Indian Public Policy Review 2027, 7(1): 64-69
https://doi.org/10.55763/ippr.2026.07.01.005

IPPR

Parenting the economy: The Story of India's Economic Development

Review article based on "A Sixth of Humanity: Independent India's Development Odyssey" by Devesh Kapur & Arvind Subramaniam.

M S Sriram*

How has India fared in its economic strategies post -independence? Is there a pattern that can be deciphered, and what are the hits and misses? There have been multiple books in the past decade – India's Long Road by Vijay Joshi; An Uneven Glory by Amartya Sen and Jean Dreze; India's Tryst with Destiny by Jagdish Bhagawati and Arvind Panagariya; India is Broken by Ashoka Mody, among others. Most of these have come from some sort of ideological positioning – a prior as to what would have been good, and what we missed. However, the book by Devesh Kapur and Arvind Subramanian looks at the post-independence economic development of India in a new historical, political and economic lens that is bereft of an ideological position. It is ambitious and expansive in scope and scale. It is not easy to hold such an expansive agenda in a tight frame, to make sense of the patterns of development, even as there have been massive shifts in ideological approaches (irrespective of the party in power at the union or the provincial level).

India is a continent-sized country. Diversity is given. Centralized planning therefore becomes complex. Successful pilots of schemes fail in replication, as culture keeps eating strategy for breakfast. In this context, it is important to acknowledge and compliment the authors for taking up this ambitious project and delivering it to a substantial extent. Such a book warrants a conversation and engagement that goes beyond a traditional review.

The overarching argument talks of an intellectual (well-meaning, precocious) peak with an underdeveloped base. The enlightened leadership recognized inherent capabilities, problems, and limitations of the people at large. The patronizing parents treated children with maturity, almost like adults, while in reality the population was at a significant distance away in their education and capabilities in grappling with a mature democratic system. These mismatches laid the foundations of the "islands of California amidst Sub-Saharan Africa" characterized by Dreze and Sen. It produced world-class initiatives at one end: institutions that could be at par with any internationally recognized institution of eminence, while at the base children could not count and write at levels appropriate for their age and mental maturity. Scholars like Ashoka Mody believe that the priorities were misplaced

* Professor M S Sriram is a faculty member of IIM Bangalore.

and the trajectory could have been different. Hindsight is a good teacher, counterfactuals are not visible, and we can only argue.

The people at the helm of affairs genuinely want an egalitarian and just society. This meant that much of the systems and architecture were to be dictated from the top leading to a tendency to centralize. The structures the country created over the decades were more centrifugal than centripetal. The assumption was that people at the helm of affairs would continue to be enlightened individuals handling centralization responsibly. It was also assumed that they would, in due course voluntarily respect grassroots aspirations using tools of universal adult franchise as a barometer.

India was facing an inevitable partition while also trying an integration of areas under the control of the British Empire and multiple princely states with pretentions of autonomy. Therefore, choices of affiliation and alignment for the decentralized provinces were to be negotiated, and the State had to be Hobbesian, with a democratic framework of accountability. This paradox necessitated a persuasive (and sometime) coercive annexations of Princely states. At the birth of the nation, the power rested with the Hobbesian state, with a weak accountability structure. The authors identify this as creating "the culture of impunity among India's elite, both political and economic, at all levels...." (p.73). A paternalistic attitude, more like a doctor administering medicine, and not like a customer-friendly marketer trying to frontload accountability. A state that assumes its actions are for greater welfare, and therefore that it is not necessary to explain its approach to the citizens, particularly if it believes that the citizens are not enlightened enough.

This paternalistic attitude was wary of market-based private sector forces, which it saw as exploitative. Therefore, anything big was to be in the public sector, while small and unorganized were to be protected from the predatory forces, both Indian and foreign. If public sector enterprises were a part of the large joint undivided family, then performance would not be sharply measured, encouraging freeriding. Same with performance measurement of the paternalistic State – the *Maai Baap Sarkar*, as the authors call it. The reforms happened only when the entire family faced a crisis, as shown in the 1991 balance of payments crisis, where family gold had to be mortgaged as the family woke from slumber.

In the choices of economic growth or adaption of technology – no mass-impact dramatic steps were visible. The planners chose cultural status quo, encouraging informal sectors to remain informal (reservations and tax breaks for the MSME sector), land reforms that took land to the tiller, encouraging fragmentation.

While the authors do not make this point, we need to see the divergence in the two approaches – the scientific farming of the green revolution years – with modern agriculture, hybrid seeds, chemical fertilizers and mechanization – needed consolidation of farmland in order to achieve the best results, based on economies of scale. Land reforms on the other hand moved towards fragmentation. Add to this the ideological proclivity towards some of the Gandhian principles of decentralized village economy. The question is whether the focus on agriculture, superimposed with land reforms and

Gandhian decentralization during the early days reinforced in-situ fragmentation of agricultural land, without encouraging the people to migrate towards manufacturing (say apparel)?

The approach in agriculture of paternal protection to the weak hardened as an approach for the State. Protection of handlooms and Khadi came at the cost of modernizing labour-intensive apparel industry. At one end, the planners used technology and modernity in places (like space research), but empowerment of the populace was making them entrenched in legacy business. The support from the State was largely in the direction of improving the productivity in the format of a legacy business, rather than changing the paradigm to keep with the changing ecosystem. \The strategy protected in-situ and preserved ex-ante technologies.

The exceptions to the "small is beautiful" principle were owned and controlled by the State. Legacy firms in the private sector were nationalized (insurance, airlines, coal, banking). The argument was that the services of these behemoths should be driven by an agenda of inclusion rather than profits. There is a fair amount of literature justifying why nationalization was good for those times to expand markets in perceived infeasible zones, such as credit for agriculture, weaker sections, and small businesses. The book counters this argument using an efficiency lens:

- Nationalization took focus away from efficiency. It was difficult to measure lethargy and free riding as against the costs of inclusion.
- These organisations were near state-owned monopolies; had no competitive benchmarks.
- The paternalistic welfare distribution approach led to structure where enterprise and innovation did not thrive.

The public sector orientation also led to skewed labour markets, where the patronizing state sector jobs were sought because of tenure and social security. The public sector units were charged with employment generation as well. The entry level jobs in the State sector were more lucrative and the number of applicants, and the number of person hours spent preparing to get a job created its own distortions, including an exam preparation economic sub-sector! This is dubbed as growth without structural transformation: precocious economic development meant less overall development (p.164)

The architecture of aggressive subsidies had a proclivity to err on the side of inclusion (of the ineligible - like universal subsidies of power, water, and even cooking gas). The State was also unable to effectively tax the elite (wealth, inheritance, gift taxes and agriculturally rich were not taxed) resulting in fiscal fragility, even as there were periods of aggressive economic growth. While the paternalistic elite was good at signalling socialistic tendencies by abolishing privy purses, the ideological fabric did not go the whole hog but continued a status-quo for the ruling elite. Even when there was a large-scale political inclusion based on caste, the people coming to the forefront were the cream of the excluded, the elite of those castes, rather than a meaningful political inclusion. The precocious universal adult franchise was limited to participating in the democratic process by voting, but not beyond.

In the context of globalization, Kapur and Subramanian bring in an interesting paradox. It is expected that a populous country like India with a large base of unskilled labour would either export significant amounts of unskilled labour to where they are compensated better, or would get significant investments in labour-intensive industries, giving a cost arbitrage to the manufacturers and thus a greater profitability. However, India jumped this step to move towards servicification over manufacturing.

Manufacturing would have hired low-skilled labour. Instead of focusing on manufacturing, we had islands of excellence producing human resources for super-skilled intellectual workers ready to be sent abroad. Interestingly, the onerous labour laws, difficulty in land acquisition, and a premium charge on industrial power (in comparison to the domestic power) made manufacturing not only unattractive but also forced Indian capital to move away, resulting in reverse Foreign Direct Investment.

Even in case of bureaucracy, there were gaps between ideas and action. While the authors are not explicit, precociousness applies here as well. There is an elite bureaucracy, picked from the best, but subject to transfers and rotation. It does not help specialization. The bottom rungs are mediocre. The authors give an interesting analogy: A building for school is a project, easily achieved. Recruiting teachers is an ongoing process and has suffered. Ensuring teachers show up and teach is implementation, and we fail miserably.

This well-meaning centralization created tangible and visible infrastructure, at the cost of investments in softer aspects like healthcare. Even in the type of investments made, the priority was to have investments more in measurable visible projects rather than investment in human capital which is intangible. Even when investments were made in human capital, education was given greater importance than health and within that higher education was prioritized at the cost of literacy, in healthcare – hospitals – the curative infrastructure was prioritized over preventive healthcare – of nutrition, immunity and primary health care. They argue that priorities that could have given long term benefits were ignored to things that were clearly visible and could show that some work was done. One precocious aspect of infrastructure was the leapfrogging of digital infrastructure. This happened because the State had a passive role, as the initiatives were driven by people with private sector backgrounds who treated this like a market-based mission.

How about a change in paradigm? Did it change from paternal elitist outlook to an alternative approach? The first inflection point came when the balance of payments crisis hit us. We had to emerge "reformed" out of the crisis. The medicine was to minimize the role of the State in business and allow markets to flourish. This reform should have led to the State withdrawing from enterprises where its presence was not essential, and focus on governance, welfare, redistribution and infrastructure. This was an ideological shift from the Socialist paradigm towards market orientation.

However, the baggage could not be shed, and we had a situation where the State "*grew the private sector rather than shrank the public sector, so that it went from socialism without entry (of the private sector) to capitalism without exit (of the public sector)".* (p. 307). Policy making wavered between

competition and protection, recapitalization and disinvestment. Privatization and market orientation happened by sheer lethargy. The paradox in the public sector was telling: Loss-making units would not have buyers, profitable units would not be sold (p. 339).

In the banking and financial sector, there was an interesting twist. The authors fail to recognise it in their arguments. Unlike other sectors with paternalistic centralization, in banking the strategy started with decentralization, with a focus on village-level savings and credit co-operatives. While co-operatives were expected to be autonomous, the concept of "state partnership with co-operatives" brought paternalism. With the first round of nationalization of banks in 1969; setting up Regional Rural Banks in 1975; and a second round of nationalization in 1980 the centralizing tendency came to the fore. The concept was to have social control on banking.

Nationalisation was used in insidious ways: At the base, the institutions were used to dispense benevolence in the form of credit. At another level they were an effective fiscal tool, funding the fiscal deficits. These were "investments" in Treasury bills and Government paper on the books of banks: financial resources kept away to maintain liquidity in the form of statutory liquidity (SLR) and cash reserve ratios (CRR). These were nothing but pre-emptions by the State, using the banking infrastructure. Post 1991 reforms, there is no change in the public nature of these institutions. However, after opening banking to private sector as well, the relative share of the state-controlled banks has reduced, though the state-owned banks hold a significant market share.

The apathy of investing in public spaces resulted in the private markets occupying the space. It was not true that markets, even if they come out of apathy in policy, should be good. That was because the benchmarks set by the state institutions were of indifferent quality. Contrast this to the higher education space, where we see public institutions like All India Institute of Medical Sciences and the Indian Institutes of Technology and Institutes of Management providing a superior benchmark. At the primary level, such benchmarks were in Kendriya Vidyalayas and Central Government Health Scheme. But these high-quality initiatives were not open to public. They were closed-loop entities, providing primary services to the elite in employment with the Government. The rest were of indifferent quality. This is also a case of losing the primary to the tertiary.

On the issue of inclusion, integration, and managing diversity (ethnic, religious, caste, gender) the authors make an interesting point – that the architects were great in designing the architecture, but the builders did not do a good job of realizing the architecture (p.448). Targeting identities with the objective of inclusion may have resulted in caste ghettoization making it difficult for society to transcend the identity.

But the most significant part of inclusion is about women. The authors link this to the precocious servicification bypassing manufacturing. They argue that large-scale manufacturing would have employed a large workforce including women, as evidenced by the apparel industry. The bypass of manufacturing, led to an unimpressive progress in female labour force participation.

In the Chapter on fiscal federalism, the important point is the framework for redistribution through the finance commission awards and ways that the Union government found to bypass these

through imposition of cess resulting in greater centralization. The distribution of resources is increasingly discretionary, leading to regional cleavage. After the introduction of Goods and Services Tax (GST), the ability of States to raise local resources is severely restricted.

The Finance Commission framework at the level of the Union government provided an adequate devolution framework. However, further devolution in the local bodies never happened effectively. This reinforced the main argument of the book: the system works through a benevolent top rather than empowered grassroots. It is interesting that the authors did not discuss the most significant change that affected fiscal federalism – the GST.

Some common threads that explain the economic performance of post-independence India, while there are sub-stories as well. That leads to divergence and disparity in performance at the state level. Each State had its own trajectory. A third of India grew on par with the growth rates of China, while the others were slower. There are no guarantees that stable governments will lead to stable growth, evidenced by the regressing of West Bengal. Despite an overarching centralizing policy, the state stories have moved on their own trajectory.

The sum and substance of the arguments is that India was a "case of prolonged ruralization, stunted industrialization and precocious servicification". While the book does not provide a roadmap for the future, it unpacks and analyses the past, showing us the wide gaps between the architecture (intent) and brick and mortar buildings (implementation). A complex country like India, with a complex geography, complex cultural and linguistic endowments cannot have a centralizing architecture, however well-intended the union government may have been. It is important that looking at effective decentralization with adequate checks and balances are needed. While the authors are careful about pushing the decentralization pedal, that at least seems to be the message.

"A Sixth of Humanity: Independent India's Development Odyssey" by Devesh Kapur and Arvind Subramanian, Harper Collins, pp. 760. ₹1299