

Why Freedom Matters

Episode 10 | Everything is Everything

Ajay Shah, Amit Varma

Transcript

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Abstract

India gained political independence in 1947, but Ajay and Amit argue this was only the beginning of the country’s freedom struggle. They explore how the institutions of colonial rule, the ideological choices of early leaders, and the gradual recognition of market principles shaped India’s trajectory from the 1860s to today.

The conversation weaves together economic history, political philosophy, and personal freedom to examine why voluntary transactions and individual agency remain central to human prosperity. Through India’s story, they illustrate how societies can lose and regain momentum, and why the work of building free institutions requires constant vigilance and intellectual courage.

Supplementary Resources

- **The Economic History of India, 1857–2010** by Tirthankar Roy (Book) [4]
- **A Business History of India** by Tirthankar Roy (Book) [3]
- **The Lost Decade (2008–18)** by Puja Mehra (Book) [2]
- **The Tyranny of Experts** by William Easterly (Book) [1]
- **The Journey of Indian Finance** by Ajay Shah (Book Chapter) [5]

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[00:00:10] **Ajay Shah:** People may make their peace with conditions of unfreedom. Okay? So, we humans are survivors. We will survive in a concentration camp.

[00:00:20] **Ajay Shah:** But when that individual agency is taken away, then the dynamism is lost. People stop thinking, people stop creating. The culture, the arts, the science, the business, all these things go into a dull despondence.

[00:00:35] **Ajay Shah:** And what you need for a poor country like India is the opposite of that. What we need is an effervescence of optimism, of creativity, of invention, of people starting a business, of people coming up with a new business model.

[00:00:50] **Ajay Shah:** And freedom lies at the heart of all these things.

Introduction: The Wailing of the Dispossessed

[00:01:00] **Amit Varma:** Welcome to Everything is Everything. I'm sitting here with my good friend, Ajay Shah. I'm Amit, as you know, and in the background, there is a young cat which is meowing, and I needed to clarify that because it sounds like the wailing of all the dispossessed and the hungry and the starving through these many, many years of India's tormented journey.

[00:01:25] **Amit Varma:** But that journey's fine now, right? We gained political independence in '47, we had the reforms in '91. Ajay, is everything well with the world now?

[00:01:38] **Ajay Shah:** There was a freedom movement that got us to the ejection of colonial rule in '47, but it's striking that actually, in many ways, freedom did not come to the people in the period after 1947.

[00:01:52] **Ajay Shah:** So, there is something very disappointing that we were supposed to have played a freedom movement, and actually we ended up with less freedom in many respects.

[00:02:05] **Amit Varma:** I couldn't agree more, and there's a book here, right here, Freedom at Midnight by Lapierre and Collins. And circa 2008, I went to the New India Foundation with a proposal for a book I wanted to write called Freedom After Midnight, where the point that I was going to make through the book is that all we got in '47 was political freedom.

[00:02:25] **Amit Varma:** We didn't get personal freedom, social freedoms, economic freedoms. And I never ended up writing that book because I'm a lazy bum, but, and they rejected my proposal, but I should have written it anyway, but I didn't.

Chapter 1: Why Freedom Matters

[00:02:40] **Amit Varma:** But the point there is that I've used that phrase, India's Second Freedom struggle, again and again, and I couldn't agree more with you. And I know we are both agreed on, you know, the fundamental quality of the word freedom itself.

[00:02:55] **Ajay Shah:** So Amit, tell us what are your big ideas on understanding India's journey? What has happened to us? And I always think of the interrelated pieces of freedom, the state capability, the capability of the private sector, and then the outcome that is prosperity.

[00:03:12] **Ajay Shah:** How do these pieces work?

[00:03:15] **Amit Varma:** So, I want to get into the weeds with you later, and I'm looking to get a lot of illumination from you on this. So much of this episode is going to be about India's journey towards freedom, where we've taken a few baby steps forwards, we've taken a few baby steps backwards, and we'll talk about that journey.

[00:03:35] **Amit Varma:** But before that, as a whole, I want to talk about the importance of freedom to me. And the way I like to reframe it because freedom is such a misused word and there are so many ways in which it can be interpreted and used. I like to think in terms of consent, but in many ways you can, you know, you can use it interchangeably with freedom.

- [00:03:55] **Amit Varma:** Where I, and this is a book I am planning to write seriously at some point, where I'm asking myself sort of two questions, right? And one question is, how should I live in this world? And the other question is, how should the state relate to society? How should we all relate to each other?
- [00:04:15] **Amit Varma:** And most people would think these questions are in different domains. One is a question of personal ethics and the other is a question of political philosophy. But to me, the answer is the same. The answer is consent. That consent is everything, and coercion is the ultimate evil.
- [00:04:32] **Amit Varma:** And, you know, you can use freedom interchangeably as a word for this. And at one level, you can get at it deontologically, as philosophers would say, but I don't want to use jargon, but you can come at it as a first principle and say, consent is good for its own sake.
- [00:04:47] **Amit Varma:** If individual autonomy is to matter, if our lives are to have meaning, then consent matters. And therefore, you can, you know, you can go all the way back to John Locke and his right to self-ownership and arrive how we arrive at all our rights through that. But I find that, you know, that is one way to make the point about why freedom is important.
- [00:05:07] **Amit Varma:** But I think you can arrive at it from another direction, where you can talk about how freedom is always consequentially good, where you can, you know, you can go to consequentialism and say that freedom has the best outcome for society, freedom has the best outcome for individuals.
- [00:05:25] **Amit Varma:** And obviously within all of this there is what I call the Grand Liberal Paradox that to enjoy our rights we need a state to take care of those rights and the existence of that state means we are giving away some of those rights. The state has a monopoly on violence, it takes taxes and blah, blah, blah.
- [00:05:42] **Amit Varma:** So leave that aside for the moment. But the value of freedom in our lives, I think is often understated because of the fundamental reason that we think of the world as a fixed pie. And we intuitively, perhaps because our brains evolved in times where we lived in small tribes, in times of scarcity, but intuitively we think of the world in a zero sum way.

- [00:06:05] **Amit Varma:** If I am to get richer, you must get poorer. If I am to get something, I must take it from you. But the world is not like that. And there is a brilliant chart and a series of charts that illustrates this, which you'll see on the screen now. This is by Angus Maddison, and it is a chart of world GDP growth through history.
- [00:06:25] **Amit Varma:** And suddenly around the time 1800, you see global GDP growth just absolutely shoot up, right? And why is that happening? That's happening because of the industrial revolution, which is and the globalization that ensures, which is enabling voluntary transactions.
- [00:06:42] **Amit Varma:** I've spoken in an earlier episode where we spoke about Bastiat and Hayek and had so much fun. I've spoken about the double thank you moment. This is John Stossel's formulation. The double thank you moment is if you are say selling coffee at a coffee shop and I'm a customer, when I hand you the money, I say thank you, when you hand me the coffee, you say thank you.
- [00:07:05] **Amit Varma:** Both of us benefited from the transaction.
- [00:07:08] **Ajay Shah:** There is a science and engineering view that the industrial revolution came to the UK because they got to Newton who was born in 1642 and the steam engine, which was 1776, and the motive force is attributed to science and engineering.
- [00:07:25] **Ajay Shah:** How would you respond to that? Because there are parts of the world, you know, in China and other countries, where there are people who are willing to make the bargain that we should take the package of modern science and technology, but apart from that, we can just be as thuggish as we like.
- [00:07:42] **Amit Varma:** I think science and technology enabled all of this. It enabled globalization. It enabled us to trade. For example, through science and technology, you got the railways, but through railways, you had the tremendous trade. But the point I was getting at is that every voluntary transaction leaves both people better off.

- [00:08:02] **Amit Varma:** And therefore, the more voluntary transactions there are, the more the wealth of the world goes up. And look at the chart again, Angus Madison's chart. You know, that's exactly what you see happening. This is the overall wealth of the world going up, which tells you it's not a zero sum world.
- [00:08:18] **Amit Varma:** You know, it's almost as if by magic that the wealth of the world is a particular way. You and I exchange things and suddenly we are both better off. To me that's magical, and that's the magic of trade, that's the magic of voluntary action. Now look at these other charts right here.
- [00:08:35] **Amit Varma:** You know, which shows that happening to you know, in a country-wise kind of breakup. In fact, if you look at the third chart right here, what you'll see here is you see China, you know, Deng takes over. Sure, no freedom, all of that. We've argued about it in a previous episode, but market friendly, allowing voluntary transactions among the people without granting political freedom and all of that.
- [00:08:58] **Amit Varma:** But still look at the chart. Look at India's growth since '92 and as you'll elaborate later since 1977 in a certain way. It's a very complicated story. We'll get into the weeds later. But my broader point is that if you look at these charts again, what you'll see is that economic freedom correlates to prosperity.
- [00:09:18] **Amit Varma:** And that is a big freaking deal. Like just to take an example our mutual friend Nithin Pai likes to give a stat that he likes to give that is after we liberalized in '91, one, every 1% growth in GDP meant that 3 million people came out of poverty.
- [00:09:35] **Amit Varma:** He earlier used to say 2 million, now he's revised his assumptions to 3 million. That's a staggering humanitarian good. And obviously one, you know, there are many things flawed with GDP, there are many nuances there, but broadly, that's a staggering humanitarian good that we brought 300, 400 million people out of poverty after the '91 reforms.
- [00:09:57] **Amit Varma:** And again, there are nuances. One could argue that the course for that was laid earlier and we can talk about that. But throughout the world, this has been the case. So much so that one can almost understand Francis Fukuyama asking the question when the Soviet Union collapsed, is this the end of history?

- [00:10:15] **Amit Varma:** And there was a question mark to that. And by end of history, he didn't mean end as in it is over, but end as in the end and means kind of end that is this the aim of history that we live in liberal democracies and we are all prosperous and successful.
- [00:10:32] **Amit Varma:** And obviously, the world is complicated and, you know, history continued down its merry way. But underscoring the value of freedom is really important because I find that so many, like 70% of India has been born after the Berlin Wall collapsed, right?
- [00:10:48] **Amit Varma:** We have forgotten those lessons. So many young people in the world today were born after that time, they have forgotten the horrors of socialism and communism and they underestimate the power of freedom and the lessons we should have learned. And some will of course point to the welfare economies of Scandinavia and say, look, freedom hai.
- [00:11:08] **Amit Varma:** But A, you still have a great deal of freedom there when it comes to starting a business, ease of doing business, the way people live their lives, personal and social freedoms are great. And B, all of them became rich when they were basically free markets.
- [00:11:22] **Amit Varma:** And once they had brought their standard of living to a certain level, then they could do their welfare statism and it didn't really matter so much. And that's a point that unfortunately we need to keep underscoring because again, to repeat, it is not intuitive.
- [00:11:37] **Amit Varma:** There are two counter intuitive elements here. One is that the world is a positive sum game. It is not a fixed pie, it is not zero sum, and we somehow think of the world, we are wired to think of the world in zero sum ways.
- [00:11:52] **Amit Varma:** And the other point is that we are also wired to think in this kind of top down mindset that everything beautiful that exists must be planned and made by someone. You know, you could say religion itself is an example of this delusion.

[00:12:06] **Amit Varma:** But actually it's not the case. Economists have this beautiful term spontaneous order. Languages, you know, economies, societies, natural selection itself does not need a central planner or a designer. You know, and many of them are the products of human action and not human design as Adam Ferguson would say.

[00:12:25] **Amit Varma:** So I just wanted to lay out this broad picture, which I know you'll agree with about the importance of freedom in every domain and how much it means. And of course, even beyond all of this, it means a lot to me at a basic moral level, but even if you are to argue in terms of consequences and, you know, we need to see how we can get the greatest good for all.

Chapter 2: India Before Independence

[00:12:47] **Amit Varma:** Even there, I would argue that it's freedom which gives you that and no matter what else you value, freedom is the route.

[00:12:55] **Ajay Shah:** Another way we see this is that people may make their peace with conditions of unfreedom. Okay? So, we humans are survivors. We will survive in a concentration camp. But when that individual agency is taken away, then the dynamism is lost.

[00:13:12] **Ajay Shah:** People stop thinking, people stop creating. The culture, the arts, the science, the business, all these things go into a dull despondence. And what you need for a poor country like India is the opposite of that. What we need is an effervescence of optimism, of creativity, of invention, of people starting a business, of people coming up with a new business model.

[00:13:34] **Ajay Shah:** And freedom lies at the heart of all these things.

[00:13:37] **Amit Varma:** So Ajay, I'm going to ask you to you know, begin our grand narrative of the day of India. So, take me through your sense of India through the centuries, as it were, and you know, bring me to independent India and then we can start talking about that.

- [00:13:53] **Ajay Shah:** Okay. Here is a quick summary of many, many books. Okay. So let's start at really old days. There is a lot of excitement when Angus Madison and others have described India as the largest GDP in some ways at some points in time.
- [00:14:10] **Ajay Shah:** But it's important to remember that those were pre-industrial times. So, output was agricultural. And India is blessed with good weather, large number of people. And so it looks like the GDP in India was pretty high. It must be clarified that that GDP was at abysmal levels.
- [00:14:28] **Ajay Shah:** So it was not a great world for anybody anywhere in the world, but in terms of aggregate GDP, India looks good. Okay, it was not a golden age. There were levels of poverty and deprivation and cruelty that were in India that were out of the world.
- [00:14:45] **Ajay Shah:** There was very little political development, there was no rule of law. Okay? So that is the old India. Then under colonial rule, I am transfixed at the explosions that took place in the 1860s and 1870s. Okay, in a very real sense, that is the beginning of modernity in India.
- [00:15:05] **Ajay Shah:** And there is a whole bunch of events that came together. The most important was 1869 when the Suez canal started working and the physical distance between London and Bombay came down dramatically. Earlier a ship from London would go around the Cape of Good Hope and once you're going that far, you could even go all the way to Calcutta.
- [00:15:25] **Ajay Shah:** After the Suez canal, it became dramatically shorter. You came out of London, went through the straits of Gibraltar, went through the Mediterranean, came into the Red Sea, and boom, you were at Bombay. So it was a revolution in India's connectivity into global trade. Also, around that time, there were many, many important technological innovations that came into India for the first time.
- [00:15:47] **Ajay Shah:** Most notably the telegraph and the railroad. When in the 1860s, the first telegraph connections came to Bombay, and there was a four-hour delay to get a message from London to Bombay and vice versa, which you will agree is pretty miraculous in that age.

- [00:16:05] **Ajay Shah:** So, you know, cotton speculators would be able to talk to each other and these markets started getting globally integrated. It seems amazing. Then we should look at the institutional infrastructure that makes the modern market economy possible. There was a revolutionary set of developments which took place in the UK.
- [00:16:24] **Ajay Shah:** The Companies Act, contract Act, the evidence Act, all these pieces came to India. Within just a couple of years after the company's Act happening in London, it came to Bombay. In 1874, we got the Bombay Stock Exchange. And this entire ferment in Bombay got an explosive moment in the form of the civil war in the United States, where supplies of cotton from America to the UK were interrupted.
- [00:16:50] **Ajay Shah:** And an entire cotton trade was invented in India where cotton was grown in Gujarat and Maharashtra and it was shipped through Bombay to London. So this was an explosive moment for the Indian economy. It's hard to emphasize what a break this was as compared with everything that came before.
- [00:17:08] **Ajay Shah:** It's like the entire institutional package and the technological capability of the industrial revolution was seeded into India all at once. And in many ways, this journey progressed relatively well till 1913.
- [00:17:22] **Amit Varma:** So, a couple of things here. One is that much as the Indian cotton industry did well because of the American civil war, in America, there was an explosion in the Midwest when a bunch of factories were set up for making ice. You know why?
- [00:17:37] **Ajay Shah:** No.
- [00:17:38] **Amit Varma:** Okay. The reason for that is that in India there was a huge problem of malaria and the way to deal with malaria was a substance called quinine, and quinine was given as a precautionary thing. However, quinine could not be had on its own. It was bitter and ugly. So it was put into tonic water and gin and tonic became a popular cocktail in India.

- [00:17:59] **Amit Varma:** And if you had to have gin and tonic, you needed ice with it. Now, these are this is the 19th century, no fridges. Where will the ice come from? America will make the ice. So, the wonders of global capitalism. And on what you were saying, I also want to quote your friend Tirthankar Roy, the great Indian historian, and Vinay Sitapati sent me this essay and so credit to him for that.
- [00:18:22] **Amit Varma:** But Tirthankar writes at the end of this fabulous essay, which I link from the show notes. He writes, “The empire created an open economy, open to trade, capital flows and settlement for the imperialists, keeping India open to trade, investment and migration served British economic interest.
- [00:18:40] **Amit Varma:** But that does not amount to saying that openness was damaging to Indian economic interest. The two interests were broadly compatible until the 1920s and diverged around the time of the Great Depression. But when world trade again recovered from World War II, India had left the stage.
- [00:18:57] **Amit Varma:** In the colonial era, openness contributed to the emergence of a robust industrial capitalism centered in the port cities. It helped the growth of a sophisticated education system. The cosmopolitanism was sustained by the free movement of people, skills and knowledge. It is certainly possible to criticize individual factors, individual items of factor payment, but economic nationalists fundamentally misread these flows by calling these drain.
- [00:19:22] **Amit Varma:** They were the price India paid to tap into a mobile market for skills and capital, exactly what you were saying.
- [00:19:29] **Ajay Shah:** Yeah. So, I feel that the breathtaking developments which took place in the 1860s and 1870s have not been adequately recognized in India, not least because I feel the nationalists have oversold their case. Okay?
- [00:19:43] **Ajay Shah:** So, I mean, I do not pine for colonial rule, but we should be cold and clear in understanding history and understanding the events that took place. So this period ran till 1913. So this first modernization of India, which coincides with what internationally is called the first globalization, was roughly 1869 to 1913.

- [00:20:05] **Ajay Shah:** Then came a long dark period because of the First World War and the Great Depression and the Second World War and within India, the unrest of the freedom movement and the horrors of partition. So from 1913 to 1947, many things went very badly for India and it was also a period where the British took many policy decisions that were inimical to the interests of the Indian economy.
- [00:20:29] **Ajay Shah:** For example, the restrictions on trade and capital flows came as a wartime measure in 1939. Okay, so the loss of freedom began as wartime measures in British rule and what has been normalized today. By the way, while I'm on this subject, I just want to take the audience's back to a breathtaking fact.
- [00:20:48] **Ajay Shah:** Did you know that before 1914, there were no passports anywhere in the world, meaning there were no passport requirements. The royalty would write passports to each other asking for preferential treatment for their friends. But for the people, the freedom to travel, the freedom to migrate was just there.
- [00:21:08] **Ajay Shah:** It was an inalienable human right. Similarly, there were no capital controls until Adolf Hitler first introduced capital controls in Germany. So, the freedoms of that period are breathtaking when compared to the unfreedom that we have all normalized today.
- [00:21:25] **Amit Varma:** And yeah, exactly. That's what I was about to say that we normalize these lack of freedoms and now we imagine passports are a natural state of the world. Obviously capital controls will be there, but.
- [00:21:36] **Ajay Shah:** Oh, and then let me make this even more spicy. One of the clauses of the Treaty of Versailles was the restoration of passport free travel. Okay, and international conferences were convened all the way into the '60s on how to get back to passport free travel.

Chapter 3: India Between 1947 and 1962

- [00:21:52] **Ajay Shah:** And the spoiler of that was Soviet Russia, which wanted to imprison its own citizens, which never wanted Russian people to leave because you know, they would never come back. So, Soviet Russia blocked every movement on trying to restore passport free travel.
- [00:22:08] **Ajay Shah:** And only now we have the beginning of the restoration of that old freedom in limited ways in the form of the European Union. The European Union is that great development of globalization where the people move freely between France, Germany and Belgium and UK.
- [00:22:24] **Ajay Shah:** Oh, scratch that. Not UK. Without passports. That's the restoration of the customary freedoms that we had a hundred years ago.
- [00:22:35] **Ajay Shah:** Okay. So then we get to that terrible period in India's history where many things went wrong. Okay? And then came freedom in 1947. In terms of the outcomes, per capita GDP growth did pretty well from 1947 to 1962.
- [00:22:52] **Ajay Shah:** In my opinion, this has a lot to do with just the reduction of social tension and conflict. We've just been through the strife of the freedom movement. Remember second World War lapping at the eastern edges of India. One minor character, Subhash Chandra Bose, threatening armed conflict in India, and of course the horrors of partition.
- [00:23:14] **Ajay Shah:** So that was not an environment in which people felt safe about their future.
- [00:23:18] **Amit Varma:** Bengali Subhash Chandra Bose.
- [00:23:20] **Ajay Shah:** Okay, fine. So scratch the minor part about Subhash Chandra Bose. And that is an environment where private sector confidence was likely to be weak and so there was a reduction in the growth momentum of that period. And in 1947, when there was that political certainty that there is a Republic of India and you know, the prestige of the Indian Constitution, of Nehru and Patel and others, it was a glorious generation.

- [00:23:46] **Ajay Shah:** And that created confidence and many people got back to action. There was decent GDP growth in the period from '47 to '62. It was also a period in which things went very badly in terms of the fundamental strategy of growth. Back to you.
- [00:24:02] **Amit Varma:** Back to me. So, you know, before I sort of continue the narrative, I also want to point out that I've been chatting with Vinay Sitapati who wrote a great book on Narasimha Rao and the BJP before Modi. And a point he made that impressed me a lot is that we should think of the liberalization of '91 as a re-liberalization of '91.
- [00:24:22] **Amit Varma:** His point is that it was Nehru's Fabian socialism and central planning that was a break from the past. You've already pointed out one piece of the puzzle, which is you know, how Bombay, Calcutta, the port cities were booming under the British as they wired into global trade.
- [00:24:38] **Amit Varma:** The other piece of the puzzle that Vinay cites is from this magnificent book that you know, many of the Mughal historians I've spoken to on this show adore, which is *In the Persianate Age* by Richard Eaton. And in that, Eaton talks about how one, India's share of the world GDP as you pointed out, purely by dint of population was really high at one point in time under them.
- [00:25:00] **Amit Varma:** But at the same time, the decline possibly started because of global trade because there was so much global trade coming in at the ports and the power went to the edges where the ports were and that centralized power kind of began to decline. That's a fascinating narrative. I don't want to talk too much about that yet because I need to you know, study that a bit more.
- [00:25:20] **Amit Varma:** But let's come back to '47. And when we talk about what went wrong, I want to you know, shift back to a frame that I learned about from a writer both of us admire, William Easterly. William Easterly wrote this paper in circa 2006 or 2008 for ADB. And I'll quote from that.

- [00:25:38] **Amit Varma:** So in this paper, Easterly says, quote, “Historically, poverty has never been ended by central planners. It is only ended by searchers, both economic and political, who explore solutions by trial and error, have a way to get feedback on the ones that work, and then expand the ones that work, all of this in an unplanned, spontaneous way.
- [00:26:00] **Amit Varma:** Examples of searchers are firms in private markets and democratically accountable politicians.“
- [00:26:05] **Ajay Shah:** Stop quote.
- [00:26:06] **Amit Varma:** So basically markets and this feedback mechanism and all that.
- [00:26:10] **Ajay Shah:** The beautiful phrase which we always talk about discovery, not design.
- [00:26:15] **Amit Varma:** Discovery, not design. More from Easterly. “A planner thinks he already knows the answers. He thinks of poverty as a technical engineering problem that his answers will solve. A searcher admits he doesn’t know the answers in advance. He believes that poverty is a complicated tangle of political, social, historical, institutional, and technological factors.
- [00:26:37] **Amit Varma:** A searcher only hopes to find answers to individual problems by trial and error experimentation. A planner believes outsiders know enough to impose solutions. A searcher believes only insiders have enough knowledge to find solutions and that most solutions must be homegrown.“
- [00:26:55] **Amit Varma:** And so on and so forth. He’s, you know, Easterly’s written great books. We’ll link all of them from the show notes. But I also want to now for a moment shift to what was Nehru’s mindset, right? Nehru famously at one point said to JRD Tata, “Do not speak to me of profit. It is a dirty word.“
- [00:27:13] **Amit Varma:** He had a distrust of profit, he had a distrust of capitalism, and part of it was understandable. Part of it was that, look, you know, who colonized India? The East India Company, right? It was a

- [00:27:25] **Ajay Shah:** And also, I described the period from 1913 onwards, which were the most important years. If you stood in 1947 and looked back, the predominant picture of the advanced Western economies was pretty grim. They had fought two wars, they had had a great depression, things hadn't worked so well.
- [00:27:43] **Ajay Shah:** And also, there was a lot of Soviet propaganda about how the crude mobilization of resources by central planners, okay, things like putting together an Air India, putting together a UPI. These were the kinds of projects which had been done in the Soviet Union.
- [00:27:57] **Ajay Shah:** And in the short term, they look good because you avoid the messy searching process. Suddenly you mobilize the entire country around a new format of how to use capital and labor.
- [00:28:09] **Amit Varma:** And you also have to see who his influences are. In our episode on Newton and Gandhi, when we spoke about Gandhi, we looked at his intellectual influences. Who were Nehru's intellectual influences? Now, there's a Time magazine piece of 1951 which says brilliantly. "Beatrice and Sydney Webb, the godparents of Fabian socialism, are in a truer sense his creators than Vishnu and Shiva."
- [00:28:32] **Amit Varma:** And the same magazine piece goes on to describe Nehru thus, "He shares all the socialists emotional tenets about the capitalist order. In consequence, he has the socialists undisguised contempt for capitalism reinforced by the aristocratic Brahman's contempt for the Baniya caste.
- [00:28:48] **Amit Varma:** He speaks of the, Nehru's words, Baniya civilization of the capitalist West, of the West's cut-throat civilization, again Nehru's words. Utterly unlike Gandhi, he admires modern production methods and wants to bring them to India. He has announced that India will in time develop her own atomic energy program.
- [00:29:07] **Amit Varma:** But as a socialist, he believes that capitalism after his prodigies of production is bound to make a bloody and cruel mess of distribution. This view is based on the standard British socialist reading of 19th century economic history. His understanding of 20th century American capitalism is negligible." Stop quote.

- [00:29:25] **Amit Varma:** And another of his great influences was Harold Laski. John Kenneth Galbraith once said, “The center of Nehru’s thinking was Laski.” And Ram Guha once quoted an unnamed wit as saying that at every cabinet meeting, there was an empty seat and Harold Laski sat on it. Right?
- [00:29:42] **Amit Varma:** Which is and one can’t really blame him. At one level, he was a creature of the times. But at the same time, all the material really existed had he been open to it. He ignored C Rajagopalachari, Rajaji, a great man who you know, understood the power of freedom that we spoke about, who looked not to Russia but to the success of America.
- [00:30:02] **Amit Varma:** And today we know the successes of Russia were illusions.
- [00:30:06] **Ajay Shah:** Can I come back at that period in a somewhat different way? Um, I am puzzled about the following propositions. In 1947, while everything you describe about the ideology was there, the scale of intervention into the economy was relatively modest. Okay, so the civil service quality was extremely high.
- [00:30:26] **Ajay Shah:** We’ve never had a better civil service in India than was present in 1947 and the scale of intervention into the society was relatively mild. The level of freedom was relatively high and we were off to the races with a reasonably decentralized economy where people were calling the shots and the people were deciding many things.
- [00:30:45] **Ajay Shah:** Gradually, the loss of freedom began. Okay, day after day, the restrictions started coming in. State agencies started flexing their muscles and controlling the lives of the people more and more. What I find puzzling and disappointing is how long this took before any self correction came about.
- [00:31:04] **Ajay Shah:** It is okay to be wrong. It is not okay to be impervious to the evidence. It is tragic and disappointing for that intellectual community, who I continue to respect in many ways. These were some of the smartest people you could have got.
- [00:31:19] **Ajay Shah:** But they responded to failure by intensification. There was a commitment to ideology which is disappointing and it seems that every time there was a failure, you know, there would be these debates around a Hindu rate of growth, and the answer was to remain locked in that ideology and to insist that the floggings will continue until the morale improves.

- [00:31:40] **Ajay Shah:** And to me, that is just tragic and a failure, that it's okay to make mistakes. It's not okay to refuse to change course. That pragmatism was lost in the commitment to an ideology.
- [00:31:52] **Amit Varma:** I want to make two points, and one of them is a really broader point, and it's about a debate which is I think at the heart of India today and what we need to think about. And that is a constant tussle between state and society. It's something I've discussed in many of my episodes of *The Scene* and *the Unseen*. Last night, I was chatting with Vinay Sitapati on the phone and he also brought it up.
- [00:32:15] **Amit Varma:** And I agree with him that this is at the core of the break of 1947, that a couple of things happened. One is you think of, you know, our early leaders, those who framed our constitution and others, you know, sitting in Delhi when the country seems to be falling apart, right, all around them.
- [00:32:33] **Amit Varma:** So obviously there is an urge to centralize. There is an urge to make sure that the center does indeed hold, right? When and indeed, I sometimes think of the next few months that follow what Sardar Patel and VP Menon did, as a kind of a fast track colonization of India. What the British took two, 300 years to do, we did in a matter of a couple of years. And I have a great episode on VP Menon on that, which I'll link from the show notes as well.
- [00:32:58] **Amit Varma:** And, um, so there was that centralizing impulse for a political reason, number one. Number two, there was a centralizing impulse for a social reason where someone like Ambedkar, one of our great thinkers, a giant of the 20th century, looks around him and says that, listen, we can't be too decentralized because villages are dens of localism, ignorance, etcetera, etcetera.
- [00:33:21] **Amit Varma:** Essentially, they're riddled with caste, which is, you know, one of our original sins. And therefore, if you just say decentralize and all of that, it's not going to happen. We'll all slowly go to hell. So you need a transformative constitution as it were, you know, which is a phrase I kind of despise because it carries with it, you know, connotations of so much state coercion and so much social engineering which can never work and which hasn't worked and we know it cannot.

- [00:33:46] **Amit Varma:** But that is, you understand that impulse, you know, that you simply cannot leave it to our basest instincts as reflected in village life what Ambedkar had seen and experienced himself. So you understand his sense that, okay, to build a great society, we must centralize, we must direct it from the top down, we must teach them how to think.
- [00:34:07] **Amit Varma:** Um, I say teach them how to think because our friend Madhav Khosla talks about how the constitution was a pedagogic exercise as much as an, you know, exercise for setting rules, right? So these are two political, social and then there was economic where again Nehru is coming from a point of saying that, hey, you know, the East India company failed us.
- [00:34:28] **Amit Varma:** Profit is a dirty word, capitalism is bad, I hate these Baniya capitalists, blah blah blah. And therefore there's, and there is in all of these people, and they're all elites in a sense, right? And there is in all of these people, this sense that we are above the people and we will forge a better world. They know not what they are doing.
- [00:34:48] **Amit Varma:** And I think that there was a certain folly here. I think in a sense, today's, you know, that that that arrogance has been consequential that society has caught up with politics today. And again, let's not get into current day politics. But I think there was a mistake there by those who wanted liberal values and a free society to say that that can only be imposed from the top down, whereas I continue to believe, though it would have been difficult to see then or argue then, that it can only happen from the bottom up.
- [00:35:16] **Amit Varma:** So that is one, at the social level, and two at the economic level, what it did, Nehru's move towards central planning and some of the policies that I'll ask you to expand on, is that it created this environment where dissenters were completely shut out, the profit motive was shut out. Like P. Chidambaram, someone you know well, you've worked with him, once said, quote, "India suspected capitalists."

[00:35:40] **Amit Varma:** It suspected the profit motive, and it tried to nail it down, block it, and thought that all growth would come from government planning. By the late 1980s, Korea was a miracle economy and India was a stagnant slow trot kind of economy. The whole idea that there was a big market out there did not strike Indian planners,“ stop quote. And this is what strikes me that when you say that, okay, we reached 5% growth rate from 47 to 62, approximately 5% or whatever.

Chapter 4: 1962-1977: A Terrifying Cautionary Tale

[00:36:08] **Amit Varma:** The thing is, it’s great in comparison to the years immediately before, because you had the second World War, you had so much social strife. It is terrible when you consider the counterfactuals of what happened in Southeast Asia, where Korea went and all because of freedom, freedom, freedom, because they understood the power of consent.

[00:36:27] **Ajay Shah:** I agree completely. So, I just want to say, when you look at the Indian historical experience, the outcomes look decent. When you look under the hood, the inputs are actually pretty bad. So what is the conduct of policy is poor and the noose tightens as the years go by.

[00:36:44] **Ajay Shah:** So as I said, right in 1947, there were decent levels of freedom, exchange convertibility was there. You had full convertibility of the current account and the capital account for some time. Things like that. But then bit by bit, it started getting worse and a vast repressive machinery started getting established.

[00:37:01] **Ajay Shah:** And, uh, the turning, the decisive moment is of course Nehru’s death in 64, which was preceded by the China war in 62.

[00:37:12] **Amit Varma:** So, Ajay, let’s talk about that period of 62 to 77. In fact, you’ve, you know, in the notes that I have in front of me, you’ve described that period as terrifying. You know? Um, take me through it, give me the broad strokes, also give me, you know, some specifics so I can get a feel of what were, you know, what was going wrong there?

- [00:37:30] **Ajay Shah:** India was a precocious political project. Uh, in a country in 1947 where women's literacy was 6%, there was the audacity of thinking that we'll have universal suffrage. And there were many skeptics, as there should be. It is odd and weird that in such an unprepared country, you know, we are trying to do a complex constitutional building project, a republic as it were, trying to come about in a place where, you know, really.
- [00:37:55] **Amit Varma:** And with all credit to our founders, if I may interrupt, they got this one thing really right. You know, we've been kind of criticizing, you know, Nehru and and the other makers of the constitution and all of that, but they did so much right in building those institutions and keeping us free and secular. It's a big deal.
- [00:38:12] **Ajay Shah:** That the optimism around that political project was severely challenged by the 1962 to 1977 project. And many people thought that this is going to turn into yet another disgusting third world authoritarian country, or worse that this country will collapse into civil war.
- [00:38:30] **Ajay Shah:** So let's walk just the quick sketch of the events. 1962 was the China war. 1964 Nehru died. Uh, in 65 there was a war with Pakistan. There were two consecutive droughts, there was famine in the country. India was begging for food aid from the United States, the PL 480. Then came the 71 war.
- [00:38:50] **Ajay Shah:** While the 71 war was a nationalist wet dream, it was also an enormous economic burden for a poor country. It was expensive to do these things. Uh, in 1969, Indira Gandhi nationalized the banks, and there was a whole wave of economic repression like the foreign exchange regulation act, the FERA of 1973.
- [00:39:10] **Ajay Shah:** Okay, and all of which led to an economic collapse in the early '70s. It is striking to see how quickly the euphoria of the Bangladesh war and Indira Gandhi's mind blowing Lok Sabha victory turned into an abysmal economic collapse, double digit inflation, the JP agitation, and then we got to the emergency.
- [00:39:30] **Ajay Shah:** So this is the terrifying period that the economic growth was in bad shape. The conduct of the state turned from bad to horrendous, and there was a collapse of freedom. There was the decline into the emergency.

- [00:39:45] **Ajay Shah:** And the critics of the Indian project could wag their fingers and say, we told you so, that this is a dumb idea that a free India which will try to become a republic and have a one man, one vote, uh, will just not work. And it is the fate of poor countries to turn into disgusting authoritarian countries.
- [00:40:04] **Ajay Shah:** Populists will always win. Remember, the first, uh, Prime Minister of India who is classified by political scientists as a populist was Indira Gandhi. And this was the period where really our optimism and the entire Indian dream was shaken.
- [00:40:20] **Ajay Shah:** And there were many serious people who thought that this is not going to work. We're just going to become another disgusting authoritarian third world country with no redeeming features.
- [00:40:31] **Amit Varma:** So, I just want to say that, you know, we had an episode on the 91 reforms which Shruti Rajgopalan, you and I, um, you know, on the seen and the unseen with Shruti, we spoke a lot about this. Shruti for the Mercatus Center does a 1991 project, fantastic project. She wrote this absolutely magisterial essay talking about this period. And I want to like quote a couple of lines from there, uh, where about this Indira period, she wrote, "By the time Nehru's daughter Indira Gandhi took office, the official goal was to nationalize all means of production."
- [00:41:01] **Amit Varma:** "Her government nationalized the 14 largest banks overnight through an ordinance and also nationalized coal and copper mines, general insurance, unprofitable textile firms. The list goes on. Land ceiling laws, monopoly control, greater control over foreign exchange, inflexible labor regulations, disallowing the closure of unprofitable firms, and a hostile attitude to foreign investment.
- [00:41:24] **Amit Varma:** Some goods were hit with an import tariff of over 350%. The top income tax rate was 97.75%. All this cumulatively unleashed an informal and corruption-driven underground economy that some suspected was larger than the formal sector. By the late 1970s, it was almost impossible to set up a new business or to exit a failing business."

- [00:41:46] **Amit Varma:** And she also points out, for example, that there was a joke that when a girl child got married, you know, people would tell her parents, “Book a scooter.” So that by the time her wedding comes around, the scooter has been delivered. You know, those were the days. Like India was the one country in the world where a second hand car cost more than a new car, because a new car would take years to get delivered. The second hand car was already there.
- [00:42:10] **Amit Varma:** And a lot of this was driven by politics. It wasn’t even as if Indira Gandhi, um, you know, had these convictions. It is just that she needed to sort of distinguish herself from the syndicate as it were with people like Morarji Desai, and this was tactically what she did to get the left on her side, this leftward tilt.
- [00:42:28] **Amit Varma:** And this is what I find, this is what breaks my heart. She didn’t even believe in this shit. She was just a sociopath who didn’t give a damn, who would do whatever it took to get to power. And people often talk about, you know, the emergency where of course half the opposition was in jail. You and I would have been in jail had we lived then, they talk about that as the worst of her excesses.
- [00:42:48] **Amit Varma:** And I really think her economic regulations were far worse. It kept millions of people in India in poverty for decades longer than necessary. And especially in the way that they stopped that labor intensive manufacturing revolution that could have happened. You know, again, here’s the Angus Madison chart. Look at where China takes off.
- [00:43:08] **Amit Varma:** India could have taken off before this, and we didn’t. We had everything, we had the people who are our greatest strength, and we never did. And that kind of breaks my heart. But in all this, in the darkest moment, there is still hope. And I want you to talk about, you know, we all keep saying 91, 1991, with good reason, you know.
- [00:43:28] **Amit Varma:** The 91 reforms, incomplete as they were, you know, much as they left a lot to be desired, got hundreds of millions of people out of poverty. It held deep emotional value to me. It changed our lives. It certainly changed my life. But your point, which has been underscored by other guests I’ve had on the show like the great Montek Singh Ahluwalia, is that it wasn’t something that happened overnight in 91.

[00:43:50] **Amit Varma:** That from the late 70s, it was there in the making, a silent revolution of people biting their time. Tell me about that.

[00:43:58] **Ajay Shah:** Uh, just on the history of ideas. Uh, yes, of course, you know, it's dumb luck there was a terrorist attack which had enormous consequences for India in precisely the ways that you describe. I think of it as a failure of the Indian intellectual class. It was the intellectuals who were seduced by state power and central planning and the Soviet model and all that.

[00:44:19] **Ajay Shah:** It was the leftism of Indian intellectuals as a class, which created the conditions in which these excesses could happen. Um, and also around Indira Gandhi, I I love the line that it was only Sanjay Gandhi's mother who could have declared the emergency, and it was only Jawaharlal Nehru's daughter who could have declared elections.

[00:44:38] **Ajay Shah:** So there was something in her mind which prevented her from going full third world tyrant. And we now know because of the uh leaked information that has come out from that period that was flowing in the diplomatic bag that it was clear to many, many people that Indira Gandhi was embarrassed about the emergency and it was only a question of when the elections would take place.

Chapter 5: India: 1977 Onwards

[00:45:00] **Ajay Shah:** And when elections took place in 1977, they were truly free and fair elections. There was no intimidation of opposition parties. There was no messing with election booths and so on. So we lucked out in that episode. Okay, we went to the brink of catastrophe.

[00:45:17] **Amit Varma:** We also lucked out because she actually thought she would win the elections when she called them, and Sanjay Gandhi did not want her to call the elections. He wanted her to be dictator for life.

- [00:45:27] **Ajay Shah:** So it's a little more than that and I think the best reading of history today is that Jawaharlal Nehru's daughter was just embarrassed at becoming one more third world tyrant. Okay? She was too good for that.
- [00:45:39] **Ajay Shah:** But then we get to 1977. So the Janata party came to power. Okay? And there were three great Gujaratis who became the most powerful people in the country. Morarji Desai was the Prime Minister, H. M. Patel was the finance Minister, D. T. Lakdawala was the Deputy Chairman of the Planning Commission. Okay, and they understood a sense about the way the 60s and the 70s had gone bad.
- [00:46:01] **Ajay Shah:** These were not radical reformers, but these were people who had a instinct around the working of markets. So remember, D. T. Lakdawala had always been in Bombay University. He was never part of the leftist ethos of Delhi and the great economics organizations of Delhi. H. M. Patel had grown up in the proximity of Amul and the cooperative movement and so on.
- [00:46:21] **Amit Varma:** Maybe maybe India's next intellectual revolution can happen far from Delhi in lonely Karjat.
- [00:46:27] **Ajay Shah:** Yeah, so the the best ideas are always incubated far away. The further away you are from power, the more clearly you see. So these people started a gentle process of turning the ship. And there are very important staffing decisions which had to be done in order to bring in fresh ideas.
- [00:46:45] **Ajay Shah:** And slowly the liberalization of the economy began. They would seem like small trifling measures in some sense today, but in that age, they were important. I want to locate these around the words private sector confidence. Always and always and always, there is only one source of economic growth and that is the private sector.
- [00:47:06] **Ajay Shah:** And when the private sector feels good about the future, then the private sector responds by committing themselves to building firms. So the heart and soul of the story is always the hours per day that the leadership cadre of the private sector commits themselves to the project of building firms, to the extent to which their kids are committed to the same project, to the extent to which their money is being put back into the project.

- [00:47:29] **Ajay Shah:** Okay? So the heart and soul of all Indian progress is the sense of optimism and trust in the eyes of the private sector. So the long night of the 62 to 77 period ended, and the private sector started cautiously trusting again and getting back into building businesses and taking interest in improving their organizations.
- [00:47:48] **Ajay Shah:** And that kicked off growth surprisingly quickly. Uh, 1979 is a date that is stuck in my head because when you do the careful econometrics, the date at which growth acceleration is announced in the econometric work is 1979.
- [00:48:03] **Ajay Shah:** So something, some things were begun in 77, and they rapidly had an impact, and in 1979, it was visible as an acceleration of GDP growth. And then Indira Gandhi came back to power and she actually carried these ideas further. She didn't go back to her old style socialism. And then when Rajiv Gandhi became PM, again, he was a more modern person.
- [00:48:23] **Ajay Shah:** He started pushing in many important directions. And so there was a sustained clarity around that period. Late in the 1980s, there was a big fiscal balance of payments disaster, which led up to the 91 program. Now, in this same period from 77 onwards, we also got a blossoming of Indian economic thinking.
- [00:48:42] **Ajay Shah:** So I said that Nehru and Indira Gandhi and her period contained an intellectual landscape that was fundamentally leftist, that was basically inspired in a Marxian or a Soviet view of the world. That started changing in many important ways. Manmohan Singh's PhD thesis in 1964 was famously one of the first intellectual products which questioned export pessimism from India.
- [00:49:05] **Ajay Shah:** At the time, people believed that because our skins are brown, we will never be able to export. And Manmohan Singh was one of the early people to say, no, it's about incentives, it's about prices, it's about exchange rates. And it is possible for India to export and export well, and it is not uh something weird about India that this is infeasible. So, a new set of ideas started bubbling in.

- [00:49:27] **Ajay Shah:** For example, Montek Ahluwalia came to work for Rajiv Gandhi. Okay, these kinds of people carried new ideas. Of course, I've heard a lot about this period from Vijay Kelkar, who had come to work in the Planning Commission and at first had very leftist and communist views, but over the years, he also started questioning many of those things.
- [00:49:46] **Ajay Shah:** And I've had the joy and the luxury of speaking with him in detail about his journey of ideas and about questioning the world. I think in that period, a lot of the Indian intellectual elite was just simply embarrassed by the success in East Asia. And again, you got to place this in perspective.
- [00:50:05] **Ajay Shah:** In 1947, if there was a country where things were supposed to go well, it was India. Okay, this is the country of Gandhi and Tagore and Ramanujan and Nehru and just, you know, outrageously great people. So nowhere else amongst poor countries, did you have that kind of intellectual capital? Did you have that kind of proud elite that could actually plug into the global state of the art knowledge and do a rapid catch up to British levels of per capita GDP.
- [00:50:30] **Ajay Shah:** If there was a place to do it, it was India. And it was deeply embarrassing for the Indian elite that actually East Asia ran ahead of India. And I think they got slapped in the face and the better amongst them started asking first principle questions that, you know, this ain't working. Uh, I want to emphasize Arun Shourie in this process.
- [00:50:50] **Ajay Shah:** Arun Shourie does not get enough recognition. He was a deeply grounded scholar in India, and many things that are attributed to Western scholars worldwide had actually been discovered and understood and articulated by Arun Shourie here in India first. And so these kinds of people really understood the venality and failure of the Indian socialist project, of building agencies that will terrorize people and put people in jail and take bribes and all that.
- [00:51:17] **Ajay Shah:** So there was a community. There was a literature of thinking people, of interesting people who bit by bit started reducing the choke hold on the economy. And that took place from 77 onwards through the 80s. Uh, their first cut was the domestic economy.

- [00:51:33] **Ajay Shah:** So they did not touch the external side a whole lot, but many mistakes of public policy within the country were addressed through the 70s and 80s. And they did give gains through that period. And then the big thing that changed with 91 was reducing tariff barriers and improving the convertibility on the current account and a little bit of openness on the capital account.
- [00:51:55] **Ajay Shah:** So all these things, they built on each other. Whenever we see grand social phenomena, it will never happen that there's a one shot event or a one single explanation. The world evolves through many, many actions, and then a new mood gets established in the eyes of the private sector. Always and always we should focus that what is the confidence of the private sector?
- [00:52:18] **Ajay Shah:** Does the private sector feel optimistic about where India is going? Does the private sector feel safe about what is happening in the country? Then the private sector responds by bountifully investing, committing their emotions and people into building organizations in India, and then the growth follows.
- [00:52:35] **Amit Varma:** There's a great quote by Abraham Lincoln about if I have six hours to cut a tree, I'll spend the first five sharpening the axe. And it seems to me that I can read into this the lesson that we must all sharpen our axes, even if we even if we'll never cut a tree, but we have to do it because when the opportunity comes, then we can do something with it.
- [00:52:55] **Amit Varma:** And I've had an episode with Vinay Sitapati on Narasimha Rao, another great figure of this period. And what strikes me when I read about these people, you know, and Shruti's the 1991 project at the Mercatus Center, that has chronicles and oral histories of so many of these people, and they always fill me with awe because it is not as if in 1991, they got together and said crisis. No.
- [00:53:18] **Amit Varma:** For a decade and a half before that, they were working away, playing the long game, you know, building ideas. And that
- [00:53:25] **Ajay Shah:** And building each other.
- [00:53:26] **Amit Varma:** And building each other. And and and that's

- [00:53:30] **Ajay Shah:** So I want to show two periods which are really inspiring for all of us and uh the first of them is roughly speaking uh 1927 to 1947. Okay, in that period, you would be forgiven for thinking that the British Empire is infinitely powerful and there will never be a free India.
- [00:53:47] **Ajay Shah:** So why bother? But the best and brightest of India actually dug in and bothered. And for better or for worse, they were each other's community. Okay, they wrote long hand letters to each other, and they argued and debated furiously about rival conceptions of what is India.
- [00:54:05] **Ajay Shah:** The INC was a big tent. It accommodated all kinds of views ranging from, you know, more anarchist to less anarchist. And they argued about what it meant to be free so that when 1947 came along, there were people and there were documents and there was a body of knowledge which could go forward. And these people did not say that, "Oh, show me the pathway to gaining power to become some officer in some powerful government organization."
- [00:54:28] **Ajay Shah:** And you show me that career track, then today I will invest in knowledge. Okay? And that's like a very narrow and selfish view of each person's place in society.
- [00:54:37] **Amit Varma:** And if I may say so, just as we should remember those who fought that fight, we should also remember those who did not.
- [00:54:43] **Ajay Shah:** Yes. The the vast majority, the mainstream were just the appeasers. They they collaborated with the British. And we should respect and admire the people who were willing to sign on to such journeys. Exactly the same story played out 1962 to 1977.
- [00:54:58] **Ajay Shah:** I was born in 1966 and I have extensively had the opportunity to talk about this period with my elders. And this is the same story. Of course there was despondence. There were many people who gave up and left the country. And every person had to make that call that do you want to commit your life to this country?

- [00:55:17] **Ajay Shah:** Do you want to commit your life to the project of studying this country? And there was no hope in sight. You never knew when the nightmare was going to end. And in fact, it looked like year after year, the nightmare just got worse. Okay, from the 62 war to another 65 war to two consecutive droughts, to bank nationalization, to double digit inflation, the JP Andolan, the emergency.
- [00:55:40] **Ajay Shah:** It just seemed to get worse and worse. Uh, for a good, decent, upstanding, uh participant of the Indian freedom movement, it was just grotesque seeing the rise of the populist nationalist Indira Gandhi. It was just grotesque seeing the freedoms being stripped away. But the point is, the best of us chose to dig in, to stay, to build knowledge, and to build community.
- [00:56:03] **Ajay Shah:** And it was done in a non-purposeful way. Manmohan Singh did not return to India after his PhD in 1964 with the promise that you will one day become a finance minister, or you will one day become a Prime Minister. He had no idea. Nobody would have bet on a million to one odds that this was going to happen.
- [00:56:20] **Amit Varma:** And very advised his young mentee, Montek Singh Ahluwalia, “Why don’t you come back with me and work for the country?” And Montek leaves the World Bank and he comes back to do that. He had no idea.
- [00:56:30] **Ajay Shah:** And by the way, the same with Manmohan Singh and Kelkar. They met in a corridor at a conference in Kathmandu. And basically, in the conversation, uh, Manmohan Singh said something to Kelkar like, so you will come and work for us, won’t you? And Kelkar just felt obliged to say, yes sir, I will. And Kelkar had packed his bags and was back in India.
- [00:56:48] **Ajay Shah:** So these were the people who had no promise of power or success. And for all you knew, the Indian project was going to crash.

[00:56:55] Amit Varma: I have an anecdote here for our viewers about Vijay Kelkar, your co-author. Uh, great book, *In Service of the Republic*. In fact, the book is *In Service of the Republic*. And when you guys recorded with me, if you remember, we were recording in a studio in Khar and there was a break. And Mr. Kelkar went to the toilet and when he came back, he pointed his finger at me and he said, Amit, I want you to, I want to give you one piece of advice.

[00:57:19] Amit Varma: So I thought, okay, some great piece of wisdom is going to come at me. And I said, yes, sir, yes, sir, tell me. So he said, every time you pass a toilet, enter it. So that is, you know, the wise passing on their wisdom to younger folks.

[00:57:33] Ajay Shah: So in similar fashion, I feel that people should not ask for uh fate to step out of the page of history and shake her and shake your hand. People should just be quiet and dig in and work hard, and you have no right to ask for any reward, but it is our job to build knowledge and build community, and we have no telling which way the world will go.

[00:57:53] Amit Varma: And the 91 reforms are both remarkable in what we managed to get done, also deeply sad in what what we didn't manage to get to. We didn't we we didn't reform factor markets, agriculture was left, etcetera, etcetera. We've spoken about that at length actually in our episode of *The Scene and the Unseen*. So I'll just point people to that. We've almost been talking for an hour now.

[00:58:15] Amit Varma: And I want to talk about, I want to ask you about the next aspect, the next phase of our history. You know, we have always been lamenting that, okay, from 91 to 2011, we had a golden period where everything kind of went right. Uh, and we have since then what Pooja Mehra calls a lost decade.

[00:58:33] Amit Varma: I have an episode with Pooja on this, you've spoken about this to me a lot. And once again, it's not as if, you know, 2011 is where you see the economy go kind of down, but it's really 2008 that that process sort of started. And and just to kind of summarize, after independence, we had sort of the Hindu rate of growth at 5% for the longest time, but better than what came before.

[00:58:55] Amit Varma: And then 79 onwards as you point out in econometric terms, you see a jump and it goes from 5 to 5.5. And then 91, 7.5 upwards and onwards. And since 2011, we've kind of been not doing so well. So tell me a little bit about two aspects of this, you know, why did we stop doing well? Did we take reforms for granted? And did we not realize that this has to be a continuous process and not just ad hoc policies here and there. And also, is there such an intellectual community still today, which is still fighting the good fight?

[00:59:25] Ajay Shah: It's important to psychoanalyze what happened in the 91 to 2011 period. The Indian state was far from fixed. There were many, many things wrong with the working of the state.

[00:59:37] Ajay Shah: What I think the early years did was to tell the private sector a story that, yeah, things are really bad, but you know what, they're going to get better. That there are people running the place that know what to do, and we've got our shit together in terms of the work process, and year after year, we'll

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