

Breaking the Mold: Reimagining India's Growth Story

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Reimagining India's Growth Story: Lessons from Dr. Raghuram Rajan and Dr. Rohit Lamba

(Based on a discussion hosted by Akash Banerjee with Dr. Raghuram Rajan and Dr. Rohit Lamba in his podcast "The Deshbhakt" telecasted in YouTube)

In a rapidly changing global economic environment, India finds itself at a pivotal juncture. Politicians proclaim that the country is on the verge of becoming the third-largest GDP, having already overtaken the UK to claim the fifth spot. While this growth story spurs optimism, critical questions must be asked about how equitable, sustainable, and broad-based this growth truly is. In a thought-provoking conversation on a podcast hosted by **Akash Banerjee**, Dr. Raghuram Rajan (former RBI Governor, Chief Economist at the IMF, and now a professor at the University of Chicago) and Dr. Rohit Lamba (an academic economist who has advised the government and collaborated with Dr. Rajan) delve into the ideas behind their new book, *Breaking the Mold: Reimagining India's Economic Future*.

Below is an exploration of the central themes discussed in that conversation—why India needs to “break the mold,” what might happen if it refuses to, and how core principles like **human capital, decentralization, and democracy** play into this reimagined growth trajectory.

1. Setting the Stage: Why Reimagine?

Despite India's buoyant GDP statistics, Dr. Rajan underscores that the true test of development goes beyond headline figures. He reminds us that while *short-term predictions* of growth rates—whether 5% or 6%—are often off the mark even for seasoned economists, the more pressing concern is the *long-term trajectory*.

- **Growth vs. Catch-up:** India’s ambition to be a developed nation by 2047 hinges on whether it can grow fast enough to avoid the “middle-income trap.” At a steady 6% annual growth, it may take more than two decades to even quadruple per capita income—still leaving the country significantly behind China.
- **Youth vs. Aging:** Dr. Rajan and Dr. Lamba emphasize the importance of “growing rich before growing old.” India’s large youth demographic is often touted as a dividend, but demographic transitions are happening swiftly—especially in Southern states—raising concerns that this demographic edge could fade without robust job creation and upskilling.

In other words, complacency about growth figures today may lead to **missed opportunities** and slow progress tomorrow.

2. From ‘Brawn-Based’ to ‘Brain-Based’ Industry

One of the most striking points made in the discussion is the emphasis on **where** India should position itself along global value chains. While “Make in India” has been heavily publicized to attract manufacturing, Dr. Rajan and Dr. Lamba argue that focusing solely on low-end assembly might lock India out of **high-value, innovation-led growth**.

2.1 High-Value Segments

- *Chip Design vs. Chip Assembly:* India already leads in some parts of semiconductor design—close to 20% of global chip design happens within Indian R&D centers. However, the country is now subsidizing expensive *chip fabrication* plants (like Micron’s facility) with huge outlays that eclipse the *entire central higher education budget*.
- *Apple vs. Foxconn Analogy:* Apple’s \$3 trillion valuation contrasts with Foxconn’s \$50 billion. Apple holds patents and IP, leaving Foxconn to handle low-margin assembly. In India’s context, the authors question the heavy subsidies given to predominantly assembly-driven units, urging policy that fosters domestic *intellectual property* and *product-based* companies instead.

2.2 Rethinking Resource Allocation

- **Subsidies** for capital-intensive, low-value manufacturing may not be as beneficial as **investments in universities and skill development**.

- **Education and Healthcare** are not “social” expenses alone but are critical inputs for building a vibrant, high-productivity workforce.

3. Human Capital: The Missing Key

Dr. Rohit Lamba cites the alarming statistic that **35%** of Indian children remain malnourished. This sobering number has profound implications for the future workforce. Malnutrition in early childhood can permanently stunt both physical and cognitive development.

- **Skill Gap:** Manufacturers in India often report a shortage of well-trained workers. The paradox of an abundant labor pool yet an acute talent gap suggests that the country’s **education and health infrastructures** lag behind.
- **Social Stability:** High malnutrition and low education levels do not simply reflect individual hardships; they pose a systemic challenge to long-term growth and social cohesion.

To address these concerns, Dr. Rajan proposes focusing on **mission-mode efforts**—similar to how India undertook large-scale campaigns for infrastructure. If the same zeal and resources are redirected to **education, nutrition, and health**, India could unleash its formidable human capital, potentially becoming a global leader in **brain-based industries**—from advanced R&D to services, design, software, and beyond.

4. Democracy and Decentralization: Cornerstones of Better Governance

A unique element of Dr. Rajan and Dr. Lamba’s prescription is their emphasis on **democracy** and **decentralization** as *economic* enablers. Critics might wonder how political choices relate to economic growth, but the conversation lays out three core arguments:

1. Creativity and Openness:

- Authoritarian states may excel in rapidly mobilizing labor and capital for specific sectors (as seen in parts of East Asia), but a 21st-century economy—especially one aiming for high-value innovation—needs *freedom of thought and expression*.
- Transparent institutions allow for “co-correction,” where policies can be scrutinized, mistakes identified, and mid-course amendments made.

2. Bottom-Up Accountability:

- Decentralization enables local governments to tackle health, education, and infrastructure challenges in ways suited to **local conditions**.
- The success of *Delhi's Mohalla Clinics* and public schools is partly attributable to the compact geography and direct lines of accountability. In a large state like Uttar Pradesh, Dr. Lamba notes, governance from the capital city alone often falls short.

3. Protest and Feedback:

- Dr. Rajan points out that constructive dissent is vital. Democracies that stifle protest and independent data inadvertently blind their policymakers to systemic problems, as illustrated by the *undercounting of COVID-19 fatalities* in some places.

Far from being a distraction from growth, **robust democratic processes** can help India **course-correct** more effectively, ensuring that resources are spent where they are truly needed.

5. Populism vs. Welfare: The 'Revdi' Debate

India's political discourse often toggles between labeling social support as "freebies" (revdi) or "welfare." Dr. Rajan and Dr. Lamba nuance this debate:

- **Targeting vs. Universality:**

- Subsidies for cooking gas, free rations, or free public transport can greatly benefit marginalized communities—if they are well-targeted.
- When freebies become *universal* or driven purely by electoral gains, they risk becoming populist without addressing core developmental gaps.

- **Impact on Long-Term Growth:**

- Welfare schemes that improve health, education, or nutrition—especially for children—yield *long-term economic returns*.
- Blanket subsidies that simply raise consumption without building capabilities do not move the needle on sustainable, productivity-driven growth.

6. Oligarchies and Crony Capitalism: A Looming Threat?

In the conversation, Dr. Rajan acknowledges that large domestic conglomerates are not inherently problematic. *“Bigness alone isn’t the issue,”* he notes; the real question is **why** certain entities become big. When access to policymaking circles or political patronage—rather than genuine competitiveness—shapes market outcomes, an economy risks **entrenching inequality** and **choking off innovation**.

- **National Champions:** India can—and should—incubate globally competitive giants, but these firms must rise through **innovation, IP creation, and customer value**, not proximity to power.
- **Level Playing Field:** Ensuring robust competition law and transparent regulation can help smaller, innovative firms stand a chance—especially in high-tech and emerging sectors.

7. A Call to Action

The overarching message from Dr. Rajan and Dr. Lamba is not alarmist but **aspirational**. They remind us that India’s **growth potential** is undeniable—it has already made significant strides in areas like **digital payments (UPI)**, **infrastructure development**, and **poverty alleviation** through direct benefit transfers. The question is how to accelerate and sustain this momentum in a way that benefits all sections of society.

1. **Invest in Human Capital:** The single most crucial area is education, health, and nutrition—*especially early childhood*.
2. **Encourage Innovation and IP Creation:** Move beyond low-value assembly to **higher ends of the global value chain**, leveraging India’s talent in design, R&D, and services.
3. **Foster Democratic Institutions:** Maintain transparency, encourage dissent, and **use data** accurately to adapt policies.
4. **Practice Pragmatic Decentralization:** Allow local solutions to local problems, scaling up successes into nationwide policies.
5. **Rethink Resource Allocation:** Ensure that big-ticket subsidies are not crowding out critical public investments in universities, research centers, and vocational training.

In many ways, the conversation circles back to the idea that **India’s greatest strength is its people**. A growth model that ignores their health, education, or freedoms is at best incomplete and at worst unsustainable.

Concluding Reflections

Through this engaging dialogue with **Akash Banerjee**, Dr. Raghuram Rajan and Dr. Rohit Lamba present a multi-faceted blueprint for “reimagining” India’s economic future. They argue that the promise of India’s youth and entrepreneurial spirit can be fully realized only if policymakers and citizens alike emphasize **quality over quantity**—in manufacturing, in education, and in governance.

Yes, India can surpass many economic milestones simply by virtue of its size. But to **truly break the mold**, it must nurture a system where “**brain-based**” industries thrive, where democracy and decentralization underpin inclusive policymaking, and where the government’s priority is expanding human capabilities rather than chasing quick numerical targets.

Their vision is thus both a **challenge and a call to action** for every stakeholder—politicians, policymakers, business leaders, and ordinary citizens—to engage in deeper debates and consider fresh policy frameworks. The real question they leave us with: *Will India gather the will to reimagine a more inclusive, creative, and future-proof growth path—or let a historic opportunity slip away?*

Credit and Thanks:

This essay is based on the conversation featuring **Dr. Raghuram Rajan** and **Dr. Rohit Lamba**, hosted by **Akash Banerjee**. Sincere thanks to Akash Banerjee for bringing together these two exceptional minds to discuss India’s economic future.