

M.G. Ranade and the Indian system of political economy

by Robert Gallagher

Two weeks ago, in EIR, Vol 15 No. 20, page 24, Ramtanu Maitra wrote about India's economic stagnation and outlined a program for getting out of it. The article below provides the historical background for India's ability to solve such problems. The author, who has written many articles for this publication on industrial technology and the frontiers of science, recently returned from an extended stay in India.

About one century ago, the great Indian patriot and founder of the Indian National Congress, Mahadeo Govind Ranade, presented a program for the economic development of India that is highly relevant today, not only to the nations of the Indian subcontinent, but to all of Asia and, indeed, to all nations everywhere. Ranade put forward definite ways to objectively measure the progress or decline of an economy, no matter what policy government may give lip-service to.

The principal physical metric of economic development for any nation, according to Ranade, is the rate of increase of the population-density of the nation. Ranade stated this not simply out of defiance of the doctrines of "Parson" Thomas Malthus, promoted by the English colonial rulers of India; he used the metric of population-density growth to scientifically refute Malthus.

Malthus had asserted that population must grow faster than available food supplies, leading to periodic famines that reduce population. This was nothing but a justification for Britain's looting of India. The East India Company discouraged Indian farmers from growing foodstuffs, and instead forced them to cultivate the cash crops indigo and opium, which the English used to subdue and loot China. The resulting food shortages, not population growth, produced famines. In addition, because foodgrain production was of no interest to the British, they maintained no grain reserves. A little lack of rain, or a little pest infestation, and famine was the direct result.

Malthus was one of "the aberrations and evil tendencies in English thought and action," Ranade told India in 1892 in his address, "Indian Political Economy," delivered at Deccan College in Pune. In 1893, Ranade refuted Malthus with his analysis of the population statistics of India, England, and

Wales, published in the *Poona Quarterly Journal* under the modest title, "Twenty Years' Review of Census Statistics." Ranade reported to his readers the simple truth that the population-density of England and Wales in 1891 was over three times that of the Bombay Presidency (as the English occupation districts ruled from Bombay were called), but no one seems to have taken seriously any argument that England was "overpopulated." He showed that from 1871 to 1891, the population-density of the English grew at a more rapid rate than India, but there were no famines in England. The population-density of England and Wales grew from three times that of the Bombay Presidency in 1871 to three-and-a-quarter times it in 1891 (see **Table 1**).

Culture and the division of labor

Ranade developed another metric of economic progress through a detailed analysis of the division of the labor force of the Bombay Presidency. He showed that the composition of the labor force can also signify whether the nation's economy is going forward, or backward; and that, indeed, from 1871 to 1891, although population-density had increased somewhat, the economy in the Bombay districts had actually retrogressed.

Ranade stated in his Deccan College address, "Every nation which desires economical advance has to take care that its urban population bear an increasing ratio to its rural masses with every advance it seeks to make." In the *Poona Quarterly Journal*, he documented the sorry truth, how from 1871 to 1891, the percentage of the labor force involved in agriculture and production of livestock increased from 56% to 66%, while the percentage involved in manufacturing trades decreased from 30% to 21%. This he described as a "retrograde movement" in his Deccan College address.

The ratio of manufacturing employment to agricultural, is a crude approximation of the capital intensity of an agricultural economy. The relative portion of the number of laborers working at trades other than direct food production, indicates the ability of the economy to augment agricultural productivity through production of tools, such as had been once so successful in the United States. But the ratio of



A scene in Bombay today.

TABLE 1

Ranade's comparison of population density in Bombay Presidency with England and Wales

	1871	1881	1891
Bombay Presidency (area: 323,750 sq. km.)			
Population	16,228,774	16,454,414	18,857,004
% Increase over 1871		1.4	16.2
Averaged % increase per year			0.8
Population density (per sq. mi.)	130	132	151
(per sq. km.)	50	51	58
Increase in "rate of density" (1891 - 1871) (per sq. mi.)			21
(per sq. km.)			8
England/Wales (area: 150,702 sq. km.)			
Population	22,712,266		29,001,048
% increase over 1871			27.7
Averaged % increase per year			1.4
Population density (per sq. mi.)	390		498
(per sq. km.)	151		192
Increase in "rate of density" (1891 - 1871) (per sq. mi.)			108
(per sq. km.)			41

Source: M.G. Ranade, *Essays on Indian Economics*, G. Claridge & Co., Bombay, 1901, Second Edition.

TABLE 2

Ranade's analysis of labor force in Bombay Presidency

1871-1891

	1871	1881	1891
1) Agriculture and animal husbandry	55.5	62.7	66
2) Artisans, handicraftsmen	30.4	29.4	21
Gov't, public service and professions	4.3	2.9	7.1
Personal service	3.8	2.2	2.7
Trade and commerce	5.9	2.4	3.5
Active labor force as % of population	45	51	NA
Ratio of 2) to 1) (estimate of C/V)	0.55	0.47	0.32

Source: M. G. Ranade, *Essays on Indian Economics*, G. Claridge & Co., Bombay, 1901, Second Edition, p. 212-213.

Figures for 1871 and 1881 were recalculated from percentage of population figures reported by Ranade to percentages of "occupied" or active labor force to be consistent with 1891 census figures and contemporary figures.

manufacturing employment in the Bombay districts to agricultural employment, declined from 0.55 to 0.32 over the 20-year period in question (see Table 2), indicating that a collapse of agricultural productivity was soon to occur. Ranade commented:

These figure results present a very dark future as looming before our vision, if our chief dependence were placed on extended cultivation, as the only resource for supplying the wants of our increasing population.

The only escape from this danger lies in the direction of the gradual transformation of the chief means of our livelihood, and the growth of an Urban and Industrial Population, in other words, the rise of Towns and Cities.

At Deccan College, Ranade had outlined the nature of the "retrograde movement."

The progress of ruralization in modern India means its rustication, i.e., a loss of power, and intelligence, and self-dependence, and is a distinctly retrograde movement. . . . Every class of artisans, the Spinners, Weavers, and the Dyers, the Oilsman, the Paper-mak-

ers, the Silk and Sugar and Metal workers, etc., who are unable to bear up against Western competition, resort to the land, leave the Towns and go into the Country, and are lost in the mass of helpless people who are unable to bear up against scarcity and famine.

By examining the characteristics of the nation's division of labor, Ranade quite directly addressed the question of its level of culture. What is human culture other than the nature of the activity that human beings engage in? And what is that activity, other than an expression of the mastery that the human being has over nature itself? Said Ranade:

National well-being does not consist only in the creation of the highest quantity of wealth measured in exchange value, independently of all variety of quality in that wealth, but in the full and many-sided development of all productive powers. The nation's Economic Education is of far more importance than the present gain of its individual members, as represented by the quantity of wealth measured by its value in exchange. . . . Commerce and Manufactures are, if possible, more vital in their bearing on the education of the intelligence and skill and enterprise of the Nation than Agriculture. In a purely Agricultural Country, there is a tendency to stagnation and absence of enterprise and the retention of antiquated prejudices.

Ranade's economic program for India

Through his work, Ranade created (or, as he would say, "revived") an independent school of "Indian Political Economy," which persisted well into the 20th century and regarded the rate of growth of population-density as one of its principal metrics of economic well-being. Unfortunately, his warnings were not heeded by Britain's administration, and his programmatic recommendations were rejected by the Foreign Office. Bubonic plague ravaged Bombay within years of his warnings.

Ranade proposed several definite measures to reverse the economic decline the Bombay districts suffered from 1871 to 1891. First of all, the government must take responsibility for providing credit to agriculture and manufactures at a low rate of interest.

Second, the government must carry out certain investments in the nation's economic infrastructure that private interests are not capable of carrying out because the risk is too large. "Education, both Liberal and Technical, Post and Telegraphs, Railway and Canal Communications, the pioneering of new enterprise, the insurance of risky undertakings, all these are functions that are usefully discharged by the State," he explained. "The question is one of time, fitness, and expediency, not one of liberty and rights."

Third, the government should protect those specific industries critical to the present stage of the nation's state of

economic development with protective tariffs, until they are strong enough to compete with the foreigner. Then, tariffs should be dropped. Ranade, a proponent of international commerce in Indian goods, wanted no autarchy in modern India.

Fourth, the government should otherwise mind its own business—to avoid "the enormous abuses of State control and direction, of monopolies and restrictions." The great French statesman Jean-Baptiste Colbert, who pioneered state-sponsored industry, Ranade wrote, "had a keen perception that State protection and control were but crutches to teach the Nation to walk, and that they should be thrown away when the necessary advance had been made."

Ironically, many of Ranade's criticisms of the British administration of India in the 1890s, also apply to the policy of the government of India today. Particularly insightful, was his recognition, 25 years before the 1917 events in Russia, that socialism and free enterprise doctrines are just different ways by which an oligarchy justifies looting populations. Indeed, when India's Prime Minister Rajiv Gandhi tried to push through some needed economic policies in the early period of his administration, he was denounced from the "left" for "abandoning socialism."

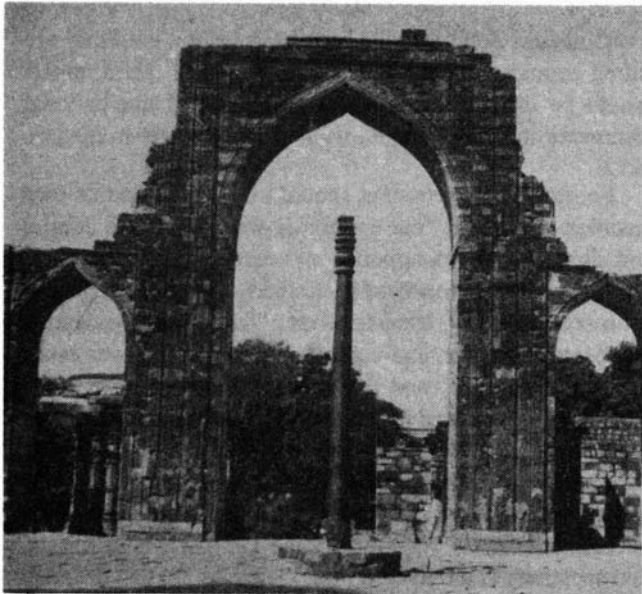
There is very little difference in result between the "free trade" and "free enterprise" under which the British established their dictatorship and monopoly over India, and what is euphemistically called "state socialism" today.

Ranade spoke sarcastically then of the British "free enterprisers":

Men who come from a Country where private property in land is most absolute, develop on their arrival here a taste for Socialistic Doctrines. . . . A love for Capitalists farming on a large scale gives way to a taste for petit culture by poor Tenants. . . . The Middle Class is the backbone of English Supremacy, but here there is no room for a Middle Class between the State and the poor Tax-payers.

English monetarism in India today

In another speech, "The Reorganization of Real Credit in India," Ranade indicted the British administration for the high rates of interest that prevailed in lending in the 1890s. Agriculture and manufacturing "cannot stand the dead weight of prohibitive rates of interest, made necessary by disorganized credit, and the uncertainties and delays and expenses" in obtaining it, he said. Yet, "the cultivating and artisan classes can get no loans, except at rates of interest ranging from 12 to 24 percent." These rates may sound high by U.S. standards, but they're not bad compared to interest rates in India today. Interest rates there now stand in the range of 17% to 24%. For agriculture, the government talks about 10% credit, but the farmer must wait two years to get it, with the result that he must take out a loan from a loan shark at



Prayer-hall screen with the Iron Pillar, a marvel of the ancient iron and steel industry of India, at Quwwatu'l-Islām-Masjid. Ranade remarked that even in the late 1800s, a millennium and a half later, few factories in the world could have turned out such a mass of metal.

24% while he waits for someone to cut the red tape in Delhi.

Regarding the economists of his day, Ranade remarked: "They seem to hold that the Truths of Economic Science, as they have been expounded in our most popular English Text-books, are absolutely and demonstrably true, and must be accepted as guides of conduct for all time and place whatever might be the stage of National advance." This unfortunately remains true of economists in India today. Indeed, the principal accepted metric of economic growth in India, is the growth of the "Gross Domestic Product."

Ranade also took special aim at the malthusian "territorial division of labor by which the orthodox economists assign to the backward Torrid Zone Regions of Asia the duty of producing Raw Materials, and claim for the advanced European Temperate Zone Countries the work of transport and manufactures." Ranade argued against this racialist rationale for imperialism:

In the first place the Torrid Zone people may fairly appeal to past history, when their skilled products found a ready market in temperate kingdoms, and excited such jealousy as to dictate prohibitive sumptuary laws both in ancient Rome and in modern England. They may also urge that the natural fitness of things requires that the manufactures should spring up where the raw materials grow, and where besides, there is demand for the manufactured produce, rather than that bulky goods should be transported many thousands of miles over land and sea, and re-consigned the same way back.

Relativistic political economy

Why did Ranade call his approach to economy "Indian"? Quite openly, he associates himself with Western European "Mercantilism," of which Colbert was one of the leading spokesmen. He endorses and summarizes the thinking of George Washington's Treasury Secretary, Alexander Hamilton, of Abraham Lincoln's adviser, Henry Carey, and of Carey's German collaborator, Friedrich List, who established the German Customs Union. In the United States, these persons are known as the formulators of what Washington called the "American System" of political economy. Is that what Ranade meant by "Indian Political Economy"?

Yes and no. Ranade emphasized what he called the "Doctrine of Relativity" in political economy, that economic policy must always be appropriate to the particular circumstances of any national economy in which it is applied, and could not be "deduced" from absolute assumptions, as the British East India Company's economists claimed.

For example, in India today, agriculture is held hostage to a significant extent by the monsoon rainfall, in which the vast bulk of the accumulation occurs within a few months with little precipitation the remainder of the year. Consequently, irrigation projects are much more critical for Indian agricultural geography than was ever the case for America when it was developing out of a primarily agricultural economy. Ranade railed against what he called "the Deductive School" of English monetarists Adam Smith, David Ricardo, and Thomas Malthus, whose followers opposed such projects in India in his day. The monetarists, he said,

seriously thought that the whole [of Economic] Science could, like Geometry, be deduced from four axiomatic propositions. These assumptions lie at the root of all dogmatical treatment of the subject. It need not be said that they are literally true of no existing community. . . . As these assumptions do not absolutely hold good of even the most advanced Societies, it is obvious that in Societies like ours, they are chiefly conspicuous by their absence. . . . You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the Sun to get cold, as reasons for our practical conduct within a measurable distance of time.

Instead, Ranade argued, "The Method to be followed is not the Deductive but the Historical Method, which takes account of the past in its forecast of the future; and Relativity, and not Absoluteness, characterizes the conclusions of Economic Science." That is certainly one reason why he called for an "Indian Political Economy," but there is a deeper point.

Ancient truths

We are a little closer to why Ranade called his work "Indian" political economy, when we notice that Ranade

attributes "American System methods" to ancient Indian economic policies. In discussing the need for government to sponsor pioneer settlements and city-building in underpopulated areas, he writes:

A regular system of Immigration from thickly populated poor Agricultural tracts to sparsely peopled new and virgin districts is a desideratum. The halting efforts made in this direction produce no good, for the concessions are not liberal enough, and there is no prescience about it. The Ancient Rulers who settled waste districts, and founded towns with flourishing and extensive Industries, made no difficulty about granting the most liberal concessions. . . . Whole Village Communities with their varied elements of life were encouraged to move en masse, and were made comfortable in their new places. Powerful Guilds of Traders and Artisans from distant places were similarly induced to settle in new Towns by free gifts of lands and houses and privileges.

Ranade also argues that the countries of the North should not be prejudiced against the development of industry in India, for India is industry's "ancient home." Ranade referred to the ancient iron and steel industry in a speech, "Iron Industry—Pioneer Attempts," delivered at the Industrial Conference in Pune in 1892:

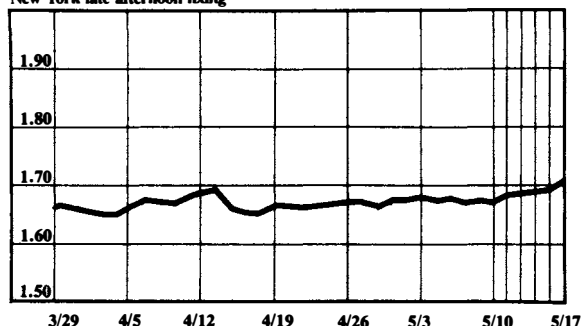
The Iron Industry not only supplied all local wants, but it also enabled India to export its finished products to Foreign Countries. The quality of the material turned out had also a world-wide fame. The famous Iron Pillar near Delhi, which is at least 1500 years old, indicates an amount of skill in the manufacture of Wrought Iron, which has been the marvel of all who have endeavoured to account for it. Mr. Ball admits that it is not many years since the production of such a Pillar would have been an impossibility in the largest Factories in the world, and even now, there are comparatively very few Factories where such a mass of metal could be turned out. Cannons were manufactured in Assam [in northeast India] of the largest calibre. Indian Wootz or Steel furnished the materials out of which Damascus Blades with a world-wide reputation were made, and it paid Persian Merchants in those old times to travel all the way to India to obtain these materials, and export them to Asia. The Indian Steel found once considerable demand for Cutlery even in England. This manufacture of Steel and Wrought Iron had reached a high perfection at least two thousand years ago.

Amid the current debates in India over basic versus consumer industries, economists could discover an alternative and valued approach in Ranade's writings for tackling India's real economic problems.

Currency Rates

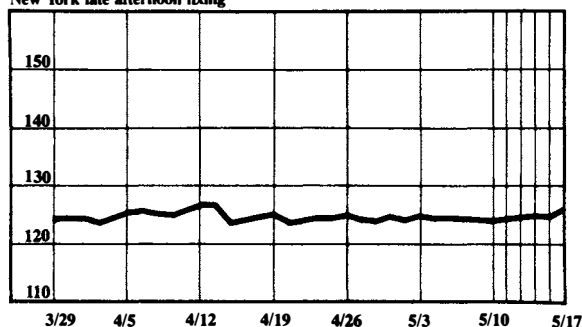
The dollar in deutschemarks

New York late afternoon fixing



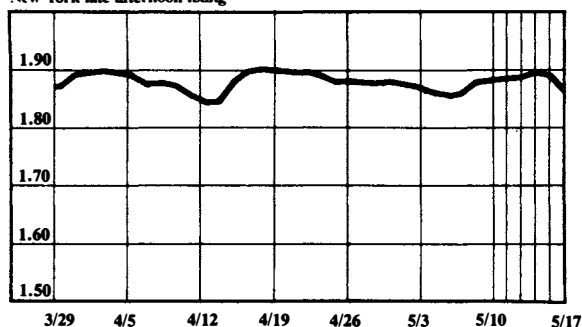
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

