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Economic Ideas of V K R V Rao

S L Rao

His view of economics as an integral part of the social sciences, participation in goal-setting as well as the methods to achieve them, aiming at people's welfare and quality of life as the goal of economic development, strong belief in good survey-based data and involvement in policy formulation – these were V K R V Rao's major contributions. As an institution-builder he had the capability, so rare in India, of thinking carefully about the organisational structure of institutions so that they could survive his departure.

ICAN claim to have read much of V K R V Rao's writings, but a long time ago, and I have not re-read them. However, I have had the privilege of witnessing his preparing many of them. I have also listened to many of his addresses. I cannot recall an occasion when a speech by him was not delivered to packed halls. He was a great speaker, and a passionate believer in communication and dissemination of his ideas. In his later years I was also able to talk to him at length about his experiences in his life and his work. In this very personal and unscholarly paper, I attempt to link many of his ideas and his work to his life and upbringing. Those who knew him in his active years will recall his charismatic personality, his gift for clarity and articulation, his enormous energy, his charm, his sometimes overbearing personality, his uniformly equal treatment of people irrespective of their age or position, and his regard for youthful talent. He spotted talent and some of the greatest names in the social sciences, particularly in economics, were spotted by him and given early opportunity and recognition. He was not threatened by young talent, and indeed actively searched for it, and brought it into his institutions.

V K R V Rao belonged to an impoverished Kannada-speaking south Indian brahmin family living in Srirangam, the home of Ramanuja, the great Vaishnavite saint. Throughout his life, he remained a deeply religious man. His father worked for a while as a minor government servant. For some reason, he gave up his job, and disappeared for almost two years, leaving his wife and (at that time) four young children to survive on the meagre allowance of a posthumous daughter by a first wife, which stopped when the lady died suddenly. The father had gone to far away Bombay where he established himself as a practising astrologer to some of the

leading Bombay industrialists and lawyers – mainly Gujaratis.

Astrology was an uncertain profession. Believers use astrological forecasts for decisions about matters where results are not amenable to interpretation. They are more imminent than, say, the estimates by the government's Central Statistical Organisation of the gross domestic product (for which there is no finality!), or the industry ministry's index of industrial production (which assumes too much), or the other statistical tools used by economists. Their forecasts are based on cosmic data, not observation of human behaviour, but they cannot afford to be wrong.

For almost two years the family lived in not-so-genteel poverty on the Rs 20 a month that was the allowance of the step-daughter. Then they were left with no income. They finally found the father in Bombay and the family started getting an erratic remittance. The wife and children went through years of extreme uncertainty and penury, indeed of real poverty. However, V K R V Rao does not seem to have had an unhappy childhood, though he was rebellious, disobedient, and not easily amenable to rules, traits which he seemed to carry into his distinguished adult life as well.

Soon the father sent for the family, and they settled down to life in a one-room tenement in Gamdevi in Bombay. V K R V Rao was seven years old. His father chose him as the one most likely to change the family fortunes. He received preferential nutrition over his older brother and sisters from the uncertain and meagre earnings from astrology. Perhaps this family history might explain his interest in forecasting the future but with a good data base, his interest in nutritional programmes, in equality of opportunity which was his interpretation of socialism, in spotting and nurturing young talent, and in programmes to not

only eradicate poverty but to enable a better quality of life for the poor.

The contrast between the small towns in the far south and the modern, bustling city was striking. Bombay ignited the fire inside him, which till then had found expression only in pranks and juvenile antics. English became his medium of instruction, and the new challenges evoked a quick response so that he had a very successful school and college career. Around this time two of his sisters were married soon after puberty, and both had large families. Indeed, his four siblings who survived to adulthood, had a total of 28 children. With his own three who survived out of six, that was a total of 31 children to be supported by families that were by no means well-to-do. Only one sister completed her schooling, and his brother became a registered auditor which enabled him to practise as an accountant. Two of his three brothers-in-law had to start working in their teens. Bombay was even then the promised land for impoverished south Indian families. The 1920s and early 1930s were very difficult years what with the killer influenza epidemic and subsequent economic depression which lasted almost to the beginning of the second world war. Young boys flocked to Bombay from all over south India to find employment, mostly as clerks and stenographers, because of their good grounding in English and arithmetic. It would not be surprising if these happenings triggered his interest in demography, employment, population control, understanding the structure of the economy so as to intervene for solving social ills, the empowerment of women through education and programmes for their health and nutrition.

Bombay was in many ways the home of the Indian nationalist movement. The darlings of the bright young college students of those days were a great British journalist, Benjamin Horniman, editor of *The Bombay Chronicle*, and Yusuf Mehraully. V K R V Rao has told me that they were leaders of the Young Socialist League and attracted bright young men like him. He had to soon decide whether to be an activist, or merely the intellectual backdrop to the movements. Given his family's desperate need for him to bring in some income soon, he decided against active politics. Instead, he said to me, he became the pamphleteer for the movement. His writings of those days are not to be traced. Perhaps they were unsigned, or as is also likely, he just wrote and then moved on. He did not collect what he

wrote, at any time in his life, making the job of bibliographers and interpreters of his thinking very difficult.

We cannot talk about the important influences on V K R V Rao's economic ideas without referring to his years as a postgraduate student of economics. The thinking of Marshall and Pigou were to deeply influence his view of economics as a social science to improve the human condition. As a student of Keynes, and part of the small group of students who interacted closely with him, he was of course to discover the tools of government intervention to achieve this objective. Colin Clark stimulated his interest in statistical demography and his work on national income accounting.

The strong intellectual basis for his social democratic beliefs was to develop later when he went to complete his postgraduate and doctoral work in the UK, and interacted with the wellsprings of social democratic thought in England like Harold Laski. But his family environment and his early introduction to socialism gave him an unshakeable belief in the equality of man. The influence of Mahatma Gandhi inculcated a far more tolerant attitude to other castes and religions than would normally be the case with a brahmin with a priestly ancestry and from a small town in south India in the old Madras presidency. The social class that he belonged to was intensely caste conscious. The oppression over centuries of the non-brahmin majority by the small brahmin community was to result in a major social revolution. In the next 60 years this revolution was to sweep over the whole of India and fundamentally change the bases of social and political power. VKRV remained true to his devout religious background, but had none of the caste superiority and discrimination. All this developed in him the ideas of equity and social justice, and a passion to improve the human condition, which found intellectual support from his studies in England. His interest in the fledgling subject of economics might well be traced to these experiences.

Gandhiji stimulated his interest in rural India, small industry and the idea of swadeshi. These were to lead to his keen involvement in agricultural economics, and making that an important subject for research in the Delhi School of Economics and the Institute of Economic Growth. His interest in small industry as a means particularly suited to solve India's need for employment and development led to his encouraging the earliest research in this field by P N Dhar at the Delhi School. Swadeshi made him a lifelong proponent and user of khaddar. It also led him to ideas of self-sufficiency, which later led to policies of import substitution. As has

been documented in studies on productivity in Indian industry, the extreme forms that this took in actual policy implementation led to very high import tariffs and quantitative restrictions on imports, making India into a relatively closed economy, with little competition, and low productivity.

What could be identified as V K R V Rao's contributions to economics? The first and the most significant, in my view, was his clear understanding that economics was a social science and that its practice must inevitably mean interaction with the other social sciences. He saw economics as a means to improve people's lives *en masse*, and his interest from the outset was not as much in theory as it was in application and developing policy conclusions. He and D R Gadgil were perhaps the first among economists in India to give it this strong orientation to policy.

Because he wanted to use economics for policy purposes, he was also committed to comprehensive field observation, data collection and analysis. That was what perhaps made him develop the methods to do the first scientific estimates of India's national income, developing in the process a framework which with some modifications is still in use. His work on estimating national income took him to the study of agriculture, in which he made some significant contributions. He became an authority on cotton as one result. He initiated the first socio-economic surveys of refugee townships which helped considerably in understanding the economic and social problems of refugee rehabilitation. These impelled him in later years to initiate other similar studies, some on a continuous panel basis, in Delhi and other towns, and many years later in Tumkur in Karnataka. These ground level studies and the continuous surveys initiated in the Agro-Economic Research Centre that he founded at Delhi gave him the idea in later years of district level planning, and the concept of village clusters for various development actions. The early work of the Institute of Social and Economic Change that he established in Bangalore in 1972 was in this field and he was a keen participant in the thinking behind the panchayat raj experiment developed by Ramakrishna Hegde as chief minister of Karnataka. The institute conducted many training programmes on the subject.

His strong sense of fairness, equality and justice led him in the formative years of the United Nations to develop the ideas of international action to promote development and food security in the poor countries. All his life was devoted to applying his brilliant mind and the concepts that he had learnt or developed himself to one purpose, namely, the improvement of the human condition.

It was in institution-building that he excelled. In another life he would have been a very successful entrepreneur. His imagination had no limits, and he did not consider any task too difficult; only, how he could accomplish it. He dreamt grand dreams, and achieved them. Elsewhere, P N Dhar has described how he visioned the Delhi School of Economics in 1944, when the whole economics department in Delhi University was in two small rooms in temporary barracks, and the faculty consisted of Rao, B N Ganguli and P N Dhar. But his vision of a teaching and research institution to rival the London School of Economics came to pass, and 50 years later its faculty and students are respected the world over.

No description of Rao's ideas can be complete without mentioning his great capabilities as a teacher and as an administrator. At the very young age of 28, he was invited by the great industrialists of Ahmedabad to become the principal of two colleges, one an arts college and the other a commerce college, still among the best in India because of the traditions that he set for them. His experience there might have some bearing on his recommending in 1961, when he was chairman of the Committee on Commerce Education, that the curriculum could be strengthened and commerce education given a great deal more importance in Indian education, because it met the vast needs for trained people in industry. Then, in 1942, Maurice Gwyer, the vice-chancellor of Delhi University, decided to start a Department of Economics in the university and offered the department to Rao. He was 34 when he came to Delhi. He stayed there till 1972, and was actively involved in all the major policy formulations regarding the economy during these 30 years. In 1957 he became vice-chancellor of Delhi University, and in 1960 a member of the Planning Commission. In the latter capacity he tried to bring his economic ideas and thinking to bear on policy and implementation. In 1967 he joined the Congress Party and entered politics, becoming a minister on his election. As minister of transport and shipping, and later of education, he brought his great administrative skills to bear on his portfolios, but there was no particularly new economic idea that emerged out of his experience of active politics.

Let me now take a quick look, through his work, at the influence he exerted on economic ideas and thought. His first published work was on the taxation of income in India. This was his thesis for his Master's degree in economics from Bombay University and was published many years later in 1931. It set the tone for his work in future years, empirical and policy-oriented. It must have been of some

value to him many years later, in 1953, when he was appointed to the Taxation Inquiry Commission under the chairmanship of John Mathai. His work on national income was done in fulfilment of his MPhil and, later, PhD programmes at Cambridge in England. He and Simon Kuznets drove the International Association of Income and Wealth, which sought to standardise methods for national income estimation over the world.

His 'Essay on the Nature and Purpose of Economic Activity' was delivered on his appointment as Professor of Economics in Delhi. At that time the most significant writing on the subject was *Nature and Significance of Economic Science* by Lionel Robbins. Robbins had stressed scarcity of resources and choice between alternatives as the core of economic science. Rao on the other hand stressed that economic activity was of the nature of both ends and means activity, unlike Robbins who urged that economics is neutral as to the ends and is concerned, given the ends to be achieved, with the use of means in the most economical way. This essay demonstrates Rao's approach to economics as an integral part of the social sciences and the humanities, one that must interact with sociology and anthropology. It explains why the two great research institutions that he established had the ends defined in their names, the Institute of Economic Growth and the Institute for Social and Economic Change. It is interesting that at least some economists are moving once more to this view of economics in the nature of their work. PC Joshi has acknowledged Rao's "interest in bridge-building between economics and other disciplines and in the interaction of social science and policy-making" which helped Joshi "to evolve my own interdisciplinary and social action oriented perspective of social science".

According to H W Singer, the evolution of thinking from GNP growth to the reduction of poverty and the satisfaction of basic needs as the primary objective owes a great deal to Rao. Singer traces it back to the work done by Rao as chairman of the United Nations Sub-Committee on Economic Development in 1947 or so. His "analysis of the national income concept as applied to developing countries" was "basic to the first stage of aiming at GNP growth as a development objective". He was perhaps the earliest economist to argue for development oriented towards employment. His theoretical writing on this subject was, in Singer's view, "particularly seminal in the development of the ILO World Employment Programme." Singer goes on to say: "In the later stages, when questions of poverty and basic needs came to the fore, once again we find that

Rao gave early attention to the 'Human Factor in Economic Growth' [written in 1963]". "[H]e was also influential in creating ideas and shaping policy in the international aspects of the attack on the world poverty."

Another area of deep interest to Rao was, according to C H Hanumantha Rao, "the study of the sources of growth of agricultural output and variations in its performance according to crops and regions in India. His presidential address to the...Indian Society of Agricultural Economics...in 1961...was a pioneering study". He goes on to say that "in 1967 he predicted the rising significance of rabi cultivation in Indian agriculture owing to its profitability as well as the relative certainty of yields".

Rao in an article titled 'Deficit Financing, Capital Formation and Price Behaviour in an Underdeveloped Economy' in 1953 in the *Indian Economic Review* made a strong theoretical case for government intervention through massive public investment financed by a reasonable level of government deficits for building the basic infrastructure and the heavy industries, large irrigation projects, etc, essential for the development of an underdeveloped economy. This was one of a series of three articles. His argument about the investment multiplier in a developing economy provided the theoretical underpinning for high direct taxation, incentives to savings, and a large role for government in capital formation. In recent years, east Asian countries replaced this dis-saving by government with a budget surplus. They achieved this with large inflows of foreign capital. The latter, along with strong export-orientation, gave those countries spectacular economic growth for over a decade. The Indian formula, accompanied by policies of self-sufficiency, import substitution even when the result was high cost, massive tariff walls, protection of jobs even at the cost of efficiency, and a negative attitude to export-oriented growth, resulted in poor growth in the 1960s and 1970s, and in the 1980s to unsustainable growth leading to a balance of payments crisis. In retrospect, it does appear as if the desire for self-sufficiency, suspicion of foreign investments, the closing of the economy, the central direction of resources, a commanding role for government in the economy, a belief that growth and social justice could be achieved together through a 'socialistic pattern of society' were ideas that together prevented Indian entrepreneurship from getting a free hand to show its capability, and led to an economy that was not only cut off from the world, but was also inefficient and uncompetitive. Thirty years of economic policies are now seen as having been ineffective. Rao as

a key economic thinker and policy-maker, like many others who are still with us, must bear responsibility for this. Many who participated in developing these ideas and policies have recanted, and are at the forefront of thinking and policy formulation on liberalisation and economic reform. Rao in his conversations with me in the last two years of his life accepted that we had given far too much primacy to government in the economy.

As a footnote, we must not overlook the great meltdown that is taking place in south-east Asian economies as well as that of South Korea. Even Japan and China are likely to see major turmoil as they improve the efficiency of the financial systems in their countries. But these countries did register spectacular levels of growth for many years. As a result, their peoples gained superior standards of living and improved quality of lives. It was in India that the intellectual argument for a major role for the state in economic development, of which Rao was the leading proponent, was developed. It worked for many years in those countries. If it did not work for India, and instead distorted the Indian economy, there were other causes which had to do with the nature of Indian democracy and its bureaucracy.

This cannot take away from Rao's fundamental contributions to economic thinking in India, as has been described in this paper. Economics as an integral part of the social sciences, participating in goal-setting as well as the methods to achieve them, aiming at people's welfare and quality of life as the goal of economic development, strong belief in good survey-based data, and involvement in policy formulation are his important contributions. His monuments will be the many institutions that he built and others that he initiated. As an institution-builder, he had the capability, so rare in India, of thinking carefully about the organisational structure of institutions so that they could survive his departure. The loss of a founding father has led to the decline of many other institutions in India.

V K R V Rao was, in the ultimate analysis, a selfless man. Many who knew him might disagree with me when I say that in a very real sense his apparent ego was in fact a reflection of his passionate commitment to his ideas and his objectives, and his impatience to realise them. He built people and institutions. His judgments were honestly arrived at, even if with hindsight we find that some were wrong. He had no hidden agendas. His thinking was not for sale to the bidder who could pay him the most in terms of money or position. Whatever his ideas and actions, they were meant for the good of the people of India.