



ACCIDENTAL

INDIA

A
HISTORY
OF THE NATION'S
PASSAGE THROUGH
CRISIS AND
CHANGE

SHANKKAR AIYAR



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'Accidental India proves change arrives in India only in the wake of crises. Great timing!'—**ANAND MAHINDRA**, Chairman,
Mahindra Group

'This is a wonderful and engrossing book on Indian economic policy making. Should be deliberately, not accidentally, read.'—**PROF BIBEK DEBROY**, Economist

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'Written with a sharp eye for detail, the tract in somebody else's hand could have become mechanical. But Aiyar knows how to write, apart from how to marshal facts.'—**SAHARA TIME**

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For TUN
DR MAHATHIR

An Inspiring
Transformer
and Leader
with Regrets
Shahkur Ayyaz
Oct 2014



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*Prathamesh Sri Siddhi Vinayaka
Sri Saraswati, the Goddess of Learning
and all who taught me to learn*

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Why is crisis the stimulus for positive change in India? Is the flaw cultural or political? The country seems to dwell permanently in the domain between celebrated potential and frustrating failure. Will the nation's leaders only act when spurred on by shame or fear?

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THE LIBERALIZATION OF THE ECONOMY 1991

For four decades India's leaders believed they could manage the economy according to preconceived political ideas. Their instrument of regulation was the licence-permit-quota raj. It throttled growth. Yet, evidence of failure was used to further tighten control. Change was compelled by circumstance and propelled by crisis.

THE HUNGER GAMES 74

THE GREEN REVOLUTION 1964

India suffered the worst famines in world history during British rule. When the country achieved independence it was clear that its rulers had learned little from the past because there was no attempt to become agriculturally self-sufficient. Instead, India depended on food aid and pretended it could feed itself. Salvation came via shame, the christening of the country as a 'ship-to-mouth' economy, and the Malthusian threat of annihilation by famine.

DAS KAPITAL 118

THE NATIONALIZATION OF BANKS 1969

Since 1947 banking was largely controlled by industrial houses. Access to capital was virtually a privilege and the spread of banking was dictated by profitability. Socialists and leftists agitated for the nationalization of banks but successive governments skirted the issue. Then, Indira Gandhi discovered the political capital that could be released through democratizing capital.

THE MILKY WAY 157

OPERATION FLOOD 1970

The idea of milk cooperatives, and the Amul model created by Verghese Kurien—these have been around since the fifties. These innovative ideas should have been adopted at

the national level to end the shortage of milk and improve rural incomes but they were ignored and even actively opposed for decades. India would have still been dependent on imports had it not been for Kurien's creative intervention in converting free butter and powder into venture capital to fund the national milk grid.

SOUP KITCHEN FOR THE SOUL 188

THE MID-DAY MEAL SCHEME 1982

This was an idea first mooted in 1923. The mid-day meal scheme addresses malnutrition, curbs population rise and pushes up literacy by encouraging enrolment in schools. Despite such obvious positives India's children were denied a fair shot at a future for forty years. The adoption of the programme was contested relentlessly as populist and resisted by the Centre till the new millennium.

THE BLACK SWAN 219

THE SOFTWARE REVOLUTION 1990

India's talent pool and geographical advantage, based on its location on the time zone, gives it an edge in certain sectors of the software industry. Software delivers high employment with low capital investment. By the late seventies the ability of India's engineers was already known. The sector also had the potential to earn badly needed foreign exchange. Shackled by controls on the import of computers, crippled by poor connectivity and denied travel dollars the revolution awaited a saviour.

THE DA VINCI CODE 257

THE RIGHT TO INFORMATION 2005

The Constitution recognizes freedom of speech as a fundamental right. The right to access information is implicit in this recognition without which this fundamental right is essentially toothless. But freedom of information was systematically denied to the country's citizens for decades despite efforts by pressure groups and activists. And then, the Supreme Court stepped in to enable the right.

EPILOGUE 288

Not every crisis catalyses action. The state of poverty and human deprivation in the country is shameful. Agriculture needs a second revolution. Water scarcity is a silent crisis. The lack of energy security threatens growth. National security is compromised by political compulsions. The relationship between the Centre and the states is barely functional. India must formulate cogent responses to the myriad problems that threaten its well-being and not await a crisis to initiate change.

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PREFACE

Five out of ten middle-class Indians born in the nineties scarcely know of an India that languished in want. Where millions waited years for a telephone. When members of parliament were implored for a cooking gas connection from their quota. Where you waited for the better part of a decade, after booking it, to ride a Bajaj scooter. When choice was limited to the colour of the car, not fifty brands and one hundred and fifty variants. These post-91ers probably couldn't conceive of a scenario where their countrymen queued up at the crack of dawn at ration shops to collect Punjab wheat instead of the dirt-brown 'PL 480 wheat'.

The 'Hindu rate of growth' was but a reflection of, well, the Indian rate of change.

Today, the economy that was left ravaged and broken by the departing colonial power is regularly touted as one of breathtaking promise. And although much remains to be done, some of the country's achievements are definitely worth celebrating.

Accidental India is a quest to reconstruct the architecture and ancestry of the change that has taken place in the country, after it became independent on 15 August 1947.

The transformation of India is most apparent in the neon-lit pace of growth in certain sectors of the economy. Every second, mobile telecom companies log in three new subscribers; every minute, twenty Indians ride off on new motorbikes and 200 new passenger cars hit the roads every hour. To the casual observer, the country's lift-off from pathos to the promise of prosperity might seem ordained, orderly and guided by vision. The transformation might even appear spectacular if one shrinks the axis of time. This is a country that has gone from

dependence on food aid to an annual harvest of 250 million tons in 2012 with a surplus of nearly 70 million tons; from queuing before donors at the Aid Consortium to being projected as among the top three economies in the world by 2050 by Goldman Sachs.

In reality, change has been slow, sore, stalked by sloth and incompetence; and, as we shall see, it has been driven by neither ideology nor institutional vision. An accident, normally, is an event that has unfortunate consequences. In this political economy, though, an accident can also be fortuitous. India's ascent has been fuelled by serendipity; change has come about as a consequence of circumstance and crisis, and has always been a result of an exogenous force. Most often, that force has been a crisis.



The genesis of this book can be traced back to an afternoon in July 1991 when crates of gold were being furtively unloaded from the dull-grey vans of the Reserve Bank of India (RBI) into the loading bays of a heavy-bellied cargo aircraft. The country had only enough foreign exchange to pay for seven days of imports and had therefore secretly pledged 47 tons of gold from its reserves to the Bank of England to borrow \$400 million to pay its creditors. I scooped the news of the emergency gold lift for *The Indian Express*. The news shocked a nation which traditionally reveres gold as uber-Lakshmi, the pawning of which was seen as public humiliation and woke people up to the enormity of the crisis.

Even as I filed follow-up reports, I thought subconsciously: was this the best the country could do—pledge its gold to pay creditors? Why did we wait for a crisis to act?

I have, since, been studying the evolution of the country's economy and my research reveals that every major change in modern India has come about in the wake of a crisis.

It is not as if India has not been blessed with iconic political leadership. Whatever their failings—and many of them were responsible for, at the very least, flagrant sins of omission—it is indisputable that our leaders were forces for lasting and beneficial change. Mahatma

Gandhi united a fractious country under the idea of freedom. India owes every shred of modernity it now boasts, be it democratic tradition or scientific outlook, to Jawaharlal Nehru. The diminutive Lal Bahadur Shastri was uncommonly courageous during the 1965 war with Pakistan; he displayed equal strength and shrewdness in his decision to support C. Subramaniam's idea of the Green Revolution. Indira Gandhi democratized capital by nationalizing banks and capitalized nationalism by creating Bangladesh. Rajiv Gandhi put technology on the map in the eighties. P.V. Narasimha Rao presided over the repair of a broken polity and a broken economy, Atal Bihari Vajpayee worked to bring various strands of the economy together.

Yet, India falters. It often teeters on the brink of catastrophe. Why should this be so? Why do Indian leaders not anticipate adversity and act before being engulfed by catastrophe? What prevents them from operating with foresight—the exigencies of their term; the mindset of their peers or perhaps even their subjects; the compromises of politics? The answer is a combination of all these factors.

The chasm between what a country is and what it should be, we are told, is located in its culture. What, then, is culture? Culture, says historian Philip Bagby, is mostly regularities or irregularities in the behaviour—internal, external—of members of a society. If so, is India's failure to respond with alacrity to challenges dictated by the peculiarities of its culture? Celebrated historian Arnold Toynbee wrestled with the context of culture while studying challenge and response in his *A Study of History*. He rejected it as a factor, citing 'inconstancy and variability' in the results he obtained. To apportion blame on culture one needs the predictability of success in response to challenges, and the evidence doesn't support any such conclusion. It doesn't stand to reason globally, it doesn't stand to reason in India.

Pop sociologists trot out theories about the slow rhythm of river-valley civilizations, bountiful geography and the somnolent climate to explain most Indians' tolerance of the dysfunctions in their society. This is just as flawed as the theory of uniformity in nature. The context of geography is relative to the approach of a people. The truth is, this very culture and this very river-valley civilization, commanded over

20 per cent of the global GDP in the 1700s.

One theory to explain the Indian way of dealing with crisis has some traction. It is the belief in karma, or destiny, which lends an air of fatalism to our response to everything that goes wrong. But surely, while karma could serve to explain fatalism at an individual level, it cannot be an alibi for institutional inertia. Besides, subscription to fate over free will is hardly unique to Indians.

Other theories abound. A radical opinion finds currency among development economists in seminar discourses and academic discussions. It is often opined that India chose universal suffrage too early, at the birth of the republic, as a result of which democracy itself has been the biggest millstone around the necks of its teeming millions. Certainly, the grant of voting rights was subject to qualifications and came in tranches in several of the more vibrant democracies. Political scientist Francis Fukuyama, discussing the origins of political order, observes that in the West, the rule of law was established first, followed by state-building, and, finally, the installation of democracy. India, in stark contrast, chose to do all this simultaneously. This did enlarge the magnitude of complexity in planning the country's evolution but a rich idea cannot be held responsible for poor execution.

Does the multiplicity of languages lead to a loss in translation of goals? Singapore's Lee Kuan Yew once remarked, 'India is not one nation, it is many nations with over thirty-two languages. No prime minister can speak in a language that will be understood across the country.' If this was the case, the seven 'mini miracles' discussed in this book would not have come to be, the revolutions would not have percolated.

What, then, explains the inability of Indian leaders to act decisively and imaginatively? What explains their repeated failures? The fatal flaw, it would appear, is primarily located in the very nature of the Indian political beast, which dictates its peculiar approach to development. Economists Daron Acemoglu of MIT and James Robinson of Harvard University, authors of *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, provide an insight. The destiny of a country, they say, is largely determined by its choice of political and economic systems.

The countries that have succeeded chose inclusive politics and inclusive economics. Indian politicians—influenced less by pride and more by prejudice and paranoia—chose a combination of incompatible ideas. That is, inclusive politics and extractive economics. In other words, political freedom was granted and economic freedom denied.

The members of the Constituent Assembly chose to make suffrage universal in the Constitution of India, thereby enshrining the principle of political freedom. This enlightened approach did not extend to economic freedom; the first government in its economic policy chose a closed economy. This, despite the fact that until 1914, India was among the world's most globalized economies with a share of over 2.5 per cent in world trade. The choice was driven by the collective perception that a country ravaged by colonization would need to be a nanny nation in which the state necessarily knew what was best for the individual.

And so it came to pass. A closed economy with its infamous process of granting licences and reserving quotas crippled the principal factors of production—technology, capital and labour. The closed economy precluded the adoption of better technology. Licensing constrained the deployment of capital as it was the government and not the market that decided what you could produce, how much you could produce and at what price you could sell. As a result, labour lost its right to price its services competitively, given that it operated in a buyers' market. Industrial labour could only get a part of what it was due, as returns on output were determined not by the market but by the government. Farmers were no better off, the policy of price suppression through the import of food grains to meet demand rendered agriculture virtually unviable.

One prescient observer predicted this nightmare-in-the-making. Shortly after India adopted the Constitution, its principal architect B. R. Ambedkar asked, 'On 26 January 1950, we are going to enter into a life of contradictions. In politics, we will have equality and in social and economic life we will have inequality. In politics, we will be recognizing the principle of one man one vote and one vote one value. In our social and economic life, we shall by reason of our social and

India in the 21st century is better off than it has ever been since the country achieved independence. Yet, the nation always seems to be teetering on the brink of disaster. The chronicle of the modern Indian state is one of missed opportunities, poor planning and shoddy execution, punctuated by a few shining examples of initiatives which have delivered.

India's transformation, it would appear, has arrived by accident.

In this learned and original work, Shankkar Aiyar examines India's ascent through the paradigm of seven game changers: Economic Liberalization, the Green Revolution, Bank Nationalization, Operation Flood, Mid-day Meal Scheme, the Software Revolution and the Right to Information Act. These turning points in the country's history were not the result of foresight or careful planning but were rather consequences of major crises that had to be resolved at any cost.

Through first-hand investigation and a thorough analysis of these milestones, the author points out that if the lessons of history cannot be absorbed the nation will continue to lurch from crisis to crisis.

'Shankkar Aiyar's book is an excellent commentary on India's economic performance. It reveals painstaking research, a firm grasp of facts and makes for smooth reading.'—**DR C. RANGARAJAN**, Chairman, Prime Minister's Economic Advisory Council

This brilliantly researched, path-breaking book, located at the intersection of politics and economics is a must read to comprehend the politics of change in modern India.—**NANDAN NILEKANI**, Chairman UIDAI & former CEO Infosys

The author – with a fiercely beating Indian heart – combines a racy narrative with statistical analysis. Recommended reading for leaders in public policy, private enterprise and those who want to catalyse change.—**DEEPAK PAREKH**, business icon & Chairman HDFC

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