined Adam Smith's principle of sympathy and added a modernised concept of the impartial spectator in the form of commitment (Eiffe, 2008). Sen drew not only on Smith's *Wealth of Nations*, but also on *The Theory of Moral Sentiments*. These two books were the main instruments for redefining a different approach to human progress.

Unlike liberal economists like Ambirajan (1976, 1978), Sen argued in his book *Poverty and Famines* (1981) that it was not the decline of food availability, but the 'failure of exchange entitlements', which caused famine. Thus, such failures can arise when the rate at which products or labour power can be exchanged against food turns sharply against the producers and labourers (Patnaik, 1997). Sen remains India's most well-known economist.

Conclusion

The commitment to indigenous Indian economic thought continued into the early decades of the twentieth century, but was mainly lost after independence. Despite pioneering work on Indian ideas, now there is hardly any school or centre in any university/institute which recognizes the importance of Indian economic thought from a contemporary perspective.

After India became a republic in 1950, many universities and colleges were created across the country, some with teaching and research programmes in Indian economic history, although not so much for Indian economic thought. The teaching of Indian economic thought as a core subject was continued until 2004 at the University of Madras, but was then discontinued. There are some colleges and universities created recently that teach the history of Indian economic thought, but only as optional subjects for undergraduate students.

However, after the emergence of Western free market economics, India has not attempted to look back at its own indigenous tradition of market economics once practised decades or even centuries before. This is a point which few are willing to take from Indian economists like S.V. Doraiswami, C. Rajagopalachari, Mohandas Karamchand Gandhi, Gopal Krishna Gokhale, B.R. Ambedkar, B.R. Shenoy and Radhakamal Mukherjee. Looking forward the future of India is promising and, if nurtured properly, it could reengage with the 'lost' path of the pioneering contributions of Indian economists who envisioned distinctive ideas for India's own needs.

It is clear that there was a large amount of literature in ancient India providing moral, social and economic codification for ways of pursuing prosperity. It is also clear that the independence movement in India shifted radically the way in which economic thinking prevailed in India after British colonial rule. In the process, the insightful ideas of ancient India vanished, partly because of the social divisiveness of aspects of the Hindu religion. Western thinking also played a role in highlighting social ills within the broad structure of Indian society. While it is true that many useful ideas depicted in ancient literature were sidelined, at the beginning of the twentieth century there were some pioneering Indian economists who re-employed elements of ancient economics. But this tradition was only briefly rediscovered and quickly vanished. Since then it has been a long journey of forgotten traditions, while the academic community engaged on the paths of Marxist and neoclassical economics up to very recently. Nevertheless, there is hope that the past antiquities of Indian economic thought could be re-introduced to young minds, who may pursue them rigorously and with great interest.

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