Pigou's contribution as a founder of welfare economics----

Pigou and Pareto have actually founded the modern economic welfare.Pigou's welfare economics is a magmum opus.It represents the welfare tradition of neo-classical economics.

According to Pigou, economic welfare is a part ofsocial welfare which can be brought directly or indirectly under the system of monetary measurement.

Social welfare is the sum total of individual welfare.He also pointed out that individual welfare is nothing but the sum total of the satisfaction experienced by a person within a given period of time.To him, economic welfare is affected by national dividend in various ways—

The law of diminishing marginal utility is the basis of Pigou's welfare economics.He has assumed that the marginal utility of money

diminishes as more and more money is acquired.On that basis he argued that under certain conditions, greater equality of incomes could increase economic welfare.

Pigou's welfare economics is based on the following assumptions.

1.Each individual tries to maximise his own satisfaction.

2. Interpersonal comparisons of utility are possible.

3.Wilfare will increase if wealth is transferred from rich people to poor people.

4. Welfare analysis is normative in character.

5.Man's capacity for satisfaction is equal.

6.Person's having more real income will enjoy satisfaction than those having less real income.

Economic welfare has both subjective as well as objective or material counterpart. According to Pigou , national income is the flow of goods and services produced annually atter the maintenance of capital which is measurable in terms of money. For optimum output or ideal output, Pigou observes that society should maximise the increase in national dividends by equating marginal social product in all the industries. In other words

MSPx=MSPy……..=MSPN

Where x,y......n are all industries.The marginal unit of money must yield the same amount of satisfaction to everyone

Pigou states that national product will be maxum with the optimum application of economic resources when the value of marginal socia net product (MSNP) is equal to the value of marginal private net product (MPNP).

Pigou is concerned with an economic system which is fairly competitive and where MSNP=MPNP. The equality can be brought about by tax or subsidy.That is why state intervention becomes essential.

Pigou measures economic welfare of society indirectly by measuring the physical national dividend valued at appropriate prices.For finding out whether any economic change has improved welfare or not, he applies the following double criterion.

a.Economic welfare will increase if an increase in national dividend will take place without any increase in factor supply.

b.Economic welfare will increase if a transfer of wealth will take place from the rich to the poor people.

Pigou observes that private interest and social interest are not in harmony. Modern analysis of external effects is to be found in a crude form in Pigou's distinction social and private valuation of economic activities.In Pigou's analysis , the optimum output is reached when competition equalises the MPPs in all uses.It is an economic system where MPNP is equal to MSNP automatically.

The distinction between Paretian optimum and Pigouvian optimum is that whereas the Paretian optimum is not designed for practical application, Pigouvian theory mainly deals with the practical application of welfare economics.Pigou's distinction between economic and general welfare, marginal private product and marginal social product are meant for solving some practical problems.Paretiun optimum provides us the methodological problems of the study of welfare economics, but Pigouvian optimum has contributed to the growth of applied welfare economics..

Saliant features of the evonomic ideas of Dadabhabhai Naoroji:--

Dadabhai Naoroji, the Grand old man of India,was the first Indian professor at Elphinston college, Bombay, the first Indian member of House of Commons,the first Indian member of the Royal Commission on Labour and the first Indian to make the national income estimate.He was an ardent nationalist.The saliant features of Naoroji's are as follows.

The Drain theory:--Dadabhai Naoroji was the first Indian economist to discuss the draining away of Indian resources from India to England.He attributed the poverty of India to the British rule.During the British rule drain took place in many ways--1.Large remittance s were made by Euoropean officials of their savings in India.

2.large remittances were made in the form of salaries and pensions.

3.India often had to pay for Govt.expenditure in England and of course India too.

4.Non-official Europeans made remittances from their business profits in India.

5.Interest charges paid to England on public debt

The drain also included the profits of export, frright and insurance.India had to bear thr war expenditure of Britain.Theaintenanve of British army was also borne by India.There wad also draining of professionally skilled Infian people from India to England.Dadabhai called it moral drain

NATIONAL INCOME ESTIMATE:--

Naoroji was not satisfied with the wrong estimation of national income in India by British Govt.Naoroji wanted that national income should be computed every year.For the year 1870-71, India's per capita income wasRs

20,whereas it was 420in the United Kingdom.Jos calculation wad based on bare minimum needs humen beings to keep them to ordinary good health and decency.In this connection, Naoroji took into account the daily maintenance requirements of emigrant coolies, common agricultural labourers,lowest paid Govt servants and prisoners in Indian jails.He found that the average daily requirement of these categories of people was to the extent of Rs 34 for bare subsistence.He found that per capita income was much less than the per capita requirement of average Indian people.

**POVERTY IN INDIA:--**

One can gauge the poverty of Indian people from average per capita requirement as found by Naoroji.Most of the Indian people were in the midst of adject poverty.They simply existed by drawing on the capital wealth,By incurring debt and making dissaving investment.A common man's economic position was much worse than that of criminals in jails.The indians used to get much less salaries than the English people in India.The people of India was by and large exploited by the British people.The exploitation led to poverty.

Another cause of Indian poverty was the economic drain from India.The regular basis of drain reduced India to a land of paupers.The wages of the agricultural labourers was very low.Many indians, though capable, had to remain unemployed and underemployed.The Indian people could not enjoy their legitimate rights.They remained aloof from the drama of national development.There was a sense of frustration among the Indian people.

PUBLIC FINANCE AND FINANCIAL ADMINISTRATION. ---Naorosi showed the mismanagement created by the British rulers in case of income and expenditure.The bulk of revenue was realised from the Indian people.The tax system was highly regressive in character.The tax rate was very high. This was particularly true in case of salt tax.In case of England,the taxpayers used to get some benefits in return from the Government,but there was no any return in case of India.

There was heavy expenditure on the army and defence.Indian money was spent on home establishment of the railway officials who were living in England.The good jobs were meant for English people .The interest charges on the public debt in India was very high.

There was also tremendous export of spices from India to England.The exchange rate of pound sterling against indian rupee was very high.The public debt of India was rapidly growing every year. The debt servicing charge was also very high.

The financial administrative system was in favour of wastages and unnecessary Govt expenditure. On every opportunity ,the Govt was bleeding the Indian people.

REFORMS:--

Naoroji suggested some reformative measures.Thede measures are---(i) An equitable adjustment of financial relations between England and India. (ii) Permission to be given to India for the use of her own produce for consumption and investment. (iii) Increasing Indianisation of employment opportunities (iv) public loans for investment in India at a lower rate of interest (v) Ceiling on Govt expenditure, ppay allowances,pensions etc.

(vi) Interest rate on public debt should be reduced.(vii) The administrative expenditure to be reduced to the minimum.(viii) A comprehensive plan for national education.(ix) Attractive capital for cultivating wastelands and supply of capital for public works programme.

For accelerating public works programme, he advocated the import of foreign capital not foreign cappitalists. He was in favour of mixed evonomy.He rejected the Classical Laissez-faire attitude.He urged the government to supply the necessary infrastructure and remove poverty from the country.

Naoroji can be regarded as the father of Indian political economy.His drain theory has been the starting point of the theory of imperialism.Naoroji occupies a place of pride among the nationalist evonomists of India.