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POLICY DESIGN FAILURES IN INDIA: A CASE STUDY APPROACH

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Abstract

Public policy serves as the principal mechanism through which modern states attempt to address economic, social, and political challenges. In India, however, the ambitious scope of public policy frequently collides with the realities of weak institutional capacity, socio-economic diversity, and uneven implementation structures. While Indian policies are often intellectually sophisticated and technologically ambitious, many fail to achieve their intended outcomes due to structural flaws in policy design, implementation deficits, and political legitimacy crises. This paper examines the recurring patterns of policy failure in India through three major case studies: the Goods and Services Tax (GST), the 2020 Farm Laws, and Demonetization (2016). Using the framework of design failure, implementation failure, and political failure, the paper argues that Indian policymaking suffers from excessive centralization, technological overconfidence, and inadequate accountability mechanisms. These failures collectively produce a “design-reality gap” in which policies appear theoretically sound on paper but collapse during implementation. The paper concludes by recommending decentralized co-creation, pilot-based policymaking, and agile governance systems to improve policy effectiveness in India.

Introduction

Policy making is a deliberate and systematic process through which governments attempt to solve public problems and achieve broader developmental goals. It involves not merely legislative drafting, but also the calibration of institutional, fiscal, regulatory, and informational tools to bridge the gap between a social problem and its proposed solution. In developing countries such as India, effective policy design is central to economic modernization, democratic legitimacy, and social welfare.

India's policy environment, however, is characterized by a paradox. At the highest levels, the Indian state possesses significant intellectual and technical capacity. Yet at the local level, implementation mechanisms often remain weak, fragmented, and disconnected from the realities of everyday life. Scholars such as Lant Pritchett have described India as a "flailing state," where the central state demonstrates vision and ambition while lower administrative institutions struggle to deliver services effectively.

This contradiction becomes visible in several large-scale policy initiatives undertaken in recent years. Policies such as the Goods and Services Tax (GST), the 2020 Farm Laws, and Demonetization were introduced as transformative reforms intended to modernize India's economy and governance systems. Nevertheless, each encountered severe resistance, administrative breakdowns, or unintended economic consequences. These cases reveal a recurring tendency in Indian policymaking: policies are frequently designed according to idealized assumptions about institutional capacity, digital infrastructure, and citizen behavior, while ignoring the complexity of India's informal and highly diverse socio-economic structure.

The central argument of this paper is that Indian policy failures emerge from a structural mismatch between policy design and ground realities. Policies are often conceived through a centralized, technocratic, and top-down framework that inadequately considers stakeholder participation, regional diversity, and implementation capacity. Consequently, the resulting "design-reality gap" undermines both the legitimacy and effectiveness of governance reforms.

Theoretical Framework: Understanding Policy Failure

Public policy scholars commonly explain policymaking through the "Policy Cycle," which consists of four interconnected stages: formulation, adoption, implementation, and evaluation. In theory, policymaking should function as a continuous feedback loop in which governments revise and improve policies based on outcomes and stakeholder responses.

However, in practice, policy cycles are often fragmented by institutional weaknesses, political pressures, and bureaucratic inefficiencies. This fragmentation gives rise to three principal categories of policy failure: design failure, implementation failure, and political failure.

Design Failure

Design failure occurs when the conceptual foundation or theoretical assumptions underlying a policy are fundamentally flawed. In such cases, policymakers develop instruments that are

disconnected from the realities they intend to regulate. A policy may appear technically sophisticated, yet remain practically unworkable because it ignores economic behavior, institutional conditions, or social norms.

For example, introducing highly digitized regulatory systems in economies dominated by informal cash transactions can produce exclusion instead of efficiency. In India, several reforms have assumed the existence of digital literacy, stable internet infrastructure, and formal financial behavior despite the persistence of widespread informality.

Implementation Failure

Implementation failure arises when a policy is theoretically sound but cannot be effectively executed due to weak administrative capacity. Street-level bureaucracies often lack the training, resources, infrastructure, or incentives necessary to operationalize complex reforms. As a result, implementation gaps emerge between policy objectives and actual outcomes.

India's governance system is especially vulnerable to such failures because administrative capacity differs significantly across states and regions. A policy that functions effectively in Kerala may fail entirely in Bihar due to differences in literacy rates, bureaucratic efficiency, digital infrastructure, and institutional depth.

Political Failure

Political failure occurs when a policy lacks social legitimacy or stakeholder trust. Even technically efficient policies may collapse if affected groups feel excluded from the decision-making process. Policies introduced without consultation often trigger protests, non-compliance, or political reversals.

In democratic societies, legitimacy is as important as technical expertise. Policies imposed through centralized authority without meaningful stakeholder engagement tend to create resistance rather than cooperation.

Structural Patterns of Policy Failure in India

Three recurring structural patterns characterize contemporary policy failures in India.

First, policymaking remains excessively centralized. Policies are frequently designed in New Delhi and imposed uniformly across highly diverse regions without sufficient adaptation to

local contexts. This “one-size-fits-all” approach ignores differences in socio-economic structures, administrative capacity, and cultural norms.

Second, Indian policymaking demonstrates excessive technological optimism. Policymakers often assume that digital platforms and technological systems can substitute for institutional simplicity and administrative capacity. However, technology cannot compensate for weak infrastructure, low digital literacy, or economic informality.

Third, policymaking suffers from weak accountability and insufficient feedback mechanisms. Policies are often implemented as fixed programs rather than adaptive systems capable of responding to implementation challenges. Real-time corrections are rare, and governments frequently resist acknowledging design flaws until crises emerge.

Case Study I: Goods and Services Tax (GST) and the Complexity Trap

The Goods and Services Tax (GST), introduced in 2017, represented one of the most ambitious fiscal reforms in independent India. Its objective was to replace multiple indirect taxes with a unified taxation system under the slogan “One Nation, One Tax.” Policymakers expected GST to simplify taxation, reduce logistical barriers, increase tax compliance, and formalize India’s informal economy.

Despite these objectives, GST became an example of over-engineered policy design trapped within excessive complexity.

Excessive Structural Complexity

Most successful Value Added Tax (VAT) systems worldwide operate through either a flat tax structure or a limited number of tax slabs. India, however, adopted an extremely complex multi-tier system consisting of 5%, 12%, 18%, and 28% slabs along with additional cess mechanisms.

This structure emerged primarily from political compromise rather than economic rationality. Different goods were assigned varying tax rates to satisfy competing political interests and revenue concerns. The result was widespread confusion regarding classification disputes. Courts and tribunals were forced to decide highly granular questions regarding product categorization, including disputes over whether KitKat should be classified as chocolate or a wafer biscuit.

Instead of eliminating bureaucratic discretion, GST unintentionally reproduced elements of the “Inspector Raj” that economic liberalization had attempted to dismantle.

Technological Overconfidence

Another major flaw was the excessive dependence on the GST Network (GSTN), a highly digitized compliance infrastructure. Policymakers assumed that millions of small traders and micro-enterprises could transition smoothly into a real-time digital tax regime.

However, India’s informal sector lacked the technological capacity necessary for such compliance. Small businesses often lacked reliable internet access, accounting expertise, and digital literacy. Frequent technical failures and invoice-matching complexities created working capital disruptions, especially for Micro, Small, and Medium Enterprises (MSMEs).

Rather than facilitating ease of doing business, GST imposed substantial compliance burdens on smaller enterprises, many of which struggled to survive under the new regime.

Economic Consequences

The immediate consequences included reduced economic growth, declining liquidity among MSMEs, and disruptions to supply chains. Although GST eventually stabilized over time, its early implementation exposed the dangers of designing policies according to idealized assumptions about administrative and technological readiness.

The GST experience demonstrates that technological sophistication cannot substitute for institutional simplicity. Policies designed for highly formalized economies may fail when applied to economies dominated by informality and fragmented market structures.

Case Study II: The 2020 Farm Laws and Political Legitimacy Failure

The 2020 Farm Laws sought to liberalize agricultural markets by allowing farmers to sell produce outside traditional Agricultural Produce Market Committee (APMC) mandis. The reforms were grounded in neoliberal economic reasoning that emphasized deregulation, competition, and private investment.

However, despite their economic rationale, the laws failed due to severe political and procedural legitimacy deficits.

Procedural Failures and Democratic Deficit

One of the most controversial aspects of the Farm Laws was the manner in which they were enacted. The laws were initially introduced through emergency ordinances during the COVID-19 pandemic and later passed in Parliament through voice vote without detailed committee scrutiny.

Agriculture is constitutionally a state subject, making the centralized imposition of reforms particularly sensitive. The absence of parliamentary consultation and federal dialogue created widespread perceptions that the laws were imposed without democratic deliberation.

Consequently, the reforms lacked social legitimacy from the very beginning.

Violation of Stakeholder Expectations

The laws also ignored the historical relationship between farmers and the state, particularly in Punjab and Haryana, where farmers depended heavily on the Minimum Support Price (MSP) system. Although the reforms did not formally abolish MSP, they failed to provide statutory guarantees protecting farmers against market volatility.

Policymakers viewed farmers primarily as rational market participants who would embrace competitive markets. However, farmers perceived themselves as vulnerable producers dependent on state protection for survival.

This disconnect between economic theory and stakeholder psychology became one of the central causes of resistance.

Institutional Distrust and Judicial Exclusion

Another major concern involved dispute resolution mechanisms. The laws effectively restricted farmers from approaching civil courts in disputes with corporations, instead directing them toward bureaucratic conciliation processes managed by Sub-Divisional Magistrates (SDMs).

For many rural communities, bureaucratic systems are perceived as inaccessible and vulnerable to corporate influence. By limiting judicial oversight, the reforms intensified fears regarding unequal bargaining power between corporations and farmers.

Political Reversal

The result was one of the largest protest movements in modern Indian history. After nearly one year of sustained protests, the government repealed all three farm laws in 2021.

This episode demonstrated that technically sound economic reforms cannot survive without public trust and stakeholder participation. Policy legitimacy depends not only on economic efficiency but also on democratic inclusion and procedural fairness.

Case Study III: Demonetization (2016) and Behavioral Miscalculation

The 2016 demonetization policy involved the sudden invalidation of ₹500 and ₹1000 currency notes, which constituted approximately 86% of India's cash supply. The stated objectives included eliminating black money, reducing counterfeit currency, preventing terrorist financing, and promoting digital payments.

However, demonetization became a striking example of policy failure resulting from flawed assumptions about economic behavior.

Misunderstanding the Nature of Black Money

The policy was based on the assumption that illicit wealth was primarily stored in physical cash. In reality, black wealth in India is often held in assets such as real estate, gold, offshore accounts, and shell companies.

As later revealed by Reserve Bank of India data, approximately 99.3% of demonetized currency returned to the banking system. This indicated that holders of illicit wealth successfully laundered or deposited their currency instead of losing it.

The policy therefore failed to achieve its primary objective of eliminating black money.

Logistical and Administrative Failures

Implementation failures further intensified the crisis. Newly introduced currency notes differed in size from previous notes, rendering much of India's ATM infrastructure temporarily unusable. Manual recalibration of ATMs caused prolonged cash shortages across the country.

The informal sector, which depends heavily on cash transactions, suffered enormous disruption. Small businesses, daily wage laborers, farmers, and migrant workers experienced severe liquidity shortages.

Impact on the Informal Economy

Ironically, the policy disproportionately harmed economically vulnerable groups rather than large holders of illicit wealth. Many small enterprises collapsed due to interrupted cash flows, while larger actors often found ways to circumvent restrictions.

Although demonetization accelerated digital payment adoption, the social and economic costs were extremely high relative to the policy's outcomes.

The case illustrates the dangers of "shock-driven" policymaking based on ideological assumptions rather than empirical evidence and behavioral understanding.

The Design-Reality Gap in Indian Policymaking

The three case studies collectively reveal a recurring structural problem in Indian governance: the design-reality gap. Policies are often developed according to abstract economic models and centralized assumptions while ignoring implementation capacity, stakeholder trust, and regional diversity.

This gap emerges because policymaking in India frequently prioritizes technical sophistication over administrative feasibility. Large-scale reforms are introduced rapidly, often without adequate consultation, pilot testing, or institutional preparation.

Furthermore, Indian governance lacks adaptive feedback systems. Policymakers often treat implementation as a final stage rather than a continuous learning process requiring modification and correction. As a result, even visionary reforms become vulnerable to administrative collapse and political resistance.

Recommendations for Policy Reform

Decentralized Co-Creation

Policymaking should become more participatory and decentralized. Greater involvement of states, local governments, Gram Sabhas, and civil society organizations can ensure that policies reflect local realities rather than centralized assumptions.

India's diversity requires flexible policy frameworks rather than rigid national templates.

Mandatory Pilot Testing

Large-scale reforms should undergo localized pilot testing before nationwide implementation. Pilot projects can identify logistical bottlenecks, stakeholder concerns, and administrative limitations before policies are expanded nationally.

Such testing would significantly reduce implementation risks.

Agile Governance and Feedback Loops

Governments must adopt adaptive governance systems that allow continuous policy modification based on feedback and data. Policies should be viewed as evolving frameworks rather than fixed blueprints.

Real-time monitoring and institutional willingness to revise policies are essential for reducing the design-reality gap.

Strengthening Accountability

Transparent monitoring systems and independent evaluation mechanisms should be institutionalized to ensure accountability in implementation. Citizens must have accessible grievance redressal mechanisms and opportunities to participate in policy evaluation.

Conclusion

The trajectory of Indian policymaking reveals a persistent tension between ambition and execution. While India possesses considerable intellectual and technological capacity, policy outcomes frequently suffer from excessive centralization, technological overconfidence, weak implementation structures, and inadequate stakeholder consultation.

The case studies of GST, the Farm Laws, and Demonetization demonstrate that policy success depends not only on economic reasoning but also on institutional capacity, social legitimacy, and behavioral understanding. Policies that ignore the realities of informality, regional diversity, and stakeholder trust are likely to encounter resistance and failure regardless of their theoretical sophistication.

India's future developmental success therefore depends on transforming policymaking from a centralized technocratic exercise into a decentralized, adaptive, and participatory process. Effective governance in a complex democracy requires not merely visionary reforms, but reforms grounded in administrative feasibility, democratic legitimacy, and continuous institutional learning.

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