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## **Economic Philosophy of V.K.R.V. Rao[\*]**

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Prof. V.K.R.V. Rao falls in the line of great Indian leaders and scholars such as M.G. Ranade, Gandhiji, J.K. Mehta, who emphasized the human values and ethics in the discipline of economics. For him the nature and purpose of economic activity is different from what is prescribed in the conventional economics. By conventional economics we mean the mainstream economics inherited from the West. The present paper attempts to examine the economic philosophy of Rao in the light of his numerous works and the criticism leveled by him against the conventional economics.

### **NATURE OF ECONOMIC ACTIVITY**

After an analysis and discussion of the various views of the great economists like Marshall, Gustav Cassel, Wicksell, Cassel, Benham and Robbins, Rao concludes that the nature of economic activity 'is the securing of exchangeable goods and services commanding value.' He is against the view that the activity involved is a solely a means to 'an end not an end itself. In his opinion the idea that economic activity is a means to an end is undoubtedly true in so far as the economic activity in question concerns what may be called the inanimate factor of production like land and capital. But it is not true about the most important factor of productive, man. Following Pigou, he holds that 'Human beings are both ends in themselves and instrument of production.'<sup>1</sup>

### **ECONOMIC ACTIVITY IS ONLY APART OF WHOLE HUMAN ACTIVITY**

For those who deny economic activity as an end also, the purpose or end is the acquiring of as large a flow of economic goods as possible, the obtaining of goods and services that have an economic value and acquiring them in such a manner as to avoid waste and occasion the least possible use of means in the securing of each good or service. But Rao does not accept this view of the purpose of economic activity. Man does not live by bread alone. He needs something more to make life worthwhile. According to Rao 'one cannot talk of the purpose or the end of economic activity without linking it with the end of all human activity'.<sup>2</sup>

There are three main reasons for Rao to reject economist's purpose of economic activity: First, economists concept of scarcity of means has, some unreal implications. Second, the assumption of insatiable wants is questionable. Third, the economists fail to link up the purpose of economic activity with the purpose or end of his activity.<sup>3</sup>

Rao refutes the assumptions of conventional economics and points out their limitations. He describes the development of human personality as the end of all human activity. In his opinion there are following four elements in economic activity which have a bearing on the development of human personality: (a) The art element in work; (b) The dignity and pride element in work; (c) The personality killing element in work; (d) The character forming element in work.<sup>4</sup>

Rao emphasises that these factors have to be taken into consideration when laying down the criteria of economic policy, otherwise economic activity would run counter to the realization of the ultimate end of his activity and therefore to the purpose of economic activity itself. He reiterates that economists in general do not take these factors into account when discussing economic activity.<sup>5</sup>

## COOPERATION, NOT COMPETITION

One of the basic assumptions of conventional economics is that man is competitive and accordingly he is treated in assigning him a role. To Rao, 'this competitive incentive develops certain qualities which are not quite desirable from the social point of view. No doubt, it has some good effects, but at the same time it must also be admitted that competition induces in the individual a sense of pugnacity, a spirit of ruthlessness and a feeling that everything is fair and any means can be used in the achievement of the economic objective. The spirit of competition tends to create the feeling that dishonesty does not matter in business, and a business morality is evolved which is divorced from ordinary morality. Means becomes divorced from end and' this becomes characteristic of activity run on the basis of the principle of economy. That this divorce of means from ends is no longer looked on with approval is seen very clearly in Mahatma Gandhi's teaching and practices in India.<sup>6</sup> At another occasion he says, "I have no doubt in my mind that either the cooperative or a socialist organization of production is ultimately the only sound way of securing the pride and dignity element in work, and that a cooperative scheme will be preferable to a competitive organization of production".<sup>7</sup> Thus he prefers cooperation to competition in economic behaviour.

## THE MYTH OF CONSUMER'S SOVEREIGNTY

Professor Rao has criticized Robbin's principle of economist's neutrality between ends by which he seems to imply that the economist must not allow any consideration - aesthetic, moral or social - to intervene between economic activity and objective which the consumer chooses as his economic ends of his own freewill. In the opinion of Rao "this so called free will of consumer or what is called the consumer's freedom of choice is itself an assumption that has been proved to be more of myth than an approximation to reality. Consumer's choice in the capitalist society of today is based so much on convention, class standard, cultural complexes and flood of advertisement that his freedom of choice is more a figure of speech than an actual fact."<sup>8</sup>

## NEUTRALITY OF CAPITALIST ECONOMICS IS SELF CONTRADICTIONARY

According to Rao, under capitalism, economic activity is carried on under the stimulus of the price system, the result being that the machinery of production tends to favour the satisfaction of the demand of the rich few; and as economic resources are limited, this favouring of the rich few is inevitably at the expense of the many poor.<sup>9</sup> This is so because the ability to pay at income level of individuals lead to effective demand and the formation of prices. Since in a capitalistic society incomes are not equally distributed, the resulting system of prices is by no means the number and intensity of the individuals. Thus, for example, things which a few rich individuals want command for higher price and therefore, greater economic value than things which many poor people may want and with much greater intensity of desire.<sup>10</sup> Thus the neutrality towards end claimed and preached by Robbins, is not an attitude of

genuine neutrality but implies a positive approval of inequality in income and in consumption and the neutral economist is seen to have his mental balance heavily tilted in favour of the capitalistic economic system.<sup>11</sup> Rao stresses that it would be economically correct from the communal point of view to divert economic activity from the productivity of luxury goods and services to that of necessities, even though this may go contrary to course of action indicated by their price margins.<sup>12</sup> He expresses his surprise that textbooks on economics do not devote more space to this important question of the production of necessities of life for the people as a whole, nor include a discussion of the manner, extent and efficiency with which private economic activity realizes the communal end of economic activity.<sup>13</sup>

## RAO'S STATEMENT OF THE NATURE AND PURPOSE OF ECONOMIC ACTIVITY

After thorough examination of the ideas of orthodox economists and raising a number of objections to their view of the nature and purpose of economic activity and criterion of economy which they seek to apply, Rao gives his own view of the subject; Economic activity is of the nature of both ends and means activity; and its purpose is to secure exchangeable goods and services possessing economic value but in such manner as (i) to satisfy the fundamental minimum requirements of the community for economic goods; (ii) to occasion the minimum use of resource and ensure avoidance of waste in each act of production, and (iii) not to hamper but to foster and promote the end of all human activity, viz. the development of human personality.<sup>14</sup> Because of this change in the nature and purpose of economic activity, Rao suggests that "the principle of economy which has so far been accepted as the guiding criterion of economic activity, should be subjected to the following qualifications:

- (a) Satisfaction of the minimum economic requirements of all the individuals in the community,
- (b) Encouragement of that type of economic activity which yields a social marginal net production larger than their marginal private net product, and discouragement of the opposite,
- (c) Full employment of labour,
- (d) Scope for the play of the creative instinct,
- (e) Consistency with the self respect and dignity of the individual,
- (f) Absence of personality killing element, and
- (g) Character formation.

In achievement of the foregoing objectives, a course of action, less economical shall be preferred over a most economical one if the latter conflicts with the aforementioned objectives. This is so because insistence on adoption of the principle of economy at the cost of said objectives will account going against the very purpose of economic activity. These limitations can be overlooked only when economic resources are too short to meet the fundamental human needs.<sup>15</sup>

## DISTRIBUTION ASPECT OF ECONOMIC ACTIVITY

Production and distribution are the two main economic problems of man. All other problems are somehow related to either of them. But in his article "Nature and Purpose of Economic Activity", Rao is too brief on this aspect of economic activity and leaves much to be desired. Only while discussing the criteria of economic policy he says, "The goods and services thus produced should be so distributed as to meet the minimum needs of every family. This requires in turn that every able bodied adult is guaranteed his right to work and that the work is decently remunerated; and also that those who are

unable to work due to old age, physical infirmity or sickness are also provided with an adequate income." <sup>16</sup> At another occasion he observes, "The translation of increased income to increased welfare would of course turn upon the appropriateness and efficiency of the measures taken for redistribution of productive assets, increase in employment and abolition of poverty."<sup>17</sup> In the preface of his edited work entitled *Employment and Unemployment*, Rao observes, "...It is only through an increase in employment that a larger number of people get the benefit of increased production. Again, a mere increase in employment is not enough, it has to be accompanied by an increase in earnings which, in turn means an increase in productivity. Thus, economic development should mean both increase in employment and increase in earnings if it is to result in increase in welfare and not merely increase in overall national production."<sup>18</sup> The above quotes from Rao's works are enough proof that he has not neglected this aspect of economic problem.

## CRITERIA OF ECONOMIC POLICY

According to Rao the determination of the nature and purpose of economic activity is one of the most important problems of the subject of economics as it is not only useful from the point of view of proper understanding of the subject and its significance, but it is also necessary in the framing of the criteria of economic policy for the conduct of practical affairs.<sup>19</sup> After a thorough discussion of the nature and purpose of economic activity, Rao tries to frame the following main criteria of economic policy:

"The first criterion of economic policy is obviously the condition that all economic activity should be so directed as to provide the people with the minimum necessary requirements of life such as food, clothing and shelter."

"The second criterion of economic policy revealed by our analysis is the securing of full employment."

"The third criterion is that economic activity should be so directed as to make as much of it as possible both pleasurable and creative activity and a means for the expression and fulfillment of human personality."

"The fourth criterion of economic policy is that the competitive principle be replaced by the cooperative principle in the organization of production and that inequality in income is either eliminated or sufficiently reduced so as to make price margin a true reflection of the comparative intensities of different individual wants."

"The fifth criterion of economic policy is that, subject to the other criteria mentioned above, economic activity should be carried on in such a manner as to avoid waste and make maximum use of economic resources for satisfying human wants."<sup>20</sup>

Rao has suggested different measures that should be taken as requirements of these criteria of economic policy.

## THE HUMAN FACTOR IN ECONOMIC DEVELOPMENT

The idea of Human Resource Development got the currency since 1960 when the American economist Theodore W. Schultz, addressed the American Economic Association in its 73rd Annual Conference on the subject of investment in human capital. It was later published in *American Economic Review* March 1961. Rao favourably responded this call as early as in 1963. In his paper entitled "The Human Factor in Economic Growth", he observed: "The growth of science and technology as also their application for the benefit of the less developed areas constitute only one aspect, albeit an important one, of the subject of the human factor in economic development.... Thus, institutions, legislation,

traditions, education, organization, motivation, communication all these have become the subject of attention and analysis to the economists who are interested in unraveling the mysteries of economic growth and formulating programmes for accelerating the economic development of countries."<sup>21</sup> According to Rao the efficiency of the human factor in the production process rests upon the physical, mental, psychological and organizational qualities of man.<sup>22</sup> Development of these quantities constitute the human resource development or HRD.

## THE WHOLE MAN AND NOT THE ECONOMIC MAN

The conventional economics overlooked all the human characteristics of man and emphasized his acquisitive tendency only as if he is an economic man or more correctly an economic animal. Professor Rao wanted to rectify it. He observes, "The economic man is much less than the whole man and it is the whole man who, in the last analysis, should interest all of us, including the professional economist and administrative planner. To Prof. Rao, the human factor is not merely a *determinant* of production: he is also the *objective* of production."<sup>23</sup>

## THE VALUE-BASED ECONOMIC SYSTEM

Professor Rao strongly advocates a value-based economic system. At the end of his famous work, *India's National Income 1950-1980* he reiterates, I cannot resist the temptation of returning to my old hobby-horse. In my view, then can be no satisfactory solution to India's economic problem of growth with welfare and social justice, unless there is a restoration of the values and norms that prevailed in the country by and large during the days of Gandhi and Nehru i.e. through the struggle for independence and the initial period after achieving independence. 'Where there is no vision, the people perish'. I would add, 'Where the value system is in shambles, and there is no attempt to restore ethical and social norms of conduct, there is no hope for the future of its people.'<sup>24</sup>

At another occasion he says, "We must always remember that this end will not be achieved if the process of economic growth is not subject to the wholesome discipline of human and spiritual values which have come down to use through the centuries and in all lands. After all it is these values that lend spice and flavor to the joy of living and it is the attempt at achieving these values that give meaning and purpose to the continuity of human existence."<sup>25</sup> In the opinion of P. R. Brahmananda, these ideas of Rao have been recaptured richly and innovatingly by Amartya Sen in the concept of a frontier of human capabilities.<sup>26</sup> In his "*Dr. Zakir Husain Memorial Lectures*" Rao commented, "Altogether, our rash venture into the realm of savings and capital formulation has not produced satisfactory results from the point of view of either economic growth or human welfare. Many intangibles are involved such as the curbs on motivation for entrepreneurial action induced by populist slogans and bureaucratic rigidities, the growing fall in standards of public morality and the accompanying increase in corruption and black marketing, the increase replacement of spirituality and ethical behaviour by religiosity and ritualism, the growing measure of resort to violence for the redressing of both personal and group grievances, the increasing politicisation of economic decisions, as well as increasing emphasis on regional, communal, lingual, and castious loyalties at the expense of not only national integrity but also economic growth, and the general mood of cynicism and the feeling of frustration and the feeling that merit and reward do not move together."<sup>27</sup> It should be noted that corruption has been a major problem in many Asian countries, including India. For over 50 years, the World Bank has ignored corruption in its analyses and prescriptions. That has finally changed with the *World Development Report 1997*,

which shows corruption as not just a political aberration but an economic disaster. It seems that the value judgment, ethics, character building and spiritualism will be dominating theme of economics in 21st century and it is hoped that at that time V.K.R.V. Rao's economic ideas will be fully appreciated.

## NOTES AND REFERENCES

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4. *Ibid.*, p. 20.
5. *Ibid.*
6. *Ibid.*, p. 24-25.
7. *Ibid.*, p. 37.
8. *Ibid.*, p. 26.
9. *Ibid.*, p. 27.
10. *Ibid.*
11. *Ibid.*, p. 28.
12. *Ibid.*, pp. 29-30.
13. *Ibid.*, p. 30.
14. *Ibid.*, p. 33.
15. cf. *Ibid.*, pp. 33-38.
16. *Ibid.*, pp. 31-32.
17. Rao, V.K.R.V. (1980), *Dr. Zakir Husain Memorial Lectures*, Aligarh Muslim University, Aligarh, p. 3.
18. Rao, V.K.R.V. (ed.) (1968), *Employment and Unemployment*, Allied Publishers, Bombay, "Preface" p. V.
19. Rao, V.K.R.V. (1943) *op. cit.* p. 1.
20. cf. *Ibid.*, pp. 43-45. .
21. Rao, V.K.R.V. (1964), *Essays in Economic Development*, Asia Publishing House, Bombay, p. 156.
22. *Ibid.*, p. 158.
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26. Brahmananda, P .R. (1992), The Economics of Dr. V.K.R.V. Rao: A Tribute, *The Indian Economic Journal*, vol. 39, No.4, p. 127. ..
27. Rao, V.K.R.V. (1980), *op. cit.* p. 54.

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[\*] Dr Islahi, a faculty member of the Department of Economics, Aligarh Muslim University, Aligarh, presented this paper to the 80th Conference of the Indian Economic Association, held at Hyderabad, India, during Dec.27- 29, 1997. Full paper was published in the conference volume and included in: Das, D.K. (editor), *Great Indian Economists*, New Delhi, Deep and Deep Publications, 2004, vol. 7, pp. 3-10.