

India's Long Struggle with Socialism

By David C. Mulford, *Distinguished Visiting Fellow, Hoover Institution*



This paper on India has been included in the Hoover Institution's important project on Socialism and Free-Market Capitalism, The Human Prosperity Project, because India represents a unique case of socialism and democracy in conflict. Following India's birth to freedom and independence in 1947, its democracy was dominated by socialist, planned-economy policies that failed for nearly seventy years to achieve the levels of growth its people desperately needed to rise out of poverty.

India is perhaps the world's most democratic democracy. Its parliamentary system of government, together with widespread use of the English language, came to India from long-term contact with Great Britain, the achievement of self-government in the mid-1930s, and full independence from Britain in 1947. India's commitment to democracy has been carefully and rigorously defended since 1947. General elections have been held regularly every five years, if not called for sooner by parliamentary leadership. General elections are conducted under the authority of India's powerful and independent Electoral Commission and fortified regularly by state elections held frequently throughout the country.

One does not need to pluck up India's democratic plant to see if the roots of democracy are secure. One can easily observe that India has a free press and enjoys the rule of law, sanctity of contracts, and vigorous public debate. Courts in India work, though usually too slowly, and people at large in India's vast population of 1.3 billion (55 percent under the age of twenty-four) feel and act as free people.

Personally witnessing in-country an Indian general election is a most impressive experience. When a general election is declared, the Electoral Commission immediately takes control. Government ministers must clear their meetings with foreign leaders and figures at some levels of domestic government. Security and voting arrangements are put in place and carefully monitored for a period of approximately three months. The country is divided into seven regions that vote on different dates, each under close military security.

Voting results are held in strict confidence in a computer system that is opened for counting on a single dedicated day. Meanwhile, exit polling is prohibited by law, with the result that India's political history has had many surprising, unpredictable election results.

India's demographics are complex. Between 70 and 80 percent of its people live in or are connected closely to small towns and villages across vast rural areas, where agriculture is the main economic activity. Illiteracy is common but unevenly spread among the states. Land is held in small holdings, with average farm size being roughly three acres. India is approximately 80 percent Hindu and 14 percent Muslim, but with large population groups of Christians, Buddhists, tribalists, and other sects. Diversity is further reflected by the fact that India has twenty-two official languages. Urban populations in India are large and heavily concentrated in major cities such as Mumbai, Kolkata, and New Delhi, but also in India's large secondary cities spread throughout the country. India's complex system of castes also remains a major feature of India's society and politics.

India's main political parties are mature and well established, but there are dozens of other smaller parties and groupings that populate the political scene.

When India achieved independence in 1947, one of its less positive "gifts" from Britain proved to be an entrenched, well-trained, and tenacious bureaucracy that survives still today as a significant constraint on policies aimed at stronger growth and critical structural reforms that would open India's economy and reduce the role of government.

Despite India's social and political diversity, as well as its passion for progress and development, its long record as a closed and protectionist, socialistic, state-run economy over the decades until our current century was decidedly poor. At independence it was saddled with a political elite heavily influenced by the left-wing socialist leadership class of politicians and intellectuals that dominated post-World War II Britain. This, combined with strong paternalistic attitudes in India, has proved to be a major and long-lasting constraint on India's progress.

Annual growth for the period 1947 to 1995 ranged between 1 and 4 percent, never breaking 5 percent on a sustained basis until 2003. Thus, as India's population exploded from 300 million at independence to today's level of 1.353 billion, its weak, socialist, state-planned economy was simply unable to lift the fortunes of its people.

In 1990, India's low-growth, protectionist, import-substitution economic model was confronted by the economic and financial realities of a growing, competitive world. The Indian Finance Ministry approached the United States requesting assistance in the form of seeking forgiveness for part of its large sovereign indebtedness, based on the precedent set by the Brady Plan in Latin America, even though at the time India was still current on its external debt.

The request was declined with advice concerning pro-growth policy measures that would help to restructure India's economy and enable the country to restore its creditworthiness. Manmohan Singh of the governing Congress party, serving at the time as finance minister of India, introduced comprehensive reforms in 1991 that over time would help to restore creditworthiness and position India for economic recovery. His first reform measures were aimed more at opening India to the world economy at large, and these efforts were followed by attempts to implement internal structural reforms involving disinvestment (privatization) of government assets, tax reforms, modernization of infrastructure, land reform, and energy policy improvement. These reforms were more difficult, often because of opposition from India's paternalistic elite and its socialist national bureaucracy.

Nevertheless, over the next decade, despite a period of changing coalition governments, the foundation was partially laid for the transformation of India's low-growth economic model. In 2003, India broke through its long-standing growth barrier and began for the first time to sustain GDP growth of 5 percent. In the 2004 general election, a surprise defeat of the Bharatiya Janata Party (BJP) brought Manmohan Singh to serve as India's prime minister, leading a Congress party coalition that governed for the next ten years. These years marked India's remarkable breakout into a period of sustained growth, which rose steadily to over 10 percent per annum and posted annual average growth numbers between 7 and 9 percent for more than a decade. India's trade figures more than doubled. Incoming and outgoing foreign direct investment (FDI) capital flows exploded. Large US tech companies expanded into India. Nationwide mobile telecom coverage was accomplished in three short years (2006–2009), leapfrogging a generation of fixed-line coverage that was still waiting to happen.

The government introduced a national campaign to create its own sophisticated single-ID system (Aadhaar), which now covers more than a billion people in India and has helped to accelerate and simplify access to the internet. Work began on a long-overdue national goods-and-services tax that would shape India's huge economy into a truly national market, as opposed to the highly segmented, state-dominated markets that had undermined economic efficiency since India's beginning.

Prime Minister Narendra Modi, elected in late 2014 to lead a new BJP government, with the first absolute majority in Parliament since 1984, quickly exploited the technology and communications revolutions that had seized India and began transforming both public and business attitudes. India's lack of infrastructure actually seemed to accelerate the transformation. Internet access was created for hundreds of millions in a few years. Modi launched a national campaign for Indians, especially women, to open bank accounts and introduced electronic money transfers so that millions of urban workers could dependably transfer remittances quickly to family members in remote villages. Electronic money transfers were also introduced into the government's distribution of subsidies, significantly increasing both efficiency and discipline, which reduced waste and corruption. India began to call itself the "start-up capital of the world." Modi introduced his "Make in India" vision to boost domestic manufacturing and jobs. He announced plans for creating "smart cities" that would overcome India's lack of modern infrastructure. Modi pushed for an expansion of highways and improvement of rural roads. Solar energy was made a priority, and improved food self-sufficiency removed India from any prospect of starvation. India continued to be the leading grower among major emerging-market countries, despite fallout from the 2007–8 financial crisis. More importantly, new policies and a radically changed attitude toward government were releasing a new energy, creating levels of growth never before seen in India and lifting tens of millions from the grinding poverty of the past.

In 2019 the general election confirmed a second term for Prime Minister Modi, with a further increase in his parliamentary majority. Yet governance in the form of effective implementation of visionary policies appeared to weaken and India's growth momentum began to slow, partly as a result of the painfully slow recovery in the United States and Europe. But perhaps more important was the widening gap between Modi's vision and his government's inability to follow through on implementing policies that would continue to open and sustain new growth opportunities for India. Protectionism remained alive and well, tariffs were left in place or increased, bureaucratic inaction and ineptitude continued to plague India, and as growth declined so did new private domestic and foreign investment, and with it the job creation for young people so crucial to the prime minister's growth vision for India. Clearly, reverting to socialist interventionist policies is beginning to undermine job creation and economic progress.

Given India's long history of socialism and state management, structural changes to its economy were politically difficult to achieve and hard to implement with India's intractable bureaucracy. Growth benefits were modest in the 1990s with

setbacks in 1998 resulting from sanctions imposed by the United States and others when India unilaterally tested its nuclear weapons. The Pakistani terrorist attack on India's Parliament complex in 2002 brought the risk of nuclear conflict between the two countries into prominence and further depressed India's economy. By 2004, however, the benefits of previous reforms, together with the new economic policies of the BJP and Congress governments, produced and sustained India's long-awaited breakthrough to GDP growth above 5 percent per annum. Under the Congress coalition government after 2004, India's annual growth accelerated to more than 10 percent, to make India the leading grower among the large emerging market countries.

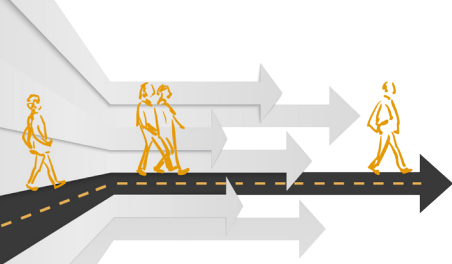
The struggle between socialist, restrictive state-managed economic policies and the benefits of a more open democratic society continues in India as the challenges of addressing the COVID-19 pandemic reduce growth and increase prospects for government intervention. Internal division, communal tensions, and self-defeating Hindu nationalism must be put to the side together with socialist and paternalistic policies that undercut growth. If these issues are not addressed with energy and effective implementation, India's history of low growth will return and opportunities for strengthening India against the aggressive, expansionist power of China will be lost.

India's case provides a dramatic illustration of the positive, life-changing results of addressing fundamental structural reforms and introducing free-market, capitalist economic policies of the kind India adopted in the 1990s and after 2004. These difficult policy actions, given India's long history of socialism and state management of economic policies, brought major growth benefits from 2004 on, until the shock of events around the COVID-19 virus and the apparent weakening of the government's continuing commitment to free-market, growth-oriented policies began to have negative effects.



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