

Explained: Manmohanomics, in his own words

Dr Singh's views did not exactly align with the 'Nehruvian' approach to economic policy. Long before he changed the Indian economy in the 1990s, he tried to mould policy in the direction of broad-based economic reforms and liberalisation. Very early on, he proposed ideas that are now part of India's policy consensus

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Prime Minister Manmohan Singh in New Delhi on December 5, 2008. (File)

Former Prime Minister Manmohan Singh, who [passed away on Thursday](#), remains one of India's lesser understood public intellectuals.

He obtained a Tripos in Economics with first class honours from Cambridge in 1957, and a DPhil from Oxford in 1962. He taught at the Delhi School of Economics from 1969 to 1971, and went on to serve in some of the most important policymaking roles in India.

He entered politics in 1991, and became the Finance Minister who shaped India's transition from a centrally-planned, highly regulated, and largely closed economy to an open (in terms of trade), liberalised (in terms of regulations and restrictions), market economy.

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As Prime Minister between 2004 and 2014, he oversaw the phase of fastest economic growth and poverty reduction in the country.

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But he left office amid allegations of corruption against his government. The last phase of his tenure saw a "policy paralysis" in which coalition partners — and even his Congress colleagues — moved in different directions, and the Prime Minister appeared too weak to provide direction. The widespread public dissatisfaction reduced the Congress to its worst electoral performance in the 2014 election, and put a question mark over his legacy and beliefs.

Did Manmohan Singh really believe in the power of Indian entrepreneurs and market forces, and in the promise of free trade and export-led growth? Did he believe governments should "soak the rich" to address inequality? Did he try to support public sector enterprises even when they made losses? Did he care about household sanitation, and understand its links to the economy?

Excerpts from Singh's own writings — sourced from a five-volume set of his most important speeches and writings, published by the Oxford University Press in 2019 — on topics that often dominate the news today, show how far ahead of the curve he was on various economic policy issues long before India reached its current consensus on them.

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On planning vs markets

Even as part of India's "Nehruvian" economic policy establishment, Singh showed he was not a blind believer in the planning process, nor was he blind to the threat of corruption in government.

Delivering the Vithal N Chandavarkar Memorial Lecture at IISc [Bangalore](#) in 1986, Singh, who was then Deputy Chairman of the Planning Commission, said:

“Planning is no panacea for economic ills. It all depends on the institutional setting... Adam Smith’s preference for laissez-faire was to an important degree the result of his knowledge of the corruption in British life that regulations under mercantilist influence often led to. If the basic preconditions of a fairly efficient and honest public administration are not satisfied, planning cannot be expected to lead to an improvement either in resource allocation or income distribution.”

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However, Singh did understand why policymakers before him chose a planned economic approach. He said:

“Newly independent countries of the Third World found that they lacked both a well developed infrastructure of social overhead capital as well as an entrepreneurial class with a strong propensity to bear risk and uncertainty.

“In this environment, exclusive reliance on market forces and private enterprise could not lead to fast enough progress. ...Since development in the initial stages is characterised by large discontinuities and externalities leading to a significant divergence between social and private costs and benefits, reliance on unregulated market forces was considered as contributing to sub-optimal investment decisions.

“There was also the additional concern that in an economy characterised by highly skewed initial distribution of income and wealth, excessive reliance on market forces could accentuate these disparities to an extent which would not be acceptable to the broad mass of people. For all these reasons, a growing role for public ownership and regulation of private investment in the framework of broad national priorities as outlined in a medium term development plan found ready acceptance.”

On the licence-permit raj

In his TTK Memorial Lecture in Madras in 1983, Singh, who was then Governor of the Reserve Bank of India, argued for sharply scaling back overly restrictive regulations on private enterprise.

“I see no hope of improvement unless there is a deliberate effort to confine detailed programming and licensing only to a manageable list of sectors and industries of critical importance to the country... In all other cases, industrial licensing can be dispensed with. Government can still release demand forecasts for guidance of prospective entrepreneurs but the choice of investment decision should be left to them. If growth of some of these industries is vital for sustaining the process of industrial development, a scheme of positive incentives should be devised to attract investments into these industries. Licensing is a poor substitute for positive promotional measures in such cases.”

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On inequality, ‘soak the rich’

Singh was concerned about the danger of widening inequalities if India chose the path solely of market forces. Data show that while poverty rates have fallen since economic liberalisation, income and wealth inequalities have soared. In another 1983 lecture, Singh underscored the need for “containing elite-mass contradictions” to avoid widespread social and economic unrest.

“[In] a modern technological society...a certain distance between the elite and the masses is perhaps unavoidable. But if not controlled, elite-mass contradictions can be highly disruptive and

destablising. If the elite sections use their power and influence for personal material gain and comfort, this will lead to distortions in the allocation of scarce resources. ...Overall resources being limited, the insistence of a small privileged minority to enjoy living standards comparable to those prevailing in advanced postindustrial societies will inevitably result in the production structure being biased in favour of luxury goods at the very time when the great mass of our people do not have access even to elementary necessities of life.

[This] can give rise to serious political and economic tensions which can affect the growth of productivity and much more. The elite will be unable to persuade the mass of working classes to accept a degree of restraint on their consumption and, therefore, on wage claims, in the interest of faster accumulation of capital. The resulting struggle between workers and employers...can easily degenerate into hyperinflation of the type one comes across in Latin America.”

But Singh also warned against governments adopting “soaking the rich” policies to address inequality.

“The establishment of a relation of mutual trust and confidence between Government and private industry is not an easy task in an underdeveloped mixed economy operating in the framework of an open polity. Entrepreneurs usually belong to small minority groups and very often policies of ‘soaking the rich’ have a strong electoral appeal. Thus, Governments often fall prey to populist pressures and devise a regulatory framework with an eye on electoral appeal... This...compels entrepreneurs to turn into speculators, short-term maximisers, making a living by manipulating political processes rather than through creative productive activity, and provides them a strong built-in incentive for evading taxes and siphoning off funds abroad for investment in Swiss banks...”

On openness of trade

Many economists now point out that the trade protectionism of the Nehru decades was a mistake. India’s weak export performance in the 1950s dismayed Singh as a DPhil candidate. In his thesis, India’s export trends and the prospects of self-sustained growth, published in 1962, Singh argued that policymakers had underestimated India’s export potential.

“Indian planners were swayed by undue export pessimism, which led to a neglect of the scope and potential of export growth and to the sacrifice of important efficiency gains associated with greater emphasis on international specialisation.

“...In fact, given sensible domestic policies in areas such as the control of [inflation](#) and more realistic exchange rate policies, India’s exports could do much better than assumed by India’s development planners.”

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On PSU autonomy, unions

Political interventions leading to inefficiencies in public sector undertakings, price controls, and the role of trade unions in sick and struggling firms were areas of concerns that Singh recognised as holding India back. In the 1986 lecture quoted above, he said:

“Autonomy and accountability of public sector enterprises have been under discussion for nearly two decades. Those who swear by the public sector and yet will not grant these enterprises legitimate functional autonomy are no true friends of the public sector. It has also to be recognised that if the

top executives of public enterprises do not enjoy a reasonable security of tenure, we cannot expect them to take a fairly long term view of the interest of their enterprises.

“Trade unions which insist on the persistence of obsolete technologies for the sake of job security of their members do not advance the cause of the public sector or, for that matter, of employment.

“Lack of periodic technological upgradation often leads to uncompetitive costs, low profitability and restricted scope for future expansion of both output and employment. Similarly, public policies which will not permit adjustment of prices of public enterprises despite justified increase in costs also do not serve the cause of growth. Very often, needed price adjustments are postponed under political pressure so that in the meanwhile, losses go on increasing and public sector enterprises are starved of funds needed for their expansion. The time has come to depoliticise the process of price formation in the public sector.”

On education, health, women

In a lecture at the National Productivity Council in 1983, Singh stressed the critical role of better education, health, and sanitation in boosting India’s productive capacity.

“The spread of mass education can greatly help to change attitudes, aspirations, motivation and ability to master new skills. It is really unfortunate that even after thirty-five years of independence, universal primary education is not a reality... The heavy dropout rate [in schools] robs the rise in enrolment ratio of any great significance. The proportion of illiterates is much higher among women... [which] is bound to affect the progress of family planning and preventive health care measures through adoption of simple hygienic practices in our homes. Without paying adequate attention to the health care and nutrition needs of pregnant women, nursing mothers and young children, we can never hope to realise adequately the vast productive potential represented by a nation of 700 million people. An adequate and more equal access to basic public goods, especially education and health, can release vast latent human energies for creative, purposeful and socially satisfying work.”

(Edited excerpts)



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