IS DEMOCRACY THE ANTITHESIS OF ECONOMIC PROSPERITY?

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ABSTRACT

Is democracy associated with increased economic success and growth? The question has gotten much attention in recent years. Some researchers propound a direct relation between them, while some don't and recognise an indirect relation between them, and some suggest no relation at all. For millennia, people have disputed whether democracy leads to economic growth and wealth. However, there appears to be no strong consensus on whether democracy leads to economic progress.

Liberal democratic capitalism, adopted by the Indian economy, has grown weak, corrupt, and unconcerned about its flaws. The economic transformation that India underwent, though it acted as a saviour at that time, is again going down that spiral if democratic leaders will not confront the various challenges faced by the global economy unless we find a solution to the flaws in the democratic processes, which is evident from the numerous economic difficulties. Furthermore, considering the fact that these difficulties were addressed and solved to an extent during the Emergency. It poses a serious question of whether democracy and the democratic process are a hindrance to the economic growth of India. This paper critically analyses this question in the context of the Emergency in India.

INTRODUCTION

The question of whether democracy leads to economic progress and prosperity has been debated for millennia. Is democracy associated with increased economic success and growth? This question may be traced back to Plato and Aristotle's discussion over whether the system of governance provides society with the most political and economic benefits. However, there appears to be no clear consensus after more than two millennia on whether democracy (in and of itself) does truly bring more economic growth than alternative more authoritarian systems of administration.

The link between democracy and economic growth has gotten a lot of attention in recent years. Analysts disagree on how tight the relationship is between opposing theories and findings. Some researchers say that democracy helps or hinders economic development, while others contend that economic growth helps or hinders democracy. The third school of academics, on the other hand, believes that democracy and growth are unrelated (Baum and Lake, 2003).[1] There is also a disagreement on the ways in which democracy influences economic growth.

This article aims to provide a concise overview of the link between democracy and economic growth, as well as an explanation of India's economic transformation from 1975 to 1977 during the National Emergency. Other crucial questions that arise as a result of this are - Is democracy beneficial to economic growth or detrimental? When does too much democracy become too much democracy? Is it possible to have a restricted democracy?

THE THREE SCHOOLS OF THOUGHT

Direct Relation of Growth and Democracy

The first school of thinking asserts that democracy and economic prosperity are inextricably linked. The 'compatibility' viewpoint and the 'conflict' perspective are the two views that make up the direct relationship. The 'compatibility' viewpoint contends that democracy fosters economic growth or that economic growth enhances democracy. The 'conflict' approach, on the other hand, contends that democracy stifles economic growth or that economic growth stifles

[1] Matthew A Baum & David A Lake, *The Political Economy of Growth: Democracy and Human Capital*, 47 American Journal of Political Science (2003).

democracy.[2] Sirowy and Inkeles claim that democratic procedures and the practice of civil freedoms and political rights contribute to social conditions that are most conducive to economic development in their examination of the link between regime types and economic growth.[3] Political and economic freedom, as Feng points out, improves property rights and market competitiveness, which boosts economic growth.[4] Democracy, according to Leblang, indirectly aids economic progress by allowing for more individual property rights.[5] Individuals' private property rights provide the necessary motivation for the creation and exchange of economic products. It is scientifically shown that countries that defend property rights expand faster than those that do not and that democratic societies safeguard property rights better than other forms of governance.

Indirect Relation of Growth and Democracy

The second school of thinking contends that democracy and economic growth are related in some way. Human capital, education, political stability, and investment are some of the avenues via which the indirect link occurs. There is also reverse causality in the link through the channels. Through some mechanisms, democracy and economic growth have a significant indirect link. Human capital (life expectancy and secondary education), political instability and governance quality, government size, income inequality, trade openness, physical capital accumulation, and investment are all ways via which democracy has an influence on economic growth.[6] Education and investment, on the other hand, are ways through which economic expansion has a negative impact on democracy. Human capital is the primary and most essential avenue via which democracy influences economic progress.

Another important channel is governance quality. Because democracy allows citizens to peacefully and routinely overthrow incompetent, inefficient, and corrupt government

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[2] Youssef Cohen, Radical Reformers and Reactionaries: The Prisoner's Dilemma and the Collapse of Democracy in Latin America (Chicago: The University of Chicago Press, 1994), pp. 23-32

[3] Sirowy, L., Inkeles, A. The Effects of Democracy on Economic Growth and Inequality: A review. St Comp Int Dev 25, 126 - 157 (1990)

[4] Uk Heo & Alexander C Tan, *Democracy and Economic Growth: A Causal Analysis*, 33 Comparative Politics (2001).

[5] Ibid

[6] Wasim Arif, B. (2012). The Interrelationship between Democracy and Economic Growth: Theories and Empirics. Retrieved 9 May 2022, from https://www.bzu.edu.pk/PJSS/Vol32No12012/Final_PJSS-32-1-15.pdf

administrations while enabling people to maintain more efficient, successful regimes, democracy allows the populace to keep a check on and manage the quality of policymaking. As a result, it tends to create strong institutions typified by robust law and order, and democracy can eventually boost economic growth. Investment is the final avenue via which democracy influences economic growth. Democracy is prone to succumbing to the pressures of instant gratification. People in underdeveloped nations seek to consume as soon as possible. As a result, if employees successfully organise their interests, wages will rise, reducing corporation profit.

Mutually Exclusive

The last school of thought is known as the 'skeptical' approach, which maintains that democracy and growth do not have a systematic relationship. According to Amartya Sen (1999)[7]Democracy encourages the growth of free individuals, particularly entrepreneurs and corporate executives, who use their strategic and organisational choices to improve a country's economic performance. However, if this requirement is not met, linking democracy to economic development is inappropriate. This school also contends that different political systems are capable of adopting the same economic policy, implying that political systems have little impact on economic growth.

These are the 3 Schools of Thought that tries to explain the relationship between Democracy and Economic growth. Upon analysing the impact of democracy on economic growth, it is safe to assume that the relationship between democracy and economic growth may be different across countries and regions. Now let us see how the change in the mode of government drastically transformed a dying economy in India.

DEMOCRACY IN INDIA AND THE EMERGENCY

The declaration of Emergency in India on June 26, 1975, and the government's following moves to "constitutionalise" the Emergency marked a major shift in the Indian political landscape. It was a direct blow to democracy and human rights when observed from a global perspective. The administration made an attempt to modify India's political views and

[7] SEN, A. (1999). *Development as freedom*.

complexion. Is there any attempt to make a comparable transition in the economic realm? What were the directions of change if there was an irreversible split from the past in economic policy? What were the chances of the new policy succeeding, given the facts of the situation?

The Soviet effort at a planned economy, Keynes' views, the Great Depression of the 1930s, and the war economies of 1939-45 all contributed to the popular assumption that the national state could plan, foster, and govern economic growth inside its boundaries. The state could defend its domestic market, mobilise its resources, and industrialise if it could keep private capital under control (or abolish it). It appeared that national governments could oversee this process and establish the nature of the link (if any) between the domestic economy and the rest of the globe. India's Congress state had succeeded in constructing a state-controlled and regulated economy by the 1960s. It was meticulously planned from the top down. Over two hundred state-owned firms controlled the industry. The private sector, which had firmly backed Congress' economic objectives on the eve of independence, was restrained by a complicated system of regulation that the state could either strictly enforce or loosen at pleasure. This was ostensibly done to prevent monopolies from forming. In reality, it granted the government power over the development of businesses. Large commercial groupings would eventually be barred from important sectors of the economy by the state. By the late 1960s, the state-run economy had reached a halt. The failure of the Indian state to open up to the international market, as well as the bureaucratic barriers to private industry development that it had created, suggested that the Indian economy was a standard-bearer of post-war national economies rather than the new era of globalisation.

The Downfall of the Indian Economy

Congress suffered significant losses in both the federal and state elections in February 1967. Its Lok Sabha seats were cut from 361 to 283; yet, it stayed in power because of backing from communists and others. It did not in a number of states. Businesses expected electoral defeats would make Congress more receptive to their demands. Their expectations, however, were not met. Mrs Gandhi's faction of the Congress leadership determined that a return to Nehruvian economic fundamentals was required. A steady resurgence of socialist and statist economic initiatives ensued. Indira Gandhi presented the Congress Working Committee with a "Ten-Point Program" in May 1967, which included "social control" of the major banks, nationalisation of the general insurance industry, restrictions on business monopolies and economic power concentration, rapid land reform, and the abolition of the princes' remaining privileges. The

Working Committee endorsed the Ten Points over resistance from the Congress Right and considerable criticism from the Congress Left. The overall thrust of Congress's economic strategy, that is, import-substituting industrialisation, was backed by India's top corporate houses. There was debate over the policy's specifics, such as the appropriateness of government intervention, the rigour (or lack thereof) of planning, and the size and influence of the public sector. Overall, though, the level of support remained very constant. However, business support for Congress was not unanimous.

Following the 1967 elections, the government's actions reflected a reassertion of the Indian state's economic power. Faced with the strains of globalisation, economic collapse, and public dissatisfaction, the Congress leadership determined that a resurgence of statism was necessary. 'At the time, neither the industrial nor the rural bourgeoisie wanted it... The presence of state autonomy was necessary for carrying out the measure in the face of class resistance,' Vanaik writes of bank nationalisation. However, by 1974, India's economy had deteriorated once more. The battle for Bangladesh in 1971 ended in success, but it displaced ten million people and resulted in a significant fiscal deficit in India. The monsoon failed in 1972 and 1973, resulting in not just drought but also food scarcity and a price spike. Power generation, agricultural production, and demand for manufactured products all fell. Unemployment was the result. Finally, the Arab oil producers' decision to hike prices in 1973 depleted India's foreign reserves and exacerbated what was already a severe recession.

The Emergency is still largely seen as a memento mori, a period that should serve as a reminder of the fragility of our democratic institutions, the frailty of our dedication to civil rights, and the perils of relapsing into an authoritarian form of rule.

It's reasonable that people would reflect on the Emergency in these terms. After all, not only were civil rights suspended and institutions subverted during this time period but governmental authority was also used on the most defenceless members of society. However, such an approach precludes a more detailed historical examination of the Emergency's sources and repercussions.

Transformations in the Economic Sector

Consider the Emergency's economic implications. Few people today remember the story's economic context. The Indian economy was buckling under a series of cumulative strains in the run-up to the Emergency, including the Bangladesh refugee crisis and war with Pakistan, the United States' subsequent termination of aid, recurrent monsoon failures, and the international oil crisis following the Arab-Israeli war of 1973. The Indian economy was severely harmed by the oil shock. Between mid-1973 and September 1974, there was a significant decline in the balance of payments and severe inflation. Inflation reached a high of 33% during this time period. The government's spiralling inflation was a major catalyst for public protests against the government, which morphed into the JP movement and eventually led to the installation of the Emergency.

Indira Gandhi's economic strategy began to alter dramatically during this time period. Mrs. Gandhi tried to move her politics farther to the left after the Congress party's dismal result in the 1967 elections. This was done to strengthen her personal appeal above that of the party's bosses, as well as to secure the Left parties' legislative support once she divided the Congress. Because of these political considerations, she adopted more "radical" economic policies, such as nationalising banks, insurance companies, and the coal industry, passing the Monopolies and Restrictive Trade Practices Act[8] to regulate businesses more closely, and the Foreign Exchange Regulation Act[9] to regulate foreign investment in India more comprehensively. Mrs. Gandhi's "socialist" economic strategy lasted until 1973 when the rising economic crisis compelled her to take a more realistic approach. The government began cutting spending and tightening monetary policy in mid-1973. Mrs. Gandhi presented a severe package of anti-inflationary policies, including fiscal, monetary, and income-policy measures, through a supplementary budget and ordinances in July 1974. Many of her top colleagues and Left-leaning advisers advised her that these actions would be politically damaging. Despite this, she opted to support her team of liberal economic advisers and officials, which included Dr. Manmohan Singh. Inflation had been brought under control by the end of 1974. Mrs. Gandhi also sought IMF support to help stabilise the current account of the balance of payments. The savage assault on the railway strike in May 1974 was perhaps the clearest indicator of the end of the "socialist"

[8] Monopolies and Restrictive Trade Practices Act (LexisNexis 1969)

[9] Foreign Exchange Regulation Act (1973)

epoch. Mrs. Gandhi was going to the right in both economics and politics in the run-up to the Emergency.

All main economic indices for the Indian economy were favourable during the period of Emergency, from the agricultural output, industrial production, and inflation to the number of workdays lost due to strikes and labour unrest. An abundant monsoon in 1975 and enough rainfall in 1976, according to the Economic Surveys of both years, boosted agricultural productivity in 1975 and 1976. In 1975, the nation produced 48.7 million tonnes of rice, and 42.8 million tonnes in 1976, compared to a five-year average of 41.5 million tonnes. In 1975 and 1976, wheat and pulses output increased by around 20% and 30%, respectively.[10]

The Index of Industrial Production (IIP) increased by 6.1 percent in 1975 and 10.4 percent in 1976, with the largest growth in basic metals, mining and quarrying, and power across the two years.[11]

Wholesale price inflation declined abruptly to -1.1 percent in 1975 and 2.1 percent in 1976 as a result of numerous measures implemented by the Indira Gandhi administration in 1974, when inflation was in the high double digits. Food inflation was substantially below zero in those two years, at -4.9 percent and -5.1 percent, respectively. In 1974, it was a mind-boggling 38%. Exports increased from Rs. 3,328.8 crore in 1974 to Rs. 4,042.8 crore in 1975 and Rs. 5,143.4 crore in 1976, with a total value of Rs. 5,143.4 crore in 1976. Imports, on the other hand, have been stable, if not declining. Import growth fell from 53% in 1974 to 16.5 percent in 1975 and 3.6 percent in 1976. In terms of labour unrest, the number of workdays lost to strikes dropped dramatically, from 40.3 million in 1974 to 21.9 million in 1975 and just 12.8 million in 1976. During those two years, the number of riots decreased dramatically, only to spike again in 1977.[12]

[10] TCA Sharad Raghavan, *The Positive side to it*, The Hindu, (June 26, 2015).

[11] Ibid

[12] TCA Sharad Raghavan, *The Positive side to it*, The Hindu, (June 26, 2015).

The budget deficit grew during the Emergency based on the government's expenditures at the time. Following years of slow expansion, gross fixed capital formation increased by 9.7% and 12.6 percent in 1975 and 1976, respectively.[13]

Mrs. Gandhi presented a Twenty-Point Programme of economic and social development after the Emergency was declared. The elements of this programme dealing with industry fit in nicely with the ideals proposed by people like BK Nehru. During the Emergency, the government's economic policy included facilitating and speeding up private sector operations. Big firms, understandably, were thrilled with the policy shift. JRD Tata praised the "refreshingly realistic and result-oriented strategy" that had resulted in "conditions of discipline, productivity, industrial peace, price stability, and mass engagement essential to achieve rapid economic progress" only weeks before the Emergency was lifted.

To sum up, it would be simple to pass a blanket judgement on the Emergency. It was the state protecting itself; it was a power grab by Congress leadership; it was vital to avoid internal anarchy, and it had the potential to turn into a dictatorship. It was a combination of all of these things. However, the economic framework in which it took place created internal conflicts that ran in two ways at the same time, towards more statism and away from it. This is what set it apart: it was a signal of India's transformation from a state-managed to a globalised economy. But a paradoxical question it contains is that , did India achieve this transformation at the expense of its democracy? If so, does that imply democracy is a hindrance to economic growth?

CONCLUSION

Growth is required to meet human needs and improve people's lives. The economic growth promises to alleviate poverty and enhance living standards; politically, growth is a precondition for free markets, free people, and the rule of law; and personally, growth is necessary for people to reach their full potential. Under unprecedented challenges, three main drivers of growth — capital, labour, and productivity — have declined. Liberal democratic capitalism is retreating in the face of these economic headwinds. Alternative development models such as authoritarianism, state capitalism, and authoritarian democracies have arisen, posing serious

[13] Ibid

challenges to the liberal democratic capitalism paradigm. Meanwhile, liberal democratic capitalism has grown weak, corrupt, and unconcerned about its own flaws.

Democratic leaders will struggle to confront the various challenges facing the global economy now unless fundamental adjustments are made. Indeed, democracy's immaturity leads to the misallocation of scarce resources like money and labour, as well as politicians' and businesses' myopic investment decisions. Finally, the numerous economic difficulties are a symptom of a corrosive flaw in the democratic political process.[14]

We need far-reaching democratic changes to confront this myopia, overcome the headwinds facing the global economy, and re-energise economic development. We need to change the way elections are held, the way politicians are rated, and make sure that both voters and politicians look at the big picture. To that aim, we need longer political periods to better fit long-term economic difficulties, as well as basic criteria for politicians and voters.

[14] Moyo, D. (2018). Democracy can’t provide the global economic growth we need to survive. Retrieved 23 April 2022, from https://www.linkedin.com/pulse/democracy-cant-provide-global-economic-growth-we-need-moyo