

INDIA POLITICAL ECONOMY PROGRAM ESSAY

THE QUEST FOR ECONOMIC FREEDOM IN INDIA

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SUMMARY

This essay explores India's shift from socialism to economic liberalism through critical economic reforms beginning with the crisis of 1991. It details the transformation from an economy dominated by regulations, licenses, and controls to one more open and market-driven, highlighting the challenges and successes of economic liberalization. The essay underscores India's significant post-reform growth in GDP and living standards and discusses ongoing challenges related to land and labor regulations that hinder further economic freedom and growth.

Keywords: India political economy; 1991 economic reforms; trade liberalization; economic growth

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On the cover: Pillar of Ashoka (detail) at Sanchi, Madhya Pradesh, India. The pillars of the emperor Ashoka the Great (268–232 B.C.), renowned for their polished sandstone and intricate carvings, were dispersed throughout the Indian subcontinent and carried imperial edicts promoting moral and ethical conduct. The Lion Capital of Ashoka, which tops the pillar at Sarnath, Uttar Pradesh, has been adopted as India's national emblem. Twenty of the pillars of Ashoka still survive.

On July 24, 1991, India’s finance minister Manmohan Singh, paraphrasing Victor Hugo, said, “No power on earth can stop an idea whose time has come.”

Singh’s budget speech was based on the idea that Indians and India could prosper if the state got out of the way of private enterprise—the antithesis of the failed socialist model that began with war controls under the colonial government and continued under Jawaharlal Nehru.

The failure of the socialist model was neither sudden nor unexpected. Some reforms were initiated in the 1980s to reduce command-and-control in some sectors of the economy and to ease restrictions on individual businesses, in the face of strong opposition from the old socialist guard. In 1991, ad hoc reforms were replaced by a clear vision for India’s embrace of the global markets.

In 1991, the focus shifted from the state to the individual, from state-led development to private enterprise, and from aid to trade. Liberalization enabled the rise of a vast array of dynamic Indian entrepreneurs and firms capable of being competitive globally. And it changed the everyday life of Indians through a revolution in consumer goods.

The impact on the country and its people was tectonic. Over the next three decades, GDP per capita increased sevenfold and about 250 million Indians—more than the total population of Brazil—were lifted out of poverty. All socio-economic groups prospered as a result of sustained economic growth.

The benefits of economic growth reflected in health and quality of life indicators. Indians now expect to live ten years longer on average than they did in 1990. Infant mortality declined to 28 per 1,000, and an additional 60 babies per 1,000 now survive.

Ironically, reducing state control over the economy strengthened the state coffers. Since 1991, the Union Government revenue has increased 25 times and state government revenue has increased 28 times in nominal terms, and about 4 times in real terms. Embracing markets allowed the Indian government to increase its welfare spending.

The numbers are impressive, but to truly understand them it is necessary to understand what life was like before liberalization.

LIFE UNDER SOCIALISM

To me, and to most others who have lived in a socialist system, the salient memory is encountering shortages. Socialism, its votaries aver, privileges the poor. But in preliberalized India, the reverse was true.

For most Indians, gathering supplies for the simplest meal was a daily struggle. The poor were allotted state-subsidized rations. Kerosene was subsidized through a cooking fuel allowance as part of their ration card. The allowance—a half a liter of kerosene per person—was never enough to last for a month, even assuming supplies were available. Acquiring a ration card itself required wading through red tape. Those selling kerosene also needed a government license. The poor waited for everything and received virtually nothing.

The middle class faced the same problem, but with natural gas for cooking. When my family moved to New Delhi, I spent some quality time in my grandparents' home as my parents waited for several months for their gas allotment to materialize. Cooking fuels were dubbed essential commodities, and the full force of licenses and price controls stifled their supply.

Once you got your cooking fuel, the next hurdle was food. Subsidized food grains were the largest portion of the allotment through the all-important ration card. If it was a good day, the poor woman, after waiting in line for hours, managed to get her supplies. But the grains she got would likely be substandard because ration shop owners adulterated wheat and rice and lentils to bulk up the weight.

Rampant adulteration was another consequence of price controls. Because the market price exceeded the controlled price set by the government, ration shop owners could make a killing by siphoning off subsidized supplies to bootleggers for sale in the black market. Government inspectors were bribed to look the other way. By the 1980s, this network of corrupt ration shop owners, bootleggers, and state inspectors on the take had created a flourishing parallel economy. And the lack of market competition and choice meant that reputation and branding was not always an indicator of quality, even for grains in the open market.

A close childhood friend died of severe food poisoning after drinking an adulterated, locally made cola. She was seven, at the time, as was I too young to make the connection between socialism and licensing, and to understand

how the shortage economy led to the widespread prevalence of adulterated food and drinks.

Every Indian story of shortages, adulteration, black markets, and corruption begins with the government allocating resources per a central plan to various sectors. To ensure that scarce resources are not wasted or misallocated by deviating from the plan, an intricate system of licenses and permits was created. Only those with a license could produce and therefore access the controlled inputs required for production. But with licenses limiting production, supply never matched demand, forcing the market price to increase. A socialist system could scarcely allow producers to profit from the licensing system that was required by the central plan, and it found its answer in price controls. This in turn meant long lines and extended waiting periods for virtually every commodity. Shortages were endemic to the economy and to the Indian way of life.

Transportation issues added to the shortage problems. Bicycles saw increasing demand as urban populations increased. Steel was government controlled and, given the heavy demand from the construction industry, only limited allotments were made to bicycle manufacturers. To increase their allotment of steel and meet the increasing demand for bicycles, they needed an expansion permit, which was rarely approved by the government given the shortage of steel.

The license and permit system for steel also created a shortage in bicycles, which was followed by the inevitable price controls. To ensure that demand was legitimate and all available bicycles were used, owning and riding a bicycle required a government-issued token in some parts of the country. Inspectors thrived on the bribes paid when they caught anyone riding without the requisite permit.

The middle class didn't escape the problem, either. Through a collaboration with Vespa, Bajaj manufactured scooters in India, and they became popular with the middle-class. Denied permission to expand to meet the rising demand, the waitlist for a Bajaj scooter was ten years by the late 1970s.

Even though dowry is not just illegal but is a crime in India, the entrenched dowry culture in the arranged marriage system enables grooms to make outrageous demands of the bride's family. A Bajaj scooter became a top dowry ask. Given the decade-long waiting period, parents took to purchasing them on the black market, and by the late 1970s the price of a secondhand/used Bajaj scooter available immediately was much higher than that of a brand-new vehicle with a 5 to 10 year waiting period.

It got so bad that when a girl child was born, well-wishers would—only half in jest—suggest to the parents that they should immediately book a scooter

so it would arrive in time for the wedding. This was reminiscent of the old Soviet Union joke about a man paying for an automobile. The clerk tells him it will be delivered in ten years. The man asks, “Morning or afternoon?” “What difference does it make?” responds the clerk. “Well, the plumber is coming in the morning.”

The rich faced the same problem—only theirs involved cars. Only two manufacturers, Ambassador and Premier, had the license to operate domestically. The uber-rich imported cars by paying two to three times the value in import duties. Middle-class families like mine waited in line, but worried about the safety of precariously placing two growing children on a scooter. Eventually, my parents bought a decades-old used Premier-Fiat car in the late 1980s.

Socialism is romanticized as the economic and ideological system that prioritizes equality and the interests of the poor. But there is no equality in experiencing shortages. Access depended on where a person stood in the social hierarchy. In a shortage economy, the rich could bribe their way out of the problem or buy at high prices in the black market. The middle class—mostly upper caste, well-educated, and connected—used their networks and clout to jump the queue. The poor waited in line; given universal shortages, there was little if anything left when their turn came.

The state had completely captured every aspect of economic life. In the 1950s, Prime Minister Nehru created a system of licenses, permits, and controls for essential goods, and nationalized certain sectors like steel, mining, airlines, heavy machinery, telecommunications, and power. His reasoning was that these areas required investments so large, and over such a long period, that few private firms could make the investment.

By the time Nehru’s daughter, Indira Gandhi, took office, the official goal was to nationalize all means of production. Her government nationalized the 14 largest banks overnight through an ordinance, and also nationalized coal and copper mines, general insurance, unprofitable textile firms . . . the list goes on.

These policies were combined with land ceiling laws, monopoly control, greater control over foreign exchange, inflexible labor regulations, disallowing the closure of unprofitable firms, and a hostile attitude to foreign investment. Some goods were hit with an import tariff of over 350 percent. The top income tax rate was 97.75 percent. All this cumulatively unleashed an informal and corruption-driven underground economy that some suspected was larger than the formal sector. By the late 1970s, it was almost impossible to set up a new business or to exit a failing business.

The command-and-control economy also damaged political freedoms, civil liberties, and the democratic fabric of India. Because of shortages of paper, newsprint, printing equipment, etc. the Nehru government passed the Newspaper (Price and Page) Act, 1956, and the Daily Newspapers (Price and Page) Order, 1960. These laws regulated the prices publishers could charge for newspapers, based on page count and the amount of content.

Sakal Papers, joined by other newspapers, challenged the constitutionality of the Newspaper Act and the Daily Newspapers

Order as a direct infringement on freedom of expression. In *Sakal Papers (P) Ltd. vs. The Union of India* (1962), the Supreme Court held the laws unconstitutional as they would either increase prices or reduce the number of pages, both of which would inhibit the dissemination of ideas.

In the early 1970s, Indira Gandhi's government tried to use old orders in a new form to limit press freedom. In addition to customs duties, limits placed on importing newsprint (under the Import Order, 1955), and regulation of the sale, acquisition, and use of newsprint (under the Newsprint Order, 1962), the government directly regulated the size and circulation of newspapers under the Newsprint Policy of 1972–73.

My grandfather and his younger brother, both journalists in the English press, were directly affected by the shortage and regulation of newsprint. With the reduction in pages, the profitability of newspapers dwindled, and jobs were in jeopardy. Both of them were avowed socialists yet held that this was not a consequence of the government controlling the means of production, but a mala fide order by Indira Gandhi to punish the press in the face of criticism.

When the Newsprint Policy and the Import and Newsprint Orders were challenged in *Bennett Coleman & Co. vs. Union of India* (1973), the Supreme Court held that regulating newsprint supply and fixing quantity in terms of number of pages per issue would either lead to reduced advertisements or reduced news and directly impact the economic viability of the paper, and was therefore unconstitutional for violating the right to freedom of expression.

By the end of Indira Gandhi's infamous Emergency, no aspect of the economy or daily life remained untainted by socialism. And politics adapted to exploit the system. Politicians promised freebies—everything from food to water to fertilizer to loan waivers—in exchange for votes. Soon the socialist system impoverished not just the Indian people but also the Indian state. The government ran huge deficits, increased its borrowings, and created an untenable macroeconomic situation.

—A TURNING POINT

By 1990, an already dire economic situation was exacerbated by the increase in oil prices following the Gulf war. A politically fragile government was scrambling for foreign exchange to cover its commitments. Moody's placed the country on a credit watch, with the possibility of a downgrade.

The minority government led by Prime Minister VP Singh fell within a year. His successor Chandra Shekhar, also unable to steer the economy out of the crisis, resigned in March 1991. During the ensuing general election campaign, Rajiv Gandhi, the then front-runner, was assassinated.

In June 1991, elder statesman and semi-retired politician PV Narasimha Rao became the unlikely prime minister. Like his predecessors, he too led a minority government which inherited an economic disaster.

The fiscal deficit was 8.2 percent of GDP, and inflation was at 13.8 percent. India had just enough foreign exchange reserves—to buy essentials like oil—for a fortnight. India was on the verge of defaulting on its loans, and its creditworthiness was at an all-time low.

When faced with the possibility of ruin, the poor seek out moneylenders to whom they pledge, or sell, their little bits of gold, their brass and steel vessels. India, faced with an existential crisis, borrowed from that playbook. The government sold 20 tons of gold, with a repurchase option, in exchange for \$234 million in foreign exchange to tide over its balance of payments problem.

But selling gold was a short-term fix. India needed seismic reforms, and the team of Prime Minister Narasimha Rao and his finance minister Manmohan Singh, with the support of Indian and international technocrats, buckled down to the job of unshackling the Indian economy.

Manmohan Singh's first step as finance minister was a plan to devalue the rupee in two steps. The first devaluation against the major currencies, of between 7 and 9 percent, was announced on July 1, 1991, and a second round of devaluation of 11 percent on July 3. This was shrouded in secrecy within the government; Singh and Rao feared that the cabinet, wedded to old socialist ideas, would never approve the devaluation. So, they bypassed members of their own cabinet, and even the President of India was left out of the loop.

For the devaluation to make Indian exports more competitive, the country had to reform its trade policy. Prior to 1991 all imports, except a small list of freely tradeable items, were tightly controlled, with tariff rates ranging from an average of 113 percent to 355 percent at their highest. On July 4, Rao's Minister of State for Commerce, P. Chidambaram rewrote India's trade policy, embracing the open market and freeing import restrictions on all except 71 specified goods.

In tandem, the government provided a stimulus to promote exports through trading houses, while reducing the degree of regulation and licensing control on foreign trade. An institutional redesign, replacing controllers with regulators, was key in moving India from command and control to a market economy. A high-level committee was appointed to eventually eliminate licensing.

Devaluation and the new free trade policy, both vitally needed reforms, almost brought the Rao government down. While there were a lot of skeptics within the government, it was the opposition parties, both on the left and the right, who brought Parliament to a standstill, moving a motion of no confidence against Rao's minority government on July 15. Rao defended his government's vision of a market economy and the proposed reforms. The Left Front and the National Front parties staged a walk out. Other opposition parties on the right voted against Rao's government. Thanks to the walkouts, Rao's government managed to defeat the no confidence motion by a hair.

The morning of July 24 started with dismantling India's infamous License Raj, abolishing licenses and liberalizing all but 18 industries. The new industrial policy also removed licensing restrictions on large firms, encouraged foreign direct investment and foreign technological partnership, and targeted the sale of public sector enterprises.

The day ended with finance minister Manmohan Singh's famous budget speech where he dismantled India's oppressive price control system, welcomed foreign investment, announced a new framework for India's financial regulation system, committed to unilaterally lowering tariffs, and to the potential disinvestment of state-owned enterprises, and a redesign of institutions from "controllers" to regulators. Most importantly, he declared that the failures of socialist planning must be left in the past, and that India had to embrace markets for a prosperous future.

Life, as we had known it, changed in ways small and large. My grandmother no longer had to spend hours picking out small stones from the rice and lentils before cooking the mid-day meal. Once the government removed price controls and license requirements, supply was regularized, and the evil twins, adulteration and black marketing, disappeared.

For my mother, the change manifested in freshly pressed orange juice. Pre-1991, orange juice was reserved for special occasions or for when someone was sick, and the squeezing had to be done manually. This was quite literally a pain for my mother, a professional musician with permanent blisters and cuts on her fingers from playing the Veena. Thanks to the withdrawal of import tariffs, juicers, along with a bewildering variety of other kitchen gadgets, made life easier.

For my mother, this translated not just to better food but also to more time to practice and perform. When she toured abroad for her performances, she no longer had to wait for the small, permitted allocation of foreign currency nor rely on under the table currency traders. My father finally got the telephone connection he had waited years to acquire.

I found to my delight that there were more than two brands of chocolates—Cadbury’s and Amul—available on the shelves. And my sister loved drinking Pepsi in imitation of Michael Jackson. Like a good younger sibling, I developed a taste for both the music and the drink.

And the poor woman who, even a year earlier, spent the better part of a working day standing in line to buy inadequate, adulterated rations to feed her family? Her government-approved ration shop was forced to improve quality, service, and access because it now faced competition from the market. Eventually, the relaxation of price controls erased the difference between the government shops and the private ones.

The next 25 years brought the longest run of high economic growth to Indians, as the economy grew at an average of 7 percent from 1992 to 2017.

REFORMS 2.0, 3.0, AND SO ON

After a great start in the 1990s and some progress in the early 2000s, India did not commit to further reforms required to exit socialism and ensure a well-functioning market economy. Without policy changes to reduce government control over the economy and moving halfway to embrace markets has led to an explosion of corruption and cronyism in the last decade.

The reason is that with Singh’s 1991 Budget, the License Raj may have disappeared, but the Permit Raj remained alive and well, distorting markets for inputs like land and labor, making corruption endemic, and preventing economies of scale. The Heritage Foundation’s 2019

Economic Freedom Index places India at 129th out of 180 countries. Of the foundation’s five categories—free, mostly free, moderately free, mostly unfree, and repressed—India falls into the “mostly unfree” category. The Fraser Institute’s 2018 Index of Economic Freedom ranks India at 110th of 162 countries. These rankings label what every Indian has experienced: the roadblocks, permits and certificates required for any and every economic enterprise.

The first kind of pernicious permits are required from regulators, usually spread across a dozen different departments and agencies. The worst experiences involve attempts to buy, sell, use, lease, partition, and gift land. While on

paper it seems simple enough to get permission from a regulator, Indians face unintentional delays in processing permissions because of limited state capacity, and intentional delays to extract rents and bribes. This has made land markets thin and inefficient, depressed prices, and reduced the wealth of most Indians, especially farmers. Acquiring land has been one of the biggest hurdles for businesses seeking to set up large manufacturing units.

The same applies to labor services, where the permissions required to hire willing workers for even the simplest of tasks is so prohibitively costly that 80 percent of them are hired informally. India's labor pool is trapped in an unproductive agricultural sector, because in the absence of labor reforms enabling a manufacturing boom, they have nowhere to go except to the very precarious urban informal economy.

A second kind of permission required is from competitors. It is rarely in the interest of an incumbent to allow new rivals.

This was perhaps why Indian industrialists welcomed the License Raj in mixed economy manifestos like the Bombay Plan, to retain their incumbency advantage and limit competition. Even today, many neighborhood clearances and no-objection certificates are effectively permits required from incumbents.

And third, with an ever activist and interfering judiciary, a new kind of permit is the judicial permit. Anything can be stopped at any point in the process unless otherwise allowed by the judges.

Large and rich incumbents have a huge advantage in getting and keeping permits and hiring an army of lawyers to ensure their effective monopoly. Young entrants, start-ups, and those with little capital or few resources are easily thwarted from entering the market. This system makes the rich and powerful richer and prevents the young and meritorious from entering the market.

Under socialism, India had a small group of elite businesses demanding protectionism in exchange for campaign contributions, etc. Now that group has not only increased in size but also exerts far greater power by institutionally capturing regulators and politicians. With the opening up of the economy and the resultant prosperity, there is a lot more at stake and more money dedicated to lobbying.

Another problem is the institutionally weak judiciary. With long pendency of cases and decades-long delays in dispute resolution, there is little faith in the judiciary to enforce contracts, the foundation upon which free exchange flourishes. Without speedy contract enforcement, it is difficult to foster faith in markets when a system allows contract violation and fraud to go unpunished.

The current system of weak property rights, the requirement of permissions in most sectors of the economy and the nonenforcement of contracts fosters a system where market exchange does not automatically serve social interest. The sheen of liberalization and markets as seen in the 1990s has worn off.

After the initial gains, India went from crony-socialism to crony-capitalism because of the Permit Raj remaining intact, disillusioning Indians against private enterprise. Two-thirds of Indians today were born after the 1991 reforms and have no memory of India under socialism with its shortages, corruption and general impoverishment. They associate markets with this new kind of corruption by big businesses courting politicians, leading to the demonizing of big business, and a misplaced nostalgia for the era of socialism and protectionism.

Since 2011, there has been a decline in secular growth rates. Private firms have lost confidence in the market and ordinary Indians have lost faith in a system that is rampant with high-level corruption. Thanks to the twin disasters of demonetization and GST (Goods and Services Tax reform), growth rates have dropped to below 5 percent. Indians once again face an economic crisis, exacerbated by the pandemic and lockdowns.

As economic outcomes look bleak, everyone is looking to Prime Minister Modi to announce the next big set of reforms to liberalize factor markets and privatize state-owned enterprises. In Modi, India has a leader with the popularity and political clout to get the job done. But crisis and clout are not enough. Good policy formulation also requires ideas and institutions.

Modi does not lack the boldness or a willingness to act and use his political capital, as was evident during demonetization, or his toilets-for-all campaign. What is lacking is a basic understanding of economics. The consequence of using political clout in the face of crisis without a long process of sound ideas informing policy results in disasters like demonetization or protectionism by increasing import tariffs, or the clarion call to “Make in India.”

Ideas are the critical foundation, but ideas can only come of age in a society that has a commitment to liberal exchange of ideas, that allows free expression, and doesn’t insist on toeing the party line.

But India under Modi is not set up for a similar churning of ideas or the infrastructure to convert sound ideas into policy. The 1991 reforms were passed quickly but were in the making for many months by technocrats who worked with different governments. In India today, instead of building a cadre of economists within India’s bureaucracy, the emphasis is on helicoptering in academics from elite institutions abroad like Raghuram Rajan or Kaushik Basu to serve as central banker or chief economic advisor. Their liberal ideas have limited buy-in

with the permanent bureaucracy who lack the training or commitment to values of free exchange economic growth. And because of the frictions caused by the mismatch and in part because of criticism from former advisers who have returned to the West, Modi's government is increasingly skeptical of foreign or elite influence.

Market-friendly reforms are unlikely because India under Modi is missing true commitment to liberalization and lacks the culture of understanding and nurturing economic ideas within the government and bureaucracy.

Merely waiting for an individual or party to exit political office is not a solution. Much is at stake. India's growth rate dropped to barely 5 percent in 2019 under Modi's leadership. Now India is plunging into a full-blown pandemic-triggered crisis.

The economy growing at 4 percent under Nehru compared to 7 percent post liberalization to 5 percent in 2019 sounds like quibbling over a percentage point here or there. But it has very real consequences, most critically for the poor. An additional 1 percent increase in per capita income can potentially lift about 3 million Indians out of poverty. A growth of 3 percent in per capita income over the pre-pandemic levels can help eliminate extreme poverty in a decade. Boosting economic growth is thus not just a policy imperative, it is a moral obligation. And to choose policies that prevent us from making the poorest Indians better off is unconscionable. India must push forward with institutional changes to enable the next stage of economic growth.

So how can India once again have sensible economic reforms to accelerate growth? For any solution that is long term and sustainable instead of ad-hoc and eccentric, India needs to deeply commit to a culture of ideas informing institutional change.

MADMEN AND ACADEMIC SCRIBBLERS

John Maynard Keynes said, "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." But both socialism and liberalization in India were a result of dominant economic ideas of their time.

If Harold Laski was the academic scribbler influencing Nehru, the sole dissenter of planning in India in the 1960s, economist B. R. Shenoy, was a student of F. A. Hayek, who had famously demonstrated the impossibility of socialist planning. Shenoy was the economic advisor to India's free-market party, the

Swatantra party, that opposed the License Permit Raj. With a different political arithmetic, he could have been the architect of an economically free India.

Decades before becoming the finance minister who liberalized India, Manmohan Singh completed his doctoral thesis in

1962, titled “India’s export performance, 1951–1960, export prospects and policy implications,” under the supervision of I.M.D. Little at Oxford University. Little was a critic of the then-dominant protectionist approach to developmental economics, and an advocate for trade liberalization by developing countries.

Both the planning and the liberalized economy in India were a product of global ideas spread from elite academics to intellectuals, bureaucrats, and politicians. The history of the Indian economy, as well as the history of ideas, become deeply relevant to understanding the fall and rise of Indians’ fortunes.

The Indian economy had experienced extremely poor growth and a very high level of human deprivation under the British colonial government. Especially between 1914 and 1947, when the British government treated India as an extractive economy towards the war effort, national income grew at a little over 1 percent per annum and per capita incomes were stagnant. British mercantilism and extractive policies, exacerbated in the war years through price and quantity controls, led to famines that killed millions of Indians.

Socialist planning was globally in vogue by the thirties, and Indian nationalist leaders were influenced by the British Fabians. Jawaharlal Nehru visited the USSR in 1927 for the tenth anniversary of the Bolshevik revolution, and was fascinated by the working of its socialist experiment. “The contrast between extreme luxury and poverty are not visible,” Nehru wrote, “nor does one notice the hierarchy of class.” He concluded that the “Soviet Union treated its workers and peasants better, its women and children better, even its prisoners better.”

The ideology of planning gradually found its way into the heart of the burgeoning independence movement and the Indian National Congress. A Congress Socialist Party, spearheaded by Nehru and consisting of ardent socialists and planning enthusiasts, was formed within the broader fold of the Congress in 1934, and it organized the National Planning

Commission in 1938 to chart out in greater detail the role that state planning could play in aiding the growth of the nation. The National Planning Commission met at intervals throughout the late 1930s and early 1940s, coming up with proposals that greatly influenced the goals and the institutional structure of the planning mechanism in independent India.

In addition to the National Planning Committee’s report, many plans were created for the specific needs of India’s development problems. The first emerged

in 1934, under the aegis of the revered engineer M Visvesvaraya. The essence of his plan was to industrialize India, and double national income every ten years. In the 1940s came the Bombay Plan—from a group chaired by Sir Ardeshir Dalal and comprising industrialists—attempting to outline the nature of the various sectors of the mixed economy.

The People’s Plan, crafted by Marxist M. N. Roy, embodied the ideas of Lange-Lerner and the Soviet planning exercise.

And the Gandhian Plan of S. N. Agarwal, which emphasized a self-sufficient closed economy, preserved the village as the unit of economic activity. By the end of the Second World War, socialism was the new orthodoxy in Indian politics.

In post-colonial India with Nehru as prime minister, an anonymous wit quipped that “in every meeting of the Indian Cabinet there is a chair reserved for the ghost of Professor Harold Laski.” First, Tarlok Singh, also a Laski student, and then P. C. Mahalanobis were tasked with executing that vision by developing the First and Second Five-Year Plan.

Even abroad, post-WWII academic economists believed that while developed countries can prosper from free trade, developing countries need high levels of protectionism to ensure survival of local industries. India was additionally burdened by Nehruvian socialism that created an intricate system of quantity controls. But during Nehru’s tenure, essentially the first three Five-Year Plans, India’s economy grew at 4.0–4.5 percent and GDP per capita grew at 2 percent. Economists in India and the world over thought that India’s performance, especially when compared to the colonial period, was commendable for a poor country with a burgeoning population and limited resources.

With the passing of Nehru, the command-and-control economy was further strengthened by Indira Gandhi, as her government nationalized various sectors of the economy, doubled down on its restrictive licensing and permit regime, and tried to squash political dissent, culminating in the Indian Emergency. The architect of nationalizing all means of production was her principal secretary, P. N. Haksar, also a student of Harold Laski. Economically, the Haksar-Gandhi team doomed

India to sluggish growth, averaging 2.5 percent.

But ideas also evolve and change with time. Globally, academic economists began to take notice of developing countries like South Korea that were growing rich by embracing free trade. Starting in the seventies, economists like Jagdish Bhagwati and Anne Krueger wrote extensively advocating free trade in India and Asia. The South Korean growth miracle defied all protectionist models for

poorer countries, and economists at the World Bank and the IMF were paying close attention.

Bhagwati and Krueger were joined by Padma Desai and T. N. Srinivasan, who called for dismantling the industrial licensing system within India to encourage competition in the domestic markets. These views slowly started percolating through the bureaucracy and expert committee reports in the late 1970s and 1980s enabled some ad-hoc reforms from time to time.

By the 1980s fiscal discipline, deregulation, currency and trade liberalization, privatization, and other reforms became the leading prescription for developing countries per the “Washington Consensus.” Several top Indian technocrats, like A. N. Verma, Montek Singh Ahluwalia, Jairam Ramesh, and Rakesh Mohan, were part of this emerging consensus during their time at international institutions like the World Bank, the International Monetary Fund, and the United Nations.

While they all worked with Rao and Singh as part of the team that formulated and passed the economic reforms of 1991, it is lesser known that many of them had been working on these ideas since the late eighties and had presented different elements of the reforms blueprint to previous governments.

For instance, Montek Singh Ahluwalia authored one such reforms blueprint hoping that Prime Minister Rajiv Gandhi would launch India’s liberalization. He turned it into an actionable policy memo—dubbed the M Document—upon Prime Minister V. P. Singh’s request. It was referenced by Chandra Shekhar’s finance minister Yashwant Sinha during his short term in office, prior to the elections that saw the rise of Narasimha Rao and Manmohan Singh.

Rakesh Mohan, a Princeton-trained economist who had worked in the Philippines division of the World Bank, saw the Asian growth miracles firsthand. Joining the Ministry of Industry as an economic adviser in 1988 (3 years prior to the reforms) Mohan—along with then Secretary of Industry A. N. Verma, who had witnessed the East Asian transformation during his time at the UN Economic and Social Commission for Asia—created the first comprehensive compilation of all the industrial licensing policies, control mechanisms, and lists of industries subject to different provisions.

These ideas eventually found an audience outside academic and bureaucratic circles, among some politicians. The fall of the Soviet Union helped convince Indian politicians that more socialism could not be the way out of India’s 1991 crisis. By the late 1980s, even China, more centrally planned and more populous than India, was growing rapidly thanks to Deng Xiaoping’s successful market-oriented reforms.

Prime Minister Narasimha Rao, in his previous position as Rajiv Gandhi's external affairs minister, had witnessed the

Chinese miracle led by Deng Xiaoping, whom he personally admired. Rao dedicated himself to political consensus building. He had to overcome opposition from within his party, still wedded to Nehru's and Indira Gandhi's socialist vision, while also persuading opposition parties to support the minority government. Tactfully, he pitched liberalization to his party men as a continuation of Nehruvian philosophy, and to the opposition as the only solution to the economic crisis. In his [address to the nation](#), he declared the intent for a new kind of self-reliance: "My motto is trade, not aid."

Each retelling of the 1991 story propagates the myth that Indian policymakers tend to only pursue major policy reforms in the face of economic crises. And if only India could get a leader like Narasimha Rao, one willing to use his political capital, India's fortunes would once again change.

What is forgotten is that it was not just the arrival of Rao but the decades-long run-up and debate of economic ideas, that allowed these policies to ferment within the bureaucracy, and reach fruition at the opportune moment in 1991. The importance of incubating ideas is often forgotten in the retelling of India's change in fortunes.

The 1991 Project is an effort to kickstart a discourse on economic growth-centered reforms in India by focusing on economic ideas. In the coming months, our team will publish essays, data visualizations, oral histories, podcasts, and policy papers demystifying the Indian economy.

The project hopes to raise and answer many questions. Why does economic growth matter? How did socialist planning impoverish India? If socialism was so bad, why did India adopt it as an economic model? How did India switch from a command-and-control to a market economy? What is the political economy of institutional persistence and change? How can India achieve high rates of economic growth once again?

We, the contributors to the 1991 project, will discuss the Indian economy and life under socialism and after liberalization. We will cover the salient economic ideas over the past century and their impact on Indian policy. We will tell the stories of the madmen, and academic scribblers, and intellectuals, and technocrats who reformed India. We will discuss the way forward for India to strengthen institutions that can support a market economy. And most importantly, we will discuss policies that can enable economic growth.

ABOUT THE AUTHOR

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