Indian Public Policy Review 2025, 6(2): 129-132
https://doi.org/10.55763/ippr.2025.06.02.005

IPPR

Tracing India's Economic Path: A Critical Assessment of Nehru's Legacy and Its Enduring Impact

Review article based on “The Nehru Development Model: History and Its Lasting Impact” by Arvind Panagariya.

Narayan Ramachandran*

Arvind Panagariya, first vice-Chairman of India’s NITI Aayog, and current Chairman of the 16th Finance Commission, has written an important book on the economy of post-Independence India. Panagariya’s lifelong friend and mentor, Professor Jagdish Bhagwati of Columbia University summarizes the book thus, “he tells the fascinating tale of India’s early efforts under Pandit Jawaharlal Nehru to combat poverty through industrialization and growth, why they failed, and how the decisions made during those fateful decades continue to influence economic policies and outcomes till today”.

Since this book is one among few that sharply traces the contemporary economic history of India over about eight or nine decades, it makes a significant contribution. The author has relied heavily on primary archival material, readily available online from sources such as the websites of the Lok Sabha, Ministry of Culture, Gokhale Institute, Internet archive of the erstwhile Planning Commission, etc. He has made extensive use of archived newspaper articles, speeches made at Congress Party forums, thoughts expressed in printed autobiographies, and archival letters written among colleagues.

The book is laid out in three easy-to-read sections: Part 1 traces the history of Nehru’s economic thought, how it was influenced from outside over time, and how Nehru in turn osmotically influenced others around him; Part 2 lays out the policies, their implementation, and outcomes; and Part 3 discusses the continuing impact of those policies.

The first part refers to the evolution of Nehru’s own economic thought. Even the economists among us readily slip into describing Nehru as a “Fabian Socialist” without ever wondering where or how that came about. Panagariya does an excellent job of tracing Nehru’s economic philosophy. Many readers will be surprised to learn that Nehru “mellowed” into gentle socialism by the time of Independence. Panagariya says “*Nehru’s embrace of socialism was rooted in the belief that imperialism was the direct result of capitalism; capitalism gave rise to factories which, in pursuit of*

* Narayan Ramachandran is Co-Founder and Fellow at the Takshashila Institution.

profits, sought cheap sources of raw materials and lucrative markets for the finished products. Colonies served both functions."

With this foundation, Nehru's economic philosophy started out as being quite hardline, with an emphasis on self-sufficiency, industrialization, and public ownership. Even though Nehru backed off from the full Soviet-style economic organization from which many elements of that framework were borrowed, he was able to influence many around him, most particularly P.C. Mahalanobis.

As a statistician, Mahalanobis translated these ideas into a formal model, which became the basis for the Second Five-Year Plan in 1956. The first Five-Year Plan was based on a capital accumulation model that was broadly similar to a Keynesian Harrod-Domar model, but the Mahalanobis 2-sector and 4-sector models were used extensively in subsequent plans during Nehru's Prime Ministerial term. The Mahalanobis models were still taught to Indian policy makers even two or three decades after Independence.

Panagariya notes that even among foreign experts, none expressed any reservations other than Milton Friedman (who was invited not by the Indian Government but by the U.S. Government). Panagariya could have added to his argument by evaluating Friedman's critique, but curiously lets it go, since it did not seem to influence the Indian direction at that time. A few Indians did reflect the view that "business should be left to business" and they included Minoo Masani, B.R. Shenoy, A.D. Shroff and C. Rajagoplachari. Several of these individuals went on to establish the Swatantra party, India's only party since Independence with a focus on free enterprise.

In Part Two, Panagariya reveals a little-known fact: that in British India industry was unregulated until the turn of the Century, and when regulated under the Government of India Act of 1919 it became a state subject. Central control of industries was envisaged with the issuance of the Statement of Industrial Policy (SIP) 1945. The SIP was the first introduction of a major role for the Union Government in industry, primarily through the mechanism of licensing. Thus, the "license-Raj" was first conceived in 1945.

The author points out that the commonality of the SIP with the spirit of the 'Bombay Plan' (put forward by Indian industrialists in 1944) stems from the fact that Ardeshir Dalal was a principal author of the SIP and a contributor to the Bombay Plan. The Industrial Policy Resolution (IPR) of 1948 was the first post-independence framework for economic policy. and it appears to be a classic Keynesian document of the time. The revised IPR of 1956 had the stamp of Mahalanobis and the imprint of the Soviet Gosplan method of central planning all over it.

Panagariya traces this big shift in 1956 to the death of Sardar Patel and the full ascendance of Nehru to the helm of India. On the side of labour, Panagariya points out that India is unique in placing the social revolution ahead of the economic revolution. There were very few dissenters against the labour laws. The author points to American economist John P. Lewis, who warned about "*the cost pressures and inhibitions to production expansion that comparatively strong unionization and strong labour-welfare legislation may create in so underdeveloped an economy as India's.*"

Panagariya's research reveals that India's trade policy was very liberal until World War I. Between World War I and II there were some instances of tariffs, including reciprocal tariffs between Britain and India. It was only after World War II that a more systematic set of foreign exchange and import controls were imposed.

The author says that, surprisingly, post-war controls were eased quite a bit and continued in that vein until the advent of Second Plan in 1956 and a balance of payments crisis of sorts that happened in 1957 in the wake of poor agricultural output. It was thus in 1957 that the seeds were sown for a highly restrictive import policy and a paranoia about the balance of payments. Panagariya concludes with an excellent chapter on the history of growth and poverty during the Nehru years, that can simply be summarized by the statement that GDP growth that averaged about 4% was not sufficient to make a dent in poverty, particularly at a time when the population was still growing by about 2% per year.

In Part Three, Panagariya talks about the lasting impact of Nehru's economic model. He says that Nehru's political project of establishing democratic rule with universal suffrage was a resounding success, but his economic one of pursuing a public-sector-led industrialization was an "unqualified failure".

My economic persuasion leans in the same direction as Panagariya; for free enterprise and free trade, with the Government being an enabler and enforcer of fair play. Even then, Panagariya's arguments in this section appear weak to me. In my judgement, he has axiomatically chosen to lay the blame for India's lost growth opportunity squarely at the feet of only one individual, namely Nehru. I think that is a simplistic reading of history for three reasons.

One, Nehru was a product of his time. Mao, Nasser, Tito, Sukarno and many other leaders of the time had shaken off colonialists, and had chosen a path of a mixed economy and self-sufficiency (you might call that an Imperialist reaction). While the Soviet model, that by then was about three decades old, had begun to show some fault lines, it had not shown any fatal failures. Well into the 80s, Keynes and Marx dominated economic thought everywhere over Hayek and Schumpeter. Those with a different economic vision in India, like the Swatantra Party, were unable to secure the political majority to influence India's economic direction.

Second, Nehru's daughter Indira Gandhi, who became Prime Minister later in the decade when Nehru died, steered the ship even more towards the socialist direction, mostly to consolidate political control. Third, to lay blame on Nehru for his successors' inability to "right the ship" according to Panagariya is taking it a bit far. Panagariya conveniently says little about economic thought after the BJP came to power in 2014.

While India stopped being a "license-raj" after the 1992 reforms, it remains a deeply statist economy in 2025 with a labyrinthine set of rules and a strong belief in the administrative state. Is the economic philosophy of Prime Minister Modi's Government unshakably a consequence of Nehru, beginning 50 years after his death and continuing now for another twelve years? In other countries like China, Malaysia and Indonesia, it was the successors of post-War leaders who implemented reforms, beginning in the late 80's, that reduced the role of the State in business.

That said, the book makes an outstanding contribution to the economic history of India, collecting in one place the evolution of contemporary India's economic journey. Taken along with the scholarly work of Manmohan Singh, Jagdish Bhagwati, Padma Desai, TN Srinivasan, and other work by the author himself, the book is a "must have" on any 'Indian economics' bookshelf.

Beyond Nehru, what continues to influence the statist leanings of the Indian establishment will await another book. In my view, Indian citizens are hesitatingly capitalist while the Indian establishment has remained unhesitatingly statist since Independence. Nehru may have blazed that path, but all the rest of us are culpable for not deviating too far from it. With the world veering to populism, protectionism, and the arbitrary imposition of rules for economic exchange, we may have to wait a long time before the primacy of the Indian state reduces.

The Nehru Development Model: History and Its Lasting Impact by Arvind Panagariya, Penguin Viking, India, 2024, Pages 544, Hardcover ₹845.