

# India's Tryst with Development: The Years before Economic Reforms

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## Abstract

India's pursuit of economic development, the evolution of its vibrant democracy and the consequential impact on its diverse society presents a unique experience in world history in so far as its continued economic flourishing and democratic survival even after seventy-five years is concerned. Indian political and economic evolution differs from the European experience where democracy took root only after these societies had reached a certain level of economic development and a consequent political consciousness with regards to state formation and nationhood had already emerged. In a contrasting development, India adopted universal suffrage soon after independence blending it with an economic development strategy that relied on the heavy hand of the state in the economy. The markets were a given subservient role in the first four decades until the launch of the economic reforms in 1991 when the floodgates of the economy were opened to foreign trade and investment, and domestic liberalization measures adopted.

**Keywords:** Democracy, Socialism, Development, Capitalism, Economics, Politics, Economic Reforms, Democratic Socialism

## 1. Introduction

India's political journey as an independent nation began in 1947 with a commitment to create a socialist pattern of society. The planned model of development that it followed put an extensive role for the state in the economy and the society while gearing the economic policies to achieve the laudable goal of social transformation. Socialism was the guiding philosophy while capitalism was quite often equated with profit motive and imperialism therefore never held with reverence. Outward-oriented trade policies were either viewed with suspicion or were not considered essential for speedy economic transformation. The state relied on domestic savings mobilisation for investment in the economy and in building institutions of economic and political governance.

All this was happening in a nascent democracy that had freed itself from foreign rule through a long and arduous struggle for independence. The world viewed India with hope and amazement. Can it do it? Can democracy take root in a poor country? Can India achieve its goal of creating a socialist pattern of society by giving the private sector a secondary role and keeping itself away from global economic developments?

Scholars have viewed the European experience as the gold standard in state formation, economic progress and the development of nationhood. And, why not. Modern economic growth gained momentum only after the industrial revolution kickstarted in the eighteenth century. The social, economic and political changes it brought in its train has been a subject of considerable scholarly study ever since.

In the early years after independence, India's diversity apparently posed formidable challenges. The division along linguistic and regional lines and its poverty and low literacy were considered serious roadblocks for the growth of liberal democracy. The European experience offered a few important lessons. The development of liberal institutions of governance and the capitalistic evolution of economies was a piecemeal and often a slow and contested process. Besides, universal suffrage did not happen until the beginning of twentieth century in today's many advanced democracies in the world. In sharp contrast India adopted universal franchise from the beginning. Furthermore, unlike the European states that were capitalistic economies, India embraced a socialist state-led development strategy allowing no or little space to the private sector in critical sectors of the economy. The first four decades witnessed slow economic and social transformation due to poor economic growth.

## 2. Politics and Economics

It is policies that create prosperity. Likewise, it is policies that perpetuate poverty. The kind of policies we follow is determined by those in power. Politics therefore becomes important in shaping economic and social policies. It also becomes important in giving direction to the economy and the society. To be sure, in a liberal democracy where political parties compete with each other for power, politics indisputably becomes the playing field for an intellectual discourse on social change and economic progress. India for example adopted the '*Nehru Development Model*'<sup>1</sup> in the 1950s to establish a socialist pattern of society and not a capitalist society. Socialism had come to occupy a certain reverence for its ideals of equality and justice. Those in power often tend to adopt policies that reflect their political and economic ideologies. However, since liberal democracies are characterised by periodic elections the political practitioners also ensure what would help them do win the support of the electorate.

It is equally true that tough economic situations encourage politicians to follow needed to cure the malaise. India, for instance, was compelled to adopt capitalistic economic reforms in early 1990s in wake of the Balance of Payments (BoP) crisis. Certainly, there was growing chorus of influential scholars who advocated for liberal market-oriented economic reforms since the 1950s. The *Swatantra Party*<sup>2</sup> vigorously championed free market capitalism and economic liberty in India at a time when many postcolonial societies across the world were gripped by the more radical and politically appealing socialist and communist ideologies in the 1950s. The distinguished economist and the intellectual father of capitalistic economic reforms in India, Professor Jagdish Bhagwati, had assiduously argued to change India's economic policies from its biased anti-market fundamentalism to the pragmatic centre.<sup>3</sup> The economic

<sup>1</sup> Arvind Panagariya 2024

<sup>2</sup> Rajmohan Gandhi 1997

<sup>3</sup> Columbia News 2013

crisis triggered the implementation of reforms. Economics compelled politics to change the course of economic policy making in India, once and for all.

In his classic work, *The Economic Theory of Democracy* (1957), Anthony Downs notes that ideologies are a means to political power. He defines ideology '*as a verbal image of a good society and of the chief means of constructing such a society.*'<sup>4</sup> In India, the first four decades witnessed a combination of a liberal and radical socialism in economic policy making. Paradoxically, those espousing the cause of the poor and the disadvantaged came largely from the relatively well-off sections of the society. There has been however a perceptible change in economic and political ideologies since the adoption of reforms in early 1990s. What we now find is an admixture of politically influencers coming from diverse background exercising varying degree of control over the levers of power. This is not to say that the period before the 1990s was ideologically pure and homogeneous. It never was. It could never be in a diverse and plural society like India. The socialists who dominated federal politics for the first four decades, the communists and other regional political outfits held sway over a large section of the electorate represented diverse viewpoints on policies and economic methods. Since the 1990s, the caste-oriented politics of social justice and political nationalism has weakened the electoral base of the erstwhile politically powerful parties for whom the politics of modernization overlapped with their socialist ideology.

Socialism however is no longer the political currency it once used to be. It has lost the political shine foremost due to its failure to deliver the promised benefits. The widespread gains of economic reforms over the last three decades coupled with the demographic shift have further eroded the appeal of this once hallowed ideology making obsolete the politics and economics of socialism. Instead, we now find that the intellectual space has been filled by political nationalism and economics of capitalism and globalization. Interestingly, the expansion of commerce has not displaced rather co-existed with the burgeoning politics of public action giving it a more muscular fiscal elbow room to implement large welfare schemes.

In *New India*, socialism has mutated into a new form: *Populism*. The *politics of giveaways* to win popular support at the elections undermine the canon of fiscal rectitude and discipline essential for the protecting the state from fiscal bankruptcy and its inevitable collapse. In the pre-reform days of state-dominated national economic planning resources were scarce. There was a system of political patronisation in resources allocation among states. In those days the Planning Commission was a powerful body. Elected chief ministers and political representatives would queue before the Commission for developmental resources.<sup>5</sup> In a dramatic contrast the post-reform period has witnessed humongous generation of resources making economics a peer competitor of politics. Economic performance and good governance now largely determine the fortune of political parties at the hustings. India no longer faces a resource constraint. The states now compete with each other for domestic capital and foreign direct investment. This has brought about a fundamental change in the functioning of Indian political economy.

<sup>4</sup> Anthony Downs 1957 Ch. 4

<sup>5</sup> Paul Streeten and Michael Lipton 1968

### 3. Democracy in a Poor Country

Can poor countries afford democracy? That was the question the naysayers and Cassandras were asking in early 1950s when India began its grand democratic experiment.<sup>6</sup> And why not. The theoretical tradition in political science holds that poverty and deeply hierarchical social structures are inhospitable for the functioning of liberal democracy.<sup>7</sup> India was poor and diverse and had recorded hardly any economic growth over the previous decades thus having a low per-capita GDP in 1950 when it became a constitutional representative democracy. The American sociologist and political scientist Seymour Martin Lipset posited about a positive and significant relationship between income and democracy.<sup>8</sup> The eminent political sociologist Barrington Moore Jr famously asserted '*no bourgeoisie, no democracy*' signifying the importance of a strong middle class in the development of capitalist western style democracies.<sup>9</sup> The world viewed India with hope and amazement. Can it do it? Can democracy take root in a poor country? If it succeeded as a democracy that would serve an example to other developing postcolonial societies.

The synoptic narrative on the development and spread of democracies goes something like this: the *Industrial Revolution* kickstarted a period of continuous economic growth that encouraged new forms of social mobilization creating actors who then demanded a share in the political system. The development and spread of the printing press, telegraph, telephone, radio, and internet helped the spread of ideas about political participation. Accelerated economic growth influenced various dimensions of development and society. The Western development of democratic ideals and the growth of political consciousness about political rights was a long and often contested process.<sup>10</sup>

In a markedly contrasting experience, we do not find similar contestation in the establishment of Indian democracy. The idea of democracy was interwoven with the ideals of the struggle for independence. Remarkably, the promise and the performance of Indian democracy over the previous several decades has been inspiring. It however does not neatly and directly fit into the development pattern of the Western democracies thus prompting scholars to suggest about the *Indian exceptionalism*. The distinguished political scientist Arend Lijphart notes that the survival and maturing of the Indian democracy runs counter to the proposition forwarded by John Stuart Mill that the flourishing of democracy is next to impossible in multi-ethnic societies. It also confounds Selig S. Harrison's prediction about India's democratic failure or its territorial disintegration.<sup>11</sup> The survival and stability of Indian democracy therefore still remain a puzzle for scholars of political science.

It is important to mention that India is not a *sham* democracy. Some scholars have tried to undermine its success by differentiating between a *procedural* democracy and a *substantive* democracy. The former constitutes free and fair elections, legislative assemblies, separation of powers, constitutionally guaranteed rights etc. Those who subscribe to such a view are sanguine about India being the world's largest democracy. Democracy they assert is more than periodic elections and government of the people. The idea of a democracy should encompass a society of truly equal citizens, who are politically engaged, tolerant

<sup>6</sup> Ramachandra Guha 2007

<sup>7</sup> Larry Diamond 2019

<sup>8</sup> Seymour Martin Lipset 1959

<sup>9</sup> Barrington Moore Jr 1966

<sup>10</sup> Francis Fukuyama 2014

<sup>11</sup> Arend Lijphart 2001 pp 326-27

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of different opinions and ways of life and have an equal voice in choosing their rulers and holding them accountable. In this respect India appears to be a poor candidate.<sup>12</sup> To be sure, except for a brief period during *Emergency* in mid-1970s Indian democracy has witnessed periodic elections and peaceful transfer of power which in itself is an important achievement considering the failures witnessed even on this limited regard in many postcolonial societies in Asia and Africa.

The noted Oxford development economist, Paul Collier, has passionately demonstrated in *Wars, Guns and Votes: Democracy in Dangerous Places*, the persisting tension between democracy and violence and how peaceful democracy remains an improbable dream in many African countries.<sup>13</sup> The Indian experience is a gold standard in democratic resilience in so far as the growth and stability of nascent democracies is concerned. As a matter of fact, India has a long and a deep-rooted historical tradition of a culture of intellectual pluralism dating back to ancient times. Debates and discussions have been part of Indian social life and the popular folklore. Kautilya's *Arthashastra* for instance is an important contribution in statecraft and economics. The country has a rich tradition of an '*argumentative culture*',<sup>14</sup> that explains the enthusiastic participation of its citizenry and veneration of its liberal democracy.

#### 4. Development as Democratic Socialism

In a democracy, questions of economic development are situated in the realm of politics. Driven by the ideals of freedom struggle to initiate a process of accelerated social transformation, and influenced by the successful experiment with national economic planning and industrialisation in Soviet Russia, India chose to devote its scarce capital on the development of *heavy industry* in the early years of its independence to benefit from the multiplier it would later have on the economy. India was also motivated by a strong objective to create a *socialist pattern of society*. In this state-led modernization strategy, where the state was both the national planner and an active participant in the political economy, the private sector and the capitalistic instrument of *price mechanism* could not be relied upon in the critical areas of development. The Industrial Policy of 1956 formed the cornerstone of the development strategy and placed a significant role for the expansion of public sector in the economy.<sup>15</sup>

Capitalism that had been a significant force for wealth creation in western capitalist democracies could not match the tide of socialism that had ideologically engulfed most postcolonial societies including India in the 1950s. Its promise of a just society and appeal of a structured development process guided by a National Planner sitting atop, *Planning Commission*, in case of India, appeared more rational and predictive in practise, and within political control. It was also impervious to the vagaries of the market economy where the participants were driven by profit motive and not public interest. Over and above that, capitalism was iniquitous and prone to business cycle. When India's first prime minister Pandit Jawaharlal Nehru was probed on the limited role for the markets he would point at agriculture and small business enterprises being in the private sector.

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<sup>12</sup> Neerja Gopal Jayal 2001

<sup>13</sup> Paul Collier 2009

<sup>14</sup> Amartya Sen 2005

<sup>15</sup> Rakesh Mohan 2012

The global situation in the previous few decades had not been sanguine either. It was marked by the rise of Fascism and Nazism in Europe, the communist triumph in the Russia, the Spanish civil war in the mid-1930s and eventually the Second World War. The *Great Depression* had brought unspeakable economic hardship in many capitalistic societies in the 1930s.<sup>16</sup> The communists and the socialists were quick to point at the instability and uncertainty inherent in the global capitalist system. Nevertheless, under the inspiring stewardship of the United States the foundation of rule-based international liberal order was placed in 1940s. It ushered in a period of a historic expansion in world trade and output. India however failed to take advantage due to its inward-looking trade strategy that viewed foreign economic engagement with scepticism.

Jagdish Bhagwati has called it 'benign neglect.'<sup>17</sup> India nevertheless forged foreign partnership in areas of critical technology to build dams, steel plants etc. but that was few and far between. A robust acceptance of foreign capital as an important factor in development was missing. India however was a welcome recipient of foreign aid.<sup>18</sup> It received food assistance from America under the PL-480 scheme also known as the Food for Peace. It allowed countries like India that faced food shortages to buy grain using local currency which was then provided to the participating universities in the United States to enrich their libraries by buying South Asian collection of books, periodicals etc.<sup>19</sup>

To be sure, when the state assumed upon itself the guardianship of the economy after the launch of the Second Five Year Plan (1956-61) it was clear to everyone that it had a huge developmental task ahead of it. The building of the institutions of economic and social infrastructure whether it was laying the foundation of the banking and financial sector institutions for mobilization of household savings to support capital accumulation or the public investment required in building communication, transportation and energy networks to sustain economic growth, or whether it was building institution of higher learning to supply professionals, India faced a huge development challenge.<sup>20</sup> In the ensuing decades the overburdened state failed to deliver on the promises citing either hardships it perennially faced on the Balance of Payments (BoP) front or the inadequate generation of investible resources due to low economic growth. The economy lurched from one crisis to another finally succumbing to a crisis on the external front in the early 1990s.<sup>21</sup>

In hindsight we can now safely argue that greater private sector participation in production and world trade could have delivered better economic outcome as seen by the performance of the economy after the launch of capitalistic economic reforms in 1991. The fascination with socialism ended India into a major economic crisis by the late 1980s. The socialist politics acquired a more radical outlook from the late 1960s when politics became more confrontational and competitive. The decade of 1980s did witness promises of modernization and liberal policies but it soon waned without leaving behind a trace. As 1990s approached high fiscal and current account deficits pushed India towards a major economic crisis. By this time, the politics of social justice and nationalism had acquired centrestage, heralding the age of coalition

<sup>16</sup> David Kennedy, 1999; Andrew Ross Sorkin 2025

<sup>17</sup> Jagdish Bhagwati 1993

<sup>18</sup> David C Engerman 2018

<sup>19</sup> Soutik Biswas 2024; Maureen L. Patterson 1969

<sup>20</sup> Arvind Subramanian and Devesh Kapur 2025

<sup>21</sup> Vijay Joshi and IMD Little 1997

government in India. Into such a world would India commit itself to a radical shift in its economic policies, and with far-reaching consequences for the economy, democracy and society.

## 5. Conclusion

To conclude, in a liberal democracy politics and economics have a symbiotic relationship. They reinforce each other through a process of contestation and cooperation. Second, the flourishing of democracy in a diverse and poor society like India is a testament of the resolve of its people and the resilience of its institutions. Three, in European societies the growth and development of capitalism and democracy went together. Four, in a sharp contrast India adopted a combination of democracy and socialism after independence. The former flourished while economic planning through a system of control and ever-increasing regulation failed to produce the desired economic outcomes. Five, India's poor economic performance in the years prior to the launch of economic reforms in 1991 was not due to some paradox where hierarchical social structures were in collision course with so-called elitist politics but rather because of counter-productive economic policies and misplaced notions of creating a just society through national economic planning. Six, compelled by the economic crisis and a growing intellectual pressure built-up over the previous decades, India finally launched capitalistic economic reforms in early 1990s.

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