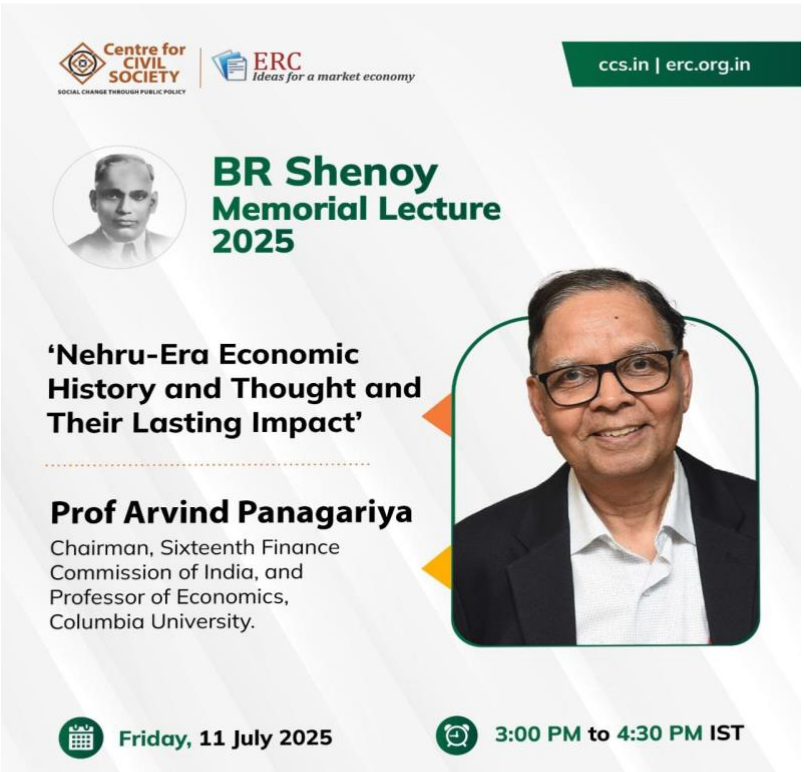
Prof B. R. Shenoy Memorial Lecture 2025 by Prof Arvind Panagariya on “Nehru Era Economic History and Thought & Their Lasting Impact”

In this Lecture, the Centre for Civil Society and Economics Research Centre hosts Professor Arvind Panagariya on 'Nehru-era Economic History and Thought and their Lasting Impact'.

This lecture is part of the annual B. R. Shenoy Memorial Lecture Series, which aims to commemorate Prof. Shenoy's ideas and policies through talks by speakers from India and abroad, including leading academics, policy experts, and public officials.



Prof Kumar Anand:

*Good afternoon and welcome to the Prof B. R. Shenoy Memorial Lecture 2025. My name is Kumar Anand, and I will be your Prof Kumar Anand this afternoon. Our distinguished speaker today is **Professor Arvind Panagariya**, and the title for his talk is: "**Nehru Era Economic History and Thought & Their Lasting Impact**."*

The talk by Professor Panagariya will be for about 45 minutes, after which we will be having about 30 to 40 minutes for a question-and-answer session with the audience who are joining us live. You can type your question in the Q&A box here on Zoom or in the YouTube comment section, wherever you are joining us from.

*Professor B.R. Shenoy, though a noted economist, may not be well known to all of you. But his ideas have affected the lives of almost all of you—especially those born after 1991. **Professor Bellikoth Raghunath Shenoy** was born in 1905 in Bellikoth, Kerala. Born to a poor farmer as one of eleven children, he was inspired by Gandhiji's message and left home while still a boy to join the national movement. Arrested in Bombay and jailed in Nagpur, he was later released to finish his schooling.*

He took a train north to Banaras Hindu University, where he received scholarships for a B.A. and M.A. in Economics. He then studied further at the London School of Economics and was perhaps the second Indian to publish a scholarly economics article in the Quarterly Journal of Economics in 1931. The young B.R. Shenoy, then just 26, was already critical of the internationally renowned John Maynard Keynes.

Returning to India, he worked at the Reserve Bank of India and was India's representative at the International Monetary Fund in Washington. Disagreeing publicly with the Government of India's policies of centralized economic planning, he resigned to take up his lifelong cause of arguing for a market economy as a vital engine to India's economic development, reduction of poverty , and achieving mass prosperity.

Professor B.R. Shenoy was reviled and attacked in personal terms for his liberal economic views and policy recommendations. Prof Shenoy's ceaseless work bore fruit in the end, *laying the intellectual groundwork for the economic reforms of 1991. Sadly, he did not live to see that day, he passed away in 1978.*

You may say, of the successful reforms are a great example of the power of ideas, but the huge opposition in those days to Shenoy's lonely efforts inside the country also shows the power of wrong economic ideas. Although that era is gone, its wrong ideas must be remembered and its errors understood, lest they be repeated.

***Professor Arvind Panagariya** is a scholar and a lifelong student of ideas, with a recent book on the ideas and policies of the Nehru Era. He is a Professor of Economics and the Jagdish Bhagwati Professor of Indian Political Economy at Columbia University. He has served as the first Vice Chairman of the NITI Aayog, Government of India, with the rank of Cabinet Minister. Professor Panagariya has authored more than 15 books.*

*His 2008 book, one of my favourites, **India: The Emerging Giant**, was listed as a top pick by The Economist and described by Fareed Zakaria of CNN as the definitive book on the Indian economy. The Economist also described his 2014 book **Why Growth Matters** (co-authored with Jagdish Bhagwati) as a manifesto for policymakers and analysts.*

*Scientific papers by Prof Panagariya have appeared in top journals such as: **American Economic Review, Quarterly Journal of Economics, Review of Economic Studies, International Economic Review***

*He writes a monthly column in the Times of India, and his guest columns have appeared in the Financial Times, Wall Street Journal, and India Today. In March 2012, the Government of India honoured Professor Panagariya with the **Padma Bhushan**, and most recently, he has served as Chairman of the 16th Finance Commission.*

So, on behalf of the Centre for Civil Society, New Delhi, and the Economic Research Centre Trust, Mangalore, it gives me great pleasure to welcome our speaker, Professor Arvind Panagariya, to deliver the B.R. Shenoy Memorial Lecture 2025. (Professor Panagariya, over to you.)

Professor Arvind Panagariya:

Thank you, Kumar, for that wonderful introduction. Thank you also for inviting me to deliver this lecture.

As an economist who has long championed the cause of markets, I have greatly admired Professor Shenoy. It is really quite remarkable how he could have been what he was in terms of his ideas and able to think the way he did in the years that he lived.

It is written somewhere – I think probably in this Nehru book – that when Milton Friedman commented in 1955 on the Second Draft of the Second Five-Year Plan, he was completely left unheard. Hardly anybody even knew about the Note that he wrote.

And I go on to say that Friedman himself was not widely accepted even in the United States at the time – so he had no chance of being heard in India. That was the milieu around this time, and how an economist from within India – Professor Shenoy – could rise to such ideas and be admired by Milton Friedman and P.T. Bauer, is in itself a remarkable fact.

There are other aspects of his life, one which you just touched, the fact that at a very early age, he joined the freedom movement, and then went on to spend time in jail with none other than Pandit Madan Mohan Malaviya, who then actually spotted his talent. That is a good case of how destiny works in funny ways – Shenoy ends up in jail with the founder of Banaras Hindu University, who then spotted his talent and says – why don't you join the Banaras Hindu University?

It is an interesting story of luck and destiny working in strange sort of ways – one that many of us at one point or the other experience in our lives.

My references to Shenoy will continue to come through as I speak. The normal practice in such lectures, is to speak extensively about the person the lecture is named after – but since my topic is so directly related to the Nehru era, Shenoy's legacy will keep appearing, so I will not elabourate on his life further.

Now let me get to the subject of today's lecture: "Nehru Era Economic History and Thought and its Lasting Impact."

Here, the subject is that every word in the title matters, about which I am going to speak – economic history, thought, and lasting impact – I will be speaking about both the economic history and the economic thinking of the time, and how it has left a long-lasting impact on India.

First and foremost, at the starting point I want to clarify a common misconception about Nehru. It is commonly believed that Nehru, who at an early age studied at Cambridge – there picked up Fabian socialism and turned to a Fabian Socialist – which is that he ended up implementing in India after he became the Prime Minister.

This is actually an incorrect narrative. Initially, Nehru was a very radical socialist – bordering on communism. That was for me a discovery when writing this book, and that was the starting point, and that is what ultimately got me interested in pursuing this subject much further.

Just to give you a sense of how radical Nehru was, he certainly was not a moderate or Fabian socialist. Initially, I will just read out a couple of things.

One actually is, in December 1933, when foreign visitors came to India, Nehru gave them an interview. Media reacted that Nehru as defending fascism. Nehru got very angry and upset and issued a press statement, saying, the only real choice any nation has is between fascism and communism, and I unequivocally choose communism between those two.

But more substantively, he was the President of the International Congress in 1936 and the AICC met for its Annual Convention in Lucknow. So this was an address he gave in the Lucknow session from which I will quote briefly – just as evidence of how radical Nehru was at the time.

"I see no way of ending the poverty, the vast unemployment, the degradation and the subjection of the Indian people except through socialism. That involves vast and revolutionary changes in our political and social structure, the ending of vested interests in land and industry as well as the feudal and autocratic Indian States system. That means the ending of private property, except in a restricted sense and the replacement of the present profit system by a higher ideal of cooperative service. In short, it means a new civilization radically different from the present capitalist order."

He goes on, *"Some glimpse we can have of this new civilisation in the territories of the U.S.S.R. Much has happened there which has pained me greatly and with which I disagree, but I look upon that great and fascinating unfolding of a new order and a new civilisation as the most promising feature of our dismal age. If the future is full of hope, it is largely because of Soviet Russia and what it has done, and I am convinced that, if some world catastrophe does not intervene, this new civilization will spread to other lands and put an end to the wars and conflicts which capitalism feeds."*

So that is how strongly he felt, how radical he was, and how far he was actually willing to go. And this, of course, spooked all the industrialists of the time and created a major debate in the Bombay industrial circle. Some of them approached Gandhiji to try to mollify Nehru, that was how it was.

By the time we come to the formation of the interim government and Nehru is made the Prime Minister and the consequent assembly convenes and you see a very different Nehru. He's very moderate. He's actually defending industrialists against the hardcore socialists within the Congress party who are pushing very hard for wholesale nationalisation of industries. By this time, Nehru has become moderate.

It is not clear, there is no definitive evidence of how this transition happened, but most likely this happened between 1938 and 1940 when Nehru presided over the National Planning Committee of the Congress party.

This was a committee appointed by Subhash Bose and consisted of scientists, economists, politicians and all. So it was a very diverse committee, but the industrialists

– some of the leading industrialists were a part of this committee – and this is where Nehru had to directly confront the industrialists and industrialists had to directly confront Nehru.

And it seems that they both actually realised that they needed the other. Industrialists realised that, Nehru is hell bound to put in a very socialist system and Nehru realised that without the support of the industrialists, he cannot really make a success of his own plan because of growth has to happen. It means industrialisation and he could not really dispense with India's industrialists if the industrialisation was to succeed.

I think that he writes about this in **The Discovery of India** et al and the industrialists come halfway and Nehru comes halfway. So you can see that industrialists write the Bombay Plan, which is not terribly different from the Second Five-Year Plan and Nehru became a bit more moderately accommodated in the private sector within his own Second Five-Year Plan. So that is where I think, there is a meeting of the minds and needs of the two sides.

In hindsight, if you look at the Bombay Plan, really it is an endorsement more or less of the Second Five-Year Plan, which is a bit surprising coming from industrialists. But in any case, so there is a story, there is a background from Nehru himself.

Nehru was very clear in his mind that, and this was discussed extensively actually in the National Planning Committee between 1930 and 1940. Nehru was clear in his mind that they were going to start planning soon after independence and the objective of that planning was going to be – to put an end to India's appalling poverty.

And these are his words, "*appalling poverty,*" he refers to those words as poverty. And he says, this could not be done without substantial economic growth taking place, because India was so poor that redistribution could hardly go far. And in his own words, he says that, "*there was only poverty to redistribute.*"

And this is also more or less his quote, these are his words, that there was only poverty to redistribute. We simply could not get anywhere without substantial growth. And there in **The Discovery of India**, he says that, we needed about 10 years' time, we needed 600% growth.

But that was simply not feasible, we realised that, so we set ourselves the target of 300% growth in 10 years. That did not actually happen, but at least, the thinking, the basic idea of Nehru was quite correct. However, the details of how he then decided to implement this plan of his were quite flawed.

As I move forward, you will see that, it is not just that he thought in these terms, but much of the Indian intelligentsia, all the economists thought in very similar ways also. So, in a way, Nehru cannot be faulted in this sense, it is simply you can speculate that if in Nehru's place there had been Patel, perhaps we would have had a different system. Nehru was simply not alone.

However flawed, as we will see, the system and the model that he put in place may have been; but at the time, he had full support.

I will talk about, when I say economic thought. So, what is Nehru's approach, what is Nehru's strategy, what is Nehru's model?

Industrialisation is an objective, the objective is really poverty elimination, but the instrument for that is industrialisation and growth. That part is correctly conceived.

The second plan of his model is that he wants self-sufficiency and it is not in the sense of import substitution that he is pushing self-sufficiency. It is more in his thinking, he is coming from the fact that engagement in international trade gives rise to these imperialist tendencies and he said, we neither want to be imperialist ourselves nor did we want to be victims of imperialism yet again and therefore, we want to stay away from the whirlwind of this international trade.

So, it is a different thinking, and he did not think in terms of implementing a subscription driven model. Instead, his thinking was that over time, we will rejig our production basket to what is our consumption basket. So, we will change the production basket.

So, you will see that he does not actively kind of try to shut down the imports. The shutting down of the imports happens over time because of the foreign exchange control or foreign exchange shortage that will appear by about 1956 or so. But so, in any case, self-sufficiency is one of the plan of his model.

Then, another piece of it is socialism, which means the state ought to have the control of the means of production. In this conception, once you aim for self-sufficiency – and considering the context of this period, around 1950 – it is also academic; even among academics, the belief is that to increase growth, you need to invest.

So, productivity was not a part of the discourse and Nehru never thought that productivity mattered. He thought that investment is what you need to get a high rate of growth. Well, if you need to do investment for growth, then you need machinery for growth.

Well, if you are going to have machinery, are you going to import it? He said, no. The whole objective of this, our planning is to achieve self-sufficiency. Therefore, what we are going to do is we are going to start producing machines.

And so, he talks about investing in steel companies, steel mills, but also talks about investing in the production of machines that produce machines. Because, ultimately one's self-sufficiency in machine production and so anything that goes into the production of machines including steel, notably, has to be produced domestically. So, basically 'the heavy industry' becomes central to his thinking and central to his plan.

This, of course, gets reinforced by Mahalanobis, who had been working with Nehru off and on, but he knew Nehru's mind starting from like around 1940 or so. And in 1949, he is appointed as a Statistical Adviser to the Cabinet.

So, he is closely working with Nehru. Nehru then tells him to write this draft the Second Five-Year Plan, but what Mahalanobis is really executing is what Nehru's model really is. As we studied, we all thought that Mahalanobis was the big culprit here. That he wrote this Mahalanobis model, which really kind of created this very heavy duty capital intensive industrial structure.

But my own reading of the entire literature and the economic history is that really Mahalanobis more or less wrote the equations around what Nehru liked, what Nehru wanted. And so, heavy industry became central to Nehru's model.

But at the same time, Nehru had to worry about what will he do about employment, right? Because people have to be employed somewhere. There was also a political angle to the thing that Gandhians wanted – a more cottage industry driven kind of development. So, for Nehru, it was both politically convenient and economically it fitted the plan, employment will come from the cottage – village – household industry. This is where all the employment will be. And this is where therefore the consumer goods will be produced as well, right? Because the demand for consumer goods will rise and therefore demand for consumer goods production, and we can handle that, we can put it all in consumer goods industries.

Agriculture was kind of there, but not very central to Nehru's thinking. But basically, agriculture was there to provide food. And as long as there were no food shortages, Nehru was okay.

So, he was not effectively thinking centrally of agriculture. I mean, agriculture becomes central only after Nehru passes away and then Lal Bahadur Shastri comes in and you get these back to back droughts, that really prompts Lal Bahadur Shastri to go into this **Green Revolution**. That is a later story.

But now here, Mahalanobis writes the Second Five-Year Plan and Nehru being very consultative, invites, and formally appoints a panel of economists. These are 21 economists led by C.D. Deshmukh, who is both the Finance Minister at the time and a member of the Planning Commission. See, the power structure was very different at the time, because much of the power had come to reside in Planning Commission.

The Finance Minister was a member of the Planning Commission here, which today you will not imagine that this would ever happen, because the rank of the Planning Commission Member actually is below that of the Vice Chairman and Finance Minister. But he was a Member, he led, he became the Chair of this Economists Panel, and Deputy Chair was Gadgil, who would later head the Planning Commission. This panel of economists was brought in, all the leading economists of India with a very diverse geographical regional representation. They were economists from West Bengal, economists from South, economists from West, East, everywhere. B. R. Shenoy was a member of this Economists Panel.

The charge to the Economists Panel was that, you know, comment here, whatever wisdom you would like to impart, write your papers yourselves on what India should do. And then also comment on the Draft Five-Year Plan of Mahalanobis. So, a lot of papers got written, by the way. There was a collection of, I think, something like 35 or 36 papers, all of which I read in writing. These were very long papers, actually.

Lo and behold! Mostly the Economists Panel, when it submitted its report, was very, very supportive of the whole exercise; meaning, they endorsed basically, very resoundingly, the Draft Second Five-Year Plan written by Mahalanobis. So, heavy industry approach here, got the blessings of the Economists Panel.

This is where enters B. R. Shenoy, who actually attaches to the long comment by the Economist Panel, a **Dissenting Note**. His Dissenting Note is all about the size of the plan.

Actually, there is a bit of a misconception here – at least, that is what I have found. Here, he does not attack the central element of the model, which is the heavy industry. Or even actually, the socialist part of it, which I forgot to mention, but I should mention that the socialist part of it was going to come from the public sector leading this heavy industry. Because the argument given there was that the private sector did not have enough resources to undertake heavy industry, and therefore, the public sector would have to lead in heavy industry. This was the socialist part of Nehru's framework.

Nehru took the view – by the way – that we are not going to do this through nationalization. Instead, what we are going to do is expand the public sector over time. More and more investment will come over time from the public sector, and that will eventually lead to the increased share of the public sector in the production activity. So, that was their plan.

Now, returning to the story, Shenoy in this Dissent Note did not quite attack actually the central and the weakest feature of this model, which is the decision on heavy industry reliance, that the investment will be all done in heavy industry by the State and the private sector actually. And the instrument of course was going to be partly this because the State is going to do that investment. So there is no issue on that.

But they also needed to ensure that the private sector does not take the investable resources and put them into light industry – that was also to be controlled. And so for that, they created this Licensing Permit Raj, meaning investment licensing was introduced through a 1951 Act which had already been put in place – the IDRA, Industries Development Regulation Act of 1951, which basically gave the Government very extensive powers to control private sector activity through licensing and actually distribution and price controls. So it gave powers both for the licensing system – investment licensing – as well as price and distribution controls.

Returning to the debate that was underway, Shenoy basically said that look, the size of the Plan is too large, and you are therefore going to have to – and this was explicit in the Plan – that you are going to finance it very heavily by deficit financing, and that is going to be inflationary. That will very quickly make Indian products uncompetitive vis-à-vis foreign products. All of which happened actually. So he was clearly right. There is no doubt.

But as yet even Shenoy is not attacking actually the central feature of the Plan, which is really the heavy industry part of it. And indeed also, what led to the heavy industry focus was fundamentally the pursuit of self-sufficiency, which is what put you on that road.

One should understand that at this time, and even till today, actually, India is a very labour-abundant economy. Capital was incredibly scarce. The national income was very low, and the savings rate at the time was just 7%. So savings were small, which means that your scope for investment – investable resources – were quite meager. So how are you going to really, with that little investment, create these massive steel mills without putting everything into those steel mills, which is exactly what happened.

Peter Bauer has this incredible statistic that the development expenditure on education, on primary education, in the second five-year plan was simply half of what was invested in one single steel mill. So there were three steel mills that were invested in, and only half of one steel mill's investment went into the entire Five-Year Plan as development expenditure on education. So that gives you an idea of how scarce the capital was.

Now, in another way, if you think about it, labour is your abundant production factor – that is what you got in massive volume. That is the factor you need to make productive. You really need to exploit the productivity of that factor. Capital is only going to get you that far because it is simply too scarce. And so when you leave this entire massive labour force in these small cottage-industry-type production structure, you are not increasing its productivity.

There is no snowball's chance in hell that this productivity could rise, because productivity increase over time requires the workers working with some capital. Over time, more capital becomes available, you work with more capital, so your skill formation itself is actually tied to production activity in the factories. But there are no factories – the only factories are steel mills, where you are employing a minuscule part of your labour force. So those guys are getting their skills - but anyway, those are engineers and managers, etc. The bulk of your labour force gets no productivity increase. So this is how this is going to unfold.

Nevertheless, just to complete the story on the economic thought – basically, all economists, domestic ones as well as a number of foreign economists and statisticians, were also invited by Mahalanobis to comment on the Second Five-Year Plan. They all endorsed it, very enthusiastically, that it is the right way to go. So Nehru was obviously very happy about the endorsement.

Politically, Nehru was uncontested because after Sardar Patel died in December 1950, there was no equal to Nehru. Effectively, if you think about it, most of the other leaders left were very – we can call them pygmies, if you wish – but basically, they were not of his own stature. So his word was more or less accepted by everybody. Some political voices did oppose in the parliamentary debates and all, I mean, that is the job of the opposition.

The Swatantra Party had not yet arrived, actually, by the way. And the kind of criticism that came from Minoo Masani and the others was later. There was a Forum for Free Enterprise, presided over by A.D. Shroff, which existed in 1956. But they explicitly said that we are not a pressure group; we are simply a forum where the ideas are aired and where we try to disseminate pro-market, basically, pro-private sector ideas - free enterprise ideas - but we are not a pressure group – and they never worked like that.

In effect, Nehru really had no serious opposition. So, the Second Five-Year Plan was implemented, and all the other things that followed automatically from it happened – meaning that investment licensing happened as a result of it. The public sector, of course, was a deliberate choice, and licensing naturally came to control the private sector from going into activities that would fritter away the investable resources into non-heavy industry or light manufacturing light industry. Light industry, in fact, was positively discriminated against.

Textile machinery, for example - India was very successful in textile markets in the late 1940s. India had about a 10% share in the global textile market and a very vibrant textile industry, but it was not allowed to expand. It was not allowed to even get new capital, new machinery, because innovations were happening. The Japanese, Americans, and the UK were inventing new textile machines, and they needed to actually replace them, but they got no capital, no foreign exchange to do that.

Indeed, they were forced to bear very high excise duties so that the cottage industry could compete with them. The view in the administration was – how will the cottage industry compete? Because these are large mills, they are super-efficient, their costs are low, and therefore we have to give them some kind of handicap. So, handicaps were high excise duties, no foreign exchange to renew capital or bring in more modern machinery. At some point, they were even required to start producing a part of their production to be khadi. They had to also join in the movement for khadi. So, in this sense, they were given handicaps. That is how the whole thing unfolded.

Now, one piece that needs to be brought in here is the trade policy. On trade policy, Nehru was very hands-off. He never talked about trade policy. What had happened was that at the beginning of the Second World War, the United Kingdom had to, because of its own inefficient industries, had to adopt foreign exchange control. As they adopted foreign exchange control, it automatically got extended to most of the colonies as well. So, India also became a part of it. To administer the foreign exchange control, they had to also put in place import controls.

Import licensing got introduced, and everything that we later on learned about the import control machinery in India in the post-independence era - the basic machinery, all of it was actually invented during the Second World War. There was an essentiality condition that some ministry had to testify or certify that whatever was being imported was essential.

Then there was also a domestic availability angle - that if the product was domestically available, then it should not be allowed to be imported. The domestic availability condition was also put in place during this time. The idea of open general licensing, which means that for those products you do not need the license. So, that was also part of the wartime import control machinery. So all of it had evolved and was left in place, any legislation or machinery that is in place usually does not get easily eliminated. So it was not eliminated. It existed.

Now, India also ran a lot of balance of payments surpluses during this period. That allowed India to accumulate very large balances called Sterling Balances. So India had a good foreign exchange balance coming out of the Second World War.

As India became independent, it could draw upon those Sterling Balances to issue import licenses quite liberally. So, until 1956–57, even if you look at the structure of imports, plenty of consumer goods were allowed and were being imported. A license was to be acquired, but generally, if you applied for license, you would get it. It was a very liberal trade policy during this period.

Even the thinking was liberal. I quote from some of the newspaper editorials - The Times of India, whose archives I was able to access - where there are a lot of editorials written that questioned what this licensing was doing. They complained about corruption, they complain about delays, they complain about all sorts of things and just put an end to it. You know, this is not friendly to the industry.

Even some ministers at that time – commerce ministers – actually are making speeches about very pro–free trade, kind of pro-export speeches. There is also a report that gets written - which I describe in great detail - that talks about how exports are very important and what India should do to promote exports etc. So, there was a lot that was getting written.

But by 1956, foreign exchange ran out. There was a balance of payments crisis. Here again, B. R. Shenoy had the right idea. He writes – devalue the rupee. He was the lone voice. Even A.D. Shroff, who was running the Forum of Free Enterprise, wrote against devaluation. So he was critical of Shenoy's view.

But Shenoy had exactly the right idea, because at that time the economy was doing quite well. The Second Plan was being put in place, investments were being made. So if you devalued significantly, Indian goods would become competitive. That would have provided all the help needed on the foreign exchange side.

But somebody told Nehru about this talk of devaluation, and Nehru reacted by saying this is "*fantastic nonsense*." Those were his exact words. In the end, obviously, devaluation got no salience whatsoever. This was, I think, a 1958 article. By 1957, they had clamped down on foreign exchange control very heavily.

So, up to 1957 it remained liberal because a lot of the import licenses had already been issued for the whole year, and they basically honoured those licenses. So, up to 1957, you still see a relatively liberal flow of imports. But from 1958 onwards, it got very tight, and by the early 1960s, it was a very, very tight import regime. Consumer goods imports, other than essentials like food, etc., were all completely gone.

This is where all the three different sets of regulations came together. On investment, you had investment licensing. On imports, you had import licensing. Then you had foreign exchange control. It was a very complicated system.

If you were trying to invest, you needed an investment license. If your investment required imported machinery, then there was another committee. So you would first go through one whole big machinery to get the investment license, through which you have to go through the hoops, and then you would have to go to the Capital Goods Imports Committee which has to give the clearance. Even if the licensing authority was willing to give you a license, if that committee denied you foreign exchange, then you would not get a license to import capital machinery. That would be the end of the story - your license would be meaningless because the machinery was not there.

Then for your raw materials or intermediate inputs, if you needed imports, you had to go every six months through a whole system to get foreign exchange and get your import license. The import license would be issued for a year, but foreign exchange would be issued only for six months. Six months later, you had to go back again for foreign exchange. If the foreign exchange authority said no, then the import license was no good. Somebody had to ensure that the import was essential, somebody had to ensure that it was not domestically available. All of this involved a huge bureaucratic machinery in place.

So you can imagine, it was very difficult to write these chapters – Chapter Six and Eight of my book - were very tough to write because the information was spread out. Different agencies were in different places, and they were all writing about different pieces in different places. So it all had to be pulled together.

For the reader also, these are tough chapters to read, but I wrote them precisely to let the modern-day generation, post 1980 born generation know and understand.

Today we might be complaining about GST or taxation, etc., but just read what existed at the time, what an industrialist or what an individual had to really put up with. It would embarrass even George Orwell. The system, as it existed, was a real labyrinth of a system.

Anyways, industrialists worked with that.

Very briefly, let me mention something about the lasting legacy.

So, this is what, when the growth obviously did not happen, of the kind that was required, we grew until about 1990, at an average growth rate of a little below 4%, or around 3.8% or so, population was growing at 2.2%. The per capita income growth was very little, and poverty reduction was almost not there. So, in terms of outcomes in the end, the objectives of the planning were not realized. In 1991, of course, there is the liberalization that is unleashed, and we began to grow a little better.

Very briefly now, however, if I do a comparison of India and China:

The book starts out talking about these two different projects. One is the political project – which is to establish India as a democracy with universal suffrage, which was very uncommon in those days – that is a very successful project of Prime Minister Nehru. But his economic project, as I have described, was more or less a complete failure. The two interact however.

Whereas in the Chinese case, after Mao passed away, and Deng Xiaoping came in and said, "We are on the wrong road." He begins to change the system. Since he is operating in an authoritarian system, he is able to move much faster. He also faced internal opposition, but it was easier for him to control, given the fully authoritarian system.

We are in a democracy. That is the most valuable institution, that is what India values the most. In that system, however, you have to take people along. You have to make the changes, you must evolve consensus. There are opposition groups, groups that will come in and strike against you, there are groups who will make themselves heard, there is media, and there is all sorts of forces at work. So, the change was slow.

So, the kind of growth that South Korea, Taiwan, China etc. could experience because of their authoritarian systems – by the way, South Korea, Taiwan, Singapore – they were all authoritarian systems when this very rapid growth happened. Some people forget - they think that they are democracies. No, democracy is a much later development. When the fast rapid growth happened, they were all authoritarian systems, and so they could bring these changes much faster. Particularly, the Chinese case is a good one to compare with, and so the Indian system moved slowly.

But within the Indian system, you see there is a baggage that continues intellectually. What happens is that in the system, there is an inheritance of the old ideas to the newer generation. The older generation population is much larger at any given point in time - in any year, or in two years, or a five-year time – there is a small addition to the population happening, but the big population is what exists already. So in every field, it is the legacy that the older generation is giving to the newer one that dominates.

So, the socialist ideas from the political class go to the newer politicians. Similarly, socialist ideas from the intellectuals – mainly economists – go to the newer economists. Even the business people, they are also very socialist in their approach, their ideas to them are also; and then above all, you have the bureaucracy. The bureaucracy is also very much steeped deeply into this socialism, and that socialism also gets bequeathed to the next generation.

A new crop of IAS officers comes every year – the top civil service comes every year. It's a small addition to the existing stock. It's the existing stock that trains the newer generation into its old ideas, which then get embraced by the newer generation, and this legacy continues. This is what also makes the change incredibly difficult.

This is where I speculate that if you look at my kind of tribe – the economists – look for liberal economists who have been basically brought up and educated in the Indian institutions, it is hard.

Serious pro-market advocates - the endorsement of this or that liberalization is one thing. Now, in the changed atmosphere, many people do it. But are they advocating for freer markets, freer trade, open markets, you know, serious advocacy? I think you would be hard-pressed to find any.

Anybody you think of has been basically exposed – educated in the United States. Not even the UK, actually, very few economists who get trained in the UK come and champion the cause of markets. It is largely the economists trained in the United States or who have lived or some people who had good exposure to Asia, where they see the force of open markets and free trade at work.

Who were the champions of liberalization among the economists in the early years? These were people like Avid Hussein, Montek Singh Ahluwalia, Rakesh Mohan, Shankar Acharya. These are all people trained outside. That, I think, still remains.

I speculate in the book that only one economist I can think of – homegrown - who is arguably homegrown and really is a champion of markets is Govinda Rao. But it is hard to go beyond that.

This has really therefore meant very slow change of the system, and I document that the opportunities for change come, but socialism continues to rule.

First, there is a contest between Mrs. Gandhi and the syndicate of the Congress party. The syndicate was supposedly less socialist. They are both socialists, but the syndicate is less socialist. Mrs. Gandhi is more socialist. The more socialist side wins.

Then, after the Emergency, the Morarji Desai government comes in. Morarji Desai, in those days, was seen as a friend of the industrialists. What does he do for the industrialists during the three years (a little less than three years) that he is the Prime Minister? Nothing. He is running exactly the kind of government that Mrs. Indira Gandhi was running.

Indira Gandhi returns, of course, for four or five years, and then comes Rajiv Gandhi comes in, in 1985. Genuinely, he wants to end the socialist system. There is a whole year of speeches he gives - I quote extensively from those. He really wants to change the system. He does not want to use the word “socialism” in his speeches actually.

The first budget he presents for 1985-86 is a very liberal budget, very reform-oriented budget. People like Nani Palkhivala, Prem Shankar Jha – whoever has some sympathy for liberalization – hails this budget as fantastic. But within a year, it is all gone. The senior Congress party leaders basically capture him.

Within six months, in May 1985, there is a Congress party AICC Convention in Bombay, and basically they tell him that if you want endorsement by the Congress Working Committee of what you have already proposed in the budget, then you got to embrace socialism – that is the bequest of Pandit Jawaharlal Nehru. This is Jawaharlal Nehru’s party; we cannot afford to leave socialism behind us.

So, at the end of the Convention, when Rajiv Gandhi gives his speech, there are a lot of liberal references to socialism. He redefines it, saying "socialism to me means bringing poor people up, not pressing the richer people down.” He still sticks to his guns by redefining socialism, but nevertheless, he has to accept it as part of the Congress party’s agenda.

Eventually, the second budget is not such reformist anymore, and Nani Palkhivala is again critical of the budget. So that is where it ends up. That is the third opportunity for opening up to happen, but it does not happen.

Finally, it is in the face of a crisis and a very different kind of leader taking the helm - Prime Minister P.V. Narasimha Rao, bringing in Manmohan Singh as his Finance Minister that finally a change takes place.

There is something to be explained: Why a leader like Narasimha Rao, who was himself from the Nehru era and actually was only three or four years younger than Indira Gandhi, why he opened up. That also is a mystery.

The book has a whole chapter that tries to explain Narasimha Rao. How do we really understand what he did and what he decided to do. Mind you, he not only opened up at the time – you can say the crisis forced it, there was no other way to go – anybody who was Prime Minister would have had to do it. But remember, that is not where he stopped.

He then gave entry in Telecommunications to private operators. He gave entry in Civil Aviation to private operators. He continued to liberalize financial markets. Bank entry became much more liberal. A number of these steps were taken. Clearly, Narasimha Rao made a serious effort at liberalization – he was a serious liberalizer. So, why did that happen?

And then we also know later on, Vajpayee carried on the reforms. But then for 10 years, the UPA came back, and socialism actually had a return. You got the Land Acquisition Act, the Right to Education Act, the Food Security Act, you got retrospective taxation - all the kinds of things that economists of my kind of persuasion were arguing against were reintroduced.

So this struggle between socialist thought and the more pro-market thought has continued in India, and socialism has a lot of followers. Even today, if you look at the education that we impart in colleges, the professors are all steeped into the old kind of socialist tradition, and therefore, the students they produce are also of the same kind. You basically try to reproduce yourself - all professors will probably be accused of that. But that is how it is.

(I will stop there and hopefully we can still have some time for questions.)

Prof Kumar Anand:

Thank you, Prof Panagariya, for that illuminating talk. I really enjoyed it, though I must say the future does not look too bright, as yet. I will quickly use my privilege as Moderator *to ask the first question, and then we will address the many questions that have come in via Zoom, YouTube, and directly as well.*

I would like to quote briefly from the preface of Milton Friedman's 1982 book ***Capitalism and Freedom****, where he talks about crises. He says: "Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable."*

You briefly touched upon this. So, I was wondering, given your deep engagement as well as understanding of both academia and policy and government, I don't know if you foresee a crisis in the near future, but do you see those ideas around? The kind of ideas that Prof Shenoy have talked about - Bhagwati, Padma Desai have talked about – are those ideas around? Have you seen them?

Prof Panagariya:

No, I think times have changed. There is no doubt. We do have a constituency, meaning, pro-market commentators and thinkers, have a constituency, and it is no longer the 80s. In the 1980s, there was no constituency, even I was very pessimistic then. I thought that given our bureaucracy which thrives on these controls will never get it changed. I mean, I was very pessimistic in those days but then once the 91 reforms happened, even in infrastructure progress under Atal Bihari Vajpayee, building these fantastic roads, my pessimism went away completely.

The first set of pessimism went away with the liberalization of '91, that things can change and then for a while I was a bit apprehensive that who is going to build infrastructure? For that you have to rely on the government, and our government is completely incapable of building infrastructure. But then, those roads that got built, the Golden Quadrilateral Project showed even our Government could build good roads.

I would slightly disagree with Milton Friedman's statement here that the crisis did open the door for reforms in India, it did a bit more. It could have ended where Narasimha Rao left it, or even the first blush of reforms and to investment licensing and the devaluation and some opening of the trade sector, right? It could have been left there.

But, over time constituency has grown. Bimal Jalan is a good example. Bimal Jalan before liberalization very much believed in controls and all. But, I think, somewhere in mid 1990s or so wrote a book himself and he did a *mea culpa* there by saying that I was initially skeptical of the remark, but I now support it. And, so many converts then came along. You know, nothing succeeds like success because growth happened. Growth happened, poverty came down. So, that strengthens the hand of the advocates of liberalization.

I am not pessimistic at all. In a democracy, there will always be periods – when things are not happening – but change will also happen. I mean, the beauty of it is, for 10 years I wrote very critically of the government.

I mean, when Dr Manmohan Singh was the Finance Minister, I wrote heavily in his admiration, for doing what he had done. But I also wrote critically of him for almost 10 years. But whenever he did something which was liberalizing, like the entry of the retail trade - it did not succeed fully - but the door was opened by him in 2011-12, or somewhere there - I wrote very much applauding him for what he had done.

And there are many more now, you know, who complain about and even among industrialists, there is still some change, on average Indian industrialists and businessmen, they are not really market-opening types. They prefer import substitution and subsidies. These are the things they ask. They do not ask for policy change.

I still have those complaints, that you would think that after having seen the liberalization work, they would become a force – a lobbying force for liberalization – but they do not seem to do that. I mean, even in free trade negotiations that are happening, where are our exporters? I mean, they should be there lobbying for these free trade agreements because they are going to be the beneficiaries.

I understand those who are doing producing, importing competing goods. They have to, you know, if you open the market, then they have to compete against the free flow of imports, but the exporters are going to benefit. Where are they in this whole negotiation? You do not hear from them.

Prof Kumar Anand:

On a related note, before we move on to different sets of questions, I remember, in 1995, Ashok Desai wrote this piece, and I quote, if I am not wrong Swami Aiyar and Ashok Desai are the only two exceptional journalists who have kind of taken up this – in 1995 Desai talks about how one of the reasons that the push and the momentum of reforms never continued is because no particular leader went out and tried to sell the reforms, so, in that sense, the constituency of reforms. And therefore, in the recent example being the farm bills – you wanted to push it but unfortunately there was not enough buy in or public support and demand for it.

So, I would just quickly love your view on that and the related question comes from Prof Parth J Shah:
"How much do you feel that we have really shifted today from that approach to economy, irrespective of the labels government may use?"

Prof Panagariya:

There are two or three questions in there, so I probably I did not catch them all. It is true that Prime Minister Narasimha Rao really did not go out to sell the reforms, but Prime Minister Vajpayee did!

Prime Minister Vajpayee used to say in his Independence Day speeches from the Red Fort would say that India needs double-digit growth. He was the first Prime Minister to actually come out and say that India needs double-digit growth to overcome its poverty.

So, Prime Minister Vajpayee was very vocal, and he certainly took an exception to that kind of statement. I think Prime Minister Modi has often not done that. He now has a very long run. So there have been periods – you mentioned the farm laws and all.

I personally do not think that the farm laws were turned down because of a lack of sufficient groundwork. I think that is a false narrative which has been peddled by many. This reform was introduced in 2003 first through a model APMC Act by the Vajpayee government.

For almost 17 years, and through bipartisanship - both Congress and NDA governments – both UPA and NDA governments – tried to convince the states that these are good reforms, do them. They were actively all involved. Many states did actually adopt the model law, but ultimately they did not use the model law effectively.

Then, even as late as 2019, I think there was a parliamentary committee with membership from all parties which unanimously recommended that you need to end the monopoly of the middleman at the APMC. So what are we talking?

There was a lot of discussion that happened and had been going on for more than one and a half decades. It is that the intermediaries in Punjab and Haryana – particularly Punjab APMC *mandis* – were going to be adversely impacted, and they really mounted a very effective political opposition, aided by a lot of funds and money.

I mean, you tell me – outside of Punjab or maybe Punjab plus Haryana, how many other states were opposing it? Nobody came to oppose it. So I do not buy that.

But sometimes these setbacks happen, and that also, by the way, in the end had a detrimental effect on the implementation of the labour laws, which had also been passed in 2019 and 2020. But that is the nature of the game. Those of us who are fighting for markets have to be there for the long haul. It is a battle you have to fight on a continuous basis.

Prof Kumar Anand:

Yes, I agree. I mean, a small group of people can definitely be more loud than others in asking for political space.

Prof Panagariya:

It depends, because Punjab is right on the border of Delhi, and so that gives the Punjabi farmers obviously a lot more clout.

By the way, B. R. Shenoy himself is a very good example of somebody, right? I mean, we at least have some hearing. He had zero hearing. But did he change his mind or join the rest of the crowd? No.

I think this is partly due to the integrity of thought of a scholar – you know, those who believe in it. Which he did plentifully of course and applauded by keeps him grounded, you know – for those who truly believe in it, as he did wholeheartedly, of course. And he was applauded by Jagdish Bhagwati himself for that. But he also believed that he was right. You have to have that conviction.

Prof Kumar Anand:

The next question comes from Anirudh Dutta. Another related question comes from Anonymous. I will read Anirudh's question first. He says,
"India has done better than most Asian, Latin American and African countries, except ASEAN and parts of North Asia, after independence. What do you attribute this relative success to? And what did India get right to avoid a similar fate?"

Kind of a related but maybe different question: Anonymous asks:
"If we compare Nehru's economic model with that of East Asian development states like South Korea, what could India have done differently?"

Prof Panagariya:

Okay, let me take the second one first. Very, very good question actually.

The fundamental difference was that our development was driven by heavy industry. That had at least two disadvantages. One is the conventional one, which is the comparative advantage. You are a capital-scarce country. You need to spread your capital. Very little capital is there. If you're going to make labour productive, then that is what you have to do.

Milton Friedman put it beautifully – he said, at one extreme you have capital working with very little labour, and at the other extreme you have labour working with almost no capital. Both are badly allocated. Both will work inefficiently – which has turned out to be true. South Korea, Taiwan, Singapore – they all started with labour-intensive industry. They very quickly became competitive in the global marketplace. They did not face the kind of import restriction, meaning, the foreign exchange shortages that we did, because they could export. And they did not mind that these were clothing, textiles, toys – these were the kinds of exports.

South Korea, quite surprisingly, found that by 1971 or '72 - within eight or nine years of their export-oriented approach which started around 1963 – 10% of their exports were actually human hair for wigs. Nobody could have predicted that, but the market works in strange ways. Entrepreneurs find out what is in demand. That is a big difference.

The other aspect was that – our model became exclusionary – meaning that large parts of the population were excluded from either participation or benefits of growth. Some growth did happen in the industrial sector, but there were very few people employed in those sectors. These were heavily capital-intensive industries, and that is a problem that continues till today.

I mean, that bias again is a lasting legacy, a lasting impact, that even today, nobody - look at our clothing exports: $14–15 billion – in a, like, $450–480 billion market of global marketplace.

What you are still doing is putting your capital in one place, labour in another. You have 45–46% of your workforce in agriculture, and another nearly 40–45% in these micro and small enterprises, because they cannot get capital – because all of the capital is taken.

You have got Reliance – just think about how heavily capital-intensive the refineries are. But then, our successful sectors also are machinery – we manufacture all kinds of machineries. So all these are very capital-intensive sectors. Or you are successful in the IT sector, which is again very skilled-labour intensive. But for the bulk of the work, unless you use your abundant factor effectively, you are not going to get the kind of growth that you can get otherwise.

So this exclusion not only did not work in terms of elevating poverty, but it also impacted growth adversely. We talk about inclusive growth – growth which leads to inclusion. But there is also growth that itself actually gets impacted by the lack of inclusion. And because the process that we adopted basically excluded your most abundant factor, namely labour, your growth itself was slower. So, lack of inclusion also has an impact on the growth rate itself.

Prof Kumar Anand:

I think that is one constant theme of your TOI articles.
I keep saying that, that is one thing that you keep talking about and I like it very much.
Thank you very much.

Prof Panagariya:

That is a way of advocacy. You see, I also say somewhere that in public policy, repetition is an asset, not a liability. In the academic writing, you cannot repeat - once something is originally said, you do not get anything by repeating it. Nobody will publish you. But in public policy, repetition is extremely important.

Prof Kumar Anand:

Next question is from Ajay Dev, he talks on the issues on devolution. He asks:
"Jawaharlal Nehru's economic philosophy deliberately created a highly centralized planning system where the union held almost all taxation levers. Today, when states are responsible for 63% of government expenditure but have access to only 38% of total revenues, does the Finance Commission see this as a structural continuation of Nehru and centralization? If so, how can future devolution formulas or institutional reforms correct this to make fiscal federalism more equitable and responsive to state-specific needs?"

Prof Panagariya:

No, I mean, in my position I do not comment on this kind of question. But one thing the person asking the question needs to do is, go and check the data.

I mean States have more than half of the tax revenues.

Prof Kumar Anand:

Oh, cool. Okay, I will just take another question from him. It says:
"Given that the Second Five-Year Plan emphasized heavy industries and import substitution under the Mahalanobis model, how does the government retrospectively assess the long-term distortions this approach caused – such as neglect of agriculture, wreck employment generation, and inefficiencies in the public sector? Was the

overemphasis on capital goods and state-led industrialization at the cost of rural development?"

Prof Panagariya:

So, it was at the cost of the rural population, I would say. I will not say rural development. I mean, agriculture did actually – finally, by the mid-60s – we did centrally address productivity in agriculture, and agriculture did actually flourish eventually. Today we are more than self-sufficient; we are capable of exporting a lot of wheat, rice, etc. So in this sense, agriculture has been attended to.

Where I feel it hurt the rural population is that it did not create enough opportunities – jobs, basically – in manufacturing and services – well-paid jobs to which they could go. See, if you look at any successful industrializers, again, you have got a few examples. I mean, you can go back to the UK, the US, Japan, South Korea, Taiwan, Singapore, China – all these countries which successfully industrialized and successfully eradicated poverty. One of the most important features is that these economies created jobs in manufacturing – well-paid jobs in manufacturing and services – to which the rural workforce then migrated.

You start in 1960, South Korea has about 65% of its workforce in agriculture – this is in 1960, almost till 1963 – and by 1990, that drops to well below 20%. And the urban population, which is also in the range of 25–30% in Korea, but it crosses 80% by 1990. So you see, the point is that rural population is also a static population. There is a migration which leads them into urban spaces, and Korea really became very urban.

In the US, for example, why is it so easy now to take care of the farmers? It is very easy for the US because only 2% of the workforce are farmers, so 98% can easily take care of the 2%. But when 46% of your workforce is in agriculture, how do the remaining ones – who are also not doing so well help – I mean, there is only maybe 5–7% of the workforce which is doing really well. These are the highly capital – and skilled-labour-intensive large-scale corporations. They are doing well. Otherwise, even the micro and small – let us say – large part of the urban economy or non-agricultural economy, is micro and small. They are not even into this. So it is really like 5 to 10% at the most of the economy taking care of at least 46% who are in agriculture. That is simply, you know, how far can they go?

We have actually, to the extent revenue resources permit, we have created these redistributive mechanisms, and the political system is responding to that. You know, the whole competition for these subsidies, etc., that we see during election time is basically a manifestation of the political system responding to this inadequacy we created – effectively by still not doing enough to open the doors to the labour-intensive industry.

Prof Kumar Anand:

Thanks.

Next question comes from George Pius. He asks about poor infrastructure.
"With the present scenario of India's infrastructure bridges which is collapsing every 1–2 years after construction, and sometimes much earlier, poor quality of work in our infrastructure projects, and project delays of over 10–12 years – what could be India's future, especially for our next generation?"

Prof Panagariya:

This is a young man who probably does not know the travails of those who saw no roads in India. It is a good time to complain about the quality of roads because at least we have now built the roads. In my current position, I have gone to 27 out of 28 states – I had to miss one because I was not feeling well at the time. And boy, the road connectivity that we now have is just phenomenal. Absolutely phenomenal!

Part of it is, if you see, the occurrence of these quality complaints more is also because many more roads exist now, and many more of us are driving on these highways, as opposed to taking the bus or the train. So we are seeing that. But it is a good thing. I mean, the process itself is good because it is through complaining as loudly as we can that attention will get paid to the quality also.

But the first thing is that we have got the roads. The kinds of bridges that we are building today – I could not imagine! Look at the coastal road in Mumbai with the tunnel – it is the first of its kind. The *Atal Setu* – first of its kind – we have created a lot of connectivity actually.

By the way, the BRO – the Border Roads Organization – which has the responsibility to build roads near the border at very high altitudes, 12,000–13,000 feet – I have gone on some of those roads. Incredibly high-quality roads! Absolutely fantastic!

So these are all small bumps on the road, literally so, which will be flattened over time. We should, of course, as I said keep complaining, but there is no reason to derive any pessimism out of that. I generally feel the complaints are a manifestation of the fact that there are so many roads and so many people are traveling on them.

Prof Kumar Anand:

Thanks. Next question comes on a very topical issue – issue on protectionism, from Sanker Rao Chirala:
"The advocates of free trade liberalism like the USA are going back to protectionism. Even India and China are following the same line. Is it the absolute nature of policy or circumstances that matter to decide the nature of economic policy of a country, whether liberalism or protectionism?"

Prof Panagariya:

Paul Samuelson once said or wrote that protectionism is like a skin disease – you cure it in one place, it appears in another. So it is a constant battle. This happens.

But I think, by and large, the liberalization we did from 1991 to 2007 really got us very far already. So, some reversal has happened, but that is a matter of continuing to advocate. Currently, there is a good opportunity for India. If this agreement with the United States gets signed, that will mean a lot of opening up – a lot of liberalization will happen. That will probably also open the door to an agreement with the European Union – that politically, it will become a little easier.

We have already signed one with the United Kingdom. We have signed one with Australia. New Zealand is also seeking. So in a way, the cure is also happening as the disease might be striking in some places. But in other places, we are also making progress towards that. Let us see. Hopefully, we are hearing that the US–India agreement might be announced pretty soon. So, let us hope. But those who believe that liberalization has done good for India have to come out and lobby for it.

Prof Kumar Anand:

Thank you. Next question is from Subodh:
You talked about legacy ideas. The 1991 reforms needed a crisis. For the next ten reforms, do we need to have another one?

Prof Panagariya:

I am not a crisis person. You are right in a way that a crisis will help. But at the same time, crisis is not what we seek.

We have to continue with reforms. What you are saying is correct – that a crisis does make change easier, in terms of change, then people accept change more easily.

But I neither seek that nor do I see any prospects of that, because we have handled things well. One thing India has done very well is handling macro. Even when the COVID happened, right? That was a fantastic example of how prudent the Indian government was. Because, from within, there were massive attacks on the government, because they wanted India to do what the United States and European countries were doing. The government was more or less surrounded by people – even those who are otherwise very sensible and measured and all – they were all calling for – print money and expand.

But the government got the right diagnosis. I was probably the only economist – at least outside the government – who was actually advocating what the government did. I am on record having written that this was the right way to go.

I felt that this was a supply shock as much as a demand shock. So unless you fix the supply side, just fixing the demand side is only going to give you inflation, it is not going to give you a response. Unless people can go to work, how can the economy start functioning? This required supply chain restoration as much as it needed the demand. So, the government did the right thing.

Those countries which thought they could solve the problem from the demand side without solving the supply side really ended up with massive inflation. The US got inflation for a while going all the way to 20% or something, a very unprecedented rates of inflation.

So, the central point of your question – unfortunately, the work of people like me is not going to become that easy, that a crisis happens and we get the reforms. Thrown in into that, very likely, we will have to continue to fight in a piecemeal fashion and convince policymakers.

Prof Kumar Anand:

Professor, as per the schedule we have limited time, but I was wondering if you have few more minutes we can take a few more questions and then close? (Go ahead, responds Prof Panagariya)

Thank you. Next question is from Amit. You talked about how during the planning era, the allocation for primary education was very small – miniscule, so Amit asks:
"B.R. Shenoy had a vision for a liberal education model that included a role for private schools. Do we see the scope of realizing that model in India today or tomorrow?"

Prof Panagariya:

Privatization is happening, basically because of the overall poor quality of education in public schools.

Parents have realized that without education, there is no future for their children. So they want their children to get whatever best education they can afford. So, they will go through all sorts of hardship to put their children in private schools if they can.

The market has also responded. Because, there are schools with tuition fees as low as 100–150 rupees per month. At that fee, those schools become very much within reach of a large chunk of the population.

So, you can see the data showing – except during the COVID era, for which reasons were different – there was some movement back to public schools – other than that there has been a steady shift of children from public to private schools.

Frankly, it would be good if the government would legitimate the advice – simply giving the power back to the parents, meaning, the financial power. But the politics of it is very different. Teachers' unions are very powerful, and they are very large. So they are a powerful force.

Also, governments like to spend money and create jobs. One of the places where it is relatively easier to justify expenditure is education. And a large part of the education expenditure is really teachers' salaries.

Prof Kumar Anand:

Thank you, probably this will be the last question we will take. I think you must have covered it but I will just quickly check anyway. Chetna asks this question:

"What role did the political climate of the early years of independence play in silencing or marginalizing voices like Shenoy's?"

Prof Panagariya:

No, it was not politics. The academic scene in India was not accepting of the Shenoy view at the time. It was hardly – as I said earlier, that if you look back, even Milton Friedman in 1955, he was not yet quite accepted within the US. It is much after that that he acquired stature. He was such a persuasive academic. He really. His power to argue was incredible. But it took quite a bit of time.

Shenoy was simply well, well ahead of his time.

Very interestingly, in the book, I mention this: the review of Shenoy's book that Bhagwati did. Bhagwati was relatively complimentary, but in the end, he was also a little critical saying that, I mean, this is Bhagwati and Desai – whom very soon themselves wrote the book.

He sort of said – criticizing the ground that you know – Shenoy was hostile to the whole idea of planning – an economist who is actually seen as an advocate of liberalization, right? But the view Bhagwati and Desai took was that planning scope should be reduced, but they did not say eliminate planning.

In Bhagwati and Desai's book, they do not say "eliminate planning or do away with it." They say, give more flexibility to the exchange rate – something that Shenoy had been constantly arguing as well. But they also said, do not try to plan everything. Just focus on a few sectors that you want to develop and leave the rest to it.

At least until 1970, even Bhagwati and Desai did not speak in terms of do away with planning. That tells you: to be salient, to have a hearing, to be in sync somewhat, you had to be a little more in the middle.

What Shenoy was arguing – practically he was a lone voice at that time – within India, there was nobody else. Even after him, it took a very long time. People may now come in and say, "Oh, I was interested in liberalization," etc., but afterwards you do not find any record of these people having actually come out to advocate for it at the time.

Prof Kumar Anand:

*Just this morning I was watching this video when Jagdish Bhagwati with Padma Desai's book came out, how they were called **marginal economists**. And in the video interview, he says – he took that as a matter of pride because the marginal revolution is a very important thing for economists to be called themselves.*

Prof Panagariya:

Absolutely. I refer to their book also. I read at least six reviews of that book – they were all uniformly critical. And I describe three of them. Of which one is – guess who – by none other than Dr. Manmohan Singh.

Dr. Manmohan Singh also, after a little bit of compliment at the beginning, ends by saying, "Markets don't have the answer to everything."

Prof Kumar Anand:

And just before I conclude – one small anecdote that Bhagwati shared. In the interview he talks that after the 1991 reforms, Manmohan Singh was in DC and we had a good meeting with all the big U.S. industrialists – like Boeing, and others. Bhagwati and Desai were the only academicians invited.

Manmohan Singh said, “If we had listened to what Bhagwati and Desai talked about in ’66, which is 25 years ago, I would not need to have this meeting with all the other businessmen today.”

Prof Panagariya:

Yes, I know of this – that Manmohan Singh said that. Following up on that, you know, there is another thing that Manmohan Singh told Jagdish Bhagwati, who in turn told me, “You think that you and I are doing the reforms? No. It is the children of the politicians who all study in the US, who tell their parents, ‘Why have you been left so far behind?’ – that is what has persuaded the politicians to change.”

These things can have an impact in all sorts of ways which we do not always understand.

Prof Kumar Anand:

Except unfortunately, it is a little slow. We would want it to be a little faster.

Prof Panagariya:

This is why you really have to have passion for it – it if you believe in it, and if you feel it is something important for the country. Most people may have the right ideas, but they lack the passion. That means their ideas do not really serve the kind of social purpose that they could.

Prof Kumar Anand:

Thank you very much, Dr. Panagariya, for being so generous with your time. This brings to a close to the B.R. Shenoy Memorial Lecture 2025. On behalf of the Economic Research Center Mangalore and Center for Civil Society, I would like to thank our speaker, Professor Panagariya, for such an illuminating talk and for engaging with the questions from the audience.

Most importantly I also thank the audience for asking great questions, and to my colleagues at CCS – Saurabh, Jinny, Chetna, Ravi, Kunal, Ayushi, Pratika, and Varsha – who helped organize the lecture. Good evening, and have a great evening everyone.

The transcription above was created from the recorded event uploaded to YouTube. While the text is mostly accurate, minor adjustments have been made in certain places to improve readability and flow, without altering the original meaning or content.

as2020kochi@gmail.com