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The Role of Trade & Commerce in Indian Society: A Historical Analysis of its Impact on Development

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THE ROLE OF TRADE & COMMERCE IN INDIAN SOCIETY: A HISTORICAL ANALYSIS OF ITS IMPACT ON DEVELOPMENT[a]

Shankar Jaganathan

Abstract

This paper attempts to evaluate the impact of trade and commercial practices on human development in the Indian society over the last two millennia. A defined framework is used for this purpose in which social acceptance of private property reflected in the rules and norms for its recognition and transfer and the relative importance of unilateral or 'free' transfer is contrasted with trade or bilateral exchange of goods and services. Growth in trade accelerated material production while at the same time it shrank the sphere of an individual's responsibility leading to increased economic disparity.

The period of the two millennia is for convenience divided into six phases—the Hindu foundation, the Islamic influence, the British impact and the Nationalists drive, all prior to independence and the socialist phase and the liberalist era forming the two sections in post-independent India. In each of these phases, a paradigm for analysis is identified, the dominant idea isolated and its impact on development traced.

From the analysis elements that can accelerate human development are identified to enable their conscious revival and promote their reintroduction in the 21st century India that is home to more than a billion human beings.

Trade and Commerce: Its Origin

All living species have within them a bifurcation between the strong and the weak. But it is only among the human race an additional basis for division exists, that of the rich and the poor. Rousseau (1761) in his dissertation *On The Origin and Foundation of The Inequality of Mankind* analyzed the source of these divisions. He identified the classification between the strong and the weak as a natural trait attributable to age,

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[a]**Limitation of this Study :** Given the vast expanse to be covered and the diverse topics and beliefs it straddles this paper presents a view of the subject limited by the author's comprehension, familiarity with other languages and time devoted in preparing it. While a conscious effort is made to present an unbiased view, the author's background could itself be a subconscious bias due to the position from which the entire subject is analyzed.

bodily strength and qualities of mind. In contrast, he linked the bifurcation between the rich and the poor to private property, a result of human convention enforced by political power.

The concept of private property prevailing in a society varies with time and even at a given point in time, it varies with its prevailing value system. The importance of trade and commerce is directly related to the extent to which the concept of private property is embedded in a society, for in its absence, there can be no trade or commerce. Economists note that trading is a uniquely human activity that has enabled them to realize the current levels of progress.[b]

Prerequisites

Tracing the origin of private property in human societies is at best a speculative exercise, but nevertheless could be useful in appreciating its impact. Hunter-gatherer societies that marked the birth of human race as a distinct species were not completely devoid of the concept of ownership. It looks as if some basic norms may have existed, if we take the 20th century practices of Aka hunter-gatherer groups in Northeastern Congo as representative of their earlier forms (Kitanishi, 1998). In the Aka groups a prey belonged to its hunter. The prey ownership was determined by the spear, trap or net used to capture it. For instance, where a team hunted, well defined rules existed for sharing the prey. The hunter delivering the third blow was given the head, the hunter delivering the second blow was given the dorsal midriff and if the first blow was dealt with a borrowed weapon, the lender of the weapon got the rump, with the balance of the prey going to the deliverer of the first blow. However ownership in these societies may not have translated to

[b] Paul Seabright of University of Toulouse, Richard Horan of Michigan State University, Eric Beinhocker of Harvard Business School and MIT Sloan School

any significant intra-group trade as food was regularly shared within the group (Marlowe 2004). The right of the owners was in overseeing this distribution and the resultant social honor of having their contribution acknowledged. Exchanges outside the hunter-gatherer group were either very limited or sporadic to provide any fillip to sustained trade and commerce.

Looking back to the point when humans emerged from the state of savages to barbarism, Gordon Childe (1982) the renowned archaeologist remarked 'The escape from the impasse of savagery was an economic and scientific revolution that made the participants active partners with nature instead of parasiteson nature'. In the early states, this active partnership took two dominant forms— agriculture and cattle-rearing. But it is in agriculture, where humans plough the soil, plant the seeds, nourish the crop and guard it before harvesting it for consumption, that this partnership is most visible. As the lead time between ploughing a land and harvesting increased, the value of enforcing private property gained in importance. Individuals investing effort to plough a land needed the assurance only they could harvest it. In societies that provided this assurance, individuals could invest in longer gestation period projects and reap its benefits. This looks to be one of the primary reasons why agrarian societies flourished overtaking the hunter-gatherer groups.

In agrarian societies recognition of private property is visible in the form of acknowledging land ownership. This recognition resulted in well articulated avenues for property acquisition, accepted norms for its inheritance and defined process and procedure for its transfer. Even with such a well defined system of private property, trade and commerce does not look to have become significant and sustained as most of the agricultural families were focused on sustenance production rather than target surplus produce for trade.

Trade during the early periods of human history was in two distinct categories of articles. The first category included articles of daily use but not locally found, consisting of high utility items like salt, iron and copper (Curtin, 1998). While non essentials or items of luxuries or prestige value like shells, beads and precious stones, constituted articles of the second category (Childe, 1982). Over time with improvement in agricultural techniques as food production increased leaving a surplus available for trade, specialist vocations emerged. Sustained surplus in food production not only increased the number of other specialist vocations, but it also accelerated the trade volumes within the society as food procurement became an essential for life. At this stage trade was no longer sporadic and optional. It became a necessity in daily human life.

Factors Influencing Its Growth

Growth in non-food producing vocations supported by surplus food production led to the emergence of urban centers, solely dependent on their hinterlands for food. With the advent of urban centers, trade not only became an essential part of human life, but it also began to significantly influence the relationship between individuals in a society. Religion, which prescribes the right conduct for individuals, increasingly began to mandate norms for exchange of goods too. The concept of unilateral transfer of goods, i.e. without receiving anything in exchange was formalized as charity. A sense of responsibility within the group is what promoted charity. Somewhere during this time, an intermediate concept between trade and charity evolved in the form of fair price trade. Fair price trade is a restrained exchange to protect a large section of individuals in the society who were not only weak but also poor. The result was in trade tempered by fair prices and limited by unilateral transfer norms prevailing in the society.

Trade is absent in social units like families where an individual's responsibility extends to the welfare of all its members. Trade starts only where an individual's responsibility for others' wellbeing ends. Consequently, trade regulations varied in intensity directly proportionate to an individual's sphere of responsibility and the homogeneity of its participants.

Local trade within a community or among one's own brethren was well regulated[c], while trade between communities was kept outside this social and religious purview. The result was in segregation of local trade from the longer distance inter-community trade. From its inception till date, in the domain of trade a general proposition has survived—goods higher in value and lower in weight travel a longer distance. Improvement in transport and communication systems has only reduced the distances permitting a greater movement of goods, with this basic proposition, remaining intact. Over time both local and international trade expanded to the current period where the distinction between the two is a blur.

Impact of trade on the concept of development

In trade, selling and buying are the two halves. Adam Smith in his magna opus *The Wealth of Nations* identified a basic truth that it is easier to buy than to sell and provided three reasons to support his conclusion. First, money is universally accepted in exchange, while goods are only accepted selectively by a sub-set of the population who need it. Secondly, he noted that goods are perishable and have a finite shelf-life, which is not the case with money. Finally, he saw profit arises more directly from selling than from buying (Smith, 2003). Given this challenge, merchants

[c] Prohibition of usury or lending of money in Islam and among members of the same community in medieval Christianity

have focused their attention on selling as it is fundamental to a profitable trade. This led Jean Baptiste Say, the famous 19th century French economists to generalize and state, 'The grand object of their [merchants] desire is, a consumption brisk enough to quicken sales and keep up prices (Say, 2001).

Desires that are acted upon produce results. In the first millennium, when trade was more subdued and subsistence economies dominated, global per capital income was generally stagnant with a marginal fall. While in the second millennium global per capital income increased 14 fold and the GDP 338 folds (Maddison, 2007). This increase to a large extent could be attributed to the growth of exchange economies and the more dominant role played by trade. With trade, the quantity, quality and the variety of goods and services increased. Availability of goods and services exceeded the imagination of any earlier generation, leaving many elders in the present society spellbound with the riches available to an average individual.

But desires acted upon also produced results of the undesirable variety. In societies where merchants had the unbridled freedom to act, a new phenomenon emerged. Wants surfaced along with needs and competed on an equal footing. While among individuals, needs are not uniform and exactly the same, varying based on their age, physique, geographical location and their psychological disposition, wants are of a different breed. A need is what humans must have to survive. In contrast, a 'want' is not a need. It is only the desire of an individual at that point of time.

In any normal human being with dependents, an individual's wants are subordinated to their dependents' needs. Either directly influenced by or coincidentally, in societies where the merchants have had the freedom to act, wants have been prioritized pushing the needs to a secondary status in satisfying it. Evidence of this is seen in the dilution of social bonds like family, neighborhood, community, and brethren. This is visible not just in human relationships, but even an individual's connect with their environment is weakened. It has culminated in the growth fetish, with policy makers in power chasing GDP expansion despite the increasing disparities among the rich and the poor, in the belief that over the long run, the needs of the poor will be met by GDP growth.[4] In the process, human development instead of being an end has become a desirable byproduct of economic policy.

In India the concept of human development is very well defined and constitutionally ingrained. It was articulated when the Planning Commission was set up by the Indian Government in March 1950, with a well defined scope. Derived from the constitution, it took cognizance of the Fundamental Rights of Individuals and the Directive Principles of State Policy to promote the welfare of people by securing a new social order in which justice— social, economic and political would form the basis for securing certain well defined economic goals. These goals included among others

1. For all citizens, both men and women equally, the right to adequate means of livelihood
2. Ownership and control of material resources to be distributed to serve the common good, and
3. Creation of an economic system that does not concentrate wealth to the common detriment

The mandate given to the first planning commission is the concept of development considered for this paper. The impact of trade and

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[d] The *Growth Report: Strategies for Sustainable Growth and Inclusive Development*, published by the Commission on Growth and Development in 2008, noted, 'The Commission understands that growth is not an end in itself. It is instead a means to several ends that matter profoundly to individuals and societies. Growth is, above all the surest way to free society from poverty.'

commerce is seen in the context of its influence on realizing these goals. While accepting this concept of development, it is recognized that historical institutions are being judged using concepts that evolved much later. The only justification for this irrationality is the intent of this paper, which is to identify concepts and practices that can be revived for the accelerated pace of development for all Indians.

Role of Trade and Commerce: In the First Millennium

Paradigm for analysis

India was predominantly a Hindu society right though the first millennium. Islam was yet to unfold, while Buddhism and Jainism had had little impact. Commenting on the influence of the more dominant among the two, Jawaharlal Nehru remarked, 'Even when Buddhism was at its height in India, Hinduism was widely prevalent. Buddhism died a natural death in India, or rather it was a fading out as a transformation into something else (Nehru, 1967). Hinduism had the unique characteristic to absorb other influences into its fold, while retaining its most prominent economic manifestation—*Varana*, translated in English as caste. Promoting the division of labor within a society is the reason inferred for establishing *Varnaasraamadharmaa* or the caste system.[e] Given our focus on trade and commerce, we can concentrate on *Vaiœyas*, who were assigned the specific job of cattle rearing, agriculture, trade and money lending.

[e] '[1-87]But to protect this whole creation, the lustrous one made separate innate activities for those born of his mouth, arms, thighs, and feet. [1-88] For priests, he ordained teaching and learning, sacrificing for themselves and sacrificing for others, giving and receiving. [1-89] Protecting his subjects, giving, having sacrifices performed, studying, and remaining unaddicted to the sensory objects are, in summary, for a ruler. [1-90] Protecting his livestock, giving, having sacrifices performed, studying, trading, lending money, and farming the land are for a commoner. [1-91] The Lord assigned only one activity to a servant; serving these (others) classes without resentment.' In page 12-13, *The Laws of Manu,* Translated by Wendy Doniger with Brain K Smith, Penguin Classics, 1991

While other castes were permitted to resort to these vocations only in exigencies, it was the *Vaiœyas* who played the dominant role.[f]

The principal ideas driving trade and commerce of this era can be obtained by examining the responsibilities of the *Vaiœyas* community. However to get a complete picture, their responsibilities cannot be looked at in isolation, as they formed an integral part of the Hindu society. In the Hindu thought, an individual had four distinct phases in life, called the *Aasrama Dharmaa,* made up of the student phase, the householder phase, as a forest dweller living away from society and as an ascetic who has renounced the world. These phases can be related to the four goals in life, called the *chaturvidha purushaarthas* consisting of *Dharma*, *Artha*, *Kama* and *Moksha*.

Combining the two—the four phases of life and the four goals, we can see a logical fit emerge. The primary responsibility during the student phase is to learn and equip oneself for the lifelong journey. An important aspect of this learning is in imbibing *Dharma*.[g] *Dharma* in essence contains the guidelines for living a contented and happy life.[h] The second phase of life as a householder was focused on *Artha*, which is acquiring the means to live a happy life and thereafter *Kama,* which is to realize the happy life. *Yajnawalkya Samhita* specifically outlined the connection between *Artha* and *Kama* by noting

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[f] 55 'These are the legitimate modes of acquisition of wealth for all (four) castes severally. If once caste should take to the occasions occupations of another caste, it is a criminal proceedings, except in extreme case of distress.' In page 55, *The Minor Law Books,* Translated by Julius Jolly, Oxford At the Clarendon Press, 1889

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[g] [2-112] 'Learning should not be sown where there is neither religion [Dharma] nor profit, nor at least suitable obedience, just as good seed (should not be sown) on salt soil' In page 29, *The Laws of Manu,* Translated by Wendy Doniger with Brain K Smith, Penguin Classics, 1991

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[h] 'That which, if we follow, will make us contented and happy.' In page 2, *The Vedas,* Sri Chandrasekharendra Saraswati, Sankaracharya of Kanchi Kamakoti Peetam, Bharatiya Vidya Bhavan, 2005

[One should] perform actions shorn of crookedness and dishonesty, according to [the nature of] age, intellect, **wealth** [bold mine], words, dress, learning, family and deeds. (123)

The twice-born one, who has in store food for three years to last, can drink Soma-juice; [and] one, who has food in store for a year, before the drinking of Soma, should perform the rites which ought to be performed, (i.e. the Agnihotra) (124) (Dutt, 1977).

The householder phase provided the much required opportunity to practice *Dharma* in the pursuit of both *Artha* and *Kama*. The last two phases of life was focused on attaining *Moksha*. Given this backdrop, the role of trade and commerce can be meaningfully examined from the viewpoint of guidance provided in both *Dharma saastras* and *Artha saastras* to the Vaiœyas.

The dominant idea

The concept of private property and trade was well entrenched in the Hindu society. An interesting aspect that evidences it is in the extensive reference to gambling in the form of dicing in which property is staked. One of the earliest references to gambling and gamblers is seen in *Rigveda*, which expresses the laments of an unsuccessful gambler, found in the section 'Hymn of the Gambler'. Incidentally, gambling is also at the center of the great epic *Mahabaratha*, indicating its popular awareness, if not reflecting a widely prevalent practice. Other methods by which property could be acquired was identified and enumerated. *Manu smriti* identified seven modes of acquisitions—*daya* (acquisition of joint family property by membership or inheritance), presents, purchase, conquest, lending at interest, employment in labor, and gift from a virtuous person (Derrett 1957). Gautama added a few more covering ownership through partition, finding, agriculture, trading, tending cattle and money lending (*Ibid 70*).

Using the value filter, *Naradasutra* classified wealth into three categories based on their source (Jolly, 1889). The pinnacle position was given to the creators of *Sukla* or the white wealth acquired through knowledge, valor, practice of austerity, in marriage, teaching, received for performing sacrifice and inheritance. On reflection, this group seems to contain wealth obtained as a byproduct, with its recipients consciously focusing on some other primary goal. The next rung was reserved for the *Sabala* or the grey tinge where wealth was directly targeted through money lending, tillage, commerce, gifts received for artistic performance and personal services rendered, wealth received for giving a maiden in marriage, and by paying homage to another. *Krsna* or the wealth of dark hues occupied the base position as it was a result of wealth acquired by ethically questionable means, namely bribes, gambling, forgery, robbery or frauds.

The importance given to enumerating the modes of property acquisition and the extensive debates it generated among the different religious experts of the era was attributed by Duncan Derrett, a western scholar to multiple overlapping factors. He noted,

For the ancient Indians were by no means solely concerned with moral doubts. The polluting element in an improper acquisition was not so troublesome as the possibility that the property would be recovered even after lapse of many years, upon the ground that it was improperly acquired by the acquirer. Or intended transferees might raise objections on the ground that the original means of acquisition was tainted and there was accordingly no title in transferor. At a period when gift of lands and gold were the most common means of attempting to attain spiritual merit, it was of supreme importance that the donee as well as the donor, should be satisfied that the asset in question was untainted (Derrett, 1957).

The dominant idea on private property in the Hindu society viewed from all angles—commercial, moral and spiritual, was in recognizing wealth not just as quantitative measure, but also seeing its qualitative attributes.

In the domain of trade too, detailed practices was well articulated. Distinction was made between local small value trade called *paòa* and *vyavahâra* representing large value import-export business (Agarwala, 1953). Further Panini classified trade based on the nature of products, capital invested and profitability of transactions, which is reflective of the presence of a wide range of trade organizations and varied practices (*Ibid 238-240*). Other prerequisites for a flourishing trade like weights and measures, coinage and loans were also well developed.

Despite its well developed contours, trade was not permitted to be practiced unrestrained. The regulations for intra-community trade included restriction on the nature of goods traded and the price charged for it. For instance, intra-community trade in food products and other essentials was prohibited[i] by the *Dharmaasastraas,* while *Arthasastraas* regulated the profits by mandating a 'fair' price.

Kautilya's *Arthasastra* prescribes trade regulation by monitoring both demand and price for goods. It recommends deciding on the mode of distribution after studying the demand patterns. Goods widely demanded were produced under the royal command and centrally distributed. In contrast imported goods had decentralized distribution in several local markets. In both the modes, profit was monitored. Rationale for its regulation being, 'He shall avoid such large profits as will harm the people' (Shamashstry, 1960). Further to promote fair trade, consumer interest was protected by stipulating the seller of clarified butter to give 3.125% more (1/32) to compensate for decrease in density due to it

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[i] 'One should not sell salt, cooked food, curd, milk, honey, taila, ghee, sesame, flesh, fruit, root, vegetable, blood, garments, all items of fragrances and jiggery. These things are prohibited for sale.' In page 162, *Viduraniti, A Commentary on Ethical Politics,* by B S Bist, Chaukhamba Sanskrit Pratishtan, Delhi, 2004

being in liquid form for ease of measure instead of its normal solid state. The seller of oil was to give 1.5625% (1/64) more to compensate for decrease in quantity due to overflow and adhesion to measuring can, in the sale process (*Ibid 116*).

Foreign trade, both imports and exports was actively promoted in *Arthasastra* as reflected in double the profit margins permitted for it.[j] In addition, foreign merchants bringing in goods were given immunity from being sued for debts. But their local partners could be sued as this immunity did not extend to the locals. In cases where the local merchant directly imported the goods, they were exempted from tax. Exports were promoted by undertaking study of profitable operations with foreign countries by the Superintendent of Commerce and only profitable trade encouraged. Where profitable trade with a foreign country was not feasible, traders were encouraged to explore if any local produce could be profitably bartered.

A dominant idea driving trade of this era was in its regulation. This is reflected by authorizing only one group of the society to trade and banning free trade in essential products like food. It looks like the rationale for regulation was in recognizing the superior negotiating power of merchants and their ability to use it for their personal gain. Probably taking a leaf from the value tinge attached to wealth, traders were looked down upon as their primary focus was on wealth accumulation. Hence in *Arthasastra* they were clubbed along with beggars, buffoons and other idlers and called '…thieves in effect though not in name, shall be restrained from oppression on the country (*Ibid 231*). Incidentally, this practice of looking down on traders was not unique to India. In China, Lord Shang who lived in the same century as Kautilya also had a low

[j] 'The superintendent of commerce shall fix a profit of five percent over and above the fixed price of local commodities, and ten percent on foreign produce.' Extract from Chapter II, Book IV.

opinion of traders. Lord Shang considered traders to be mere 'talkers', who opted for an easy life compared to the hardship farmers undergo. Among the Greeks too similar views prevailed. Plato writing in *The Republic* considered businessmen as the weakest in bodily strength and 'therefore of little use for any other purpose (Plato).

Indian trade in the first millennium was a mix of luxuries and essentials, consumer and industrial goods and was carried on both within and outside the present geography of India. Spices, sandal-wood, ivory, gold and gems from Southern India, silk from Banaras, muslin from Bengal, saffron and yaks tail from the north were the luxuries traded. Of the essentials salt moved from the coasts to the interiors, sugar from the hot-wet climatic zones to the cool-dry regions. Among the essential metals of that period, Southern Bihar was the source of iron and copper was sourced from Southern India. What is significant in the trade of this period is that India was a net exporter, the quantum of surplus reflected in the large gold flows into India.

In summary, even as the beneficial effects of trade were recognized, traders were viewed with suspicion leading to regulations that curbed its unfettered practice. Is this the reason why traders, whose primary focus was on wealth, were placed lower in the social hierarchy after the Brahmins and the Kshtriyas?

Impact on the Concept of Development

The first millennium began with the Indian economy being the largest by size accounting for 32.9% of the global GDP. Over the 1000 year period, Global GDP increased marginally from international 1990 dollar of 102 million to 117 million, an annual growth rate of 0.01% (Maddison, 2007). At the end of the first millennium, although India's share had declined to 28.9%, India continued to retain its first rank (*Ibid 263*). Looking at this fact in isolation, India's top rank as the world's largest economy seems to indicate that it was also its most prosperous society. But this does not appear to be the case, when we look at the per capital income figures. India's large GDP is a reflection of its equally large population. Maddison estimates Indian per capita income to be on par with the global per capita income, both at the beginning and at the end of the first millennium. Given this notion of similarity in consumption pattern reflected by the prevailing average per capita income across geographies, could the source of the fabled Indian riches be the inequality prevailing within the Indian society?

Examining two extremes of Indian society can highlight the magnitude of the inequalities that prevailed during this period. Prosperous households are a good point of focus to see the prevailing inequality, as domestic servants are an essential feature of it, reflecting the other extreme. Panini refers to unique methods of wage payment to the domestic workers. Integrated into the family were certain class of servants like cooks, family barber and scavenger. Their wage was the surplus created at different levels of food consumption by the household. The cook got the surplus in the cooking pot, the family barber got the surplus in the serving pots and the scavenger got the surplus left on the plates (Agarwala, 1953). At the secondary level, were another group of workers identified as—*Sranika or Mamsika, Odanika and Bhaktika. Sranika* and *Mamsika* were entitled to receive everyday cooked vegetables and cooked meat respectively, *Odanika* received cooked rice and *Bhaktika* was entitled to receive a full meal (*Ibid 113*). It appears that servants receiving full meals worked for only one household, whereas servants receiving a part of the meal served many household and aggregated their full meal by working for a complementary set of wages. This in brief highlights the enormity of inequality prevailing within the extended household on a basic essential like food.

Inequality in other forms too existed in the society, though not as stark as in the household. Beyond the household, caste representing occupation was visible. Occupation also reflected income as private property was well entrenched in the society. Even within an occupation, based on their skill levels, there were artisans who worked exclusively for the royalty or for the entire village or offered their services on daily wages to individual households (*Ibid 229-230*). This too added to the inequality in Indian society of the first millennium.

An interesting feature of inequality in Indian society was in it being seen as natural and in many ways inevitable and ordained. This inequality was not only prevalent in the economic sphere, but it was more visible in its social manifestations. The concept of *Assouch* or impurity may have been at its root, as in some occupations contact with polluting material was inbuilt. Fa-hein the Chinese scholar travelling in India around the middle of the first millennium noted a unique practice of *Chandalas* or the outcastes, who due to their occupational taint lived apart from the rest of the society. They were required to strike a piece of wood when entering a town or bazaar to warn others of their presence so that their contact would not pollute others (Smith, 1958). Chapter II verses 131 to 139 in *Yajnawalkya Samhita* provides a rationale for this inequality being accepted in the society. Answering the question '….. why is he born in the lower order of beings?', the *Samhita* answers,

> The fruit (good or bad) of [some] deeds, come in the next birth; that of some in this world; and that of some, either in this, or in the next birth. There (i.e., in the appearance of the fruits of deeds) the inclination of the mind is necessary (Dutt, 1977).

Going further, the reason for birth in degraded orders is attributed to thought of robbing another's wealth, injuring others and pursuit of unreal objects in the earlier life. Untruthful persons would be reborn as birds and animals; a thief, adulterer and unfair slaughterer of animals reborn as inanimate objects. In contrast, one who is pure, practices austerity, controls his senses, performs religious rites and masters Vedas would be reborn amongst the celestials (*Ibid 137*). Given this overpowering belief in the existence of life, both prenatal and post-mortem, practice of alms and charity was highly valued and mandated. *Manu Smriti* ordained satiation to giver of water, incorruptible happiness to those feeding the hungry, progeny to the donor of sesame seeds, excellent eyesight to the one gifting lamps. Land donor gets land, gifting gold begets long life and the silver donor gets beauty and so on (The Law of Manu, 1991). After extolling the positives of charity, on the punitive side even the knowledge of Vedas, the highest level of merit in the Hindu view of life, was negated by being a miser. *Manu Smriti* equated a miserly Vedic scholar to a charitable money-lender (*Ibid 95*).

In summary, Indian society of the first millennium had all the prerequisites for conducting a flourishing trade and commerce. The Hindu view of life imposed self-restraint in conduct of trade and commerce by regulating those who could participate in it, what could be traded and at what price. In addition, deeply embedded caste system in the society along with the strong belief in the concept of *Karma* resulted in insensitivity to economic and social inequalities, as they were considered natural and preordained. Reinforced practice may have also been rationalized and socialized as fate. On the other hand, the concept of value based wealth and widespread use of alms and charity ensured a secure minimum 'livelihood' for all in the society reflected in its growing population. All these factors contributed to India emerging as the largest economy in the world, though it did not translate to the currently understood idea of development, which can be crisply expressed as a vibrant political, social and economic democracy.

Role of Trade and Commerce: In the First Half of the Second Millennium

Paradigm for Analysis

In the eleventh century[k], along with Muhammad of Ghazni, Islamic influence entered India. Since then, its influence steadily spread in the first half of the second millennium impacting Northern India more than the Southern parts. As the faith of the ruling class, Islam had both a coercive influence though the use of Islamic ideas in administering the kingdom that influenced all the subjects and its intrinsic appeal as a new faith to the converts. Its potential to impact the Indian society can be only assessed by identifying the main economic ideas of this new faith and how they differed from the then prevailing beliefs in India.

Islam means complete submission to the one almighty God.[l] God's will is revealed though his messenger Prophet Muhammad and is available to us from two distinct sources—*The Quran* and the *Hadith* or *Sunnah.* The distinction between the two is quite significant, while at the same time subtle, and is best captured from an original source,

The words which came to him when in a state of trance are held sacred by the Muslims and are never confounded with those which he uttered when no physical change was apparent in him. The former are the Sacred Book; the latter the *Hadith* or *Sunnah* of the Prophet. And because the angel on Mt.Hira bade him "Read!"—insisted on his "Reading" though he was illiterate—the Sacred Book is known as *Al-Quran*, "The Reading," the Reading of the man who knew not how to read (Pickthall).

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[k] "There is a view that Islam entered India in the eight centry through the western cost along with the Arab traders who visited India to trade. In view of its limited impact, this view is not considered as the starting point for Islam in India in this paper"

[l] Islam is based on five pillars: Witnessing that there is no God but One and that the Prophet Muhammad is His messenger, practicing the prescribed prayers, paying the prescribed charity, fasting in the month of Ramadan and pilgrimage by those who can afford it.

In addition to these two sources inferences drawn by Muslims after his death is called the *fiqh.* All the three sources together are included into the *Sharia* law that governs the life of a Muslim. Derived from the *Sharia* are the three generic ideas—*Al-Khilafah*[m] or vice-regency of human begins on this earth, *Amanah*[n] or the free will of humans and *Tawhid*[o] or the divine unity of all creations. In addition, the *Sharia* law also contains three key economic concepts:

1. *I'atidal* or the principle of moderation: this principle is expressed in multiple verses in the *Quran*. *Surah* 17:29 is representative of the idea. 'And let not thy hand be chained to thy neck nor open it with a complete opening, lest thou sit down rebuked, denuded.' This principle of moderation seems to have been introduced with the intention of replacing the goal of maximization that then prevailed.
2. *Adalah ijtima iyyah* or the principle of social justice: this principle is expressed in *Surah* 16:71 'And Allah hath favoured some of you above others in provision. Now those who are more favoured will by no means hand over their provisions to those (slaves) whom their right hands possess, so that they may be equal with them in respect thereof. Is it then the grace of Allah that they deny?' Thus the idea of sharing is promoted in contrast to the practice of self-centered consumption. Going further, where the issue of individual survival is at stake, certain goods were classified as pubic

[m] *Quran* 2:29 'He it is Who created for you all that is in the earth. Then turned he to the heaven, and fashioned it as seven heavens. And He is Knower of all things.'

[n] *Quaran* 33:72 'Lo! We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it. And man assumed it. Lo! He hath proved a tyrant and a fool.'

[0] "And if thou wert to ask them: Who causeth water to come down from the sky, and therewith reviveth the earth after its death? They verily would say: Allah. Say: Praise be to Allah! But most of them have no sense."

property that could not be traded. In the early stages of Islamic society, public property consisted of water, pasture and fire (*Ibid 58*).

3. *Israf* and *Tabzir*, censure of the two concepts of extravagance and wastage which are relative in value, bring forward the Islamic approval for the concept of prudence. *Surah* 17:27 is often quoted in support of this, 'Lo! The squanderers were ever brothers of the devils, and the devil was ever an ingrate to his lord.' The inference drawn here is that a perfect Muslim is one who uses resources prudently while an individual who consumed extravagantly was an imperfect Muslim. In contrast, a person who wasted resources was the brother of a devil and a Satan.

Based on these and other similar guiding principles, *Sharia* law identified what was *halal* or permitted to a Muslim and what is *haram* or forbidden. On the economic front too, the classification between *halal* and *haram* was clearly demarked. The concept of private property was accepted and its protection was given the highest priority. Theft for instance was punished severely by cutting of the thief's hands.[p] In addition, the Prophet is also reported to have said, 'Whoever was killed while defending his property is regarded as a martyr (*Ibid 57*).

Prophet Muhammad was a merchant, who carried on his trade right through the twenty three year period when the *Quran* was revealed to him. In the recommended life for Muslims, work is a duty for both the rich and the poor. It is for this reason that a life fully devoted to worship was not acceptable to the Muslims (*Ibid 47*). Combining the two together, it looks that a life of a trader pursuing commerce is fully consistent with the life of a devout Muslim.

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[p] *Quran* 5:38 'As for the thief, both male and female, cut off their hands. It is the reward of their own deeds, an exemplary punishment from Allah. Allah is Mighty, Wise.'

The dominant idea

In the Islamic society, all economic transactions are classified into the *halal* or permitted ones and the *haram* or forbidden ones. Trade itself was among the permitted activities.[q] Forbidden transactions belong to three distinct categories—*riba* i.e. increasing with time, which are interest bearing exchanges, *gharar* or trading in risk or uncertainty and *maysir* or pure game of chance or gambling.

Two types of *Riba* are identified, the *Riba-al-Quran* which is monetary loan transactions and *Riba-al-Sunnah* which are exchange of commodities. The only type of monetary loan that is permitted under the Islamic law is the interest-free loans. Turning to commodity, three types of exchanges are permitted (*Ibid 54*).

1. Exchange of a commodity for the same commodity, i.e. gold for gold or wheat for wheat. This is permitted only if two conditions were met: prompt delivery is taken and given, and the quantity exchange is equal.
2. Exchange of one commodity for another commodity of the same class, i.e. gold for silver, wheat for barley. This is permitted if prompt delivery is taken and given. The quantity exchanged in these instances need not be equal.
3. Exchange of one class of commodity for the commodity of another class. These exchanges were not required to meet any specific conditions and were freely permitted within the community.

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[q] *Quran* 2:275 'Those who swallow usury cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permitteth trading and forbiddeth usury. He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto), he shall keep (the profits of) that which is past, and his affair (henceforth) is with Allah. As for him who returneth (to usury)—Such are rightful owners of Fire. They will abide therein.'

In contrast to *Riba* that is prohibited in *Quran,* the restrictions on *Gharar or* trading in risk and *Maysir or* gambling come from the *Hadiths. Gharar* is a past tense verb meaning 'to deceive'. Its essence is captured in the sentence 'That which has a pleasant appearance and a hated essence (El-Gamal, 2000). *Gharar* covered transactions dealing with the fish in the sea, birds in the sky, unborn calf in its mothers' womb, a runaway animal, semen, unfertilized eggs of camel, sale of milk in the udder among others of similar kind. Trading in these undetermined goods was prohibited, while a partnership to share the risk of ventures pursuing indeterminate gains was permitted. It appears that the logic for banning trade in these undetermined goods was its potential for generating dispute, hatred and devouring another's wealth (*Ibid 4*).

In some specified circumstances, trade transactions that have some minor elements of *Gharar* are permitted. They include transactions where the uncertainty is incidental like the sale of a pregnant cow, or in transactions where uncertainty is not the main element traded as every contract has some element of uncertainty, or where a need cannot be met otherwise than through *Gharar*. Further, while trade is prohibited, gift of undetermined goods are not invalid. Moving to *Maysir* or gambling, it seems a logical extension of the mandate that each Muslim should work and earn his livelihood.

Other than these three specific types of transactions, unfettered trade was permitted in all goods that could be privately owned.

Its impact on the concept of development

A critical aspect of Islam is in its unified view of life. In the life of a Muslim, there is no division into religious, economic, social or other distinct spheres. The life prescribed in the *Sharia* law covered all these aspects and the different threads are well knit into a single fabric. One

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[r] *Quran* 16:71 'To some of you, God has given more than to others'; *Quran* 51:19 ''In their wealth, there is a right given to the poor and deprived'

of the five basic duties of a Muslim is *Zakhat* or contribution to charity. *Surah* 2:43 mandates 'Establish worship, pay the poor-due [*Zakhat*] and bow your head with those who bow (in workship).'[r] The duty to provide charity was integrated into tnhe Muslim culture by considering income earned by an individual as *haram* or prohibited*.* This income could be made *halal* or permitted only by sharing a part of it with their poorer brethren. The depth to which charity is embedded in the Islamic culture is seen in its numerous variants. *Zakat* is the charity obligated of every Muslim, *Sadaqa* is voluntary and non-monetary charity where the recipient could also be a non-Muslim, *Kaffara* is repentance taking the form of charity for breaking an oath, *Khoms* is the obligation cast on a *Shi'a* Muslim to give 20% of their excess income over and above their living needs to charity (USAID, 2005). The funds generated from charity have been used for setting up Mosques, schools, hospitals, feeding the poor, widows and orphans. A feature of many Muslim communities is the absence of stark hunger and starvation, though prosperity eludes many and inequality thrives.

There is a major divergence of views on the impact of Islam on economic growth and development. The popular non-Islamic view is that Islam in practice hinders economic growth and development due to the presence of high gender inequality, low investments in secular education, fragmentation of wealth as a result of its inheritance laws compounded by the larger number of children due to prevalence of polygamy. An additional inference is that Islamic societies are not conductive to democracies due to their practice of combining political leadership with religious authority (Mossaad, 2005). This view is supported by the prevailing economic conditions of the Islamic societies. In contrast, there is nothing in Islam itself that acts as a hurdle for economic growth and development, except ban on certain specific types of transactions. This view is reinforced by the leading position occupied by the Islamic societies during the period beginning with the second millennium.

Its impact in India

Jawaharlal Nehru in his book *The Discovery of India* summarizes the impact of Islam in India by noting except for their belief in the brotherhood of Islam they brought no new political and economic technique or method. Even the brotherhood of Islam was diluted in India with the absorption of class and feudal outlook. He summarized 'Thus their influence on the economic life of India and the social structure was very little. This life continued as of old and all the people, Hindu or Moslem or others fitted into it (Nehru, 1967). Further he noted the impact of Muslims on trade and commerce in India was limited, as traditionally merchants belonged to the middle-class, whereas Muslims were either nobility or artisans. The Islamic prohibition of *Riba* or taking interest also dissuaded the Muslims from trade.

Commenting on the same issue in 1970s, Shiv Chandra Jha in his concise work *A History of Indian Economic Thought* observed, Muslims in India deviated from the basic tenets of Islam in two distinct ways. He noted that despite it being un-Islamic, the contact with the Hindu community exposed the Muslims in India to the caste system and the prevailing trade practices. The first resulted in the caste system seeping into the Indian Muslim community and the second led to an exposure, by which some Muslims could not restrain themselves from interest-taking, profiteering and from other ways of acquiring and accumulating wealth and capital (Jah, 1981). Finally, he noted the strong social pull of trade and interest taking clashed with the religious sanctions, leaving the Muslim community at a disadvantage, resulting in the Hindus retaining their leadership in trade and commerce.

Role of Trade and Commerce under the Colonial Rule

The Paradigm for Analysis

The impact of British trade on the Indian society varied with the status of British in India. It can be segregated into three distinct phases.

Table 1: Role of British Traders in India between the years 1600 to 1947 AD

Phases	Period	Role of British	Position of Indian traders
First	1600 to 1757	Commercial Traders	Equal
Second	1758 to 1857	Traders and Revenue collectors	Inferior
Third	1858 to 1947	Traders and Rulers	Dependent

In the first phase trade was conducted between equals and commercially negotiated. In the second phase beginning with the Battle of Plassey when the British got the right to collect revenue in Bengal, the relationship tilted in the favor of the British, with an element of coercion tainting the deals. In the third and the final phase, the British rulers feasted on the Indian society as a parasite devours its host.

The first phase started with the British East India Company being chartered in the year 1600 AD giving it the monopoly of trade with the East. This charter only insulated them from the British competition, resulting in limited monopolistic power as they had to contend with their other European rivals— the Dutch, the French and the Portuguese, leaving their Indian traders relatively free to select their trade partners and negotiate their trade terms. The battle of Plassey fought in June 1757 decisively turned the tide in favor of the British East India Company as they got the right to collect revenue in Bengal. As the company turned tax collector, the relationship between the English and the Indians turned exploitative (Maddison, 2007). What was earlier voluntary trade paid for by bullions from Britain, was replaced by government levies; Bengal tax revenues paid for the British purchases. In addition Indian opium was traded with China. Some estimates[s] suggest that in the decade that followed this victory, East India Company carried on trade with India for years at length without sending out from Britain even a single ounce of bullion (Robins, 2006). Not only were the goods exported from India without receiving any consideration, even the trade within India was singularly one-sided. Goods and services were forcibly seized from farmers and merchants at substantial discount (*Ibid 74*). The gist of the trade of this era is captured in the worlds of Philips Francis in the 1770s,

> The Company went to market as Sovereigns and Tyrants. Instead of seeking preference by paying better, they forced the manufacturers to work for them and to work at an under price, at the same time that they prohibited all private merchants from dealing in the Assortments required for their Investment. Thus a general Monopoly was at once rigorously established (*Ibid 77*).

On November 1, 1858 the control of the Indian empire changed hands from the Company to the Queen and the English Parliament (*Ibid 164*). This gave birth to the 'British Raj' and the demise of the John Company's rule. With the advent of the 'Raj', India not only paid for the English trade with India, but also paid the cost of building the British Empire in the East. This included the cost of expeditions, training cost of British Army, maintenance of diplomatic and consular establishments and the entire cost of telegraph line from India to England among others (Nehru, 1967).

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[s] Luke Scrafton, Robert Clive's right hand man in his book *Reflections on the Government of Indostan* (1763) commented '[Plassey allowed the company] to carry on the whole trade of India (China excepted) for three years, without sending out one ounce of bullion.'

Evaluating the colonial rule using a purely commercial filter India did not gain from this one-sided trade. Looked at from the other angles too, Jawaharlal Nehru categorically noted that all the 'current' Indian problems—princes, minority problem, various vested interests, lack of industry and neglect of agriculture, the extreme backwardness and the tragic poverty of India, were all a result of the British rule (*Ibid 323*). However, the unintended residue of the colonial rule was in the creation of a commercial infrastructure consisting of legal, policy and procedural framework for the conduct of trade and commerce and the extensive network of railroads and telecommunication network set up to transport the Indian riches to Britain.

The dominant idea

The charter to form the East India Company in the year 1600 was a result of commercial pursuit by the merchants of London. Though it was among the first few companies to be chartered to conduct overseas trade, East India Company was not the first. It only continued a line of thought that was beginning to sustain itself. William Petty, who wrote in the seventeenth century, captured the motive of trade crisply when he noted,

> The great and ultimate effect of Trade is not Wealth at large, but particularly abundance of Silver, Gold, and Jewels, **which are not perishable, nor so mutable as other commodities,** [bold mine] but are wealth at all times and at all places (Petty, 1899).

With precious metals cherished as wealth, the growing trade with East Indies began to agitate the British public who saw their wealth being shipped out of their country. Protecting the profitable trade with the East Indies, were a host of merchants who benefitted from it.

Foremost among them was Thomas Mun, who in the year 1621 published a pamphlet titled *A Discourse of Trade, From England unto the East-Indies: Answering to diverse Objections which are usually made against the same.* In this very influential essay that has stood the test of a few centuries, Mun explained the benefit of East Indies trade to the interested readers. He noted that goods imported from the East were essentials. If the British did not venture out and buy it in the East, they would have paid a much higher price for procuring it from Turkey. He further brought to their notice the fact that English merchants by selling the surplus goods to the other European countries earned more bullion than what was initially spent on their imports. Based on this logic, Mun advance the view, that a country's foreign trade should be evaluated not on the bullions initially exported but on the net impact of foreign trade. Gradually this concept came to be known as the 'Balance of Trade' representing the effectiveness of foreign trade or as Mun summarized

> So to conclude this point, I will only add, that the *East-India* Trade alone (although it be driven in no ampler manner then is afore written) is a means to bring more treasure into this Realm then all the other trades of this kingdom (as they are now managed) being put together (Mun, 1856).

The balance of trade concept outlined above, indicates that the initial motive for the English East India trade was to accumulate bullions in addition to meeting their need for spices, tea and silk. In the next two centuries, as the benefits of scale from the industrial revolution came to be realized, the initial motive was expanded. Adam Smith in his magna opus, *The Wealth of Nations,* identified the new incremental driver for foreign trade. He noted[t] that the foreign trade enables an economy to

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[t]' The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between what places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand.'

overcome its limited domestic markets and specialize in manufacturing by increasing the division of labor to attain higher productivity (Smith, 2003). In short the English trade with India under each of the three phases was conceived, developed and sustained to benefit the colonial ruler. Any benefit to India its trading partner was either incidental or targeted the bare minimum required to sustain the trade.

Its impact on the concept of development

The concept of mercantilism which was conceived in the seventeenth century made a big impact wherever it was accepted. With its focus on generating a surplus, it transformed the predominantly subsistence economies into economies generating surplus for trade. This change immediately resulted in accelerated economic growth. Angus Maddison in his book *The World Economy* noted,

> Britain had faster growth in per capita income from the 1680s to 1820s than any other European country. This was due to its banking, financial and fiscal institutions and agriculture on line which the Dutch had pioneered, and to a surge in industrial productivity at the end of the period. It also derived great benefit from its rise to commercial hegemony by adroit use of a beggar-your-neighbour strategy (Maddison, 2007).

Although Maddison does not name the economic policy of mercantilism as a cause, it is clearly evident that growth in banking, financial and fiscal institutions is a means to further trade, whose primary aim is to generate profit or surplus. It is also clear that in this accelerated growth, technological changes that came in the form of industrial revolution played no part. For when the catalyst of technological changes kicked in, Britain saw a three-fold increase in per capita income in 1820-1913, compared to the base period 1700-1820, the period just preceding the industrial revolution (*Ibid 110*).

Logical fallout of trade during the colonial period in Britain was its focus on generating surplus and using it as a measure of progress. The immediate consequence of this mindset change was to provide the society with a greater variety and a larger quantity of goods and services. An unintended but quietly ignored consequence was the growing inequality in society as the focus on surplus generation diluted social bonds and responsibilities thereby promoting individuals to be self-centered. Turning to its impact on India, Niall Ferguson, the Harvard economic historian, identified nine ideas based on which the British Empire in India was constructed, namely the English language, English form of land tenure, Scottish and English Banking, the common law, Protestantism, team games, the limited or 'night watchman' state, representative assemblies and the idea of liberty (*Ibid 108*).

Many of these ideas are visible today, with cricket the team game and English language as the predominant language among the elite being at the pinnacle.

Role of Trade and Commerce in the Nationalistic thought

In Britain, the fact that East India Company was looting India was well known and acknowledged. Adam Smith, the renowned Scottish professor in his popular book *The Wealth of Nations* published in 1776, identified the Directors of this company as 'plunderers of India'. He further went on to rank the magnitude of this plunder by noting the motive of these Directors and wrote,

> About the prosperity of the great empire [India], in the government of which that vote gives him a share, he seldom cares at all. No other sovereign ever were, or, from the nature of things, ever could be, so perfectly indifferent about the happiness or misery of their subjects, the improvement or waste of their

> dominions, the glory or disgrace of their administration; as from irresistible moral causes, the greater part of the proprietors of such a mercantile company are, and necessarily be (Smith, 1776).

For the same fact to be recognized and acted upon in India, it took a hundred years more. Dadabhai Navroji, the father of Indian Nationalistic movement came to a similar conclusion after analyzing the economic status of India in an incisive analysis that culminated in the book *Poverty and Un-British Rule in India*. In an earlier paper *The Poverty of India* that marks the beginning of his analysis, he estimated the Indian per capita income for the year 1870 to be at Rs.20 per annum, which was short of the British estimates which were in the range of Rs.27-30 (Jha, 1981).

He also computed the minimum cost of living at Rs.34, which led him to conclude that the majority of the poor Indians do not get even the bare necessities of life (*Ibid 110)*. This poverty notwithstanding, to the British India was rich. Dadabhai, who spent some time in London noted, 'In reality there are two Indias—one the prosperous, the other poverty –stricken.' He further identified that the prosperous India belonged to the British who carried away wealth and the poverty stricken India was of Indian who were being bled by the British. Explaining one of the many sources of differences between the British estimate of per capita income and his computation, Dadabhai made the observation which laid the foundation for a new theory, the drain theory,

> A portion of the actual production through the channel of foreign trade goes clean out of the country to England, without an atom of material return……instead of…any addition from foreign trade to the annual product of India, there is actually a **diminution or drain** [bold mine] of it clean out of the country to England (Jha, 1981).

This drain theory captured the essence of the British-India trade. Dadabhai saw this drain as the source of Indian poverty. The unequal trade had its roots in the unequal relationship between the British and the Indians. Given Dadabhai's extensive economic analysis and his intellectual commitment to free trade, it would not be unreasonable to conclude that his move to political freedom was triggered by his economic analysis. The circle of nationalistic thought in India looks to have been completed when Mahatma Gandhi probably touched by the 'color-bar'[u] in South Africa moved from political freedom contained in *Swaraj* to the concept of *Swadeshi*, embodying the essence of economic independence.[v]

The Dominant Idea

Swadeshi the prominent economic idea of the India nationalist movement seems to be a reflex action to the drain theory. The concept *Swadeshi* practiced in a very simple act of boycotting the British goods plugged the drain by refusing to participate in this unequal trade. Mahatma Gandhi its main proponent explained it as '...that spirit in us which restricts us to the use and service of our immediate surroundings to the exclusion of the more remote (Gandhi, 2003).'

The *Swadeshi* movement symbolized the non-violent independence struggle and became a mass movement with its call for boycott of foreign goods and replacing it with the Indian goods. This coincidentally provided an impetus for the Indian manufacturing sector, which was just beginning to emerge at the beginning of the 20th century. The nationalistic movement, reflected primarily in the views of Mahatma

[u] Mahatma Gandhi in his autobiography *The Story of My Experiments with Truth,* records his first brush with the color prejudice when he applied for membership in the Law Society of Natal to practice law in South Africa.

[v] Mahatma Gandhi in his autobiography also record, '....I took it as understood that anything that helped India to get rid of the grinding poverty of her masses would in the same process also establish *Swaraj.* p 497

contained another economic principle in *Sarvodaya,* which translates to the welfare of all individuals, a concept similar to the ideas contained in the socialistic ideology. The importance Mahatma gave to the economic aspect of life is reflected in his view that for the poor, economic factors are spiritual equivalent (*Ibid 52*).

In brief the impact of nationalist movement on trade and commerce was more at the level of ideas than in the realm of the market place.

Impact on The Concept of Development

The century long nationalist movement, as is to be expected, had a significant impact on the development initiatives launched in Independent India. Nowhere is this impact more visible than in the planned economic development program that India adopted. Much earlier to the Russian Revolution, the seeds for this idea are visible in the writings of Mahadev Govind Ranade.

Ranade the 19^{th} century Indian nationalist and a leading economic thinker differed from the classical British economists of his era who based their ideas on the benefits of competition and an individual's self-centered motive. He held the view that universal inferences cannot be drawn based on observations made only in the British societies. Influenced by Fredrick List, whom he referred to in his essay *Indian Political Economy*, we can see the rationale for a planned economy,

> He [Fredrick List] urged that the permanent interest of Nations were not always in harmony with the present benefits of individuals. 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 (Ranade, 1906).

A few decades later Subhash Chandra Bose the President of the Indian National Congress in 1937 acted on this idea when he set up a Planning Commission to determine the path independent India should take in their march to progress.

Role of Trade and Commerce in Independent India: The Socialist Phase

India attained independence at a time when the ideas of socialism and collaboration were on ascend. While the Russian Revolution of 1919 brought socialism into global debate, the Bretton Woods system of foreign exchange management formulated in 1944 advanced the concept of collaboration as a working mechanism in the economic sphere. The influence of the nationalist movement, especially Mahatma Gandhi and the concept of *Sarvodaya* or welfare of all is visible in the Five Year Plans formulated by the Indian government.

The joint promotion of private sector along with the public ownership of business enterprise was a conscious choice by the Planning Commission to harness the forces of individual initiative and social imperatives. The overriding concern was to preserve the scarce resources, which led to the license raj regime. Another policy initiative was the nationalization of banks in 1969, which tilted the economy more towards socialism. The crowing point of this phase was in 1977, when the forty-second amendment to the Indian constitution added the words Socialist and Secular, to make India a 'Sovereign Socialist Secular Democratic Republic'. The socialist phase lasted from 1947 to the early 1980s. However, it was only in 1991 that the global liberalist era was formally heralded with a string of reforms that opened up the Indian economy to the global forces.

The dominant Idea

The initial initiative of the newly independent India was to create a self-sufficient economy. Consequently the policy initiative of the first three five year plans was on import substitution and investments to support it were prioritized. Import substitute industries are by design urban centered, technology rich and capital intensive. With the benefit of hindsight we can see that they diverted the scarce resource to promoted elitist social development reflected in the growth of an urban, professionally educated middle class Indians working in the capital rich industries. The Gandhian economic ideas that were the alternative path of development would have in contrast promoted the rural, skill rich, labor intensive sectors that would have created a widespread popular social development.

The second segment of the socialist starting in 1966 was marked by a conscious desire to address the challenge of wide-spread poverty that had been relatively unattended. The green revolution that helped India attain self-sufficiency in food production focused on agriculture thereby improving the prosperity of the rural sector. It was followed by the nationalization of all large commercial banks in a move to address income and wealth inequality by redirecting credit to the more deserving. In 1977 an ultimatum was given to all multinational companies operating in India to dilute their holding in favor of domestic investors. This fifteen year period had many policy changes with a socialist flavor. However the global macro economic conditions marked by the oil-crisis led to a persistent inflation which diluted the impact of these policies at the ground level. The Indian rural economy remained substantially unaltered, even as the urban India was plagued with unemployment.

Impact on the Concept of Development

Given the dominant role of the public sector and the industrial nature of its produce, trade and commerce of the public sector did not directly touch the Indian consumer. Even in the private sector, the need for industrial license, combined with import restrictions, limited the commercial activities. However, the large investments made in higher education sector to meet the needs of the technology rich, capital intensive industries and the curative oriented healthcare system created a strong professionally educated middle class that wanted much more commercial freedom to meet their consumption needs.

The professionally educated, English proficient middleclass were given an unintended fillip, when IBM the leading global computer manufacturer exited India, rather than dilute their holding in their Indian operations to accommodate the regulatory changes of 1977. In response, the nascent Indian IT industry protected from international competition by the high import tariff barriers erected by the import substitution laws thrived for a decade establishing the foundation for the employment rich software exports industry. When India was forced to embrace economic liberalization modeled on the Washington Consensus in 1991, the ingredients for fertile GDP growth were in place in the form of a large urban middle class that could leverage the global access provided to the Indian private sector. Their cultural affinity to a shift from equality oriented socialist mindset to the meritocracy promoting free market agenda was a strong catalyst in drawing global equity funds that rewarded the Indian entrepreneurs of this era. Much of these ingredients were a direct consequence of the policies followed in the Socialistic phase of Independent India.

Role of Trade and Commerce in independent India: The Liberalist Phase

The birth of the Indian liberalist phase coincided with the collapse of the Soviet Union and the advent of Washington Consensus as a policy package advanced by the World Bank and the IMF. At the heart of Washington Consensus is its basic belief of establishing Property Rights as the primary right enforceable by law. This belief is translated into a policy initiative by promoting free international trade and encouraging Foreign Direct Investments in the external sector, market determined interest and foreign exchange rates in the financial sector complemented by privatization of the public sector enterprises. This transformation from a socialist society into its liberal avatar was welcome by the large Indian middle class and its upper class members. During this phase, progress in the Indian society gradually drifted from a multi-facet concept of development to a unidimensional economic focus. With it, the stage was set for a society dominated by trade and commerce, reflected by the billionaire industrialist who would set the national agenda and politicians measuring progress in GDP growth rates.

The dominant Idea

The dominant idea of the liberalist phase is in abandoning the import substitution and self-sufficiency targets for the national economy and replacing it with free trade based specialization focused country roles. India with its large and young population is being seen as the answer to meeting the needs of the aging and shrinking population base of the rich Western Countries and Japan. To realize this potential, financial market is freed, licensing regulations withdrawn and foreign investments invited. The inherent belief seems to be that a fast growing economy will spread wealth across the different sections of the society thereby ushering in development.

An economic projection by two Goldman Sachs analysts titled *Dreaming with the BRICS: The Path to 2050*, captured the Indian imagination in 2003. India by the year 2050 was projected to be the third largest global economy after China and USA. Many saw this projection as a result of liberalization initiatives, reinforcing the choice made. In addition continuing with this policy choice was seen as a necessity for realizing this goal. The report itself identified macro-economic stability reflected in low inflation, strong institutions reflected in efficient financial and legal systems, openness to trade and FDI and performance on the education front as essential prerequisites.

Impact on the Concept of Development

Indian economy has made rapid strides in the last two decades since the advent of liberalization. India is also the second most populous country in the world. Based on its economic performance for the year 2010, India is the 10th largest economy measured in nominal dollar terms and the 4th largest when adjusted for the Purchasing Power Parity. But this progress has come at an enormous social cost. The ranking on a per capita income basis plunges to 129. The addition of other non-economic measures like education and health only compounds this distressing situation. For the year 2009, the Human Development Index ranks India at 134th position, which is reflected in the social problems facing India like the Naxalite challenge in around a third of India and the distressing situation of the Indian agricultural sector reflected in the much publicized hordes of farmer suicides. The few social security measures that have been initiated to redress this social challenge like the employment guarantee scheme in India are yet to make a difference at the ground level due to the high levels of corruption induced leakages.

The Current Challenge, Free Trade and Lessons from Indian Heritage

The present developmental challenge facing the Indian society is in sustaining growth to eliminate poverty in the shortest possible time, without diluting individual initiative or restricting individual freedom to realize self-set goals. The distressing nature of poverty in India is sharply highlighted in just this one indicator— 77% of the Indian population, numbering 836 million people, having a per capital consumption of less than Rs.20 per day. The result of this low consumption is amplified in the health indicators of children below the age of 3 years, 79% anemic and 46% underweight. Trade and commerce has a major role to play in resolving this economic challenge.

Free Trade

A major hurdle that prevents addressing the widely acknowledged developmental challenge of poverty eradication and abject malnutrition in large pockets in India by regulating trade and commerce is the prevailing belief that free trade promotes economic growth and development. In addition there is an equally strong belief that interfering with free trade will set the clock back and erase the economic progress achieved. A brief look at the global history of free trade seems to indicate otherwise.

The version promoted by the advocates of free trade reads that the economic progress of England was built on the foundation of abolishing the Corn Laws in the year 1846 that removed the restrictions on international trade in agriculture. As England reaped the benefits of free trade by turning into an economic superpower, other countries notably the United States of America followed suit after the Second World War. The result was in establishment of the General Agreement on Tariffs and Trade (GATT) to promote free trade in 1940s. The dominance of Keynesian economics in the next three decades resulted in governments playing a major role in economic policy making thereby eliminating the impact of free trade. It was only in the 1990s that the full impact of free trade was felt when the World Trade Organization was set up in 1995 to liberalize international trade. This time around, driven by the private business enterprises, free trade ushered in economic growth and prosperity across the globe.

An alternate version which is less popular questions this basic idea that free trade promotes development and prosperity for all. This view is based on the idea that free trade is a concept promoted by the strong nation to dominate the markets of the weak nations. It quotes examples from the two leading nations that support free trade— England and USA to show how during their developmental phase they used protectionist policies and once they gained strength they abandoned these policies to advocate free trade. In England, wool industry was promoted in the fifteenth century by imposing duties on raw materials and banning export of raw wool (Chang, 2003). In the year 1721, a series of legislation was passed in England to promote industrialization. Prominent among them were measures to reduce duties on imported raw materials while keeping the duty on importing finished goods at higher levels, providing duty refund on goods exported and abolition of export duties (*Ibid 4*). It was only in the year 1846 a good 125 years after enjoying protection that England adopted and advocated free trade.

Similarly in the USA too, protectionism was the prevailing policy in the 19th century evidenced by the high import tariff of 35% to 50%, which protected its nascent industry from the English completion (*Ibid 2*). This policy continued till the end of the Second World War, by which time the US industries gained strength and started adopting and advocating free trade across the world.

A key lesson for India from this short historical capsule is to pursue its own interest and not be swayed by the prevailing rhetoric on free trade. A clear reflection of the duplicity by the free trade advocates is in promoting free trade, while simultaneously preventing free movement of labor on the premise that local life and culture is adversely affected. These advocates ignore the same adverse effect on local life and culture that arises from free import of goods due to unemployment amplifying their bias.

Lessons from the Indian Heritage

Looking back over the last two millennia a few important concepts of these periods could be revived to shorten the time to realize developmental goals, while simultaneously making the shorter gestation period more bearable.

i. Heritage India had clearly defined mandate of what could be traded and what was outside the scope of trade and commerce. India of the first millennium banned trade in essential commodities like food grains. Trade in food grains and other essentials could be undertaken only after meeting the needs of the local community. Practicing agriculture was considered a way of life and not an occupation on par with trade and commerce.

   Without subsidy, agriculture is not commercially viable globally. The non-viability of agriculture is tacitly accepted in the developed countries which offer extensive subsidy to agriculture like in the United States of America and the protection from competition offered in other countries like Japan. However it is mainly in developing nations like India that subsidizing agriculture remains a subject of debate. Taking a leaf out of heritage India, basic food products could be removed from the zone of free trade and moved to fair trade.[w] All Indian residents should be universally provided subsidized food at a price indexed to the per capital income, which eliminates malnutrition among its population. The difference between fair price for agricultural produce and the cost of food grains production bridged as a subsidy.

ii. Given the dismal state of malnutrition among the Indian children, there is a need to revive the private institutions which provided social security in the first millennium and ensure availability of nutritious food and basic healthcare for all children on priority basis. Government efforts to reduce child malnutrition need to be supplemented through a large scale, sustained philanthropy funded by the Indian 'haves'. Mid-day meal program which is currently operational in schools needs to be extended in all places of worship in the evening too. As a rule no child should go hungry to bed on any day. Malnutrition must be abolished in a defined timeframe, which at maximum should not exceed a couple of years.

    Inspiration can be taken from the Islamic concept of *Zakat* by promoting it as a social obligation for every Indian citizen to care for his neighbor in strengthening the social safety net and supplement the government efforts.

iii. Considering the development challenge of poverty among plenty, as reflected by the divergence in the consumption numbers of the top quartile and the average per capita measures in India, the Drain theory could be an important concept to revive. Independent India has blocked the wealth drain from India to

[w] In India free trade in food commodities does not exist due to the existence of laws like the Essential Commodities Act.

Britain. However the two 'Indias' that Dadabhai Navraoji saw in the 19th century still remains. Only the role of the British has now been taken over by the urban rich. In addition, multiple other leaks have emerged. Prominent among them are:

- The public treasury to special interest group flow under the guise of infrastructure investments and fillips provided to industrial production,
- Rural to urban flows in the form of public investments measured on a per capital basis based on population in the rural India and urban India to ensure fair investment
- The poor to rich flows again measured on per capital tax collected as a percentage of income of the different deciles of Indian population.

All major policy initiatives should be evaluated using the drain concept to measure the direction of flows between the following groups – rich and poor, urban and rural, and different geographies. This information dashboard could provide insights and create the sensitivity that can accelerate poverty elimination and put India on the desired path of development.

iv. Finally, eliminating poverty and misery cannot be a byproduct of economic growth. The central planning concept that came up during the nationalistic period need to be revived and their mandate redefined. The revised restricted mandate to the Planning Commission should be to eliminate poverty across the nation in a fixed time frame. All public investments recommended and approved by the planning commission should be evaluated on this sole criterion.

To conclude, the role of trade and commerce on development in India as also seen elsewhere in the world is mixed. While it has provided for some the comforts that were conceived only in the mythological heaven, for the many others, their basic needs have become a matter of contest in the markets turning their life on earth hellish. The blend of unilateral sharing and bilateral exchange in our societies has swung too much in favor of the later. Some balance needs to be restored by tilting the social and political forces in favor of unilateral sharing within the Indian Society, if our development objectives are to be realized.

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