IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Why Socialism Fails And Capitalism Triumphs: Lessons From The Indian Development Experience

Dr. Manish Kumar,
Assistant Professor
Department of Economics,
Yadunandan College, Dighwara, Saran, Bihar – 841207
(A constituent unit of Jai Prakash University, Chapra)

Abstract: After gaining independence India committed itself to create a socialist pattern of society by giving the public sector a commanding role in the economy. Socialism was the guiding philosophy of economic policy making until the late 1980s when capitalistic economic reforms were launched. The socialist policies neither accelerated economic development nor created a more egalitarian society. Contrary to the popular notions against capitalism, it has accelerated development and sharply reduced poverty. The last three decades have witnessed a transformative change. India today is poised to become the third largest economy in the world. The economic freedom offered in a capitalistic economy stimulates individual action and promotes growth.

***Index terms* -** socialism, capitalism, economic reforms, economic growth, globalisation.

I. Introduction

India is a functioning democracy with robust institutions and an elaborate system of checks and balances with power clearly divided between the executive, the legislative and the judiciary. Democracy is a method of political organization. Capitalism whereas a method of economic organisation. The economy and the polity are the problem-solving mechanisms of human society. They interact with each other to generate ideas and solve problems and in the process transform each other.[1]

When India attained independence, it oriented its economic policies to create a socialist pattern of society[2]. The subsequent Five-Year Plans laid the foundation for the achievement of this goal. The industrial policy of 1956 was the cornerstone of India's development strategy. It reserved many sectors of the economy under the control of the public sector. The private sector was given a subservient role in the economy. The public sector was to serve as the commanding height of the economy. Laws governing the size of investment and those protecting the labour were implemented to serve the cause of the worker and control the development of the monopoly power in the economy[3]. There were not many sectors in the economy that did not face government regulation and control. The policies governing international trade were highly restrictive. India was hesitant to use international trade as an engine of growth.[4]

[1] Gabriel Almond 1991
[2] Second Five-Year Plan 1956 – 61
[3] Bimal Jalan 2005
[4] Dennis Robertson 1940

By the end of the 1980s the economy became uncompetitive and the burden of regulation stifled growth and entrepreneurial action. Economic growth did pick up in the 1980s to 5.5 percent per annum from the 3.5 percent average annual growth witnessed during 1950s to 1970s. This spurt in growth however was unsustainable. It was financed by heavy borrowing. Consequently, the economy faced a severe Balance of Payment (BoP) crisis in 1990-91.[5] The first four decades of economic planning had given some crucial momentum to the economy however the economic performance was far away from the laudable goal of creating a more egalitarian, more prosperous and an industrially sufficient state. The notion of producing a desired end by enacting restrictive policies had failed. Economic planning had failed to deliver.

It required a change from a collectivist thinking on economic policies to one where the individual initiative and decentralised decision making in economic affairs guided the economy in allocation of resources. India launched capitalistic economic reforms in 1991. The economy picked up speed. Economic growth accelerated producing two significant economic outcomes: poverty declined sharply and the ensuing growth generated humongous revenue for the government accelerating further the launch of welfare schemes.[6]

Over the last thirty years India has transformed itself from a slow growing, poverty stricken, uncompetitive and inward-oriented economy to a more open, inclusive and a fast-growing economy. In the coming decades it is likely to become the third largest economy in the world. This change in economic fortunes of India should leave one to ponder: why did our centrally planned economic policies fail to deliver? Why did capitalism succeed in producing better economic outcomes since the 1990s?

II. India: Tryst with Socialism

India fought for its freedom against the foreign rule and earned it the hard way losing thousands of lives. Inherent in the struggle for independence, there was a collective aspiration to establish India as a socialist paradise. The colonial rule was often criticised for its economic policies. The freedom fighters blamed the British rulers of prioritising their own economic interests over that of India. Many freedom fighters and economists established through careful studies and cogent analyses that India's poverty was the result of faulty colonial policies.[7]

As a result, it was widely held that once the power to enact laws and regulations came in Indian hands, the situation could change quickly. India could rid itself of deprivation and economic backwardness through planned economic development. In the early years of independence, the role of private sector and that of the market were often viewed with scepticism. Capitalism was seen as the extension of imperialism. Many of the countries that established were capitalist nations.

India did not fight the British to become a capitalist democracy. Capitalism hardly represented to the freedom fighters the vision of a magnificent future to which they could be collective driven to aspire. The horrors of the *Great Depression* in Europe and America were part of the living memory. In fact, India did not even struggle to become a textbook socialist country, the kind Thomas More, a major figure of English Renaissance, imagined in his sixteenth century classic *Utopia* – a classless, perfect world[8]. In principle, socialism was the idea of a more egalitarian and prosperous society that inspired many and served as a glue that held together a disparate band of people working collectively to achieve independence.

It was the political *cul-de-sac*, the point that exemplified the culmination of all viable idealism and achievement. The politicians and the freedom fighters who came to dominate policy making in the 1950s were full of idealism yet they were also aware of the hard realities of politics and economics. The ideas that came out of the mid-century intellectual current of *Fabian socialism*, followed by the triumphant march of the *New Deal* in America, and finally the success of freedom struggle in many countries all strengthened the notion of state power in successfully tackling the economic challenges and thereby laying the foundations of a better society.

[5] Vijay Joshi and I M D Little 1997
[6] Jagdish Bhagwati and Arvind Panagariya 2013
[7] Dadabhai Naoroji
[8] Sir Thomas More

III. Socialist pattern of society

Socialism was part of the intellectual discourse during the freedom struggle. Soon after independence when power was transferred into the Indian hands the economic situation did not look very inspiring. The economy was coming out of the economic depression that had left many economies devastated. The Second World War involved many countries of Europe, Asia, and Africa. The attack on Pearl Harbour finally instigated the United States to join the war. Until then, it had been successful in keeping itself away from direct involvement in the war. In many countries the normal economy had been transformed into a War economy where production was channelized primarily to meet the demands of the war.[9]

When India therefore gained independence in 1947 a dramatic change in policies did not seem feasible immediately. The Industrial Policy Resolution of 1948 gave a careful thought to the challenges facing the economy. It mentioned the need to work for the creation of a new social order where justice prevailed and everyone had an opportunity to improve their living condition. The top priority involved restoring stability in the economy and increasing national production. To quote: "*Any improvement in the economic conditions of the country postulates an increase in national wealth: a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty.*"[10]

The 70th session of the Indian National Congress was held at Avadi in 1955. It was at this session that an explicit mention was made to establish in India a socialistic pattern of society. In some sense it was a break from the past as following its adoption economic policies were geared to develop India along these lines. The second five-year plan and the Industrial Policy of 1956 put the onus of development of many critical sectors of the economy in government hands. There was a realisation that without the state playing a more engaging role in the economy the ensuing development could fail to meet the objectives of socialism. The Five-Year Plans were designed and implemented to accelerate the tempo of development in India.

The task before an underdeveloped country is not merely to get better results within the existing framework of economic and social institutions but to mould and refashion these so that they contribute effectively to the realisation of wider and deeper social values. These values or basic objectives were summed up in the phrase 'socialist pattern of society'. Essentially, this meant that the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment—and in fact all significant socio-economic relationships—must be made by agencies informed by social purpose.[11]

The benefits of economic development should go to those who deserve the most. The marginalised sections of the society should be the first beneficiaries of the process of development. There should be a progressive reduction of the concentration of incomes, wealth and economic power. The challenge was to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organized effort is enabled to put in his best in the interests of a higher standard of life for himself and increased prosperity for the country. The socialist pattern of society was not to be regarded as some fixed or rigid pattern. It was not rooted in any doctrine or dogma. Each country has to develop according to it own genius and traditions. Economic and social policy had to be shaped from time to time in the light of historical circumstances.

The Constitution of India, in its Preamble, and the Directive Principles of State Policy, has declared that it aims at securing for all its citizens justice in all its forms – political, economic and social; that the state through its policies must strive to ensure equality of opportunity and status; that the state should ensure the dignity and self-respect of individuals by creating a just social order. It should create livelihoods for all. The ownership of resources should be distributed in a way that ensures justice to all and avoids concentration of economic power. The state in India had been allocated a heavy role in the fulfilment of the social and economic objectives of the society.

[9] Srinath Raghavan 2016
[10] Arvind Panagariya 2024 pp. 409
[11] Second Five Year Plan 1956-61

Thus, the guiding philosophy of economic policy making in India prior to the launch of economic reforms in the 1990s was a strong political desire to develop along socialist lines. One major objective since the early days of economic planning has been the eradication of inequities in income and wealth. Capitalism did not find many takers in the early years after independence.

Capitalism to this day does not find a robust embrace despite its major contribution to our collective welfare, particularly since the 1990s. It has been stigmatized since the days of the freedom struggle. Imperialism was seen as an extension of capitalism. The Russian revolutionary Vladimir Lenin saw imperialism as the highest stage of capitalism.[12] Capitalism advocates wealth creation. It draws its sustenance from an expanding marketplace for goods and services. In India it has been misrepresented as morally corrosive. Wealth in India has often been portrayed as dehumanizing something that lies at the root of most of our social ills.

However, since the 1990s increased wealth creation and the rise of the *nuovo rich*, the self-made successful men and women, is steadily altering the perception about entrepreneurism and individualism in India. Lately many government schemes both at the centre and the states have been launched to support entrepreneurship. India is currently witnessing a start-up revolution where thousands of entrepreneurs are starting new businesses and creating jobs.

IV. Capitalism and Socialism: Facts and Fallacies

We need commodities and services to survive. But how do we get them? Who would ensure these are produced and distributed fairly? And why would anybody want to produce them in the first place? Is it really possible to produce on our own everything that we consume? We shall work on agricultural fields? Own factories? Banks and insurance companies? And still more. It is an attractive proposition but hardly feasible. How can a single individual engage in so many different kinds of activities? That sounds impossible and impractical.

To overcome the individual limitations, we come together and cooperate with each other to fulfil our individual and collective wants driven by the *invisible hand*[13]. Human nature being what it is we need each other even though we may not want to. Cooperation thus becomes a collective compulsion. Someone has to work on the fields and provide us with all the food that we need. Someone has to work in the factories and produce those essential and luxury items of consumption. Someone has to organize those activities and start a business and a factory. Someone has to establish those institutions of finance to facilitate business and consumption. Someone has to build the social and physical infrastructure to facilitate the economic activities of production and exchange. There is so much to be done to ensure the smooth functioning of the production machine to fulfil our needs.

No less important is to realize the scale of cooperation that is needed to run this huge production machine. For instance, how do you feed a billion people? We have to produce big. And production cannot be localized to a village or a city. Production facilities have to be essentially spread across the country because resources are unevenly distributed across geographical regions. A geographical space can be rich in natural resources, human capital and other cultural traits offered by its peculiar history and sociology.

The goods once produced should be transported to different parts of the country for final consumption. But who shall coordinate this massive production and distribution operation spread across the country? A single central authority as practised in erstwhile communist countries? Perhaps. Or millions of individual producers, distributors, retailers acting and operating through price signals and driven by profit motive? Like in a market economy. And by the way which would be more efficient?

Economists have classified factors of production into four categories – land, labour, capital and enterprise. What they mean is that for any production to take place these four elements must be combined in different proportion depending upon the nature of goods and services that are being produced and the techniques that are being employed to produce them.

[12] Vladimir Lenin 1916
[13] Adam Smith 1776

The question of ownership of factors is important. Who owns them? In a centrally planned economy or in a socialist state, the factors are likely to be owned wholly by the state. Hence, it is the government that determines what is to be produced, how it is to be produced and for whom it is to be produced. However, it is highly unlikely that the state would own all the resources in the economy. Modern economies are mixed where both the state and the market play a critical role in allocation of resources.

Inspired by the Soviet Russia, India followed a planned model of development where the government more than the private sector came to play a dominant role in the economy in the initial years after independence. Pandit Jawahar Lal Nehru, India's first Prime Minister, was a Fabián socialist who was inspired by the vision to create a modern democratic socialist state in India. Arvind Panagariya has called it the '*Nehru Model'*.[14]

In contrast, there is provision for private ownership of factors of production in a capitalist economic system. The right to property is a crucial feature of capitalist economies. It is the individuals driven by a desire for profit that start and own businesses. There is freedom regarding the starting and closure of a business. The eminent economist Paul Samuelson says that questions about *what, how and for whom* are the key to the well-being of any society. These questions about the allocation of resources, the adoption of technology and issues concerning justice in distribution of goods and services for final consumption lie at the heart of modern economies.[15] Adam Smith argued that it was in a capitalist economic system that division of labour and specialisation would lead to increased productivity gains and production. The last few hundred years has seen an exponential increase in the world production of goods and services.[16]Adam Smith envisioned a minimalist, a night watchman state with a fewer duties like maintenance of internal peace, protecting the nation from external aggression, building infrastructure and enforcing contracts to sustain the market economy. It would set the *rules of the game* and enforce contracts and adjudicate among the warring parties.

No country in the world can be textbook cases of either socialism or capitalism. The private and public sector coexist in every economy. Both play a crucial role in the functioning of the economy. *It is the degree to which their roles, activities and operational freedom is ensured by law and regulation that makes the difference.* In capitalist societies the private sector enjoys far greater economic freedom than in socialist countries where the public sector has a comparatively greater role in the economy.

Prior to the launch of economic reforms in 1991 socialism was the guiding philosophy for economic policy making in India. In a capitalist system the state is a facilitator however it reserves for itself activities that are strategic in nature and can have wider implications for the economy. Consider for example defence, arms and ammunition, control over key minerals etc. however, even within these sectors the state can allow private participation to achieve efficiency gains.

Modern market economies are embedded in a democratic political system. The state can be a rule setter as well as producer of goods and services and still can have more functions depending upon its priorities and expectations of the general public. In democracies the citizens have come to have huge expectations from the government regarding provision of infrastructure, maintaining public services, supply of goods and services either for free or at a fraction of the cost incurred in their production. Modern politics has encouraged competitive populism across the world. Even in advanced countries like the United States and in many European nations known for their sound finance and sober gentlemanly politics leaders are taking recourse to populism to win elections.[17]

In principle, the private sector never decides the rules of the game for the economy. This power rests exclusively with the state in a democracy. It is the sovereign that is the source of all laws regulating the economy. The private sector operates within the framework of rules and institutions maintained by the state. There are plenty of rules, regulations, and laws governing the factors of production - land, labour,

[14] Arvind Panagariya 2024
[15] Paul Samuelson 2020
[16] Angus Maddison 2003
[17] Pauliina Patana 2024

capital and enterprise - that guide individual action and, on many occasions, even thwart productive enterprise. Some of them may be good and necessary while some needlessly restrictive and counterproductive. One major reason for the failure of socialist economics has been the plethora of needless regulation restricting even genuine productive action. The labour laws in India have been very restrictive thereby hurting the expansion of businesses and the China-like growth of enterprises.[18]

The private sector is heterogeneous. There are various kinds of institutions and entities involved in the production, distribution and exchange activities. There may be small and medium enterprises working with little capital and engaging a few workers to large corporations employing thousands of workers. These enterprises generally engage in production for a profit. In a capitalist system there is freedom to own resources, entrepreneurs therefore engage in economic activities to earn profit and create property. In democracies, the citizens enjoy the right to own property. They can inherit it from their ancestors. There is freedom to buy and sell property. The government does not interfere with the process except that it sets the rules of transaction and usually imposes taxes to raise revenue.

A major reason for the spectacular success of modern capitalism has been the recognition of the power of incentives to guide human behaviour and action. Human beings are driven by a desire to make profit. The desire to trade is inherent in human nature. To quote Adam Smith, “The division of labour from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is necessary though, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter and exchange one thing for another.”[19]

Trade generates profits and that in turn wealth. The right to own property is a major incentive as it encourages accumulation and enhances power over men and materials. Consequently, the right to own property is among the defining characteristics of capitalism. This is what differentiates it from socialism where it is not the private initiative of individuals and rather the state planning commission that drives production, exchange and distribution.

Capitalism therefore is a system for organizing economic activities, a problem-solving mechanism the important features of which are economic freedom, right to own property and the reliance on price mechanism for allocation of resources. In contrast, under socialism it is the state that owns the key resources and thus lies at the forefront in organizing production, consumption, exchange and distribution. It is the state that controls the strategic sectors of the economy and guides allocation of resources.

There is another important but bizarre distinction between public interest and private interest. The state action is often seen in public interest, that is, to promote collective welfare. In contrast, when private individuals and enterprises engage in economic activities they are said to be operating in private interest for a profit. That is, for enhancing their personal accumulation of property. The government activities are seen to be driven by a higher moral purpose whereas the private sector activities no matter how beneficial it is to society is largely seen to be morally depraving as it is induced by the lure for a profit. It is a bizarre argument. Profit is a reward for organising production. It is the incentive that drives capitalism.

In a capitalist system it the price mechanism evolved through the interaction of demand and supply of goods and services that determines the actions of millions of consumers and producers. No central authority issues directives about production and controls consumption. There is a central planning authority under socialism that guides production and exchange. The price mechanism has a limited role since government has an overwhelming presence in the economy. It is the price mechanism that is critical to the success of a capitalist system. Prices are signals that carry information and influence allocation of resources. Capitalism is a decentralized system of economic organization. Capitalism encourages freedom. Socialism is a centralised form of economic organisation. Having a big government reduces economic freedom. In his classic work, Capitalism and Freedom, noted economist Milton Friedman has argued that economic freedom is a prerequisite for political freedom.[20]

[18] Arvind Panagariya 2020
[19] Adam Smith 1776
[20] Milton Friedman 1962

The freedom one enjoys in a capitalist system is absent in a socialist system where the state determines the allocation of factors of production and decides upon the production targets to be achieved by the implementation of Five-Year Plans. It's a controlled economy where individuals and entrepreneurs operate with a stringent set of rules and regulations.
The state sets the national priorities and individuals have to align accordingly.
It would be curious to learn if those who advocate socialism would still be willing to do so if they were asked to forgo the freedoms that are found in capitalism.

Not many recognize this as they remain enamoured by the unattainable promises of socialist vision. What these promises are? The creation of a more equitable society where people do not have to struggle for the basic necessities of life is an important promise. There have been historical inequities in wealth and incomes of people. This is both morally offensive and politically unacceptable in a democracy. The promises of socialism are highly appealing.

The socialists often view wealth inequities as a direct outcome of unequal distribution of resources among people particularly land. They therefore advocate land reforms to level the playing field. They claim that some are rich because they have the resources; others are poor because they lack the resources and hence are unable to avail the opportunities to get rich. Wealth inequities have important social dimension. They have spatial dimension too. Capitalists argue that to overcome poverty and inequality economic policies should encourage economic growth.

V. Capitalism and Development

In the middle of the twentieth century when many countries decolonised from the imperial rule the question of development and the extent to which a nation should participate in the global economy were on the debating table. There was the famous *Prebisch-Singer hypothesis* suggesting that it was not in the interest of the Third World countries to join the international economy as the benefits were limited. It posits that the terms for trade for primary commodities relative to manufactured goods deteriorate over time. These economists were concerned with the gap in per-capita income between the industrialised west and the developing economies.

In early stages of development most of the newly independent nations were exporters of primary commodities. Technical progress was concentrated mainly in industries and therefore it was not in the interest of poor nations to engage in international trade. *The Centre-Periphery Model* treats the developed western nations as centre and the developing nations as the periphery. It argued that for the poor countries of Asia, Africa and Latin America international trade was not a viable option to accelerate development. The nature of economic relationship of the advanced western nations and the poor countries was one based on exploitation of the latter by the former. It was mutually antagonistic. Therefore, to speed up development it was important to break the nexus between the 'centre', that is, the economically advanced nations and the 'periphery' that is, the less developed nations. In this model of development, it was suggested to follow a policy of import-substitution behind high tariff walls. Foreign capital was to be less relied upon for capital formation and development.[21]

India followed a development strategy that relied on domestic capital to fuel economic growth. Influenced by the Russian model and under the guidance of statistician P C Mahalanobis, India chose to devote is scarce capital on the development of heavy industries in the early years of its independence. Motivated by a strong desire to create a socialistic pattern of society India's modernising mantra were building state institutions and aim for self-reliance in strategic sectors of the economy. The economic rationale included non-reliance on foreign capital and private sector and it definitely suited politically too.

The national movement saw rejection of the ideas of capitalism and imperialism because most of the colonising countries were capitalists. Around that time, both politically and strategically to keep international economic pressures borne out of participation in the global economy at a distance seemed an

[21] Raul Prebisch 1950

attractive proposition. India continued to remain inward-oriented in its trade orientation until 1991 when robust market reforms were finally launched.

In the meantime, countries in East Asia and Southeast Asia that were in a similar economic situation as India had already opened their economies to foreign trade and investment and followed a modernising strategy giving greater space to the private sector. They grew fast and thus could alleviate poverty quickly. India was a late reformer. These countries had changed their development strategy away from a planned, highly restrictive model to a more open and capitalist model a few decades earlier. Capitalism had paid rich dividends in their economies. They had been able to use the international economy to their advantage. They benefitted from the post-war boom in international trade and capital flows.

The Berlin Wall fell in 1989. The greatest *collectivist* experiment in human history, socialist Russia, fell shortly after. The political scientist Francis Fukuyama claimed that all ideological battles had finally ended. With the end of the cold war and the collapse of erstwhile communist states, democracy and capitalism had finally emerged as the default option for societies. This was the then famous, and now infamous, *End of History* thesis.[22]

Market-oriented economic reforms were introduced in many transition economies of the world.[23]In such an international atmosphere, and triggered by the economic crisis, India was left with no option but to rethink the economic strategy it had followed since the 1950s. By now there was plenty of evidence to support the view that nations that were more open to international trade and capital flows and had relied on market forces had done better. India introduced *systemic* economic reforms in 1991. It was a major break in the strategy the country had followed since independence.[24]

VI. Indian since 1991: Growth alone has a Human Face

India substantially began reforming its economy in the early 1990s. It was a clear break from the past – a paradigm shift in the way India saw its economy and how it could contribute to and in turn benefit from participating in the world economy. It had remained insular for much of its independent history relying on domestic state driven consumption and investment to propel the economy towards higher growth and poverty alleviation. All along the driving force had been to modernise along socialistic lines creating a more egalitarian society. Socialism was the guiding philosophy. The economy grew at an average rate of 3.5 percent annually for the first three decades which was below expectations. The slow economic growth did not transform into substantial benefits for the people, neither the poor nor the rich!

On the back of increased public expenditure, the economy did pick up some momentum and grew at an average rate of 5.5 percent per annum in the 1980s which was surely better. However, increasing fiscal deficit and deep-rooted structural flaws pushed the economy into a corner leading to the Balance of Payment crisis (BoP) in early 1990s.[25] It was under these circumstances coupled with the pressure from the International Monetary Fund (IMF) that India finally decided to do wholesale restructuring of its economic policies. The adjustment programmes and the structural reforms carried out since 1991 have catapulted the economy to a higher growth trajectory.

A raging debate in India has centred around the efficacy of economic growth in pulling the poor out of poverty. Does economic growth matter? Jagdish Bhagwati and Amartya Sen, two of India's highly visible economists offer different policy recommendations. Whereas Jagdish Bhagwati has suggested a more open embrace of globalisation and reliance of market forces to accelerate economic growth, Amartya Sen calls for a state-directed development strategy where the public sector has an important role to play. The former was an early critique of the planned model of economic development. He co-authored with Padma Desai *Planning for Industrialisation* highlighting the shortcomings of the economic development strategy. [26]

[22] Francis Fukuyama 1989
[23] Jeffrey Sachs 1999
[24] Bhagwati 1993
[25] Montek S. Ahluwalia 2002
[26] Jagdish Bhagwati and Padma Desai 1970

Jagdish Bhagwati, along with Arvind Panagariya, have been ardent supporters of the economic reforms programme.[27] Amartya Sen and his collaborator, Jean Dreze, have on the other hand, have been keener on highlighting the missteps and failures of the current policy regime at work though in their 2013 work *India: An Uncertain Glory*[28] they have accepted the Bhagwati position[29] on one important dimension of its ability to generate revenues to fund public welfare schemes.

Jagdish Bhagwati argues that high growth rates are critical for tangible material advancement in the basics of life. Growth has to be the principal strategy for raising the incomes, and consumption and living standards of the poor. It should not be seen as passive *trickle-down strategy* but an *active pull-up strategy* instead.[30] Joseph Stiglitz, a critique of what he calls ‘market fundamentalism’ has shown concurrence about the importance of growth. The experience over the past few centuries, he points out, suggest that economic growth is the most powerful engine for generating long term prosperity and raising living standards. The fact of the matter is that the record of last quarter century demonstrates two points: Aggregate economic growth benefits most of the people most of the time; and it is usually associated with progress in other social dimensions of development.[31]

Many fail to appreciate the breadth of contribution growth makes to a society. A society which is not growing is stagnant. A society which is on a higher growth path is more likely to raise the standard of living of its citizens, foster greater opportunities, generate greater resources for the government and, promote faster social mobility in contrast to a slowly growing economy. By increasing a nation’s economic wealth, it enhances its potential for reducing poverty. Economic growth – meaning a sustained improvement in the standard of living for a clear majority of its citizens – has been the magic wand helping nations solve some of the most pressing socio-economic and political challenges of the day. Economic growth bears moral benefits as well. There is greater likelihood of promotion of political freedom and civil liberties in countries with rising income.[32]

The tripartite forces – democratic deepening, economic reforms and globalization of India’s economy has moved in the same direction in the past three decades. The state and its machinery are now more capable to deliver welfare to the poor. Beside a substantial increase in the resources due to higher growth, the introduction of Direct Benefit Transfer (DBT) allows direct transfer of welfare to the beneficiaries account reducing delay, fraud and pilferage. In the last few decades, the more robust use of technology at all levels of governance has seen an improvement in the delivery of welfare and the transformation of the economy.

The United Payment Interface (UPI) has revolutionised the national payments system playing a critical role in the digital transformation of India. It has empowered the common citizen by leveraging technology in promoting inclusive growth. while democratising real-time mobile-based payment. The introduction of GST – Goods and Services Tax – has simplified the tax structure and promoted a unified market. The income tax and corporate tax levels are on par with other nations.

The external sector reforms have reduced tariff barriers on imports and now the exchange rate is market-determined. Foreign exchange shortages are a thing of the past. India’s trade to GDP ratio has seen a substantial increase. India is now more integrated with the world economy than any time in its independent history. India is a significant part of the global supply chain. The industrial sector reforms have done away with the infamous *Licence-Permit-Quota Raj*. India now has a liberal policy on foreign capital. It no longer views foreign investment with suspicion it once did.

The New Telecom Policy 1999 kickstarted a telecommunication revolution in India. The aviation sector has seen an exponential growth of passenger traffic and enhanced connectivity. A 2024 Report on Automotive Industry by NITI Aayog points out that India is the fourth largest automobile producer in the world.[33] The pharmaceutical industry has witnessed spectacular growth with India emerging as a major

[27] Jagdish Bhagwati and Arvind Panagariya 2013
[28] Amartya Sen and Jean Drèze 2013
[29] Jagdish Bhagwati 1988
[30] Jagdish Bhagwati 2004, 2007
[31] Joseph Stiglitz and Lyn Squire 1998
[32] Benjamin Friedman 2008
[33] NITI Aayog 2024

player exporting drugs to many countries. It stands 3rd in terms of turnover and 14th in terms of value. India is the fourth largest producer of generic drugs.[34] The IT sector in India has earned global recognition.

The liberalisation of policies in various sectors since 1991 has encouraged expansion in those sectors, generated tax revenue for the government and created jobs for millions. There has been a substantial growth in the exports indicating the benefits the economy has reaped by integrating with the global economy. The total export value stood at $433.16 billion US dollars in 2024/25. A more outward-oriented external policy regime followed since 1991 has allowed us to take advantage of the opportunities offered by the international market.

The implementation of economic reforms has helped India achieve better growth rates. It is evident that a higher growth has been correlated with faster real per capita GDP growth and poverty reduction. Poverty has declined between 1993-94 and 2009-10. The acceleration in growth rates between 2004-05 and 2009-10 has been accompanied by a major acceleration in poverty reduction. Extreme poverty (living on less than $2.15 per day) fell from 16.2 per cent in 2011-12 to 2.3 per cent in 2022-23 lifting 171 million people above poverty line.[35]

Four phases of growth in India

Period	Growth in real GDP at market prices	Growth in real per capita GDP at market prices
Phase I (1951-81)	3.7%	1.6%
Phase II (1981-88)	4.9%	2.8%
Phase III (1988-03)	5.7%	3.7%
Phase IV (2003-18)	7.7%	6.4%

Source: Author's calculations based on CSO GDP data[36]

VII. Concluding Remarks

India's development has been a battle of economic ideas. The first forty years were dominated by a vision to create a socialist pattern of society. The public sector was viewed with reverence. It was entrusted with major responsibilities. Many areas were reserved for the public sector. The private sector was given a limited role. However, the introduction of economic reforms in 1991 dramatically changed the economic landscape of India. The economy today is poised to become the third largest in the coming years. India is the fastest growing large economy in the world.

Capitalism blossoms where governments place few restrictions on how goods and services can be produced and sold or on how factors of production – land, labour, capital and enterprise – can be employed. Governments intervene in modern market economies, sometimes more than what is consistent with a free market economy. In the last three decades the Indian economy has witnessed a transformative change in all dimensions – economic, social and political. Economic growth has benefitted every social group and geographical region of the country. Capitalism has strengthened Indian democracy. It is only in a growing economy where the needs of the multitude are met can democracy survive and thrive.

The importance of economic growth in pulling the poor out of poverty and deprivation is now widely acknowledged. The economic performance since 1991 has firmly established that economic growth is not a passive trickle-down strategy instead an active pull-up strategy to help improve the living conditions of the weak and the poor. The expansion in services and manufacturing sectors have been accompanied by creation of good well-paying jobs. The economic freedom provided by reforms and the encouragement to the market forces have combined to produce a benign effect on growth and poverty reduction.

The outward-oriented trade policy has integrated the Indian economy with the global economy. India today is a critical node in the global supply chain. The trade to GDP ratio has consistently risen since opening up

[34] Department of Pharmaceuticals, GoI
[35] World Bank India Poverty and Equity Brief: April 2025
[36] Arvind Panagariya 2020 pp 13

of the economy. India today has trading relations with all the major economies and trading blocks of the world. Globalization has served as an engine of growth.

REFERENCES

1.Almond, G. A. (1991) “Capitalism and Democracy” *PS: Political Science and Politics, 24 (3)*, 467-474 https://doi.org/10.2307/420091

2.Planning Commission (1956-61). *The Second Five Year Plan.* Government of India, New Delhi

3. Jalan, Bimal (2005) *The Future of India: Politics, Economics, Governance*. Penguin Books Chapter 2 pp. 69-91

4. Lewis, A., Yeats, A. (1981). The Rate of Growth of World Trade, 1830–1973. In: Grassman, S., Lundberg, E. (eds) The World Economic Order. Palgrave Macmillan, London. https://doi.org/10.1007/978-1-349-16488-2_2

5. Joshi, Vijay, I.M.D Little (1997) *India's Economic Reforms: 1991-2001*. Oxford University Press

6. Bhagwati, J., & Panagariya, A. (2013). *Why growth matters: How economic growth in India reduced poverty and the lessons for other developing countries*. PublicAffairs

7. Patel, Dinyar (2020) *Naoroji: Pioneer of Indian Nationalism*. Harvard University Press

8. Schmidt, G. (2019). *Thomas More, Utopia (1516/1551).* In I. Berensmeyer (Ed.), Handbook of English Renaissance Literature (pp. 244-264). Berlin, Boston: De Gruyter. [Link: De Gruyter Brill https://www.degruyterbrill.com/document/doi/10.1515/9783110444889-012/html]

9. Raghavan, S. (2016). *India's War: The Making of Modern South Asia, 1939-1945*. Penguin Allen Lane

10. Panagariya, A. (2024). *The Nehru development model: History and its lasting Impact.* Penguin Viking

11. Planning Commission (1956-61). *The Second Five Year Plan.* Government of India, New Delhi

12. Lenin, V. (2010). *Imperialism: The highest stage of capitalism*. Penguin Classics

13. Smith, A. (2012). *Wealth of Nations*. Wordsworth Editions

14. Panagariya, A. (2024). *The Nehru development model: History and its lasting impact.* Penguin Random House India

15. Samuelson, P. & William Nordhaus (2019) *Economics.* McGraw Hill Education

16. Maddison, A. (2003). *The World Economy: A Millennial Perspective.* New Delhi: Oxford University Press

17. Patana, Paulina (Feb 22, 2024) *Clarifying the Theory and Practice of European Populism with Dr. Pauliina Patana*
https://gjia.georgetown.edu/2024/02/22/clarifying-the-theory-and-practice-of-european-populism-with-dr-pauliina-patana/

18. Panagariya, A. (2020). *New India: Reclaiming the Lost Glory.* Oxford University Press

19. Smith, A. (2012). *Wealth of Nations*. Wordsworth Editions

https://www.cambridge.org/core/journals/national-institute-economic-review/article/adam-smiths-wealth-of-nations-is-still-relevant-to-uk-trade-policymaking-on-international-trade/29A31974C161950897580454EA6426A1

20. Friedman, M. (1962). *Capitalism and freedom.* University of Chicago Press

21. Prebisch, Raúl (1950), "The Economic Development of Latin America and its Principal Problems", reprinted *in Economic Bulletin for Latin America*, Vol. 7, No. 1, 1962, 1- 22.

22. Fukuyama, F. (1989). "The End of history*?" The National Interest*, 16, 3–18

23. Sachs, J. D. (1999). "Twentieth-Century Political Economy: A Brief History of Global Capitalism". *Oxford Review of Economic Policy*, 15(4), 90–101.

24. Bhagwati, Jagdish (1993) *India in Transition: Freeing the Economy*. Oxford University Press [Clarendon Press]

25. Ahluwalia, M. S. (2002). "Economic reforms in India since 1991: Has gradualism worked?" *Journal of Economic Perspectives*, 16(3), 67–88.

26. Bhagwati, J. and Desai, P. (1970) *India Planning for Industrialization*: *Industrialization and Trade Policies since 1951*. Oxford University Press, Delhi

27. Bhagwati, J., & Panagariya, A. (2013). *Why growth matters: How economic growth in India reduced poverty and the lessons for other developing countries*. PublicAffairs

28. Jean Drèze & Amartya Sen, 2014. *An Uncertain* Glory: *India and its Contradictions*. Alen Lane

29. Bhagwati, J.N. (1988) "Poverty and Public Policy". *World Development*, 16, 539-555

30. Bhagwati, J. (2007). *In Defense of Globalization: With a New Afterword.* Oxford University Press

31. Stiglitz, Joseph E. & Lyn Squire (1998), "International Development: Is It Possible"*? Foreign Policy*, No. 110, Special Edition: Frontiers of Knowledge (Spring, 1998)

32. Friedman, B. M. (2005). *The moral consequences of economic growth.* New York: Knopf.

33. NITI Aayog working paper on "*Identifying Potential Service Sub-Sectors: Insights from GVA, Exports, and Employment Data*"

34. https://pharma-dept.gov.in/pharma-industry-promotion , accessed on August 25 2025

35. World Bank. *India Poverty and Equity Brief: April 2025 (English).* Poverty and Equity Brief Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099722104222534584

36. Panagariya, A. (2020). *New India: Reclaiming the Lost Glory*. Oxford University Press pp. 13