The Practice of Economics by Dr. Ambedkar and its Relevance in Contemporary India

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Abstract
Dr Ambedkar has often been portrayed as a leader of the ‘dalit’ community and nothing else. An obscure reference is made to him in school text books as the architect of the Indian Constitution. Very few would know that Ambedkar was among the first set of Indians who were trained in Economics and practised it professionally. The main interest in this paper is to examine his contribution to the field of economics, and understand whether the concepts developed by him are practically relevant and applicable to Indian economy in the present, and in the times to come.

In this paper, we have discussed Ambedkar’s exceptional skills of diagnosis of the economic problems which India was likely to face after Independence, along with practical solutions he has offered for these problems. The paper is divided into three sections.

The first Section deals with Ambedkar’s concept of Economic Democracy and Economic Growth through stable Macro Economic policies of the government. The Second Section discusses an appropriate strategy of Economic Development through emphasis on both Industrial and Agriculture Sectors simultaneously, rather than progress of one sector at the cost of the other, for tackling the twin problems of Unemployment and Poverty. In the Third and concluding Section, it is discussed how the problems anticipated by Dr Ambedkar have manifested themselves in the present economic scenario, the lessons learnt and solutions offered, as derived from Dr Ambedkar’s practice of Economics.

Keywords: Ambedkar, Economic democracy, Public expenditure, Land reforms, Strategy of development, Indian Constitution

Concept of Economic Democracy and Economic Growth through Stable Macro Economic Policies

“There is a unified theme running through Ambedkar’s extensive and all-comprehensive scholarly pursuits……. The incredible contribution made by Dr.Ambedkar as an economist is only due to his public oriented economic philosophy and relevant policies. His economic philosophy is best captured in his own phrase: Bahujan Hitaya Bahujan Sukhay (i.e., Greatest Good to the largest number of people). This statement reminds us of the concept of Welfare State and objective of Pareto Optimality developed later in the subject of Economics.

Dr. Ambedkar’s speech, on the eve of the signing into law of the Indian Constitution, delivered on 25 November 1949, laid out his argument that social democracy is essential for the survival of the state. “On the 26th of January 1950, we are going to enter into a life of contradictions. In politics we will have equality and in social and economic life we will have inequality. In politics we will be recognizing the principle of one man one vote and one vote one value. In our social and economic life, we shall, by reason of our social and economic structure, continue to deny the principle of ‘one man one value’. How long shall we continue to live this life of contradictions? …………….We must remove this contradiction at the earliest possible moment or else those who suffer from inequality will blow up the structure of political democracy which this Assembly has so laboriously built up.” The problem of Left Wing Extremism (LWE) faced by the nation today and its manifestation in the form of the persistent Naxalite movement is ample evidence of the truth of Ambedkar’s prediction.

Dr. Ambedkar studied many subjects, but he was mainly an economist and this is evident through various economic provisions made in our Constitution “…..Ambedkar’s book on economic relations between Provinces (now ‘states’) and Central government of the country during the British rule is still a reference book for all economists and the main inspirational source of finance commissions in the country”1 He wrote three scholarly books on Economics: i) Administration and Finance of the East India Company, ii) The Evolution of Provincial Finance in British India, and iii) The Problem of the Rupee: Its Origin and Its Solution. The first two books represent his contribution to the field of public finance: the first one evaluating finances of the East India Company during the period, 1792 through 1858 and the second one analyzing the evolution of the Centre-

1 Dr Narendra Jadhav’s statement, Member of Planning Commission of India, former VC Pune University, Published: Dec 5, 2009, 22:31 IST, Amravati, PTI)
State financial relations in British India during the period, 1833 through 1921. The third book i.e. “The problem of the Rupees: Its Origin and its Solution is considered a masterpiece in economics.  

In his book, “The Problem of the Rupee”, Ambedkar’s main thrust was the criticism the “reckless issue of rupee currency” made possible by the gold exchange standard. By removing the automatic link between money supply and gold reserves of the country, enormous power was vested with the government to expand money supply, without similar expansion in production of goods and services, leading to an unstable currency value. The excessive importance given to maintain the external stability of exchange as against internal stability of the value of currency was not a proper policy for India, he contended. Ambedkar took the position that an unstable currency could lead to uncontrolled inflation; since a “managed currency system” allowed the government to indulge in fiscal extravagance and wasteful government expenditure. Inflation, as we all know from economic theory, imposes a disproportionately heavier burden on the poor than on the rich. This is the central point of his thesis. In short, Ambedkar’s conclusion is clearly towards price stability through conservative and automatic monetary management. This has great relevance in these days of burgeoning budget deficits and their automatic monetisation; we could do with an effective restraint on liquidity creation through an automatic mechanism which has been discussed in academic circles, but never really implemented. The growing Fiscal Deficit of Central and State governments, stubbornly ranging at 6-7% of GDP for the past decade is proof of the fiscal extravagance that Ambedkar was cautioning us against. It has led to the creation of a highly inflationary economy, as seen from Diagram 1.

Another astonishing theme of Ambedkar’s analysis of issues in Public Finance, is the way he has developed ‘Canons of Public Expenditure’. The canons of taxation proposed by Adam Smith more than 200 years ago are well known, but nothing is available about canons of public expenditure in public finance literature. Dr. Ambedkar, while discussing the functions of the Comptroller and Auditor General, during the framing of our Constitution in 1949, said that “governments should spend the resources garnered from the public not only as per rules, laws and regulations, but also see that “faithfulness, wisdom and economy” have gone into the acts of expenditure by public authorities”.

Faithfulness in this context is defined as a “duty, commitment to fulfil a trust” that the public has reposed in its government to provide goods and services of public consumption. Governments exist to provide these common requirements. Citizens, in democratic forms of government, are entitled to demand government actions that are based on value considerations, that are wise and frugal. The canons of public expenditure that Dr. Ambedkar recommended are as follows:

1. **Faithfulness**: Governments should act with honesty and integrity, fulfilling their obligations to the public. This involves ensuring that public funds are used for their intended purposes and that public officials are held accountable for their actions.

2. **Wisdom**: Governments should make decisions that are based on sound judgment and careful consideration of all relevant factors. This involves ensuring that public policies are consistent with the goal of maximizing the well-being of the citizens.

3. **Economy**: Governments should use resources efficiently, avoiding unnecessary waste and extravagance. This involves ensuring that public expenditures are justified by their benefits to the citizens.

Note: WPI - Wholesale Price Index

Source: Economic Survey, 2010-11, GOI

A similar inflationary trend is visible by 2014. In fact, it is becoming increasingly difficult to control rising inflation.

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government are assured by their representatives, that a judicious provision of such public goods and services will take place and therefore people place their trust in the government by “delegating” authority to take taxation and expenditure decisions, on their behalf.

The fact that it is “we, the people of India” to whom the government is accountable, this is clearly discernable from Ambedkar’s views on public expenditure. He also cautions the government about how the individual acts of public spending resulting in the augmentation of social welfare may not always be obvious to the citizens; because of spill over effects and long gestation periods. Therefore, it may happen that citizens are unable to comprehend clearly the consequences of government action; making it easy to mislead them by false claims. Hence it becomes all the more necessary for the government to remain faithful to the original intentions, while spending public funds.

SECTION 2: An Appropriate Strategy of Economic Development

On the industrial front, in 1936, Dr. Ambedkar founded the Independent Labour Party. A distinctive feature of Dr. Ambedkar’s scholarly contribution is his perceptive analysis of economic dimension of social hierarchy (caste system), as practiced in India. While the prevailing trade unions fought for the rights of workers, they were indifferent to the rights of untouchable workers as human beings. The new political party took up their cause. Subsequently, as a Labour Member of the Viceroy’s Executive Council from 1942 to 1946, Dr. Ambedkar was instrumental in bringing about several labour reforms including establishment of employment exchanges, generally laying the foundations of Industrial relations in Independent India.

A little known fact relates to Dr Ambedkar’s contribution to the formulation of Irrigation policies in India. His ministry also included irrigation, power and other public works. The Damodar Valley Project is one of the best examples of his initiative in this regard. Speaking in favour of Damodar Valley Multi purpose project, Dr. Ambedkar said that the project would benefit the people of Bengal and Bihar by giving them an aggregate controlled reservoir capacity of approx.4700,000 acres, sufficient water from perennial irrigation of 760,000 acres besides water for navigation purpose, electrical energy of 300,000 kilowatts, promoting welfare of 5 million people directly and many more, indirectly. Dr. Ambedkar also laid down the procedures adopted for implementing the project. A man of vision and foresight, he did not put water resources and management entirely in the state list, but he put this subject under central control; as this would help in solving the problems of water disputes and enable ‘Water Sharing Agreements’ between states. Hirakund and Sone river valley project were also pioneered by him.

In his memorandum submitted to the British Government titled “States and Minorities” in 1947, Dr. Ambedkar laid down a strategy for India’s economic development. The strategy placed “an obligation on the State to plan the economic life of the people on lines which would lead to highest point of productivity without closing every avenue to private enterprise and also provide for the equitable distribution of wealth”. Crucial issues pertaining to socio-economic development of the country were viewed by him as the constitutional responsibility of the Government.

However, from the beginning of planning period to till today our economy is known as a developing economy and 70% of the Indian population is living below the international poverty line (on less than US $2 per day). Neglect of certain sectors has led to the haphazard, volatile nature of India’s GDP growth, as can be seen from Diagram 2. Despite Long Term Economic Reforms announced and implemented since 1991, India’s GDP growth rate continues to falter; the economy takes two steps forward, and then one step backward, slowing the pace and momentum of economic growth. The reasons are not far to seek - gross negligence towards the basic economic philosophy, “greatest good of the greatest number” and the guidelines of the Indian constitution, are responsible for this mess created by a lop sided growth, building ‘islands of prosperity in a sea of poverty’ At present, the GDP growth rates are nothing to boast of; falling short of 6%/yr for the period 2011-13, it is an indication of the recession in Industry, and jobless growth which chronically plagues the Indian economy, reforms or no reforms.
Ambedkar’s emphasis on the need for industrialization so as to move surplus labour from agriculture to other productive occupations, accompanied by large capital investments in agriculture to raise yields, has never really taken place. In fact, employment growth rate in Indian industry has never kept pace with the rate of industrialisation. There is an urgent need to increase employment opportunities in Agriculture Sector, since industrialisation has so far been unable to create enough jobs to absorb surplus labour emanating from rural areas. For this to happen, the reforms suggested and expected by Dr Ambedkar are clearly a guiding force. However, the way economic reforms in India are being implemented so far, they are incompatible with Ambedkar’s vision of economic development and social justice. He was one of the few economists who recognized the deficiencies in promoting social justice and economic equality in an unrestrained capitalist economy.

The Sectoral contribution to GDP over the post economic reform (1991) period as depicted in Diagram 3, clearly indicates a marked dependence on the Service sector to provide the required momentum of economic growth. By 2013, almost 60% of the GDP in India originates in Service sector, with Industry and Agriculture contributing only 16% and 14% respectively. This is not a desirable situation in the long run, because the global slowdown, increasing competition from new countries, rising protectionist measures in the wake of job losses in developed countries, have weakened the prospects for exports of IT and ITeS services from India.

On the domestic front, a huge opportunity for service sector growth can arise only through infrastructural development and increasing technology adoption within the small and medium enterprises in manufacturing sector, and in Public Sector industries. Thus there is no substitute of increasing the pace of industrialisation for economic growth in India. Moreover, rising inflation, infrastructural constraints, and lack of appropriate labour legislation, will all play their part in slowing down service sector led growth. Dependence on only services to create growth is therefore not sustainable in long run.

In the coming years, millions of people in India will have to move out of the agricultural sector and jobs will have to be provided for them in other sectors. India, therefore, needs to increase its manufacturing capability. In the recent past, the growth of the manufacturing sector has generally been approx. 17 percent of GDP; the contribution of the manufacturing sector in India is therefore much below its potential. Every job created in manufacturing has a multiplier effect of creating two to three additional jobs in related activities.
By 2014, the sectoral contributions have changed further by 2013-14. At present, the contribution of Agriculture sector to the GDP is approx. 15%, while Industrial sector share remains around 25%, and Service sector share has increased to almost 60% of GDP.

Source: Compiled from various issues of Economic Survey, annual GOI publication.

Therefore, a thrust on manufacturing is imperative to the inclusive growth agenda of the Government. The National Manufacturing Policy announced by the Government of India proposes to increase the sectoral share of Manufacturing in GDP to 25% over the next decade.

**Agriculture Sector Reforms**

Dr. Ambedkar was a strong proponent of land reforms. His successful struggle against the prevailing land tenure system called Khoti\(^5\) liberated a vast majority of the rural poor from an extreme form of economic exploitation. His successful agitation against Mahar Vatan emancipated a large section of the rural poor from virtual serfdom. In 1937, Dr. Ambedkar introduced a Bill to abolish the "khoti" system of land tenure in the Konkan region, the serfdom of agricultural tenants and the Mahar "watan" system of working for the Government as slaves.

He realised that productivity of an agricultural holding is not determined by its physical size alone but by the intensity of cultivation as reflected in the amounts of productive investment made on the land and the amounts of all other inputs used, including labour. In a discussion in the Bombay Legislative Council on October 10, 1927, Dr. Ambedkar argued that the solution to the agrarian question “lies not in increasing the size of farms, but in having intensive cultivation that is employing more capital and more labour on the farms such as we have”. Further on, he says: “The better method is to introduce cooperative agriculture and to compel owners of small strips to joint cultivation.”\(^6\)

He sees an extremely important role for the state in such transformation of agriculture and advocates the nationalization of land and the leasing out of land to groups of cultivators, who are to be encouraged to form cooperatives in order to promote agriculture.

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\(^5\) Khoti tenure.-The khoti tenure originated in the Konkan which has rugged terrain and difficulty in collecting land revenue. A powerful and influential middleman (khot) who could organize cultivation of lands, command confidence of the farmers and be responsible to Government for revenue, was required. In Ratnagiri district the Khots were treated as hereditary farmers with certain defined rights over their subordinate rayats. The Khoti tenure in the district was governed by the provisions of the Bombay Khoti Settlement Act of 1880.

\(^6\) A significant academic paper he wrote in 1918, ‘Small Holdings in India and Their Remedies’ in Journal of the Indian Economic Society, Vol I, 1918, attempts to deal with the problem of the size of holdings as it affects agricultural productivity.”
Diagram 4: Percentage of Area Owned by Farmers in different land size categories, 1953 to 2003

Note: Landless farmer (labourers) (0 ha), Marginal farmers (less than 1 hectare), Small (1–2 ha), Semi Medium (2–4 ha), Medium (4–10), Large (10 ha & above)

Source: Compiled from various Rounds of National Sample Survey, reproduced on p.567 in Dutt & Sundaram,, Indian Economy (2009 edn)

“If it is said that Indian agriculture suffers from small and scattered holdings we must not only consolidate, but also enlarge them. It must be borne in mind that consolidation may obviate the evils of small holdings unless the consolidated holding is economic, i.e. an enlarged holding.” Mere size of land is empty of all economic connotation. Consequently, it cannot possibly be the language of economic science to say that a large holding is economic while a small holding is uneconomic. *It is the right or wrong proportion of other factors of production to a unit of land that renders the latter economic or uneconomic*.

It was argued by Dr Ambedkar that productivity in agriculture can be increased by simultaneously expanding capital and capital goods and reducing labour to raise land and labour productivity.

“The sponging off of surplus labour in non-agricultural channels of production will at one stroke lessen the pressure … on the land in India. Besides, this labour when productively employed in agriculture and industrial sector will … not only earn its keep but will give surplus; and more surplus is more capital. In short, strange that it may seem industrialization of India is the soundest remedy for the agricultural problems of India…… India is caught between two sides of pincers, the one side of which is progressive pressure of population and the other is limited availability of land in relation to its needs…… The population pressure is giving rise to an army of landless and dispersed families as well. Nothing can open possibilities of making agriculture profitable except a serious drive in favour of industrialisation……”

Ambedkar argued that there can be no such thing as a correct size of agricultural holding. Land is only one of the many factors of production and the productivity of one factor of production is dependent upon the proportion in which the other factors of production are combined. In his words: “the chief object of an efficient production consists in making every factor in the concern contribute its highest; and it can do that only when it can co-operate with its fellow of the required capacity. Thus, there is an ideal of proportions that ought to subsist among the various factors combined, though the ideal will vary with the changes in proportions”.

From this he proceeds to say that if agriculture “is to be treated as an economic enterprise, then, by itself, there could be no such thing as a large or small holding”. If

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7 Small Holdings in India and Their Remedies, Dr Babasaheb Ambedkar, Writing & Speeches. Vol. I, Part V. pp. 468, 1971

8 Ibid, p.477
this is so, what is the problem? Ambedkar’s answer rests on the inadequacy of other factors of production. The insufficiency of capital which is needed for acquiring "agricultural stock and implements" arises from savings. But as Ambedkar remarks “that saving is possible where there is surplus is a common place of political economy”.

There is almost a prophetic statement made by him long before modern theorists of development systematised notions of disguised unemployment or under-employment: “A large agricultural population with the lowest proportion of land in actual cultivation means that a large part of the agricultural population is superfluous and idle.” Even if the lands are consolidated and enlarged and cultivated through capitalistic enterprise, it will not solve the problem as it will only aggravate “the evils by adding to our stock of idle labour”. The only way out of this impasse is to take people away from land. He concludes that “Industrialisation of India is the sourest remedy for the agricultural problems of India”. This can generate adequate surplus that will also eventually benefit the agricultural sector.

Indeed a shift from primary industry to secondary industry is vital and it must be attempted seriously to prevent enlargement of a rural unemployed labour force. At the centre of India’s gloomy performance post economic reforms is the complete elimination of employment security, in favour of free market principles in which labour is commodified, and casualised. In this context, one cannot but recall Dr. Ambedkar’s words that ‘liberty from state control is another name for the dictatorship of the private employer, and economic exploitation of common people.’

During the framing of the Constitution, Ambedkar had visualised that agriculture shall be a State Industry, and be organized by the State taking over all land and letting it out for cultivation in suitable standard sizes to residents of the villages to be cultivated as collective farms by groups of families. The State had the responsibility to supply capital necessary for agriculture as well as for industry."

SECTION 3: Lessons Learnt From Ambedkar’s Economic Philosophy

Ambedkar’s economic philosophy is best captured in his own phrase: Bahujan Hitaya Bahujan Sukhay (i.e.,Greatest Good to the largest number of people). This statement reminds one of the concept of Welfare State developed later, based on the criterion of Pareto Optimality, which clearly states that a policy increases social welfare, only if it benefits at least some members of society without harming any others.

Ambedkar has rightly said that a minimum benchmark of socio-economic equality is necessary, else those who suffer from inequality will blow up the structure of political democracy created so meticulously. The problem of Left Wing Extremism (LWE) faced by the nation today and its manifestation in the form of the persistent Naxalite movement is sample evidence of the truth of Ambedkar’s prediction. He emphasises the economic dimension of social hierarchy in India, probably because it is clear that a positive change in economic status of the socially backward segment of the Indian population will have lasting effects in improving their social status considerably.

Despite the turnaround of India’s economic story since the 1980s, there appears to be an enduring, unhealthy relationship between economic wellbeing, caste and gender. The ‘marginalized’, by the very logic of the term, are supposedly smaller in number than the more dominant social groups. In India, however, the marginalized far outnumber the dominant sectors of the society. The “mainstream” in Indian society is an aggregate of its margins Typically, among every 100 Indians, six belong to “de notified” or criminalized communities, eight are tribals, twenty-one can be classified as religious minority, twenty-two form the dalit oppressed groups, and thirty-eight persons represent the aggregate of linguistic minorities. A simple addition of these figures, however, leads to the absurd conclusion that only 5 percent of Indians constitute the dominant “mainstream.”

A not so well known contribution of Dr.Ambedkar is his analysis of issues in Public Finance, especially the principles of Public Expenditure. He has rightly suggested that public expenditure needs to be not only allocated as per social and political priorities but also spent according to rules of economic efficiency, with minimum wastage of public funds. Thus management of public funds is an important issue as per Ambedkar, and cannot be compromised with. The government is accountable to the people of India.

An interesting point raised by Ambedkar is that, individual acts of public spending resulting in the augmentation of social welfare may not always be obvious to the citizens; because of long term effects and side effects, and long gestation periods. Therefore, it may happen that citizens are unable to comprehend clearly the consequences of government action; making it easy to mislead them by false claims. Hence it becomes all the more necessary for the government to inform and educate the public about the progress and status of such development programmes, while remaining faithful to its original intentions, during the expenditure of public funds.

In the prevailing atmosphere of mistrust and suspicion between state and central governments in India’s federal
Aspects of classifying items under state or central control of funds from the centre, and the tax revenue sharing disagreements between centre and state governments, one cannot help regretting about how Dr Ambedkar’s foresight and vision in formulating the entire philosophy behind centre-state relations has been ignored. Fortunately for us though, a lot of thought has gone into making of the Indian Constitution; in various aspects of classifying items under state or central control, which has lent some rationality to this entire issue, providing guidance to the various Finance Commissions appointed in India, from time to time.

Till the 1990s, the Indian government paid no heed to Ambedkar’s warning about the “reckless issue of rupee currency,” under the Managed Currency System, leading to higher money supply and greater aggregate demand for goods and services, without corresponding increase in supply of the same, causing inflationary pressures in the economy, which in turn led to an unstable currency. Ambedkar took the position that an unstable currency could lead to further uncontrolled inflation; since a “managed currency system” allowed the government to indulge in fiscal extravagance and wasteful government expenditure. Years later, this point was noted by Chakravarty Committee (1991), in its findings that government’s reckless borrowing from RBI was majorly responsible for the continuously high inflation rates, and not the increasing demand from a growing population as the government would have us believe. Hence the committee recommended a statutory restraint on such liquidity creation through an automatic mechanism, presently followed by RBI, under the Fiscal Responsibility and Budget Management (FRBM) Act.

Other noteworthy contributions of Dr Ambedkar are his efforts at Labour Reforms, laying the foundation of Industrial relations in Independent India, his emphasis on the need for industrialisation to get rid of disguised unemployment in Agriculture sector. His belief about the importance of large capital investments in agriculture to raise yields, has also been largely ignored by governments so far, especially after the success of Green revolution in a few irrigated areas of the country.

Dr. Ambedkar proposed land reforms, not just because of the exploitative nature of the then prevailing agrarian relations, but also on grounds of pure economic logic. At a time when agricultural research was a nascent field, he realised that productivity of an agricultural holding is not determined by its physical size alone but by the capital investment, technology and intensity of cultivation. Land is only one of the many factors of production and the productivity of one factor of production is dependent upon the proportion in which the other factors of production are combined. He we view that Agriculture should be treated as an ‘economic enterprise’, rather than as a way of life for the Indian farmer. This would enable him to make profits and generate savings, taking him out of the vicious circle of poverty, and also leading to productive investments on land.

The preceding discussion makes it amply clear that Dr. Ambedkar perceived the post independence scenario very clearly, and made important predictions for the Indian economy, based on his knowledge, intuition and foresight. He argued in favour of state intervention to make the rules and regulations by which workers would work and the wheels of industry would run on. If the state did not do it, the private employer would. In other words, ‘laissez faire’, leading to liberty from the control of the state was another name for the dictatorship of the private employer, as per his way of looking at it.

India’s experience with Neoliberal reforms since 1990s shows that Dr. Ambedkar’s apprehensions were far from misplaced. As has been documented and written about extensively, during this period of Neoliberal reforms, there has been an increase in the rate of economic growth in some years, but at the same time, there has been a distinct slowing down of the rate of growth of employment and practically no decline in the proportion of people below the poverty line. At present, the country is adding 10 Million people to its list of unemployed persons every year, and agriculture has been in a crisis for some time now, while the rate of growth of manufacturing has also been declining for several years now. The only sector to have really benefitted is the service sector.

Ambedkar had a tremendous historical sense; he was fully aware that present situations wear the scars of the past. In almost all his academic works, he employed the historical method. Ambedkar digs deep into history to understand the significance of the events he was currently analysing. It was analytical rather than the dialectical method he used. Thus dealing with the need for legal solutions to social problems, he said: “Society is always conservative. It does not change unless it is compelled to and that too very slowly. When change begins, there is always a struggle between the old and the new, and the new is always in danger of being eliminated in the struggle for survival unless it is supported”. The value of his conclusions are substantial precisely because his analysis was based on sound empirical and historical foundations.

References

[1] Ambedkar Babasaheb, Small Holdings in India

9 Dr. Ambedkar, Writings and Speeches, Vol. XII, p 115.


