CHAPTER 2

# Economic Knowledge and the 'Indian' Economy

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It is impossible to think about India as a nation without thinking about the poverty of its people. Once the idea of a unified Indian nation was articulated in the second half of the nineteenth century, the poverty of the Indian people that resulted from exploitative colonial rule became a defining frame of nationalist economic thought and policies. Following independence from British rule in 1947, poverty or low living standards informed normative ideas around centrally planned economic development. Even as the Nehruvian socialist model was eventually abandoned in 1991 in favour of market-oriented economic policies, the focus on economic growth continued to be framed in the context of Indian living standards, which remained low by the end of the twentieth century. In the twenty-first century, the poverty of India framing has ceded ground to frames of 'relative prosperity' that the Indian middle classes' experience. Nonetheless, poverty and inequality continue to frame economic discourses of the nation.

The shifts in the framing of India as a nation parallel the changing measure of the nation. The framing of the nation by successive generations of Indians reflects the various stages of economic nationalism in India since the 1860s. Thus, 'India' is envisioned in subtly different ways as the early investigations into the negative impact of colonial rule spurred economic and political activism, which in turn became a struggle to secure control over the narratives and policies shaping the economic lives of Indians. Subsumed within these aspects of economic nationalism are the debates and clashes of diverse economic ideas, as well as the intersectionality between concepts of development, the fiscal system, international trade policies, industrial growth, protectionism, economic planning, private enterprise and entrepreneurship, and so on.

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Modern Indian economic thought, therefore, provides a rich archive to excavate the shifting frames in which India as a nation has been perceived. The historian can discern the contemporary framing of economic issues, and the way later generations of scholars, in turn, have studied earlier framings. The historiography provides a fecund source to interrogate the interplay between theory, history, and practice that often transcends strict disciplinary boundaries. To discover this interplay is to understand how the idea of India has shifted over nearly 150 years, how Indians reconfigured India as a unified economic space, how they constructed their vision for a future of India and its people, and how, in turn, these visions shaped economic thought in India.

From an epistemological perspective, the relatively modern concept of a 'nation' continues to be debated. As Partha Chatterjee noted towards the end of the twentieth century, the tension between the 'subject-centred rationality' (with its epistemic privileges) and the 'local, plural and incommensurable knowledges' (with its fragmentary, heterogeneous subjectivities) exposes the complicity between knowledge and power (Chatterjee 1993: xi). This fragmentation of knowledge, as opposed to its universality often claimed by a discipline, is mirrored in the conception of a 'nation' with *its* fragments and constituent parts. The history of Indian economics and economic knowledge illustrates this fragmentation in the framing of 'India'. The way the 'nation' was conceived by the discipline, the plurality of its conception and framing in economic terms, and the tension between the universality and heterodoxy within Indian economics are evident in the changes within Indian economic thought. This is the chapter's central thesis. As a recent collection of essays on pluralist economics in India argues, the discipline of economics generally fails to recognize that there are paradigm shifts within the discipline, and that the history of this discipline is not a linear trend towards 'truth' (Sinha and Thomas 2019: 1). Indeed, the history of economic knowledge in India is a history of how 'unconventional' ideas about the Indian nation had their origins in Indian economic nationalism of the late nineteenth century (S. Sen 2019: 256–268).

Additionally, the boundedness of India in its economic contexts was also subjected by Indians to the task of rendering the idea of 'India' as a concrete notion. This boundedness oscillated, among other things, between its nativist figurations of a 'national economy' and the territorially bounded framing of a sovereign 'country'. As Manu Goswami notes, '[t]he very idea of India as a bounded national space and economy has made possible both a universal language of national unity and development, and engendered terrifying violence and social conflict' (Goswami 2010: 5). While helping to crystallize the idea of India, economists have tended to osmotically shift

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between the epistemic notion of India as a 'nation' and the political notion of India as a 'country'. This osmosis becomes visible when examining the plurality within Indian economic paradigms of the twentieth century. Thus, the idea of India in the formal, mathematized models used by central planners after 1947 to steer capital investment and generate economic growth within the territorial political entity is quite distinct from the idea of India in studies examining the economic impact on Dalits and other marginalized social groups (Gehlot 1993; Kapur et al. 2010). Such differences transcend the problem of 'scales' in economic science: the differences illustrate Chatterjee's tension between universal as opposed to fragmented epistemic approaches to economic knowledge referred to earlier.

This chapter uses the archive of economic knowledge from twentieth-century India to highlight the plurality of economic thinking that characterized it since the days of the nationalist movement of the late 1800s. The idea of India is embedded in the notion of 'India' as a sociocultural and economic construct rather than merely a territorially bounded sovereign political entity. The universalizing disciplinary claim of economic knowledge has consistently been challenged by a pluralistic tradition. This approach was originally evident in the economic nationalism during the colonial period. The tradition of challenging the 'orthodoxy' and conceptualizing the 'nation' in pluralistic ways has continued in the second half of the twentieth century and the first quarter of the twenty-first century.

The chapter examines its thesis by considering select historical moments, debates, and case examples to illustrate the main arguments. These include the contesting notions of development, the role and responsibilities of the state and its fiscal system, the place of private enterprise, entrepreneurs and innovation, and the extent to which economic development could be planned by the state or achieved through the market. By necessity, what follows is a broad-brush exploration and not a detailed record of the development of Indian economic thought.[1] The narrative is an examination of some of the ways in which economists have framed India as a nation. It serves less as an exhaustive history of the discipline. The narrative is enriched by including the contributions of a diverse range of individuals, both 'professional' economists and those who may not have identified themselves as such. Most of the protagonists in this chapter made key contributions to Indian economic knowledge. Many were—and in some cases continue to be—academic economists with university affiliations. Economics as a *social* science was firmly anchored in practice (or 'doing') as much as it was in the theory, concepts, or methodology of knowledge creation. As this chapter explores, the practitioners (often those in 'official'

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government positions) made significant contributions to debates about 'India' and 'Indian' economy. Thus, by casting the net beyond the academy, the chapter is less dismissive of 'non-academic' contributions to economic knowledge in India (Bhagwati and Chakravarty 1969; Byres 1998: 74).

Concomitant to the shifts in the framing of India and its economy, there were profound changes to the economics profession during the twentieth century, which accelerated after 1955. Once again, by necessity, these changes are only glimpsed in this chapter rather than examined in detail (Ambirajan 1996). There was an underlying tension in the borrowing of economic ideas from Western economists as opposed to indigenous notions about how a national economy should be constituted. Although nationalist thought during the colonial period rejected the overly universalist ideas of classical British economists, there was a greater cross-fertilization of economic expertise between Indian and Western (European and American) economists after 1950. The Indian economic 'community' as such can trace its origins to the colonial period. But during its professionalization, the locus of influence shifted mainly to the United States (US) in the context of the Cold War[2] (Ambirajan 1996: 86; Engerman 2018: 89–116). The increasing prominence of theoretical and quantitative techniques in economics, rather than the historical analysis favoured by an earlier generation, mirrors the global changes in the economics profession in the latter half of the twentieth century. This embracing of the scientific method, to mean the study of measurable phenomena and economic entities, occurred in conjunction with (and because of) the greater institutionalization (in government and universities) and internationalization of Indian economists. All this had a corresponding impact on how historical actors and contemporaries have framed the nation in economic terms. And yet, as we see in the following sections, the plurality within the discipline continues to exist.

## Development and Economic Nationalism

The history of modern India is entangled with the history of economic development on the subcontinent. Theories about economic development, first articulated by nineteenth-century Indian writers, predate the emergence of development economics as a sub-discipline during the mid-twentieth century. To trace the development of modern India as a nation is, therefore, to simultaneously chart the shifting ideas around India's economic development in the colonial and post-independence period.

Literature on India's economic development has consistently framed the nation as one that has struggled with poverty and uneven distribution of

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income and wealth, especially in the 75 years before and since independence in 1947. The early Indian writers on the subject, who were not academic economists but influential thinkers, used the economic knowledge they accumulated to challenge colonial authority, imperial policies, and the discursive practices of a government based on Western (or at least British) economic thought. With the professionalization of economics in the post-independence period, the thrust of economic writing on development altered quite significantly. The optimism of the 1950s is reflected in the manner economists provided the technocratic rationale and tools for the political aims of achieving social and economic development through centrally coordinated national plans (Kudaisya 2009). After the 1960s, several Indian economists became critical of these central plans, which they considered to be stifling—rather than promoting—economic development. Thus, while economists themselves grappled with the theoretical and policy issues stemming from the way the discipline framed the nation—stuck in endemic poverty and beset with inequality—the intellectual debates in turn were framed by the sometimes polarized visions of an economically developed India.

Conflict and dissension thus framed views about economic development in India. In the process, the debates grappled with equally weighty normative issues, such as the role and responsibilities of the state in the nation's economic development, the place of markets and private enterprise, or the degree of openness to foreign manufactures, technology, and capital (see following sections).

By the mid-nineteenth century, colonial policies had given material form to the imagined political and economic space that was India, that is, a space to rule, protect, and generate economic returns. The early nationalists, such as Dadabhai Naoroji (1825–1917), became highly critical of this colonial visualization of India's economic space under British rule. He thought colonial rule of this nature led to India 'suffering seriously in several ways' (Naoroji 1888: 1). Naoroji was the first Indian professor of mathematics and natural philosophy in Bombay in 1854, the first Indian to establish a business presence in England in 1855, first Indian to become a professor at University College, London, and the first Indian to be elected as a member of Parliament (MP) from the London constituency of Central Finsbury in 1888 (Visana 2022). His scrutiny of the finances of the government and the connection between taxation and poverty in India led him to frame the revenues that the British derived from this colony as 'a drain of profits from India to England'. In a view that crystallized between 1873 and 1901, Naoroji framed India as an economic space whose wealth was being drained by exploitative rule. 'We are sinking fast', he wrote (Naoroji 1888: 30).

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The framing of 'we' by Naoroji to mean a unified whole in spatial, political, and economic terms reflects the reconfiguration, by Indians, of the colonial space as a *national* space as opposed to its mere territoriality. Epistemically, this conception of India as a spatially bounded and singular national economy could be taken as the starting point of Indian nationalism of the late nineteenth century (Goswami 2010: 7). In this reconfiguration, statistical representations played a crucial role. Numbers and statistics are a potent form of representation and of 'constructing [spaces] for enabling interventions in social, physical and natural processes', writes Uma Kalpagam (Kalpagam 2014: 12). Statistics were a powerful language of colonial power, of 'governmentality', that enabled colonial rulers to legitimize their rule, to create narratives about 'progress' and accumulation of wealth, and to assess the results of the modernizing interventions within the colonial spaces. However, the statistics resulting from the vast project of enumerating the Indian population and their activities could be used, in a nationalist sense, to counter those colonial narratives. Naoroji's great contribution to the development of economic thought in India and to Indian nationalism, was to use the statistics generated by the colonial administrative machinery to challenge and expose the colonial discursive practices, to stimulate new conceptions of causality between colonial rule and its impact, and to show new modes of economic reasoning that Indians could use to confront colonial rule in India. This approach and use of statistics inspired later nationalist critiques (especially in the 1920s and 1930s) as well as the postcolonial tools of planned economic development. K. T. Shah (1888–1953) asserted that 'nothing can detract from the fact that India's poverty is colossal', based on this approach of linking statistics to the government's accountability and instrumental capability (Shah and Khambata 1924: 202). V. K. R. V. Rao (1908–1991), who led the foundation of the Delhi School of Economics in 1949, pioneered national income (or gross domestic product) measurements for India, and argued that 'there is a magic about the *per capita* National Income [statistics] which cuts across even the illiteracy of the Indian people to appeal to their imagination'. (Rao 1940: 2).[3]

Numbers and measurements were key to the framing of India as a nation encumbered by the poverty of its people and the absence of development. These numbers transcended the mere accounting and recording of economic, commercial, or demographic information. They became part of a moral and cultural framework, first in the colonial period but especially later in the post-independence period as the young nation moved towards its 'tryst with destiny'. Economic measurements and statistics were used to hold India's colonial rulers 'to account' for their actions and became

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a rhetorical and intellectual device to judge the probity, soundness, and honesty of the state (Kalpagam 2014; Soll 2015). But more importantly, as the government's statistical machinery was expanded further throughout the twentieth century (both in terms of bureaucratic organization but especially by embracing new computing technologies), measurements became the scaffolding upon which development plans were debated, communities were imagined, and people's economic lives could be shaped in ways that were considered desirable (Agar 2003; Menon 2022; Mitchell 2002). Numbers lent legitimacy to the postcolonial technocratic approach to development. But they became a democratic weapon by its detractors when the government could not deliver on its promises. People and businesses could be categorized, ranked, and rated, but could also be rewarded according to their measured economic contributions. Numbers were immensely important in the framing of the nation, its economy, and its people, as these economic entities were judged to be at a given point in time or in the past. Crucially, economists and policymakers used measurements to restructure India and reimagine Indians as they *could be* in the twentieth century.

Based on numbers, the collision between the divergent framing of India—as a nation to be developed for the benefit of Indians as opposed to a territorial space to be ruled by the British for the benefit of Britain—shaped the political economy, nationalism, and the independence movement in India after 1890. As Bipan Chandra (1928–2014) argued, economic nationalism in India sprang from the realization of the harmful nature of colonial rule and the resulting agitation against imperial economic policies that was unremittingly carried out by the Indian leadership (Chandra 1966: 743). Naoroji's highly publicized and popular writings about poverty and 'drain' helped to dispel the halo of beneficence around British rule amongst Indian leaders as well as ordinary people.

The economic damage to India by colonial rule had become widely accepted amongst Indian intellectuals by the time Mahadev Govind Ranade's essays on Indian economics were published in 1906. Ranade (1842–1901) was one of the early thinkers to set out a vision for a new political economy for India. He eloquently reviewed the growth of economics as a science in Europe during the nineteenth century and argued that, contrary to the views of English economists, economic principles were not universally applicable to all nations at different stages of economic 'advancement'. This observation, that economic principles were not universal, led to his reflection that 'the divorce of theory and practice is a mischievous error'. (Ranade 1906: 58). He imagined economic theory to be enlarged by practice

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and practice to be theory studied in relation to 'proximate causes' (Ranade 1906: 22–24).

Ranade's ideas, although influential with nationalists of the period, found little traction with postcolonial Indian economists, who were by then being trained in the highly theoretical and mathematical methods of Western economics. Although most Indian economists today do not consider Ranade to have been an economist, his legacy to the development of economic ideas at the time was in the way he embedded historical analysis to visualize India's future economic development. He sought to use Indian history as an important device to understand India's 'old legacies and inherited weaknesses', a historical approach to economic analysis (Adams 1971; Ranade 1906: 59). His ideas were influenced by contemporary German economists such as Friedrich List and others of the historical school of economic thought, who were more immersed in the historical methods of economic analysis than the universalizing theories of English theorists such as David Ricardo. Ranade drew historical lessons from the ways the more 'organized' British had displaced the 'disorganized' native rulers such as the Marathas. He concluded that Indian religions, laws, and cultural institutions had historically condemned the ardent pursuit of wealth as a mistake to be avoided as far as possible. The intermeshing of ancient laws, culture, and religion meant that India's economic spaces were marred by stagnation and dependence, depression, and poverty. The relevance of Ranade's ideas and his framing of the Maratha attempts at territorial unification and their subsequent defeat by the British is to be understood not only in terms of causes of India's poverty but also how economic development could be attempted through the 'union of Indian races'. (Ranade 1906: 63). His ideas further provided the traction to the narrative framing of economic nationalism that crystallized around *swadeshi* and *swarajya* in the early twentieth century—that India's economic development rested upon the integration of a sovereign territorial space into a national economic space. Ranade argued that integration combined with a recasting of traditional attitudes towards the pursuit of wealth and making it a worthwhile objective was the way to secure economic development that was being achieved elsewhere in Europe and North America.

By the early twentieth century, India had become a locus for control and dominance of economic ideas between the colonial state and the nationalists (Velkar 2018). The framing of an extractive colonial state as a primary reason for the absence of economic development and the presence of widespread poverty in India shaped both economic analysis and the independence movement. During the last three decades of the nineteenth century, Indian

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intellectuals had come to believe that Britain, with its relatively advanced industrialized economy, was incapable of successfully developing India (Bach 2021; A. Dutt 2018). As Benjamin Zachariah argues, development was an idea around which both the colonial justification of the right to rule as well as the nationalist opposition to it converged. While, politically, development became framed in the context of the apparent 'backwardness' of the Indian people, the language of economics provided a seemingly neutral way of talking about backwardness, with economic development as a way out of this malaise. The language of development was 'grafted on to the intellectual currents and concerns' of the 1920s and 1930s by incorporating nineteenth-century debates into the early twentieth-century independence movements. Thus, early debates led to later discourses on development becoming identified with 'socialism' but with a mixture of science, political economy, and national discipline (see following sections). These debates and discourses were framed by middle-class intellectuals who were an articulate, multilingual, highly educated, cosmopolitan cultural elite allied to politics of all kinds, from the left to the right (Zachariah 2005: 4, 211–212).

This 'marketplace for ideas' (Hall 1993) meant there were several pluralist views about the Indian economy that jostled for attention alongside more 'mainstream' ideas about development. Whilst most Indians rejected the universalizing notions of English classical economists; the ideas of Mohandas Karamchand Gandhi (1869–1948) were somewhat heterodox compared to the economic views of several Indian nationalists themselves. Gandhi's ideas were shaped by his views on religion, ethics, and his observations of the lived experiences of the poor and outcast. His ideas about the 'economics of the village industries', for example, were at odds with other economic thinkers of the time (both British and Indian). He remained unconvinced that economic growth and industrial development were meaningful solutions to India's developmental problems. He despaired that mechanized production by the 'city dwellers' had 'cruelly and thoughtlessly snatched away' means of livelihood from the khadi worker (Gandhi 1938: 22). As much as the national economy is an artefact (material and conceptual) that takes a particular form depending upon the economic tools and measurements used to examine it, the rejection of universalizing economic notions *and* practices, especially by Indians such as Gandhi and Kumarappa, reveals the underlying cultural construction of the Indian economy by Indians.

Economic nationalism was a route to economic development and was conceived in opposition to economic imperialism. This framing would dominate Indian economic thought throughout much of the twentieth

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**Fig. 2.1** Painting by Abanindranath Tagore (1871–1951). Made in 1905, it is one of the earliest visualizations of Bharat Mata, or 'Mother India'. It personifies India as a nation unified by its industry, spirituality, learnedness, and ecology.

*Source*: Wikimedia Commons.

century. India's economic history helped Naoroji, Ranade and other nationalists to construct economic ideas that they considered appropriate to Indian conditions. Their ideas of India as a political nation as well as a national economic space were visualized evocatively in Abanindranath Tagore's painting of Bharat Mata in 1905 that coincided with the acceleration of the *swadeshi* movement (Figure 2.1). *Swadeshi* in this sense was simultaneously a political *and* economic framing of a nation that was contiguous with the subcontinent on which it was geographically located,

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autonomous in terms of determining its economic future and homogeneous in terms of a unified space (Velkar 2021). The legacy of such visualizations in the literature was to establish an early foundation for the normative ideas in later Indian economic thought.

## State of 'the State' in India

Quite distinct from Naoroji's 'drain of profits' framing, the nationalist critique framed the inadequacies of the colonial state in other ways. The colonial government's largely Victorian laissez-faire attitude towards Indian fiscal policy was considered to exacerbate India's poverty and lack of development in the first half of the twentieth century (Adarkar 1941: 610). Historians document the 'unequal battle of interests' concerning fiscal policy between the colonial rulers and those who resisted the colonizers (Kumar 1983: 905). The post-independence view of the colonial fiscal policy was that it was conservative, rigid, and aimed at the stability of the British Raj rather than addressing the economic and social development issues. Babasaheb Ambedkar (1891–1956) examined the deficiencies in public finances in British India in his *The Evolution of Provincial Finance in British India* (1925), a critique that shaped the centre–state financial relationship after independence (Jadhav 1991). The 'conservative' nature of the colonial fiscal policy is reflected in, among other things, the inability of that state to consolidate its revenue base and its reluctance to raise taxes, especially after circa 1900. Both these actions hamstrung the government from increasing the size of the state vis-à-vis other economic sectors, implying it was spending far less than it should on key developmental areas such as education and social welfare, and, in effect, acting merely as a 'nightwatchman' (Morris 1963). In terms of its fiscal capacity, the colonial state exhibited a 'poverty of the government' that matched the poverty of the Indian people (Kumar 1983: 905).

Such narratives of the 'nightwatchman' colonial state profoundly shaped the postcolonial economic thinking in India. The small state explanation has become a more accepted view in recent historiography, replacing the drain theory as the most probable explanation for India's lack of development during the colonial period. It is therefore worthwhile to explore some of the normative ideas about the responsibilities of the state in economic development, and how they changed during the twentieth century. Ideas about India's fiscal system broadly revolved around the importance of state (in)action in economic development, the size of the state (relative to other economic sectors), and the extent to which a developmental, but

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interventionist, state tends to crowd out private enterprise and initiative. A quick look at some of these ideas will provide a fertile canvas to understand the motivation behind the economic policies of the postcolonial period.

Whilst nationalists critiqued and confronted the colonial state's shirking of fiscal responsibilities and laissez-faire attitude, many normative ideas of the early 1900s grappled with ways to overhaul the fiscal system. These ideas sought to align the Indian fiscal policies more closely with the various developmental goals being articulated by the nationalist leaders. Romesh Chunder Dutt (1848–1909), writing about the concept of national debt, used economic history to suggest 'remedies' for the fiscal failures of the colonial state. He reckoned that India's fiscal system required a fundamental 'reformulation' of the way in which Indians were taxed as well as the 'retrenchment' of public expenditure itself (R. Dutt 1904: 612). As a colonial administrator, Dutt had managed the emergency relief and economic recovery operations following famines in 1874 and 1876[4] (Raychaudhuri 2004). His observations on the causes of famines in India led him to argue that the Indian population remained poor and hungry even in ordinary (or non-famine) years, although food supply in India had never really failed. He concluded that the Indian people were so 'resource-less' and lacked savings that when crops failed within any one area, they were unable to buy food from neighbouring provinces that had richer harvests. 'It is the poverty of India which brings on severe famines,' he argued, anticipating Amartya Sen's later, more famous work on 'entitlements' by many decades (R. Dutt 1904: vi; A. Sen 1976). According to Dutt, it was the state's responsibility to restructure the fiscal system and prevent disasters such as famines from occurring.

Many of Dutt's ideas about fiscal restructuring echoed the nationalist sentiment of the period. Primarily, the nationalists called upon the government to reduce its 'excessive' expenditure, especially on the military, to reduce the fiscal burden on India's largely agrarian population. Such a reduction in state expenditure would, in turn, permit a reduction in the taxes on land. Above all, the Home Charges were cast as an 'annual Economic Drain from the food supply of India which impoverishes the Indian population more than any other cause' (R. Dutt 1904: 612). Dutt thus combined the frames of 'retrenchment (of expenditure)', 'restructuring (of the fiscal system)', and 'representation (of Indians in government)', expressing the nationalist desire for economic independence and sovereignty.

The nationalist critique of the colonial state—that it was ineffective and/or exploitative in developmental terms—continued beyond the 1920s despite the constitutive and governance reforms introduced by the British

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rulers. The Montagu–Chelmsford reforms attempted to address some of these issues identified by Dutt and culminated in the Government of India Act of 1919. They sought to reconstitute the governance and finances of the Indian government but were considered by the nationalists to be at best inadequate or at worst turgidly patronizing to Indians[5] (Besant n.d.; Bose 1918; Wacha 1918). The system of 'dyarchy' that the reforms introduced was intended as a measure of self-government by providing the provincial governments with a limited degree of fiscal autonomy from the central government. The provincial governments were to be run with Indian participation, whereas the central government was to be firmly in control of the British (Panniker 1928). However, the constitutional reforms and the subsequent actions by the colonial state, especially during the Great Depression, were framed—by contemporaries and historians—as largely giving an 'illusion of Indian fiscal autonomy' (Rothermund 1993: 76).

In the nationalist framing, the constitutional reforms of the 1920s failed to relieve the burden of taxation on the Indian population and to protect businesses owned by Indians (although tariff protection did benefit British firms), and provided insufficient expenditure on welfare and social programmes, especially on education. Dhananjaya Ramachandra Gadgil (1901–1971) stressed that Indian entrepreneurs were not the main beneficiaries of the colonial government's increasingly protectionist policy towards industry after the 1920s, although the government's attitude and policy towards the development of industry in India had undergone 'a complete change' by the 1920s compared to the earlier laissez-faire stance. (Gadgil 1938: 130–134). The creation of the Tariff Board in 1923, following the 1921–1922 Fiscal Commission, had initiated a policy of 'discriminating protection' for industries located in India (Lavington 1923: 51–59). Tariff reforms had resulted in the increase of the general tariff, levied strictly to raise revenue for the government. Although this amounted to de facto protection, it was only accompanied by higher protectionist tariffs in select industries, such as steel. Ultimately, the main beneficiaries of discriminatory protection were foreign companies that transferred manufacturing capacity to India to get around the protectionist tariffs, in effect offering little protection to Indian entrepreneurs (Markovits 2002: 59). Thus, Gadgil complained that 'a very large proportion of Indian industry is still controlled by external capital and the control of this capital has become an important problem, especially since the policy of protection has been accepted' (Gadgil 1938: 314). Similarly, Balachandra Pundlik Adarkar (1903–1988) concluded that the Indian tariff policy 'needed drastic attention' rather than 'bolting the door after the horse is stolen' (Adarkar 1944: 145). The state of Indian

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industry was also linked by Indian writers to the lack of technical education in India, which, although having the potential to 'provide employment for a number of young men in technical services', could not be enhanced without the development of indigenous industry (Bose 1918: 18). Further, Indian ministers appointed to the provincial governments under the system of 'dyarchy' soon discovered that schemes that they were committed to, such as rural and urban sanitation and primary education, had no money available. 'The child was killed even before it was born' was one writer's rather colourful assessment (Panniker 1928: 73).

The fiscal, and the broader constitutional, reforms of the 1920s thus failed the 'acid test' as described by the British economist Vera Anstey (1889–1976). According to her, 'the acid test' of any country was its finances (Anstey 1923: 33, 36). The consensus amongst most economists was that the reforms failed in economic, social, and developmental terms. In fact, the state continued to 'fail' during the Great Depression years of the 1930s. The British continued to depend upon a high rupee exchange rate, a deflationary monetary policy, and discriminating protection—all policy instruments from the 1920s—to 'weather the storm [of the depression]' (Rothermund 1993: 82). These actions further 'damaged' the Indian economy and effectively guaranteed that the Indian population experienced the adverse effects of the depression, although foreign capital invested in Indian industry did rather well. Furthermore, the British continued to maintain their control over India as a debtor nation.

Following independence, Indian writers framed the erstwhile colonial state purely in laissez-faire terms. This framing not only perpetuated the view of the colonial state as an absent state but also crystallized the normative notion that a non-interventionist state, in an underdeveloped country such as India, was a non-developmental state. The framing of the 'nightwatchman state' wedded to laissez-faire policies contrasts with the views of some historians, such as Sabyasachi Bhattacharya (1938–2019), who had argued that the colonial state was not entirely non-interventionist (Bhattacharya 1965). In fact, the 'conservative' fiscal policies of the colonial state should be considered against the backdrop of the nascent attempts of colonial administrators at economic planning in the interwar years and the other interventionist policies they pursued. Administrators such as George Shuster and David Meek had proposed ideas for planned economic development, in parallel to those proposed by Indian technocrats such as M. Visvesvaraya (Chattopadhyay 1985; 1987). Nonetheless, in the historiographical archive, the predominant framing is that of an exploitative but, at the same time, conservative colonial state.

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If the colonial state was small and ineffective, then that which replaced it after 1950 was, in developmental terms, a large yet ineffective state. The framing (and failures) of the colonial state directly influenced the post-independence normative ideas about the role, responsibility, and size of the state. The nationalist vision from the start of the twentieth century had been one of an interventionist state that actively championed economic development and growth, promoting fiscal policies, involving protectionism, increased public expenditure, and planned development. The postcolonial Nehruvian socialist model resonated with this vision and was inspired partly by the Soviet five-year plans as applied to a mixed economy in India. The specific shape of the socialist doctrines in the Indian context was nonetheless heavily influenced by the British Fabian-type gradualism that characterized the transition to public ownership (though not nationalization) of key economic sectors. This occurred through the successive five-year plans that sought to increase the share of the public sector in total investment, which was antithetical to the Marxist goal of widespread 'public ownership' (Desai and Bhagwati 1975: 213). Thus, in the so-called commanding heights of the economy, defined to include key economic sectors such as steel and heavy industry considered vital for the vision of economic development through industrialization, the government's industrial policy reserved these sectors for further public sector investment rather than the nationalization or 'take-over' of existing private sector firms, such as Tata Steel (Desai and Bagwati 1975: 213).[6] The state's dominance was extended across the Indian economy in the first two decades after independence by reserving virtually all heavy industrial sectors exclusively for government investment. (Desai and Bhagwati 1975: 215; White 2012: 248). Planning for development was accompanied by increased government sector as the state expanded in size and scope vis-à-vis the private sector. Indian economists had argued that 'rightly conceived' fiscal policy, incorporating some sort of protection for domestic industry, could be a 'potent weapon' for planned economic development (Adarkar 1941: 609).

The large fiscal state with its indiscriminate, rather than discriminatory, protectionism after 1950 had the effect of growth suppression rather than growth promotion. 'Protectionism' should be understood not only in terms of autarchy (self-sufficiency or import substitution) but also as the policy of 'licensing quotas' that limited the extent and scale of investments in those industrial sectors where private investments were permitted. This 'license raj' is frequently cited as a major factor in India's 'Hindu equilibrium', a disappointing level of economic growth between 1950 and 1980 attributed to an excessively interventionist and large Indian state that stifled innovation

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and efficiency in both private and public sectors. As Jagdish Bhagwati, an outspoken critic of India's post-independence economic policies, recalls:

> Indian economic thinking was defined by export pessimism and import substitution [in such a way] that the element of efficiency was taken away by the very detailed industrial licensing and import-control system. Everything needed permission from the government. If you had meant to shoot yourself in the foot, you could not have thought of a better way to do it. (Tyagi 1994: 14)

India's economic performance throughout 1952–1991 under this fiscal framework was dismal, primarily due to low productivity of investment. Initially, Bhagwati's diagnosis was derided, and he was shunned by mainstream policy makers in India, both economists and politicians. After 1991, his explanation for India's poor economic performance in the post-independence period—that faulty policy framework stifled efficiency and growth—came to be accepted over alternative explanations by other economists (Khatkate 1994: 1099). The unsuitable policy of state-led development—which relied upon excessive bureaucratic control over investment, production and distribution, and inward-looking trade—combined with poor growth in primary education had created a perfect storm of low economic growth and development.

The following sections will unpick some of these threads in the postcolonial framing of the state in the context of planned economic development. For now, it is important to note that the 1952–1991 policies were predicated on the framing that the hands-off laissez-faire policy of the 'nightwatchman' colonial state had stifled economic development during the colonial period. The economic reforms of 1991, in turn, rejected *this* postcolonial framing—that India's growth and development required an interventionist, large state sector which shunned foreign trade and private investment. Markets, private investment, and foreign capital, which were looked upon with suspicion by economic policy makers in the 1950s, were back in business, so to speak, after 1991.

## Markets and Entrepreneurship

To contextualize the broader significance of the economic policies in post-independence India, we consider how the shifting frames of economic development and the state responsibility intersected with two other contested areas: markets (including globalization) and private investment (especially entrepreneurship and innovation). These normative policy

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issues have deep historical and cultural significance to many ethnic Indian communities. Since antiquity, the Indian economy has been embedded within the global trading networks, with Indian merchants trading with ancient European, Asian, and African civilizations. Many Indian cultures have well-established mercantile traditions going back centuries. British imperialism and the socialist model of planned economic development presented several challenges to these historical traditions. Concomitantly, the reconstitution of Indian economy from a mercantile agrarian to an industrialized society presented new opportunities for ethnic groups such as the Marwaris and Parsis, who were able to capitalize on the accompanying disruption to established economic relationships. Other ethnic groups found themselves somewhat marginalized within the colonial economy and a changed global economic order (for example, Muslim businessmen in small-scale manufacturing). The extent to which Indian economic sectors should remain connected to the global economy and the degree to which private entrepreneurs were perpetuating the inequities of Western-style capitalism were extensively debated. Protectionism (or import substitution) and state-led (as opposed to market-led) development provided compelling frameworks through which economic policies were considered after 1950.

Colonial law provides a rich historical archive to excavate the changing nature of market practices and relationships resulting from the increased codification and globalization of the Indian economy in the nineteenth century (Birla 2009). Law was used as a site of economic modernization by the colonial state to install new forms of capitalism on the subcontinent. These new forms resembled the increasingly corporate modes of capitalism based on contractually governed forms of association. This archive reveals the inexorable shift towards a universal value system around the legal interpretations of 'the market' that provided an abstracted rendering of market-based economic relationships. Ironically, this value system itself was later adopted by postcolonial Indian economists to observe the alleged 'failings' of the market system that they then argued required state intervention to correct.

Although Indian businessmen (they were mostly men!) embraced the new, virtual forms of capital or traded in imagined goods of corporate finance, this culture of currency did not entirely replace the currency of culture that characterized most economic relationships in India. The archives—the law and the broader Indian historiography—suggest that despite efforts to codify and govern market practices of indigenous merchant capitalists, diverse indigenous forms of capitalism prevailed, many of which were partial to kinship, ethnic, caste, or religious social ties. Although most economic

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decisions were made privately by Indian, and foreign, businesses in the nineteenth and twentieth centuries (Morris 1979: 342-43), these decisions were shaped both by the colonial legislative framework of 'the market' as well as the character of local values and social structures. The new corporate forms of capitalism that accompanied the colonial reframing of the Indian economic spaces— the company, public/private trusts, industry associations, chambers of commerce—were mechanisms the colonial state used to attempt governance of 'the market'. These forms were embraced by Indian merchant-capitalists to successfully participate in the colonial remaking of the Indian economy. Even so, Indians did not abandon the kinship-based forms of practices and relationships that characterized indigenous markets. Even as they became insiders within the reframed colonial economy, Indian merchant-capitalists affirmed the patriarchal authority of the joint family, religious orthodoxy, and the vernacular ordering of social life of capital that was not subsumed within the codified universalism of the modern 'market'.

The distinct forms of indigenous capitalisms reveal a range of responses by the Indian commercial classes with regard to the integration of India into the global economy. For example, Bombay's (now Mumbai) transformation into an industrial and financial powerhouse was characteristically different from cities such as Calcutta (Kolkata), Surat, or Madras (Chennai) as there were fewer European enterprises located here. Correspondingly, there was a higher proportion of manufacturing firms established and operated by Indian entrepreneurs in Bombay. Cotton trading and textile industries, both oriented towards the export markets, were the fulcrum of Bombay's rapid transformation, which happened within a matter of generations (Chandavarkar 2002). Bombay's economic prominence by the end of the nineteenth century ensured that India continued to remain integrated within the global economy.

Bombay's merchant-capitalists often acted as stockbrokers and straddled the trading, manufacturing, and financial networks operating within the city. These local networks enabled capital to move easily between private commercial and public infrastructure activities. The boundaries between the mercantile activities, local colonial politics, and middle-class professional life were porous as some Indians were able to straddle both local community and colonial networks. Speculation in cotton futures in the early 1860s, caused by rising demand for Indian raw cotton, led Indian traders such as Premchand Roychund (1831–1906) to move into brokerage of company stocks, earning 'fat profits' and adding to the 'wealth of the city' (Wacha 1913: 53). The enigmatic Roychund—the 'Napoleon of finance'—provided key financial intermediation to Europeans and European banks,

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feeding the capital investments in cotton trade, financial speculation, and crucially, real estate development in the city. (Wacha 1913: 53, 62, 68; Subramanian 2016).

Indian entrepreneurs not only seized opportunities to expand their trading activities using the new forms of colonial capitalism but were equally adept at responding to economic adversity. Capitalist enterprise in Bombay was accompanied by the strengthening of local networks and organizations that allowed the mercantile groups to further shape indigenous capitalist institutions. Associations such as the Indian Merchants Chamber (IMC), Bombay Presidency Association, and (during interwar years) the Federation of Indian Chambers of Commerce and Industry (FICCI) provided a platform for big- and medium-sized businesses to contest colonial practices that unduly favoured foreign capital over capital owned by Indians and lobby for protection.[7]

Nonetheless, there is considerable evidence of official or semi-official discrimination against Indian businessmen. The dominance of modern industry by European businesses was supported by discriminatory attitudes against Indians and reinforced by administrative, political, and financial arrangements. Thus, alongside social discrimination, historians point to the systematic and official discrimination that afforded Europeans a systematic advantage over Indians (Bagchi 1972: 165–166). Although some Indians, like Roychund, could operate seamlessly within Indian and European financial and commercial networks, this was hardly the experience of most Indians.

Deconstructing such narratives of Indian entrepreneurs, historians suggest that, overall, the entrepreneurial climate in India improved rather than deteriorated during British rule. Notwithstanding the concentration of industrial capital amongst non-Indians and institutional discrimination against Indian businessmen, the Indian economy continued to be well integrated with global markets in terms of trade and finance. As Dwijendra Tripathi (1930–2018) argued, those early- and mid-twentieth century Indian writers who stressed the 'economic backwardness' of Indian entrepreneurs—and attributed it to sociological factors such as caste or religion, or political factors such as colonial policies—had 'presented a one-sided picture'. (Tripathi 1971: M59). Tripathi's view was that the 'formidable' sociocultural obstacles to entrepreneurship were 'only' in terms of weak 'material environment' where the 'avenues for profit' were weak (Tripathi and Mehta 1990: 25). As 'infrastructural changes' presented new business opportunities, religious inhibitions and values 'sanctified by scriptures and customs' were either compromised or reinterpreted. Such arguments

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would have pleased Ranade, who had linked the persistence of tradition or customs to economic stagnation (see the previous section).

This framing of Indian entrepreneurship should be tempered by the view that ethnic Indian groups reacted differently to economic opportunities compared to foreign (mainly British) entrepreneurs in India. As Morris D. Morris (1921–2011) suggested, 'If knowledge of the Indian and the world economies was not perfect and if different groups of businessmen had different kinds and amounts of knowledge, each group would calculate the elements of an apparently identical opportunity quite differently' (Morris 1979: 350). Morris's framing of *asymmetry of information*, in economic terms, was framed by Tripathi as a *constellation of forces*, in sociological terms. In other words, decisions of entrepreneurial nature were affected by a 'constellation of forces' operating on an individual at any given point in time (Tripathi 1981; Tripathi and Mehta 1990.)

The framing of dynamic Indian entrepreneurship should also be set against the narrative of 'deindustrialization' of Indian handicraft industries (especially textiles) between the eighteenth and nineteenth centuries. Although the extent, causes, and the dynamics of this deindustrialization are vibrantly debated in modern historiography, the rhetoric of 'rapid decline in the artistic excellence and economic importance of Indian handicrafts' is clearly visible in the economic literature of the late colonial period (Bagchi 1976; Clingingsmith and Williamson 2008; Gadgil 1938; Harnetty 1991). Entrepreneurship literature implies that Indians had to adapt and overcome the challenging economic environment during the nineteenth century.

The framing of India as a 'nation of entrepreneurs' is especially significant in the context of postcolonial economic policies that were so obviously weighed against private enterprises and entrepreneurship. As noted earlier (and discussed further in the next section), the socialist model of planned economic development provided a greater role for state and bureaucratic control over industrial investment in particular, which in turn had a deleterious impact on economic growth. But it was not just the fact that the state imposed a 'Permit Raj' on the economy that led to economic stagnation, but the generic suspicion of capitalists and their profit motives, which manifested in the shutting out of business groups from the post-independence planning process entirely.[8] As Meghnad Desai (1940–2025) argued,

> India suspected capitalists, it suspected the profit motive, and it tried to nail it down, block it and thought that all growth would come from government planning. (Desai 2000)

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This antagonism or polarity between policymakers and businesses had simmered since the first half of the twentieth century. There is considerable archival evidence that Indian entrepreneurs and nationalist leaders had cooperated closely during the interwar years on *swadeshi*, non-cooperation, and Quit India movements. However, there is no doubt that the relationship between the Indian National Congress (INC) and big business interests (as opposed to small businessmen and petty traders) was quite complex and in a constant state of flux (Markovits 2008). The Bombay capitalists produced the so-called Bombay Plan in 1944, which outlined their vision of planned economic development and pre-empted the work of the National Planning Committee created by the INC in 1938. The Bombay Plan reveals the rivalry between the political and business groups in terms of the framing of economic policies. Crucially, it also demonstrates that Indian entrepreneurs and big business interests had embraced the ideas about planned economic development, despite claims that Indian businessmen scuppered the development planning process after independence[9] (Chibber 2003; Lockwood 2011).

The deep suspicion of capitalist interests was paralleled by a deep-rooted suspicion of foreign capital and globalization. The rhetoric of anti-capitalist, anti-globalization, and self-sufficiency provided compelling frames in a postcolonial policymaking context. In many ways, this is reflected in the so-called export fatalism that Manmohan Singh (1932–2024) wrote about in the early 1960s. Singh's framing was complex and shows the various tensions between the objectives that policymakers were attempting to achieve, namely, planned development through industrialization, import-substitution, and fiscal prudence. Building on Ragnar Nurkse's ideas, Singh argued that although there were several barriers that developing countries, such as India, faced in terms of export promotion (for example, lack of resources or wasteful investment), international trade was indispensable for any development strategy aimed at higher rates of economic growth (Singh 1964: 1–3). This was to avoid development goals being hampered by exchange rate or balance of payment crises, which could lead to cuts in imports (of materials or technology) and the resulting reduction in capital investment in key industrial areas. He argued that export-promotion activities must be built into the strategy for economic development 'from the very start' (Singh 1964: 3). More specifically, he observed that Indian developmental plans were being hampered by bottlenecks in the domestic production of raw materials, components, and machinery, as well as availability of capital to fund imports of these 'supplies' in the absence of export earnings. Compounding this was the general attitude of policymakers and, according

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to Singh, the assurances given by 'responsible economists' that import substitution—'whatever it meant'—would, by itself, solve India's balance of payment difficulties (rather than export earnings) (Singh 1964: 337). The result of this attitude and expert advice was manifest in the 'export fatalism', which was the neglect of export-promoting industries, missed opportunities, and the widespread feeling that nothing much could be done given the 'stagnating demand' for Indian products in the global markets.

To Indian thinkers, both economic history and economic theory were equally important in terms of framing the development agenda in postcolonial India.[10] Whilst theory could deal with the problems of market failure or the nature of state intervention in abstract terms, normative ideas around entrepreneurial *practice* required a more nuanced understanding and microstudies of historical issues of economic relationships. Ultimately, many of the policy decisions were framed based on the historical memory of the damage done to Indian economy by colonial rule and foreign capital. Postcolonial economic thinking found it difficult to shed this historical legacy, and in many ways theory and policy had to accommodate this collective national memory.

## Planning for Development after Independence

Previous sections have shown the pluralism of Indian economic knowledge in terms of both framing and disciplinary approaches. The 'nation' was framed in diverse ways with the framing itself shifting and changing over the years. This dynamic is distinct from the topics or questions that the discipline engaged with; the questions themselves became more diverse as the disciplinary tools were applied to a broader range of social issues in the second half of the twentieth century. Whereas in the 75 years before independence economic knowledge was primarily concerned with questions of colonial expropriation, fiscal sovereignty, or living standards, in the 75 years following independence, economists were increasingly concerned with broader questions such as those of gender, identity, and institutional patriarchy (Bharat 2018). Debates about persistent unemployment, labour rights, or monopoly power continued to be examined alongside 'newer' questions such as the effect of Green Revolution on Indian agriculture.[11] Thus, pluralism within the discipline thrived in terms of disciplinary 'traditions'—neo-classical, Marxist, Keynesianism, institutionalist, and so on—even as the histories of the discipline itself were purged from the curricula within the academy (Sinha and Thomas 2019: 1). Pluralism in the form of histories of economic thought survived and, in fact, has seen

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a resurgence in recent decades (Zachariah 2001). However, as this essay has shown, pluralism within Indian economics can also be understood in terms of how the scholars and thinkers have framed the 'nation' in their investigations. This has been the primary focus of the essay. The final section examines the case of the debates around planning in India to further illustrate this argument.

Ideas about planned economic development were framed during the interwar years by Indians who increasingly used 'scientific' analysis. However, planning as a basis for development policies really found traction after 1947, when economists began to use the mathematically sophisticated tools of macroeconomic analysis following the Keynesian 'statistical revolution' in economic thought. The Planning Commission, established in 1950, provided the immediate institutional context for assembling the successive five-year plans, which were to provide the blueprint for India's economic development. Although the First Plan was introduced in 1951 and 'bore the personal imprint of Nehru', it was really the Second Plan, based on the so-called Nehru–Mahalanobis approach, that was the 'major watershed in India's economic thinking', and gave concrete shape to the vision of social and economic transformation to which the 'modernising elite subscribed' (Chakravarty 1987). The Second Plan was produced in the context of the economic Cold War, when both the United States (US) and Union of Soviet Socialist Republics (USSR) deployed 'expertise, goods, and financing' as economic weapons to shape policies of countries such as India[12] (Engerman 2018: 91). Apart from economists at US universities (including Massachusetts Institute of Technology [MIT], Columbia University, University of Chicago, and Stanford University) and in Britain (University of Oxford, University of Cambridge, and London School of Economics [LSE]), European economists such as Ragnar Frisch and Jan Tinbergen continued to have very receptive audiences within Indian development circles after the 1960s.[13] By the early 1960s, following the Sino-Indian war and the 'sad experience' of the Second Plan, the 'glamour' of planning and the 'ardour' for boldness and novelty of planned development had greatly reduced, though the 'facade' of enthusiasm for planning was kept up by the use of input–output models, perspective plans, and optimizing models (Patel 2002: 84). The 'crises' in Indian planning were the subject of debate not only in India but at international conferences such as the one held at Sussex University in 1967, attended by 'forty British and Indian academics, businessmen, journalists, and professional planners and administrators' (Streeten and Lipton 1968). By the 1980s, it was evident that the vision of development through planning had been tainted by the actual experience

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of stagnant and lopsided economic growth. Economists critical of Indian planning stressed that Nehru's socialism was perpetuating the 'Hindu equilibrium' rather than ushering in economic growth as expected (Lal 1988: 237). A new government in 1991 introduced far-reaching structural reforms that effectively abandoned the Nehru–Mahalanobis approach. Initially, these reforms were 'mainly in the microeconomic framework', but they had the effect of 'freeing the economy' and 'improving' its functioning (Bhagwati 1993: 71). An analysis of this trajectory of economic policymaking from planning to liberalization in post-independence India is beyond the scope of this essay.[14] However, the following narrative provides a fecund glimpse of the theoretical and conceptual framing of the nation and its economy by those involved in planning, the major critics of the Nehru–Mahalanobis approach, and the architects of India's liberalizing policies in the 1990s.

M. Visvesvaraya (1861–1962) was a noted engineer, the diwan of Mysore, and one of the first Indians to clearly articulate the need for economic planning in the aftermath of the First World War (Vyasulu 1989: 1700). Visvesvaraya argued that 'to avoid waste [of resources] or unproductive effort in the future, a definite move should be made towards building up an Indian nation by outlining national plans in the political, economic and social spheres' (Visvesvaraya 1920: 280). Planning thus envisaged a modern nation built with intervention by a technocratic state—rather than leaving it to 'the market'—but one that retained its ancient, cultural heritage (Visvesvaraya 1934: 251–252). This duality, or the 'middle path', provided a putative alternative to the Western trajectory of modernizing, involved the hybridization of science, politics, social reform, and economics, and called for more imaginative ways of ordering future Indian society and economy (Saha 1935).[15] Such ordering had to offer an alternative approach to the colonial or Western forms of economic knowledge. The Indianization of Western economic thought was a prerequisite for the postcolonial reconstitution of the national economic space. Such framings appealed to nationalist leaders such as Nehru. Nonetheless, national planning needed the (Western) technocratic tools of both economics and statistics and for this, Nehru turned to Mahalanobis, who had pioneered the use of statistics in India during the 1930s.

Prasanta Chandra Mahalanobis (1893–1972) was a firm advocate of 'statistics with a purpose' (Mahalanobis 1956). During the interwar years, Mahalanobis became an erudite promoter of analytical statistics within industry, particularly for the control and standardization of manufactured products (Mahalanobis 1935). Following independence, he used his approach

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to analytical statistics 'primarily as an aid to clear thinking on my part' and to help 'others like me' who sought to use statistical methods to study the issues of national income growth[16] (Mahalanobis 1953). He strongly argued that an overriding concern for countries such as India, caught in the trap of low living standards and poverty, was to attain a socially desirable higher level of income 'urgently' and in such a manner that 'questions of distribution and patterns of consumption, although of great social significance, may be left out of the consideration at first' (Mahalanobis 1953: 307).

The process of national planning directly led to a spurt in economic literature, both in terms of planning theory as well as techniques. However, as the economists Bhagwati and Sukhamoy Chakravarty (1934–1990) stressed, 'The interplay between the successive five-year plans and economic thinking was often tenuous' (Bhagwati and Chakravarty 1969: 3). Whilst economic model building and analysis inevitably occurred ahead of plan formulation, on several occasions there was 'post-facto rationalization' of investment decisions taken on political grounds. Nonetheless, each plan was supported by a basic 'model type' that provided it with an intellectual backbone, and which was extensively debated in the academic literature. For instance, the important Second Plan was based on the Feldman–Mahalanobis model, which emphasized the transformative possibilities of domestic manufacture of capital goods. It differed from the more orthodox Keynesian-type models in that it prioritized raising the investment rate in capital goods rather than increasing the savings rate; in the Keynesian models, the key assumption is that the higher savings rate will eventually 'flow' into capital investments. In fact, it is from the Second Plan onwards that the pattern of industrial investment was most decidedly shifted in favour of capital goods industries, the plan itself being heavily influenced by Mahalanobis's 'two-sector model' of the economy, which he outlined in 1953 (Mahalanobis 1953).

The Mahalanobis development model or mode of thinking did not go unchallenged. 'Where is the reason for worrying about other items when we are not able to produce sufficient cereals, milk and vegetables for ensuring the health of the people?' was the challenge by an economist to the technocrats advocating industrialization (Iyengar 1944: 193). The imaginarium of an economically independent and industrially developed India had to contend with the conflicting objectives of what were seen as 'urban economics' and the 'real economics' of a predominantly rural India (Iyengar 1944: 205). In 1956, C. N. Vakil and P. R. Brahmanand, two economists of the Bombay School of Economics, challenged the Mahalanobis Plan for being influenced by the growth models based on

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the experience of developed economies. According to them, the plan used techniques and methods more appropriate to modern Western economies. Vakil and Brahmanand proposed an alternative plan that, although accepting the need for capital accumulation, sought to address the issue of unemployment, which they considered to be the 'central economic problem of underdeveloped countries like India' (Vakil and Brahmanand 1956: xxv).

The Vakil–Brahmanand plan was not as elegant or technically rigorous as the Mahalanobis model. Nonetheless, their framing of India as a nation not lacking in capital (in the form of machine goods), but rather as a nation saddled with disguised unemployment due to the shortage of 'wage goods' was a compelling one. The Mahalanobis model endured, partly because the Vakil–Brahmanand alternative envisaged an open economy, dependent on import of capital goods. Any plan based on an open economy model was politically sensitive so soon after independence, given the memory of colonial rule and the fact that an open economy model was considered (at least in political circles) to be the root cause of India's underdevelopment (Desai 1998: 40–47).

The dangers of overemphasizing capital investment and accumulation were also pointed out by the American economist Milton Friedman (1912–2006), who was a consultant to the Ministry of Finance in the 1950s. His private memo to the government of India, which remained unpublished until the 1990s, outlined economic policies that he considered likely to hinder rather than promote economic development (Friedman 1992: 163–76). These included the tendency of Indian planners to assume a 'rigid and mechanical ratio between investment and output', the tendency to concentrate investment in heavy industry and handicrafts at the expense of small- and moderate-sized businesses, the attempt to control private investment in too rigid a fashion, and the tendency to protect inefficient methods of production.

Yet another strand of criticism was the reliance of Indian planners on 'bad data'. The over-reliance on big aggregate measures of what were really heterogeneous economic categories led to neglect of concrete analysis of 'social and economic microcosms', according to some critics (Lipton and Streeten 1968: 3–15). The result, according to this critique, was that there was too much investment (outlay) on more easily measurable actions and too little or too wasteful investment in sectors such as education and agriculture, about which planners knew too little (or at least not enough).

By the 1980s, the shortcomings of the Mahalanobis approach to planned development were obvious to many economists. Planning was widely considered to have failed to deliver on the twin goals of economic growth

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and social justice. Manmohan Singh, who in the 1980s was the deputy chairman of the Planning Commission, spoke about the importance of social justice as a key objective of planning, even though it was not 'stated in precise quantitative terms'. He claimed:

> While our country has made significant all round social and economic progress since independence, our achievements in terms of various indicators of social justice have been less striking. (Singh 1986)

He admitted that, although it was inevitable that an underdeveloped country such as India would have structural rigidities, the system devised had significant social and economic costs and had not been able to prevent diversion of scarce resources to low-priority uses. Nor was it effective in preventing the concentration of economic power or bringing redistribution of income or wealth.

The imbalances in the planning process did little to address the concentration of economic power in domestic industrial sectors, and in fact consolidated the political power of the so-called agricultural bourgeoise. Earlier in the planning process, the leftist and communist parties had criticized the plans as they, initially, did not adequately incorporate radical land reforms, including land redistribution and other measures to curb the monopoly power of the capitalists (P. Patnaik 1998; Desai 1992). Some economists, like Desai and Pranab Bardhan (b. 1939), reckoned that the agricultural sector began to generate a surplus, but the increased political power of landlords by the 1970s meant that they managed to 'keep its surplus to itself'. Much of this surplus was the result of government subsidies and low taxation of agricultural income and wealth. Unlike the colonial period, where 'exploitative' land taxes comprised a large proportion of state revenue, in post-independence India, the agricultural sector was immune from taxation. This turned the prosperous *kisan* (farmer) into a political power base by the 1970s, and the agricultural surplus did not flow into other sectors of the economy. This budgetary imbalance, to a large extent, precipitated the fiscal crises of the 1980s (Bardhan 1984: 46–50; Desai 1992).

Deepak Lal (1940–2020) framed the 1980s planning dilemma in more 'technical' terms using the concept of marginal social cost (of producing economic goods) and the marginal social value (of using those goods): theoretically, market prices should balance these out such that the value to society is greater than costs. In an underdeveloped country like India, the difference between the two is great, especially for capital goods (costs are higher than value), and market prices do not fully reflect the social costs. Lal, who was a Hayekian liberal economist, reckoned intervention was required

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to correct this market 'failure' and restore balance (Lal 1988). The problem under the Indian planning process was that the intervention was conceived to be in the form of a 'bureaucratic method of allocation' of resources rather than following 'the market' making these decisions. The twin problems here were, according to Lal, that the planning process generated endless debate about the 'desirable' and 'feasible' level of investments in key economic sectors by the state and further acrimonious debate about the appropriate sectoral allocation of those resources. The resulting political economy around planned development, therefore, meant that the state, as an 'autonomous' economic actor, was making decisions about allocation via the public sector that led to inefficient and unproductive investments.

With the public sector not generating the expected surplus for investment and growth, that is, showing a lower savings rate compared to the private and household sectors, the 'deficit' required to finance government expenditure was increasingly being met via sovereign debt and external borrowings, making impossible the desired economic sovereignty of the nation. The exceptionally severe balance-of-payment crises of 1991 were the immediate trigger for 'liberalization', of course under World Bank guidance, that effectively decoupled Indian economic policy from the Nehru–Mahalanobis approach of forty years.

The shift away from the Nehru–Mahalanobis approach entailed dismantling the bureaucratic controls over private investments, withdrawing direct state investment from key economic sectors (except defence) through privatization and divestment, opening up many parts of the domestic economy to foreign direct investment (including investment in infrastructure), and reducing overall fiscal deficit by reducing current expenditure rather than through monetary policy. As Montek Singh Aluwahlia (b. 1943) stressed, the 1991 crises led the then government to embark upon a programme of short-term stabilization combined with a longer-term programme of comprehensive structural reforms (M. Aluwahlia 1999: 26–80). Manmohan Singh was credited for shepherding the 1991 reforms; he was considered by academic and practising economists to have been the main instigator of the long overdue liberalization of the Indian economy, and whose views were tempered with the 'Indian tradition of fiscal prudence' (Joshi 1998: 147). Singh's view that India should be more open to international trade by promoting its export-oriented industries also became a mainstay of the economic policy in light of these reforms (Srinivasan 1998).

India's economic growth in the 30 years since the reforms has increased considerably compared to the 1950–1990 period. In 2001, *The Economist* noted that economic reform in India was 'alive and well' and that, by 2018, its

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long-term growth rates had 'proved to be dependable' (*The Economist* 2001; 2018). Nonetheless, concerns about deep poverty and unemployment still linger. Many economists think that reforms need to be deepened or indeed accelerated if India's improved performance is to be sustained further in the twenty-first century (Hope et al. 2013; Mohan 2018).

In the twenty-first century, India has regularly been framed in the global media as an economic superpower. 'India leaped past the UK' to become the fifth-largest economy, with Britain 'dropping behind India', reported NDTV in September 2022, whereas *Money Week* went with a more celebratory 'India has marked 75 years of independence by overtaking the former imperial power, Britain' (Aldrick and Goodman 2022; Wilson 2022). These reports, based on statistics produced by the International Monetary Fund, suggest a new rhetoric about how India has finally managed to shed its colonial past in economic terms. In fact, this 'quiet claim to economic superpower status', as reported in the London-based *Guardian*, could be considered as India *reclaiming* its economic prowess. After all, before the 'great divergence' between the East and the West, India (and Asia) rivalled Europe in terms of economic wealth (Parthasarathi 2011: 21–50; Farrer 2022).

## Conclusion

This chapter has examined the myriad ways in which the discipline of economics has framed India as a nation over the past 150 years. During this time, economic 'knowledge' was increasingly appropriated by economics, the 'discipline'. However, despite the apparent domination of an orthodoxy within the discipline, the tradition of pluralism has remained. This tradition resonates with the pluralist thinking that had permeated nationalist economic discourse in colonial India. Notwithstanding the purging of histories of economic thought from Indian academies, pluralist approaches thankfully continue to thrive. Pluralist economic knowledge is mirrored in the way India as a nation has been framed within the discipline. This fragmentation of knowledge—and the fragmentation of the framing of the nation—can be detected alongside the greater range of questions and social issues that economists have engaged with in the past 75 years.

Measurements and statistics were important in framing the nation in terms of its economy. In the first articulation of India as a unified economic space, nineteenth-century nationalists used colonial statistics to frame the nation in terms of its relative poverty and absence of development. Concomitantly, changing cultural attitudes towards wealth, integration

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of the national economic space, and indigenous industrial development provided additional frames to visualize a developed nation. However, it was economic nationalism, conceived as an opposition to economic imperialism and globalization, that provided the compelling frame through which the development of an independent India was widely envisioned. The early abstractions of India as a nation drowning in poverty and shackled by a 'nightwatchman' colonial ruler gave way in the post-independence period to frames of a nation stuck in the 'Hindu equilibrium' of low or stagnating growth.

Economic nationalism continued to direct the postcolonial economic policies, especially in the 1950–1990 period when the collective memory of an open economy and the hands-off laissez-faire policy of the 'nightwatchman' colonial state provided a manifesto for national planning and a large, interventionist state sector that shunned foreign trade and private investment. Although India had been a 'nation of entrepreneurs', the direction of planned development stifled private investment, innovation, and economic growth. An unproductive public sector, combined with the mounting fiscal debt throughout the 1970s and 1980s, resulted in a balance of payment crises. An economic disaster could only be averted by reframing the approach to economic growth away from bureaucratic central plans to market-led growth. In effect, the 1991 reforms provided a large-scale shift in the way the development of the Indian economy was framed. Markets and private investment once again had a greater role with the opening of the economy to foreign direct investment. Economic nationalism—of the colonial and postcolonial period—was significantly diluted by the 1990s.

Such shifting frames have been influenced by Indian intellectual traditions, oscillating between theory, practice, and history. Early writers were critical of economic policies based on abstract universalizing constructs used by British economists that informed colonial policies. Nationalist critiques were steeped in historical analysis. As the social sciences, and especially economics, became professionalized after 1947, and embedded within national institutions, greater use of mathematical and statistical techniques learnt by Indian economists in Western universities informed government policymaking. Science, rather than history, began to influence economic ideas, and in contrast to a rejection of Western theoretical framing by the nationalists during the colonial period, economists embraced Western theoretical frames for development policies after independence. However, following the cultural turn in economics globally in the twenty-first century, Indian economics has once again become grounded in the lived experience

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of Indian people in the intellectual spirit of early economic thinkers and nationalists such as Naoroji, Ranade, and Dutt.

## Notes

1. For such histories of Indian economic thought, see Dasgupta (1993), Chatterjee (2003), and Parthasarathi (2016).
2. According to Ambirajan, during 1950–1993, 3,925 Indian scholars visited the United States and 4,771 American academics spent time in India through various exchange schemes. David Engerman explains how American economists and institutions helped shape Indian economic policies through 'intangible resources' such as ideas, expertise, and skills—a form of 'import substitution' that paralleled the five-year development plans.
3. National income is now commonly referred to as gross domestic product. For recent histories of this measure, see Coyle (2015) and Philipsen (2015).
4. Dutt was one of the first Indians to pass the Indian Civil Service examination in 1871 and remained sceptical about the beneficence to British rule in India. Tapan Raychaudhuri has called him 'one of India's great Victorians'.
5. The immediate trigger for those reforms was the shaky economic state of the British Empire following the First World War.
6. In brief, nationalisation involves the complete takeover of existing private businesses into state ownership. Public sector investment usually involves creating new businesses run—or partly owned—by the state, which may or may not operate alongside private firms.
7. For Bombay Presidency Association, see Kidambi (2007). For IMC, see Bhattacharya (1976). For FICCI, see Markovits (2002).
8. For example, see reactions to economic programme of All India Congress Committee (1948), Nehru Memorial Museum and Library (NMML) (File no. 1138), IMC's telegram to Jawaharlal Nehru, Vallabhbhai Patel, and others (1948), and NMML (File no. 1138).
9. Chibber claims that the planning failed, owing to the organized resistance of the business class, while Lockwood argues that Chibber produced very little evidence for his claims. See also Partha Chatterjee (1993) for how the process of planning became opaque and disengaged from the business community in general.
10. For a more detailed review of the role of history in Indian economic thought, especially the renaissance of historical methods in economics departments in Indian universities during the 1970s and 1980s, as well as

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the 'mode of production' debates on Marxist 'transition' to capitalism in Indian academic journals during the 1960s and 1970s, see Parthasarathi (2016: 285–289), U. Patnaik (1990: 1–10), and Thorner (1982: 2061–2066).

11. For unemployment, labour, and monopoly power, see, for example, Dev (2000), Goyal (1979), Hirway (1999), and Paranjape (1984). For debates around the Green Revolution, see Ahmad (1972), Leaf (1983), Sharma (1997), and Shiva (2016).
12. The USSR ultimately lost this front of the Cold War as Indian economists looked to the West for expertise whilst following a soviet-style five-year planning for development policies.
13. For example, Sukhamoy Chakravarty was Tinbergen's student at Rotterdam and taught at MIT. Manmohan Singh studied at Oxford and was influenced by Frisch. Jagdish Bhagwati studied at Oxford, Cambridge, MIT, and taught at Columbia.
14. For a more thorough treatment of the changes and continuities between the planning and the liberalization periods, see Das Gupta (2016).
15. The 'middle path' was described as involving 'large scale application of science to industry' but also one where the 'spinning wheel and the bullock cart' were protected so long as the '[colonial] state cannot provide for the victims of unemployment'.
16. Mahalanobis always considered himself to be a statistician rather than an economist.

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