



## Liberalism in India

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We tell of the life of liberal ideas in India, from the nineteenth century down to today. Indian intellectuals in the nineteenth century were influenced by British and continental liberal philosophers. During the early twentieth century, however, the imagination of the Indian intelligentsia was captured by socialist ideas, which were gaining immense popularity all over the world. By the 1920s the reigning intellectual force in colonial India was socialism, in particular, the Fabian Society brand of socialism. In 1947, when India became independent, its leadership—with Jawaharlal Nehru at the helm—was committed to socialist and statist solutions working within a democratic framework.

For the next four decades, India experienced central planning, with each decade witnessing greater state control over citizens. The only liberal movement during this time was a fringe of opposition, represented in academia by the economist B. R. Shenoy. The opposition to planning in political and civil society was, mostly, led by C. Rajagopalachari. Also growing in importance were academic Indian expatriates, who lived in the United States or elsewhere but advanced liberal ideas for India. More recently, in post-liberalization India, there are many different voices in the press and civil society that support liberalism.

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## Intellectual currents before 1947

In India in the 19th century, prominent intellectuals like Ram Mohun Roy, Dadabhai Naoroji, and Sir Syed Ahmed Khan were influenced by British and continental liberal philosophers. Many Indian liberals wrote against the caste system and lobbied for equal rights for men and women (see Guha 2010, 33, 101, 213). Roy (1772–1833) was an advocate of “a limited government presenting a variety of checks on any abuse of its powers” (Arnot 1834). He argued for constitutional limitations constraining the British East India Company and advocated greater freedom of press, judicial independence, and elected representatives (Bayly 2007).

Liberals who supported individual rights and freedom and wanted to make them available to Indian citizens of the Empire founded the Indian National Congress Party in 1885. The party played a leading role in the independence movement, culminating in independence in 1947. Gopal Krishna Gokhale (1866–1915), who joined the party in 1889, was inspired by liberal thinkers such as Edmund Burke and John Stuart Mill. Gokhale believed in a free society with a limited role for the state in the provisioning of public goods and free education (Guha 2010, 99). He was teacher and mentor to the man who was perhaps the most important Indian leader in the early twentieth century, Mohandas Gandhi. Gandhi, however, felt that Gokhale was too liberal in his ideas and his favor for Western institutions; Gandhi believed more in village-level grassroots institutions.

Dadabhai Naoroji (1825–1917) was also a liberal thinker and “first and foremost a constitutionalist” (Doctor 1997, 28). Even though both he and Gokhale wrote extensively against the British Empire, and supported self-rule in India, their demand was for a liberal society. Given that India was dealing with social problems such as the caste system, untouchability, and the low status of women, the only legal way to deal with these concerns was to create a liberal constitution that granted political equality.<sup>5</sup>

In the 1920s the movement for some form of home rule or *Swaraj* gained momentum. At the All Parties Conference in 1928, Motilal Nehru, father of Jawaharlal Nehru, wrote a draft constitution calling for a democratic republic. The first proposed constitution for India written by Indians, it conceived of Dominion status for India within the Empire and was very similar to the American consti-

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5. This critical social reform was an urgent and pressing concern. Changing these social circumstances through education and culture was considered too long a process, leaving social change through state intervention to be seen by many as the ideal solution.

tution, going so far as to outline a Bill of Rights. But with the passing of leaders like Gokhale and changing times, the once-strong liberal character of the Indian National Congress had faded.

By the late 1920s the new generation of Congress leaders was more inspired by socialist ideas. In particular, the British Fabian Society influenced Indian intellectuals (see Bhagwati 1993; Austin 1999; Das 2000; Guha 2007; Varma 2008; White 2010). The most prominent political leader amongst the young and upcoming socialists was Jawaharlal Nehru (1889–1964), who, while studying law in London, was enormously influenced by Fabian ideas.<sup>6</sup> Nehru believed that capitalism in India would weaken both political and socioeconomic equality: “Democracy and capitalism grew up together in the nineteenth century, but they were not mutually compatible. There was a basic contradiction between them, for democracy laid stress on the power for many, while capitalism gave real power to the few” (Nehru 2004/1936, 547).

The main thread joining the dislike of capitalism and the embrace of democracy was the idea that political equality in India would be meaningless without economic equality. Sidney and Beatrice Webb, the founders of the Fabian Society, emphasized this connection (Webb and Webb 1920). The ideas of the Webbs, George Bernard Shaw, and Harold Laski all left their mark on Nehru during his time at Harrow, Cambridge, and London (Nehru 2004/1936, 27). Whereas the liberal Whig philosophy of the 18th century profoundly influenced the founding and set the early course of an independent United States, the democratic-socialist philosophy of the late 19th century profoundly influenced the founding and set the early course of an independent India.

The ideology of planning gradually found its way into the heart of the burgeoning independence movement, the Indian National Congress. A Congress Socialist Party, spearheaded by Nehru and consisting of ardent socialists and planning enthusiasts, was formed within the broader fold of the Congress in 1934. More importantly, the Congress organized a National Planning Commission in 1938 to chart out in greater detail the role that state planning could play in aiding the growth of the nation. The National Planning Commission met at intervals throughout the late 1930s and early 1940s, coming up with proposals that greatly influenced the goals and the institutional structure of the planning mechanism in independent India. By the end of the Second World War, socialism was the new orthodoxy in Indian politics. This orthodoxy led to the adoption of central economic planning when India gained independence from the British in 1947.

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6. The core of Fabian socialism was to advance the principles of socialism through gradualist and reformist means and not by violence or revolution.

From the perspective of liberalism, the years since independence can be broken up into three broad periods:

- 1950–1975, featuring the liberal economist B. R. Shenoy and the emergence of a broader movement opposed to state planning;
- 1975–1990, characterized by the absence of any significant liberal opposition within Indian civil society and a shifting of the anti-planning forces to universities abroad; and
- 1990–2015, the years of economic reform, which have witnessed the re-emergence of a limited liberal movement making headway within the press and policy circles but not in academia.

## The state-planning ideology comes to power

During the second half of the 19th century and the early decades of the 20th century, significant economic change rippled through the Indian economy. India became more integrated into world trade and opened up to “the influences emanating from the rapidly growing areas centering on the North Atlantic” (S. Shenoy 1971, 13). There was a deepening of the division of labor and increased commercialization in the rural economy. More output was sent to market and the cultivation of commercial crops such as cotton, jute, and oilseeds became more widespread. Pockets of modern industry began to emerge and towns and cities mushroomed, owing their existence not, as before, to the largesse of *rajās*, both petty and noble, but to the hustle and bustle of commerce. By 1947 India could boast of having the world’s largest jute textile industry and the sixth-largest cotton textile industry, and of accounting for nearly half of the world’s tea exports.

Yet these changes barely altered the fundamental nature of the colonial Indian economy. It remained highly agrarian, with the rural economy in many parts of the country characterized by a pre-modern institutional framework, resembling the rural economy of medieval Europe or Czarist Russia more than one of an industrialized Western nation. Indeed, most modern economic growth occurred in the interstices of that institutional framework, in pockets where market forces could emerge and operate. Nevertheless, by the late 1930s a vocal and committed movement had emerged calling for centralized economic planning and singing the praises of socialism, while blaming most of the abject poverty of the country on the evil forces of markets and capitalism.

Two momentous international events fuelled the movement toward statist ideologies and policies. The Great Depression had wreaked havoc on the inter-

national division of labor, leaving in its wake severe agrarian distress in parts of India, which occasioned bitter criticism of trade and markets. More importantly, the grand experiment with central planning in the Soviet Union had commenced. While many important Indian planning enthusiasts, including Nehru, were uneasy with some aspects of Soviet central planning, they admired the rapid industrialization that it apparently had engendered. The imagined success of state planning reinforced amongst the Indian intelligentsia the already dominant idea that a market economy is inherently unstable and unreliable, while a centrally planned economy can deliver rapid growth and development.<sup>7</sup>

During the 1930s and 1940s there appeared numerous plans for India's economic development. The first emerged in 1934 and was the brainchild of Sir Mokshagundam Visvesvarayya, an engineer from Mysore; its "essence [...] was industrialization," with a "proposed doubling of the national income over a period of ten years" (Hanson 1966, 30). In the 1940s came the Bombay Plan, drawn up by a group of industrialists; the People's Plan, crafted by M. N. Roy and encapsulating the position of the more radical communist Left; and the Gandhian Plan of S. N. Agarwal, which placed a greater emphasis on the preservation of the village and traditional cottage industry. Politicians debated which plan to pursue, but not the question of whether the state should engage in central planning.

With the Second World War, the planning enthusiasm spread to the colonial government as well. In 1944 the government set up a Planning and Development Department under the leadership of Sir Ardeshir Dalal, one of the signatories of the Bombay Plan. In 1945 the department issued "a Statement of Industrial Policy which foreshadowed in many ways the Industrial Policy Resolutions of 1948 and 1956" (S. Shenoy 1971, 21). More importantly, the war brought with it a host of economic controls, including price controls, distribution controls, and the large-scale rationing of many commodities. Also introduced were systems of import controls and capital issues controls, and a rudimentary system of industrial licensing, all aimed at constraining inflation and conserving scarce foreign exchange. Most of these controls outlived the war and formed the basis of the future planning apparatus.

## **The goals of planning in independent India**

In 1947, agriculture still accounted for more than 50 percent of the national income, whereas manufacturing industries accounted for only 12.3 percent. In the industrial sector, production was heavily oriented toward consumer goods;

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7. On the influences of the Great Depression and the Soviet Union on the emergence of a socialist movement in colonial India, see Frankel (1978).

industries such as cotton textiles, jute textiles, and vegetable oil contributed 62 percent of the total industrial output. The iron and steel and engineering industries contributed a meager 11.5 percent to industrial output (Tomlinson 1979, 33), while a capital goods sector was virtually nonexistent (Morris 1983, 642). In view of this structure of production, India was primarily an exporter of agricultural commodities and light-manufactured consumer goods, while her imports, in contrast, consisted largely of capital goods, industrial inputs, and manufactured consumer goods (Chaudhuri 1983; Roy 2006).

The supporters of planning believed that the nation's dependence on imported capital goods was the chief obstacle in the path of its economic progress. Consider, for example, the following passage from P. C. Mahalanobis, the architect of the Second Five Year Plan:

Why do we then import machinery? Because we have not started factories to fabricate heavy machinery needed for the production of steel, cement, etc. ... [O]nce we do this, and establish a heavy machine building industry we shall be able to use our own iron ore and with our own hands produce steel; and then use the steel to produce more machinery. ... [O]ur dependence on foreign supplies will be greatly reduced. *The main obstacle to rapid industrialization thus removed*, we shall be able to increase production and employment quickly. (Mahalanobis 1961, 48, emphasis added)

An immediate goal of planning, therefore, was to diversify India's production base and to industrialize the nation rapidly. But this process of indigenization was not to be restricted to the capital and intermediate goods industries. Instead, the plan was to gradually utilize the tools and machines produced domestically to step up the domestic production of agricultural and industrial consumer goods in the future. Consumer goods that were being imported would in due course be produced at home, and the state would discourage exports of agricultural commodities and consumer goods. Instead, the supply of these goods was to be reserved for the home market.

Thus, the Indian planners were motivated primarily by the ideology of economic nationalism: a mix of central economic planning at home combined with autarkic tendencies in the realm of foreign trade.<sup>8</sup> The aim was to increase national output by inducing home production of consumer, intermediate, and capital goods.

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8. On economic nationalism, see Heilperin (2010/1949).

## The planning apparatus

After independence in 1947, the newly empowered Indian government continued to add to the controls and regulations that it had inherited from the colonial government, and it enshrined many of these inherited powers of control into law. The Planning Commission, instituted in 1950 with Prime Minister Jawaharlal Nehru at its helm, had responsibility for drafting the document that formed the entire planning system's cornerstone, namely, the Five Year Plan. The initial Five Year Plan and its successors each contained a detailed list of the investment expenditures to be incurred by the public and private sectors and the sectoral allocation of these investments. Linked to these expenditures on various projects was a list of targets to be achieved by various industries.

The Industrial Policy Resolutions (IPRs) of 1948 and 1956 divided industries into three broad categories. The first category included industries in which either the state would have a total monopoly or only the state could undertake any new investment. Existing private firms in these industries could continue to operate and expand, but no new private firms could enter. The second category included industries in which the state would gradually establish new units, while permitting new private firms to enter as well. The third category contained the industries that would be the private sector's responsibility. The state, however, could enter these industries if it wished to do so.

Political constraints stopped the government from nationalizing all industry. Instead, it chose to control and regulate the private sector to ensure that private production and investment conformed to the priorities listed in the Five Year Plan. Indeed, as noted by Jagdish Bhagwati and Padma Desai (1970, 231), private-sector investment was "directed by the state, by physical controls operated primarily through an exhaustive licensing system combined with a detailed setting of 'targets' by the Planning Commission."

Key to the system of control was the 1951 Industries (Development and Regulation) Act, which instituted the highly restrictive industrial licensing regime requiring all private industrial undertakings to register with the central government. Several other laws along the same lines were instituted rapidly. The 1955 Essential Commodities Act gave the central government the authority to control the production, distribution, and pricing of commodities that it deemed "essential." The Companies Act of 1956 constituted "one of the most detailed and stringent codes of business legislation to be found anywhere in the world" (Hanson 1966, 486). The Capital Issues Control Act of 1956 gave the government the power to control the issue of capital by joint-stock companies. Also, a vast apparatus of import and export controls was carried over from pre-independence days.

## The liberal opponents of planning: 1950–1975

The period from 1950 to 1975 witnessed significant and articulate opposition to planning, from the economist B. R. Shenoy within Indian academia and from the emergence of a broader movement opposed to planning in the civil society. This was a time when, within India and all over the world, intellectuals and politicians were convinced that centralized resource allocation was the way forward. Within academia in India, Shenoy kept the liberal flame alight. In politics and civil society, there were a handful of others.

### B. R. Shenoy

Described as “a hero and a saint” by Peter Bauer (1998, 1), B. R. Shenoy almost singlehandedly spearheaded the academic intellectual resistance to the juggernaut of planning and interventionism. His was a lonely mission; at the time of his death in 1978, he was perhaps “the only liberal economist between Athens and Tokyo” (S. Shenoy 2003, 2). But it was precisely this courageous resistance to the *zeitgeist* and the unflinching faith in his own ideas that drew such admiration from Bauer. Shenoy was a heroic figure because he “publicly resisted fashionable fads and fancies, however influentially canvassed and widely accepted,” and he was saintly because “he remained unmoved, even serene, in the face of neglect, disparagement, even abuse” (Bauer 1998, 1).

Shenoy’s criticism of Indian planning began with his famous “Note of Dissent” (Shenoy 1955) from the draft of the Second Five Year Plan. One of twenty economists on the government advisory panel, he was the sole dissenter (Bauer 1998, 1). His views also cut against those of international luminaries such as Oscar Lange, Nicholas Kaldor, Joan Robinson, Gunnar Myrdal, and Ragnar Frisch, who were all enthusiastic supporters of the Indian experiment with planning (ibid., 2). Moreover, Shenoy’s dissidence miffed and angered those in power at home. According to Shenoy’s daughter, Nehru “got very upset” (S. Shenoy 2003, 2) over Shenoy’s criticism of what was to become the signature document of Indian planning.

Shenoy followed his “Dissent” with a string of works that attacked the Indian experiment with planning (e.g., Shenoy 1958; 1963; 1968; 1974).<sup>9</sup> Unlike other contemporary critics, such as P. N. Vakil and P. R. Brahmanand, Shenoy did not merely criticize specific goals of the plans. Shenoy’s criticism was radical; he op-

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9. See Balakrishnan (2011) and Prakash (2013) for brief overviews of Shenoy’s economic thought.

posed the idea of central planning, root and branch, and the rising tide of statist control.<sup>10</sup>

The fundamental weakness of a planned economy, according to Shenoy, is “a divorce between production and consumer needs” (1966, 3), in sharp contrast to a market-based economy, where consumers reign supreme. On the consumer sovereignty that characterizes a free market, Shenoy wrote:

Ordinarily, in free societies, production would get adjusted to meet the changing needs of consumers, this adjustment being effected by the pricing system. Prices of commodities in larger demand would rise and entrepreneurs would increase the output of such commodities under the inducement of higher returns on the capital invested, which higher prices would bring. (Shenoy 1966, 2–3)

Under the regime of centralized planning then prevailing in India, however, “production is directed, or indirectly controlled, by the Planning Commission.” Constrained and hobbled by the controls wielded by the planning authorities, “entrepreneurs have not been free to orient production to satisfy consumer demands” (*ibid.*).

In a world where there is a divergence between production and consumer preferences, “we can no longer depend on the statistics of national product for a measure of overall economic progress,” where the latter term means “a rise in the level of living of the masses” (Shenoy 1966, 4). Planning in India had been characterized by significant increases in the production of various capital goods; the heavy and basic industries had apparently flourished since independence. Yet these significant investments had failed to flow into consumer goods. Instead, they had given rise to “idle production capabilities and idle stocks,” activities that, while they do “drive up the curve of economic development in the same way as [...] effective capital formation and increased consumption,” nevertheless do not “add to the well-being of the people” (*ibid.*, 7). Indeed, such production had led to a scenario where, in the midst of towering dams and rising factories, “the masses of the people” were “ill clad and underfed.” Shenoy concluded that the spectacle was not economic development, but “show-window economic activity and at best sectoral development” (*ibid.*, 2).

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10. In this radical opposition, Shenoy was highly influenced by F. A. Hayek and other economists working in the Austrian tradition. Shenoy was a graduate student at the London School of Economics when Hayek delivered the lectures that formed the basis of *Prices and Production* (Hayek 1931). Shenoy was so smitten with the Austrian tradition that, according to his daughter, “after studying Austrian theory, he said he was immunized against every other framework” (S. Shenoy 2003, 2).

Shenoy determined that taking a look at the “consumer goods content of the national product” would provide a much better picture of economic well-being (1966, 4). The statistics showed that planning had not significantly increased the per capita availability of food. The per capita availability of cereals had averaged 13.9 ounces per day for the period 1958–1965, which was more or less on par with the figures for the period 1931–1938, which stood at 14.2 ounces per day—and this despite much higher imports of cereals in the 1958–1965 period (Shenoy 1966, 8). Shenoy notes also that the output of other mass consumer goods such as cotton cloth, matches, and soap witnessed only modest increases from 1951 to 1965 (*ibid.*, 8, 16).<sup>11</sup>

Moreover, much of whatever increase in national income there had been had “accrued to a thin upper crust of the privileged sections of the people” (Shenoy 1966, 7). Thus, the output of consumer goods used by the comparatively well-off sections of society, “a fraction of the population,” rose sharply and at a much higher pace than the mass consumer goods. The output of electric lamps, for instance, increased 3.9 times, that of electric fans rose by a multiple of 6.4, radios by a multiple of 9.5, and rayon yarn by a multiple of 34. All these goods, however, were largely “curios to the masses” (*ibid.*, 16).

What, then, was the remedy? According to Shenoy, a rapid lift in the “precarious standard of living of the common man” could be achieved only by bringing an end to “the policies of economic interventionism” (1966, 20). “A decisive shift from interventionism—misplaced ‘planning’—to the free market and the free pricing system is the first basic reform which the Indian economic situation urgently calls for” (*ibid.*, 23). Production and the allocation of resources should be left to private entrepreneurs, with the consumer being in “supreme charge of affairs,” acting “through the shopping referendum” (*ibid.*, 20–21). Liberal arrangements would better ensure that resources were allocated, not according to the whims and dictates of those in power, but according to the preferences of consumers. And it would also imply an end to the “queer bundle of economic oddities of rising incomes, food shortages and declining per capita availability of cloth; mounting foreign aid and mounting investments; shift of resources from sectors where the output is phenomenal to sectors where it is meagre; mounting unemployment; continued mass poverty and growing opulence of the few; and intractable balance of payments deficits with inability to meet the amortisation payments on external debt” (*ibid.*, 21). “It takes a Planning Commission to produce these oddities,” Shenoy quipped.

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11. Manish (2011; 2013; 2014) presents, along the lines suggested by Shenoy, a more detailed analysis of Indian economic development under central planning.

In his later years, B. R. Shenoy was joined in criticizing central planning and extolling free markets by his daughter, Sudha Shenoy. The younger Shenoy wrote a remarkable pamphlet for the Institute of Economic Affairs in 1971, in which she presented her father's case against planning in detail and also tackled various objections raised by the supporters of planning. Nevertheless, in India in the 1940s and 1950s, no one in academic circles other than Shenoy fought against statism and central planning. There was, however, a growing liberal movement in politics and civil society.

### C. Rajagopalachari

Chakravarti Rajagopalachari (1878–1972) was the most important figure in liberalism in post-colonial India. Popularly known as Rajaji, he was a towering figure along with Gandhi, Nehru, and Jinnah in the independence movement. He was Governor General of India—the only Indian to ever hold the position—from June 1948 to January 1950, during the drafting of the Constitution of India. Rajaji was part of Nehru's cabinet immediately after Sardar Patel's death, but he resigned in 1951 in part over strong objections to the government's preference for Soviet-style planning.

In 1952 Rajaji entered politics in Madras, and his chief target for opposition was the Communist Party of India. As Chief Minister of Madras, one of his first executive orders was abolishing price controls on food grains, controls that had been introduced as a temporary wartime measure in 1938. The opposition predicted food shortage and starvation, but instead Madras witnessed an increase in supply of food grains and a fall in price. After the tenure as Chief Minister of Madras, Rajaji resigned in 1954, intent on retiring from politics. In 1955 he received the Bharat Ratna, the highest Indian civilian award.

As the government's planning efforts increased in both size and scope, no politician of stature was willing to oppose Nehru's policies. Minoo Masani, another liberal politician (who is further discussed below), implored many leaders to head the opposition against Nehru and his brand of socialism. When no one stepped up to the task, Rajaji came out of retirement and became the face of political dissent. In 1959, he formed the Swatantra (“Freedom”) Party to provide opposition to Congress. Its founders formulated 21 principles emphasizing a goal of protecting individual liberty and limiting government.<sup>12</sup> With Swatantra, as Khasa Subba Rao put it, Rajaji aimed at saving individuals from “the soul-crushing oppression of the Leviathan State disguised in Socialistic raiment” (quoted in P. Vaman Rao 2001, 146).

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12. See “Statement of Principles of the Swatantra Party,” *Economic Weekly*, July 1959, page 894.

In addition to a strong political opposition, Rajaji also provided a strong intellectual opposition to socialism. In 1956 he started *Swarajya*, an English-language weekly magazine, for which he wrote a weekly column discussing current economic and social policy in the context of individual freedom and economic liberty. He is credited with labeling Nehruvian socialism as a “permit–quota–license raj,” a new kind of oppression following on the heels of the British Raj. Rajaji’s weekly columns informed the public of infringements on property rights, expanding controls on prices and quantities, the backwardness of India’s agricultural policy, and rule uncertainty arising from frequent amendment of the Constitution.<sup>13</sup>

### **Minoo Masani**

Another founding member of the Swatantra Party was Minocher Rustom (Minoo) Masani. Masani’s intellectual trajectory was quite different from Rajaji’s. Like Jawaharlal Nehru and V. K. Krishna Menon, Masani was a student of Harold Laski at the London School of Economics, where he studied law. In 1927, he went to Moscow for the tenth anniversary celebration of the Bolshevik revolution, and he returned an ardent fan of the Soviet communists (Masani 1936).

In 1928, Masani joined the Congress Socialist Party within the Indian National Congress Party. He was close to other socialists in the independence movement like Jayaprakash Narayan, Ram Manohar Lohia, Ashok Mehta, Achyut Patwardhan, and Yusuf Meherally. But during the late 1930s, largely because of Stalin’s totalitarianism, Masani started questioning Communist ideas.

Masani’s movement specifically to liberalism began with conversations and debates with Mahatma Gandhi.

Two fundamentals I accepted from Gandhi’s thought—first, that the end does not justify the means, and that no decent social order can evolve through the use of force or fraud; and that in the second half of the twentieth century, the omnivorous state is in danger of becoming the biggest single threat to human liberty. No school or thought or system of government offends against these two beliefs as violently as totalitarian socialism. (Masani 1956, 36)

By 1940, Masani was very critical of socialism, communism, and Marxism. He wrote a detailed critique, *Socialism Reconsidered* (1944). He attacked the methods used by communists and socialists, like abolition of private property, as never leading to an equal society. Though critical of socialist methods, Masani supported ideals of a “free” and “equal” society. In the 1940s, he began to formulate ideas

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13. For a representative collection of these ideas, see Rajagopalachari (1961).

on a mixed economy. In 1952, Masani founded *Freedom First—The Liberal Monthly*, where he often criticized policies of the incumbent government. And in 1965, along with B. R. Shenoy, Khushwant Singh, and other writers, Masani founded the Indian Liberal Group (ILG), an organization that put forward criticism of government policy, especially on matters of free speech.<sup>14</sup>

Masani was a member of the Indian Legislative Assembly, which, after independence, became the Constituent Assembly of India. He was a Member of Parliament from 1957 to 1971, initially as an independent, and later as a member of Swatantra Party. In parliamentary debates as well as through his writing in popular outlets and *Swarajya* magazine, he opposed socialist policies, especially the more aggressive forms of socialism pursued by Indira Gandhi. Some of his famous contributions to parliamentary debates took place during 1967–1970 in the Lok Sabha, when Gandhi attempted a spate of nationalizations, and Masani provided economic and moral arguments against them.

In 1971, Indira Gandhi's command-and-control socialism, armed with her *Garibi Hatao desh bachavo* slogan ("Abolish poverty, rescue the country"), helped the Indian National Congress Party win by large margins, and every opposition party, including the Swatantra Party, faced huge electoral losses. Masani took personal responsibility for the political and intellectual loss of liberal ideas and retired from active politics in 1971. He continued to actively write and edit *Freedom First*. During the Emergency declared by Gandhi, lasting 21 months from 1975 to 1977, *Freedom First* was subjected to censorship. Rather than submit, the magazine shut down for six months while Masani fought censorship in court. Except for that brief period during the Emergency, *Freedom First* has been in print for over 60 years and has printed 540 issues. Masani continued to engage with liberals and debate with socialists, outside the realm of active politics, until his death in 1998 at the age of 93.

## Khasa Subba Rao

In addition to the political movement started by the Swatantra Party, popular publications were crucial to advancing liberal ideas. Khasa Subba Rao was perhaps the most important intellectual figure in presenting the liberal critique of socialist policies. Subba Rao was a writer, journalist, and editor. He started his career with the newspaper *Swarajya*, and he worked at smaller publications like *Free Press Journal* and *Liberty*. He joined *The Indian Express*, then gaining popularity as a national daily,

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14. ILG underwent a revival in the year 2000 with a new organizational constitution and call for membership from the youth of India ([link](#)).

and was involved in reporting and writing about the freedom struggle, even facing imprisonment during the Quit India movement.

In 1946, Subba Rao started his own weekly publication called *Swatantra*, a venture that lasted ten years. Important leaders like Rajaji contributed to *Swatantra* during this time. In 1956, Subba Rao launched a new weekly, *Swarajya* magazine. This magazine had much greater readership and more success, even after Subba Rao's death in 1961.<sup>15</sup> With the closure of *Swarajya* in 1978, the Indian liberal movement lost its megaphone and voice, and liberals were sidelined.

### A. D. Shroff

Ardeshir Darabshaw Shroff (1899–1965) advanced liberalism within the world of business. An astute student, he went to the London School of Economics to study finance. He too was exposed to the Fabianism of Laski, Shaw, and the Webbs, but he did not take to socialism. He returned to India to work as a stockbroker. Shroff quickly climbed business circles in Mumbai. The 1930s witnessed the rise of a new wave of socialists in India with Nehru at the crest. Shroff strongly believed in private enterprise, but was appointed in 1938 as a member of the Planning Committee of the Indian National Congress. Along with a number of leading industrialists, Shroff contributed to the “Bombay Plan,” which recommended a middle path instead of full state socialism (Thakurdas 1945).

Post-independence, Shroff continued to be prominent in business circles in Mumbai but also chaired several important government committees, notably ones on banking and finance. In the 1950s, Nehru's vision for socialism and more controls in every aspect of the economy became apparent, leading up to a nationalization of many sectors. Shroff felt that the only way to combat statism was to educate citizens on the importance of private enterprise in ordering society. In 1956, he started the Forum of Free Enterprise, mainly as an education and outreach organization. Shroff wanted to distance the Forum from politics and focus on educational outreach. The Forum actively published booklets on policy issues and free enterprise into the 1970s, and then sporadically until 2010. The Forum published critical analysis of the government's Five Year Plans and of every budget. Nani Palkhivala, a senior lawyer and supporter of the Forum (and who is discussed below), gave a speech analyzing the Central Budget every year using the outreach platform of the Forum. Shroff wrote several pamphlets between 1956 and 1965, developing two parallel critiques of socialist planning in India. The first was that its outcomes were inefficient: that scarce resources would be more efficiently

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15. Subba Rao was well eulogized (Ranganathan 1961) in *The Indian Libertarian*, a fortnightly journal first published in 1957 by R. B. Lotvala and edited by Kusum R. Lotvala.

developed and directed in the private sector. The second was that the means used to implement socialism—government control of the means of production—chipped away at constitutional principles.<sup>16</sup>

## Nani Palkhivala

An exceptional figure associated with the classical liberal movement, but with an important identity outside of the movement, was Nani A. Palkhivala (1920–2002). Best known as senior advocate at the Supreme Court of India, Palkhivala had a towering reputation during his active decades. Palkhivala authored one of the earliest and most comprehensive interpretation and critiques of Indian tax law. Palkhivala wrote *The Law and Practice of Income Tax* in 1950, which remains a canonical legal text (10th ed., Datar et al. 2013). He was the lead counsel in several cases that have shaped the Indian Constitution and the Indian Supreme Court. Palkhivala was an advocate of free markets, especially in challenging socialist legislation in court and in defending limited, responsible government (see Palkhivala 1984b). After the Second Five Year Plan was announced, Palkhivala began efforts to decode the tax law for the public. For many years thereafter he gave a post-budget lecture on tax law, aimed at the layman. Palkhivala had such a gift that these annual lectures gained immense popularity. In later years, the lecture was held in the Brabourne cricket stadium and would be attended by lawyers, judges, tax experts, accountants, journalists, and thousands of individuals attempting to understand how the budget and taxes affected their daily lives.

Palkhivala was a critic as well as an interpreter of tax law in India. In his first lecture for the Forum of Free Enterprise, in 1957, he characterized the wealth tax as expropriationist. In 1965, Palkhivala gave a notable talk in Madras with the title “The Ideology of Taxation” (Palkhivala 1984a). He criticized the Indian tax system for its uncertainty, unpredictability, complexity, arbitrary provisions, and excess burdens—each aspect a violation of one of five cardinal rules for taxation.

The Constitution of India was frequently amended during 1950–1978, the peak era of socialism, to accommodate policies to salvage the Five Year Plans. Such constitutional amendments enabled the planners to retroactively give effect to plan objectives after instances where the Indian judiciary had struck down a policy for violating constitutional principles. The amendments were substantive infringements on individual rights and important aspects of liberal governance

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16. In one such pamphlet, Shroff described the political state of affairs in India: “With a characteristic schizophrenia, both totalitarian and democratic Socialists, have talked one way and acted another. While they accept Freedom and Democracy in theory, in actual practice Socialist pattern is being identified with ‘an all-powerful State, with heavy-handed bureaucracy, and regimentation’” (1956, 12).

like federalism and separation of powers (see Rajagopalan 2015). Palkhivala (1974) described this amendment process as the systematic defiling and defacing of the Indian Constitution.

As a senior advocate in the Indian Supreme Court, Palkhivala argued some of the most important cases affecting the constitution and the rule of law in India. In one case, he argued against bank nationalization. Another case concerned the Twenty-Fourth Amendment, which gave Parliament supremacy in amending the Constitution. Palkhivala challenged the constitutional validity of the amendment (among others) in the Supreme Court. Palkhivala was lead counsel in one of the most important cases in Indian history, *Kesavananda Bharati v. State of Kerala* (1973) on the question of the amendability of the Constitution.

Throughout Indira Gandhi's tenure as Prime Minister, Palkhivala was a mainstay in important cases, which often were a matter of socialist abuse of constitutional rules. After Gandhi's declaration of the Emergency,<sup>17</sup> Parliament attempted to rewrite the Constitution with the Forty-Second Amendment to remove all binding constitutional constraints. Palkhivala again argued successfully, in the landmark case *Minerva Mills Ltd. v. Union of India* (1980), that Parliament's power to amend the Constitution was limited.

## **Situated abroad: Jagdish Bhagwati and T. N. Srinivasan**

We have seen that statism dominated Indian economic thought after independence. The liberal, anti-planning movement described above had, by the mid-1970s, very little to show for itself in terms of policy reform. From 1975 and the Emergency, the years under Indira Gandhi were characterized by the almost complete disappearance of liberal ideas within India. But opposition to statism in India came from figures at institutions abroad.<sup>18</sup>

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17. Indira Gandhi's power was threatened due to a series of events beginning with the 1971 election. Raj Narain, a politician who lost to Gandhi in the 1971 Parliamentary election, filed a petition alleging that she had won the election through corrupt practices and had used government officials and official machinery in her campaign. On June 12, 1975, the Allahabad High Court found Gandhi guilty and her election to Parliament was declared null and void. While her appeal was pending in the Supreme Court and she was under pressure to resign, Gandhi issued an Ordinance on June 25, 1975, declaring a state of internal emergency in India. This declaration allowed the Prime Minister to suspend elections and civil liberties. Gandhi ruled by decree for the next three years.

18. Not all Indian economists trained abroad opposed statist policies. An important figure is Amartya Sen, recipient of the Nobel Prize in Economics in 1998 and perhaps India's most famous economist. In his early years, Sen explicitly advocated socialism as a viable alternative to capitalism (see Sen 1959). However in

By the mid-1960s, the inefficiency, poor growth results, and corruption of the heavily interventionist system could no longer be ignored and covered up, and a new generation of liberal researchers examined the evidence. Jagdish Bhagwati was the most prominent of the young economists to criticize the poor results of the system's protectionism, central industrial planning, and the associated 'permit-quota-license raj.'

By his own account, Bhagwati first began to experience an "intellectual conversion" around 1962 in favor of free trade and against the protectionist policy of import substitution (Bhagwati 2001). In reviewing Bhagwati's 1966 book *The Economics of Underdeveloped Countries*, P. T. Bauer (1971, 525–526) detected in it the standard views that "state control of the direction and composition of economic activity is indispensable for development" and that "foreign aid is essential" for rapid development. But in 1969, Bhagwati reviewed a book by B. R. Shenoy, giving Shenoy credit for being "among the few economists to notice and condemn the inefficiency of the import control regime and the wastefulness of the detailed control of industrial licensing and production, when in fact it was fashionable and personally rewarding to do otherwise" (Bhagwati 1969, 636). Bhagwati did however remain dismissive toward Shenoy's "strong ideology of the Friedmannite variety" and "his antipathy to planning *per se*" (ibid., 635, 636).<sup>19</sup> Bhagwati still favored a "form of planning where key, efficient decisions are taken in selected areas and the rest is left largely to the market" (ibid., 637).

Bhagwati's empirical critique of the detailed planning and licensing regime, especially in books co-authored with his wife Padma Desai (1970) and with T. N. Srinivasan (1975), was influential in persuading many younger Indian economists to turn from dirigisme toward liberalization.<sup>20</sup> Deepak Lal (2008) writes that these works "marked the beginning of the end of the planning syndrome that had held Indian economists in thrall for nearly a century."<sup>21</sup> Bhagwati has noted that, by the

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later years, though Sen remains politically aligned with leftist policies in India, his focus has shifted away from socialism (Briggeman 2013).

19. In an interview decades later, Bhagwati remarked: "When I first came back from Oxford, we all were supporters of the [import-substitution] policy. ... I don't know anyone whom we respected who was against import substitution in those days. B. R. Shenoy was a vocal opponent but we (wrongly) put him down as a libertarian and an ideologue" (Bhagwati 2001; parentheses around "wrongly" as in original).

20. Another liberal economist of the time worthy of mention is V. K. Ramaswami, co-author with Bhagwati of a well known theoretical paper defending free trade (1963).

21. Indeed, in the words of economist Deena Khatkhate (1994, 1098), "The pioneering work of Bhagwati and Desai in the late 1960s (Bhagwati and Desai 1970) provided the first intellectually coherent analytic framework for assessing Indian planning and industrialization strategies." And she goes on to note that Bhagwati "is regarded widely as the intellectual forerunner, the theoretician, of the ongoing reforms (of the early 1990s). The Finance Minister [Manmohan Singh], spearheading the reforms, has declared that India's misfortune was to wait so long to implement what Bhagwati had urged with clarity and foresight two decades earlier" (Khatkhate 1994, 1099).

time Congress Party leader Rajiv Gandhi sought deregulatory advice in the 1980s, he was able to talk to “a lot of people like myself who were keen on reforms” (Bhagwati 2001).

Bhagwati moved to MIT in 1968 and later to Columbia, and Srinivasan relocated to Yale in 1980. Yet they became important and enthusiastic supporters of India’s liberalizations. One critic of “neoliberal” reform in India offers this assessment of their importance:

Among the large number of eminent Indian émigré economists, Jagdish Bhagwati and T. N. Srinivasan have been prominent and forceful in their defence of the liberalizing reforms. Bhagwati in, for example, his Radhakrishnan Lectures...published as *India in Transition: Freeing the Economy* (Bhagwati 1993); Srinivasan in, for example, Srinivasan (1991a, 1991b, 1993); and the two together, in deadly combination, in...*India’s Economic Reforms*, [which] was commissioned for the Ministry of Finance by Manmohan Singh (Bhagwati and Srinivasan 1993)... In it, they congratulate the Rao government on the boldness of its reforms and urge it ‘to extend them boldly in several new directions,’ with all speed. (Byres 2014, 45 n.6)

Bhagwati and Srinivasan were joined in their push for reforms, especially after the turn of the century, by Arvind Panagariya. In his influential book *India: The Emerging Giant*, Panagariya (2008) extends the Bhagwati and Srinivasan critique of the failures of Indian planning and lays out a roadmap for reforms in different sectors of the economy. Especially liberal is his call for greater freedom in the realm of foreign trade as well as the removal of controls over many sectors of the domestic economy, controls that were untouched by the wave of reforms of the early 1990s.

Some of these ideas have influenced Indian policymakers. Panagariya is now the Vice Chairman of NITI (National Institution for Transforming India), which was set up recently by the Narendra Modi government to replace the Planning Commission. Another important policy appointment is that of Raghuram Rajan as the Governor of the Reserve Bank of India. Rajan, from University of Chicago’s Booth School of Business, is influenced by Friedrich Hayek and Milton Friedman. Rajan wants to create more competition in the financial sector by giving licenses to new banks, allowing foreign banks to expand faster, and privatizing state-owned banks; he is skeptical about the rationality of Indian investors, but also about unintended consequences arising from regulation (*Economist* 2013a; 2013b). “I’m a believer in free markets, but I’m not a believer in laissez-faire. There is a distinction,” Rajan says (quoted in Einhorn and Krishnan 2013).

## Since 1991: The re-emergence of a liberal movement

After 1991 India witnessed a revival of the liberal movement. While liberals within the Indian academy remain scarce, there has been a re-emergence of a broader movement influenced by liberal ideas, especially in the English-language business press and in policy circles.

An important figure in this revival is Parth Shah, an Austrian school economist, and head of the Center for Civil Society (CCS) a liberal think tank in New Delhi. CCS has led the new liberal movement in India mainly through outreach programs for students and advocacy to promote greater individual choice. CCS often attracts hundreds of applicants for its CCS Academy educational programs. The seminars introduce Indian students to the ideas of Adam Smith, Hayek, and Friedman. CCS has also made significant efforts to reignite popular interest in the Indian classical liberal tradition by making works in this tradition publicly available via the website [IndianLiberals.in](http://IndianLiberals.in) ([link](#)).

Also associated with CCS, but an independent businessman and scholar, is Gurcharan Das, an advocate for a strong liberal state in India. He has authored several books arguing the perverse and unintended consequences of the large Indian regulatory state. Another scholar at CCS, an economist, author, and columnist, was the late Sauvik Chakraverti. In his columns, he was a fierce critic of the Indian state, specifically with respect to regulation affecting livelihood. He won the International Policy Network's Bastiat Prize for Journalism in 2002.

Another liberal institution is the Liberty Institute in New Delhi, founded by Barun Mitra, with the goal of increasing the understanding of principles such as individual rights, rule of law, limited government, and the free enterprise system. Ayn Rand and Julian Simon are important influences on the efforts of Liberty Institute.

Since 2005 there has been an increase in the number of outlets for liberal writers. An important addition came in 2007 when the *Hindustan Times* and the *Wall Street Journal* collaborated to start a new business daily called *Mint*. The newspaper and its editorial team have an explicitly liberal tilt. In the opening editorial for the daily, its current executive editor Niranjan Rajadhyaksha laid out a manifesto, stating that "The editorial pages of this newspaper will have three central themes: free people, free economies and free societies" (Rajadhyaksha 2007).

The Internet is giving a voice to a number of liberals from different corners of the country through blogs and other channels. One of the first blogs to be

explicit about its author's libertarian leanings is *India Uncut*, authored by Amit Varma.<sup>22</sup> Abheek Bhattacharya at the *Wall Street Journal Asia* argues that the revival in the liberal movement in India is a consequence of the increase in the size of the market:

The burgeoning classical liberal movement is feeding off India's economic growth. ... These new-age commentators are riding the wave of another effect of India's liberalization, a boom in technology and communications. More media outlets, eager to outdo competitors, are listening to diverse opinions. The Internet is often the delivery system. (Bhattacharya 2008)

## The paucity of liberalism in the Indian academy: Towards an explanation

Economic research on current policy affects perceptions, which affect the persistence of such policies. If most economists seem to think that government planning improves economic performance, a regime of government planning will in all likelihood persist longer than if the economists, instead, consistently criticize state activism.<sup>23</sup> Consequently government officials have an interest in the content of research by economists.

Authoritarian regimes in the world have at times exercised direct and explicit control over the professoriate. The Soviet Union under Stalin purged several academic disciplines in the 1930s. Notoriously, the Soviets established the bogus theories of Trofim Lysenko as official state doctrine in the fields of biology and agronomy. Economics was tightly controlled as well (see, e.g., Katsenelinboigen 1979). Direct control remains in place in some nations today. But India, of course, was never the Soviet Union. Its universities were established on the British model, and they inherited a tradition of academic freedom. Shenoy, whose criticism of planning greatly upset Nehru himself, was not even dismissed from his position, let alone sent to a gulag.

Nevertheless, throughout the era of central planning as well as during the years of economic reform, the liberal philosophy had a very minimal presence in the halls of Indian academia. Almost all the academics who hailed from India and were influenced by liberal ideas have pursued their careers and their research in

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22. Varma, also an author and columnist at newspapers like *Mint* and *Hindu Business Line*, received the 2007 Bastiat Prize for Journalism.

23. For evidence of instances where the research of economists appears to have altered the trajectory of policy in the United States, see Derthick and Quirk (1985) and Leighton and Lopez (2013, Chapter 6).

universities abroad. This section seeks to outline a possible explanation for this dearth of liberal academics in India.

The means by which economists fund their research will significantly affect the content of the research. As Richard E. Wagner (2012) argues, an economics profession composed of self-financing hobbyists will engage in systematically different research than will a body of professionals paid by others. Institutions of higher education jointly produce research and instruction, using revenues derived from instruction (*viz.*, tuition and government appropriations) to pay faculty salaries. Basic research in economics largely originates from the academy.<sup>24</sup> Control over universities can provide a large measure of control over economic research.

The dominance of public universities in India created a channel for government influence, if indirect, on the economic profession. The colonial government established India's first three universities in 1857, modeled on the university system of London, in the cities of Kolkata, Mumbai, and Chennai (Carnoy and Dossani 2011, 5). Through the course of the second half of the nineteenth and early twentieth centuries, other public universities were established in Punjab (1882), Allahabad (1887), Banaras (1915), Patna (1917), Aligarh (1920) and Dacca (1920) (Naik 1963, 4). These universities were largely under the control of the provincial governments, although the central government also had the authority to intervene in their affairs. India has a number of nominally private colleges offering specialized training in fields like economics, business, and law, but all are affiliated with public universities with control over course curricula, examinations, and awarding of degrees.

The extent of government involvement in higher education increased with national independence and the onset of planning. The newly created state governments replaced their provincial counterparts and now exercised control over the public universities. Control was increased via the establishment of many public colleges. Moreover, the state governments "controlled the university's budget and funding, approved senior staff appointments, staff salaries and tuition fees," and they influenced academic policy through their "membership of the university's senate" (Carnoy and Dossani 2011, 11). Meanwhile, the central government also increased its influence over higher education via the establishment of the University Grants Commission (UGC) in 1956 and the proposal and enforcement of national standards for university education.

The dominance of public universities in India kept the employment prospects for critics of planning minimal. Moreover, the intellectual fascination with central planning that had gradually gripped the hearts and minds of the political and

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24. Almost all of the winners of the Nobel Prize in economics held traditional academic positions when they won the prize.

intellectual elite in India readily provided a “basic unity of purpose” and created a siege-like mentality in the quest to rapidly industrialize the economy (*First Five Year Plan*, ch. 1). There was thus no need to engage in outright coercion since dissenting would make an intellectual exceedingly unpopular and accordingly limit their career prospects. For instance, Peter Bauer once asked a senior officer of the economics section of the British High Commission in India if he or his colleagues were in contact with B. R. Shenoy, and was told that people on the Commission “were too busy to have time for acknowledged madmen” (Bauer 1998, 3).

Other mechanisms of influence in the academy were in operation in India as well. Wagner (2012) emphasizes the lure of a seat at the table of power as another influence on economists and the views they espouse. The lure of power, and the validation of the powerful, affects economists both at an individual and professional level. Economic theories supportive of a role for government management of the economy—counseled by economists, of course—can create a seat at the table for economists, boosting the profession’s standing, influence, and well being.

In the case of India, most members of the economics profession at the time of independence strongly supported central planning (Byres 1998). This was true of prominent economists at all the key intellectual centers for economics such as Bombay University, the Indian Statistical Institute, the Gokhale Institute of Politics and Economics, and the Delhi School of Economics, and in the seventies the Jawaharlal Nehru University. Daniel Klein and Charlotta Stern (2009) discuss how groupthink in academia can become locked in and then expand its domain. Academic disciplines are disproportionately influenced by those departments at the top of the disciplinary pyramid, which produce a large number of new Ph.D.-degree holders. The dearth of liberals among India’s economics professoriate may be partially explained by the statist bias of graduate training, which then swept through the entire professorate as students from these institutions secured faculty positions. Once established, the planning bias persists through normal decision-making in hiring (Klein and Stern 2009). Exclusion of the liberal perspective contributed further to a lack of exposure and awareness of alternatives, leading many to believe in state planning because ‘all reasonable people’ do.

## Conclusion

There are three interesting trends in the liberal movement in India post-independence. First, the socialist movement and planning apparatus was so aggressive and dominant that it became a target that defined the liberal movement, small and marginalized as it was. As socialist fervor was lost post-Emergency, the

target of liberal opposition lost focus, and the liberal movement itself declined. Second, there are few liberals in the Indian academy, and in the 1980s and 1990s, much of the academic critique emerged from Indians educated and working outside India. Since around 2005 the liberal movement in India has been nested primarily within politics and civil society. And finally—now that India has liberalized—the technology, communication media, number of outlets, voices, and opinions have created a new liberal wave within civil society. In the future, the Indian liberal movement will likely have many voices.

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