

# The Study of Structural Development in the Indian Economic Framework: An Emphasis on Capitalist and Socialist Economic System

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## ABSTRACT

The evolution of economic systems constitutes one of the most significant dimensions of human societal development, reflecting not merely material progress but also ideological transformations concerning justice, authority, and collective welfare. The present paper examines the structural evolution of the Indian economic framework through a critical analysis of two dominant economic systems-Capitalism and Socialism. It begins with the fundamental abstraction that human society is dynamic in nature and molded by collective needs, this study traces the progression from basic social associations to the formation of a state and, subsequently, the emergence of organized economic systems. It predominantly focuses on how the interdependence between state and economy necessitated structured mechanisms for the production, distribution, and allocation of resources, ultimately giving rise to distinct economic ideologies. The study moves beyond doctrinal comparisons to emphasize the emergence of hybrid economic arrangements, wherein states strategically combine market mechanisms with welfare-oriented intervention. Such a synthesis reflects an evolving recognition that economic efficiency and social equity are not mutually exclusive but must be pursued in tandem to ensure sustainable development. India's economic trajectory illustrates a gradual transition from state-centric planning to a more liberalized and globally integrated framework, while retaining a foundational commitment to social welfare. Ultimately, the study contends that economic systems must be understood as evolving instruments rather than fixed doctrines. Their relevance lies in the capacity to adapt to the ever-evolving dynamic nature of society.

**Keywords:** Economic systems, Capitalism, Socialism, Bourgeoisie, Proletariat.

## INTRODUCTION

It is a human inclination to never live in isolation. The nature of man is that of a social animal, where he needs to form an association for him to be able to survive. Every man indispensably needs a society. Aristotle rightly stated, "Man is a social animal, and man perfected by society is the best of animals." <sup>1</sup>A society stands today because of you and I, because we, the individuals in it, take an active part to amend it with our recurring needs. It is a forever-evolving aspect because the people in society are always transitioning for the better or worse, thus making it highly dynamic in nature, and therefore, the changes brought by it substantially affect the members within. Family, caste, class, clubs, commerce chambers, political parties, trade, trade unions, and many other quaint groups, consisting of men and women, come

<sup>1</sup> B.K. Gokhale, *Political Science* 57 (D. Srinivasan ed., Himalaya Publ'g House 2021).

together to form a larger association known as a society. Society makes a man live under parameters of law and justice and rules out his behaviour overall, disciplining him to live with others. It also sets numerous norms, morals, principles, cultural practices, traditions, rituals, and many other essential additions to man's nature. Every society, which in mundane terms is a group of people staying together, is uniquely imbued with its regional occupancy.

When a society is governed by regulated laws, has a distinct territory, and consists of human beings following a common code of behaviour for achieving common purposes, it is then that a “state” is established. Aristotle said, “A state is a natural and necessary institution.”<sup>2</sup> It is vital for the progression of a man to unite and form a state. So that it can eliminate the mischievous and evil men and offer protection to the weak, as opposed to the ones with power and to wield coercive power; furthermore, it explains why a state is necessary. Like society, the formation of the state has also arisen spontaneously and naturally to fulfil the limitless wants of a man. However, these two words are poles apart from one another when it comes to their true meaning. As a political vocabulary, “state” was first recognized in the Renaissance period of Europe in the early 16<sup>th</sup> century. It was introduced in the book “The Prince,” written by Niccolo Machiavelli, an Italian statesman and philosopher who dealt with republics and principalities, or hereditary monarchies, in his book. Even though the term is indiscriminately and imprecisely used by common people, rendering its meaning equivalent to other terms like “nation,” “society,” “government,” “country,” and so on, the political scientists are of the contrary opinion. They strictly use it in a technical and precise connotation only. Furthermore, “state” is also distinct from an “association.” An association is when a group of people aligns with one another for an objective that is of their mutual interest and, accordingly, follows rules that they have come to an agreement on for their own merit. Whereas “state,” on the other hand, is when a set of people are politically organized and have common rules laid out that need to be followed one way or another. There are a few essential elements that differentiate between the state and its equivalent concepts. They, namely, are as follows:

1. Population,
2. Territory,
3. Government,
4. Sovereignty.

Cumulating the overall structural evolution from the initiation of basic associations amongst the people to then coming together and forming larger societies and lastly establishing a state with defined territory, sovereignty, population, and government, an immense development is seen. To further sustain this developing nature and to ensure its efficacious impact, the need for a systematized economy was called for. Every state needs to nurture its economy for the welfare of people as well as its own development amongst the other states in the world, hence making it more independent in nature. In view of the Indian economy, “welfare of the people” is the highest goal of the government, and hence in India democracy is followed.<sup>3</sup>

The term “economy” originated from the Greek language and is comprehended as “household management.” The great Greek philosopher Aristotle, accepted by many as the first economist, used the term as management of the household and the state. Contextually, “economy” as a term was first used by

<sup>2</sup> B.K. Gokhale, *Political Science* 57 (D. Srinivasan ed., Himalaya Publ'g House 2021).

<sup>3</sup> Otojit Kshetrimayum, Unit 14: Economy & Society, in *Interrogating Indian Society Collection II* 199 (Indira Gandhi Nat'l Open Univ. 2020).

famous economist Adam Smith in his book "Wealth of Nations," where he described it as a social science.<sup>4</sup> It is a system where the production and distribution of goods and services in society is organized by directing how the resource distribution should take place, how to produce goods and services, and designating their prices, as well as what goods and services can be bartered. There is a very close relationship between "state" and "economy." The state has a great influence over the structure and process of the economy, which in turn affects its own environment. In an economy, goods and services are supplied to everyone, be it an institution, an individual, or the government, in order to fulfil the basic requirements of mankind, and thus, to ensure the smooth functioning, stability, and groundwork of the state, the concept of the economy was established. Thereon, to maintain a systematized economy, various economic systems were introduced. These systems helped in shaping the way the societies shall allocate the resources, distribute wealth, and organize production, and thus "Capitalism," "Socialism," and "Mixed Economy" were recognized.

In the historical order before capitalism was introduced, the concept of slavery or feudalism was prevalent. In the 18th century during the Industrial Revolution, use of capital increased, resulting in the dominance of the capitalist economic system. After the emergence of the Great Revolution in 1917 in Russia, the concept of a socialist economic system was brought to light. In present times we find economic systems that are a blend of capitalism and socialism.<sup>5</sup> A state's strong suit is determined by its economic performance, and this performance is measured by the type of economic system followed by the nation.

### **THEORETICAL ORIENTATION OF CAPITALISM AND SOCIALISM**

Capitalism is an economic system that includes investment and ownership of means of production, distribution, and exchange of wealth that is maintained by private individuals or corporations as compared to the usual state-governed wealth. In layman's terms, 'capitalism' is a system of governance for economic affairs that has emerged in different settings and continues to evolve over time. Adam Smith was recognized as the 'forefather' of capitalist thinking. According to Smith, "As every individual... endeavours...to employ his capital in the support of domestic industry and so to direct that industry that its produce may be of the greatest value, every individual labors to render the annual revenue of society as great as he can. [While] he intends only his own gain ...he is in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention."<sup>6</sup> Capitalism is an economic system in which material means of production are owned and operated by private owners. It is where private individuals and institutions solve all three central problems: how to produce, what to produce, and for whom to produce. It is also known as a "free market economy" or "laissez-faire economy." Adam Smith was right when he said that "Little else is required to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes and a tolerable administration of justice."<sup>7</sup> Smith's explanation for this minimalist role for government was derived from his seminal insight that the pricing mechanism would coordinate the actions of private actors so as to achieve socially optimal outcomes."<sup>8</sup>

On the socio-economic side, a man's future born before this period was determined by the cradle he rested on: an inheritance from his ancestors. If he were born poor, he was going to remain poor, but if he were born into the aristocracy, then he would live with the title and the associated property, which would be

<sup>4</sup> Surabhi Arora, *Economics for Law Students* 3 (Central L. Publ'ns 2021).

<sup>5</sup> Surabhi Arora, *Economics for Law Students* 21 (Central L. Publ'ns 2021).

<sup>6</sup> Adam Smith, *An Inquiry into the Nature and Causes of Wealth of Nations* 456 (Univ. of Chicago Press 1976)

<sup>7</sup> Adam Smith, *An Inquiry into the Nature and Causes of Wealth of Nations* 456 (Univ. of Chicago Press 1976)

<sup>8</sup> Adam Smith, *Wealth of Nations*, Oxford World Classics, Page 291-292.

passed on to his descendants. Capitalism completely contradicted this vantage point. Capitalists believed that man should build his own wealth and be the master of his own fate rather than living off the expenses of his ancestors or their inheritance. Capitalism introduced an economic system where there was fair competition for individuals and institutions. Its chief focus is individualism since there is very little government intervention. Individualism attaches grave importance to individual freedom, and it emphasizes that the individual's traits should be developed instead of forceful state intervention that curbs individuality. The industrial and economic development of the U.K., U.S.A., and other Western European countries of the world has taken place under the condition of capitalism itself. This kind of economy emerged out of the Industrial Revolution of England during the 18th century (1760-1820). When the revolution was instigated, economically backward countries started making perceptible progress as well. This prompt economic development was the result of the foundation of large-scale businesses. A capitalistic economic system allows an individual to accumulate as much wealth as he can for himself by working for himself, unlike socialism, where the fruits born by one are enjoyed by all. Although this system can sometimes also result in an unfair system, as individuals or corporations with more capital can always accumulate more wealth, turning this system into one meant for just the elites and where the poor are exploited or abused. This will also impact education, healthcare, and other basic necessities of society in general, as only the elite class will have access to these services.<sup>9</sup>

Within capitalism, various variants have also been introduced, such as oligarchic capitalism, where a small group of elite capitalists take over not only the economic system but also the political system. However, it isn't the best option for society since oligarchs may corrupt the system and will try to prevent competition in the economic and political sector. The second variation is state-guided capitalism, where, unlike oligarchic capitalism, the economic affairs are majorly handled by the state, i.e., the government, instead of oligarchs or the private individuals. Another variation of capitalism is corporate capitalism, where the economic system is handled by big MNCs or big corporations, and this is usually achieved through neoliberal policies. Lastly, there is laissez-faire competition, which is a French word and translates to "let do"; under this variation, people are allowed to do whatever they want with little to no intervention from the government. It is the complete absence of state intervention in the market. This, however, assumes that the free market emerges naturally without any government interference. For a capitalist economy to work effectively, it is pertinent that there are two hands that contribute towards its efficiency, one an invisible hand where it helps in the sector of pricing mechanisms and the other being a visible hand where the political matters are dealt with by the state through legislature.<sup>10</sup>

Contrary to capitalism, the spectrum of political science has developed two main systems - the Liberal and the Marxist. Ideologically, both appear juxtaposed to each other, as they vary in terms of the conceptualization of the society and the state. There are many variants of these two streams of economy, and socialism is one of the variants of Marxism. The theory of socialism resists precise definition or meaning due to its diverse theoretical interpretation; nevertheless, it is broadly understood as an economic and political system where the government is the one who controls the means of production. Under this system of economy, the community is responsible as a whole for how to produce, what to produce, and for whom to produce. The government has complete command over the wealth and capital within the state and looks toward the promotion of social and public welfare. Wealth and resources are distributed more

<sup>9</sup> Cristoph Tallgauer, Economic Systems and Their Impact on Society: From Capitalism to Socialism, 26 J. Econ. & Econ. Educ. Research 1, 1-3 (2025).

<sup>10</sup> Adam Smith, Wealth of Nations, Oxford Classics, Pages 291-292.

equally under the surveillance of the government, and thus the government is said to play a central role in managing the economy. According to H.D. Dickinson,

“Socialism is an economic organization in which material means of production are owned by the whole community and operated by representatives of the people who are responsible to the community according to a general plan.”<sup>11</sup> In mundane terms, socialism allows the citizens to give power and authority to their representatives, who, in exchange, manage and regulate their affairs, leading to communal development. In this economic system, the welfare of the people is the utmost goal, unlike the capitalist setting, where individualism prevails. Socialism emphasizes the collective good and proposes the inclusiveness of all the members to contribute to society based on their abilities and receive according to their necessities. It focuses more on reducing inequality and ensures that basic services, like healthcare, education, etc., are available to all, regardless of their income or salaries.<sup>12</sup>

The origin of socialism can be traced in the works of Robert Owen, Saint Simon, Charles Fourier, etc., who were also known as “utopian socialists.” They greatly believed in human intellect, peace, communal growth, and goodwill, and thus strongly intended to introduce and promote socialism, eradicating capitalism. However, they lacked reality in their arguments and leaned more towards idealism and hence were named as utopians to differentiate them from Karl Marx. Influenced by the deteriorated conditions of the working class, Karl Marx produced sufficient literature on scientific socialism. He gave solid arguments in favor of a socialist economy. Marx emphasized the socialization of the means of production, which is the chief basis of modern socialism. Later, Karl Marx was known as the Father of Socialism, and he wrote a book in 1867, “Das Kapital,” which is known as the Bible of socialism.<sup>13</sup> It is right to say that the theory of socialism has been viewed by different thinkers from various perspectives, thus leading to ambiguity in its meaning and application. As a term, socialism represents a broad range of theoretical and historical socioeconomic systems and has also been used by many political movements throughout history to describe themselves and their goals. Later it was accepted and understood as a system for the welfare of people and stood against the harsh capitalist economy. C.E.M. Joad said that “socialism is like a hat that has lost its shape because everybody wears it.”<sup>14</sup>

With time, this theory led to the emergence of various developed variants, which individually show resemblance to the main idea of socialism. For example, communism and socialism are usually understood in the same sense, but in reality, communism is an ideology where there is no state or class in a society and only collective ownership prevails. There's no concept of private property. Whatever is owned is collectively owned by the people of such a society. Other such variants are anarchism, the labour movement, Marxism, social democracy or democratic socialism, and syndicalism, whose members also called themselves “socialists.” The socialist system is completely different from the capitalist system, where only a few individuals are in control; hence, it is said that socialism emerged as a sharp contradiction to the concept of capitalism in the 18th century. It occurred when the society was being hindered by the capitalists. During the Industrial Revolution era, the influence of the capitalist or bourgeoisie class was increased. Their only aim was to maximize their surplus generated by exploiting the working class, also called the proletariat. The working class was compelled to work in inhumane conditions without having

<sup>11</sup> Economics for Law Studies, ch. 4, at 24

<sup>12</sup> Tallgauer, C. (2025). Economic systems and their impact on society: from capitalism to socialism, 26 J. Econ. & Econ. Educ. Research, 26(2), 1-3 (2025)

<sup>13</sup> Pushpa Kumari, Socialism: Meaning, Growth and Development, Institute of Lifelong Learning, University of Delhi (Dept. of Political Science, Miranda House)

<sup>14</sup> C.E.M. Joad, Political Theory ch. 40, at 483.

any share in the surplus generated and hence lost all control over their own creativity and lives. They became dependent. This power dominance by capitalists led to alienation in the working class. There was a clash of interest between these two classes. The prevailing strength of capitalist doctrines negated governmental intervention, thereby leaving the structural inequities of capitalism largely unaddressed. Due to this ignorance, the feeling of discontent and rage of the working class against the capitalist system in all highly industrialized countries promptly sprang into action. They started forming alliances to revolt against the capitalists. All supporters of socialism, be they communists, anarchists, state socialists, collectivists, or syndicalists, were in objection to capitalism, and they only aimed to have “socialization” as a means of production. This led to the emergence of unanimity, meaning that all citizens wanted social control to overrule capitalist intervention in the state's affairs. Huge masses of people were attracted towards joining this movement so as to avert the evil capitalist system. Karl Marx said, “The history of all societies hitherto is the history of class struggle. Freeman and slave, patrician and plebeian, lord and serf, guild master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another.”<sup>15</sup> The socialist movement, in the 19th century, is seen as a changing point in the history of the working masses, as it led to mass participation by the people within the society to resist the wrongs done by the capitalist class and fight for their rights. It primarily focused on promoting communal development and forming a better state to live in, where individual ownership is despised, as it leads to an unequal and oppressive social order.

## POSTULATES OF CAPITALISM AND SOCIALISM

The economic system of a state determines how societies produce, distribute, and consume goods and services. These systems not only give away the numbers and policies of the state but also the inner workings of it, such as its goals, values, ideals, etc. The term "laissez-faire" emerged in the 18th century and comes from the French language, literally translating to "let do." This term was later popularized by economist Adam Smith in his book “Wealth of Nations.” A capitalist economy is characterized by many features, such as private ownership and a free market, out of which laissez-faire is one. Under capitalism, striving for profit is the ultimate goal of a capitalist by maximizing their means of production, and they require little to no government intervention in order to do so. This, however, gave rise to concern for the working class, as they were required to maximize the production for their regular wages. However, under modern capitalism, capitalist economies are not completely at liberty from government intervention.<sup>16</sup> Normative thinkers such as Adam Smith, Karl Marx, Max Weber, and others have their own interpretation of capitalism and how a capitalist society operates. There are certain immutable hallmarks that have been constant in everyone’s analysis in some way or the other that help embed the idea of capitalism in the general mass better. Karl Marx, author of *Das Kapital*, written in the 19th century, was deeply influenced by the idea of Adam Smith, who otherwise is known as the “Father of Economics.” According to Marx, the society in a capitalist economic system is bifurcated into two major classes: the “haves” and the “have-nots,” also known as the working or labour class and the capitalists. Marx believed that there would always be an inherent conflict between these two classes, which cannot be avoided. Avoidance of this crisis led Marx to believe that even though the working class was theoretically deemed to be free and equal, in reality, they cannot ever compete with the capitalists, as they do not own any means of production for

<sup>15</sup> McCormic (2007), *Comparative Politics in Transition*, Wadsworth, p. 203.

<sup>16</sup> Cristoph Tallgauer, *Economic Systems and their Impact on Society: From Capitalism to Socialism*, 26J Econ. & Econ. Educ. Research 1, (2025)

them to be exempted from their present condition, thereby becoming the yoke of exploitation.<sup>17</sup> The working class do not have their own means of production and are used to their maximum capacity for production at a minimal wage rate by the elite class, i.e., the capitalists. In the primitive stage essentially, there was limited production and hence limited use of labour. However, an increase in the demands led to an increase in the means of production that ultimately resulted in the beginning of exploitation of the working class and the beginning of class conflict, marking it as the end of the primitive era under capitalism.<sup>18</sup>

One of the major tenets of capitalism is the idea that competition fosters innovation and efficiency. When there is healthy competition amongst competitors, there is always a strive to do better than their competitor. By promoting competition, capitalism actually promotes lower prices and better production and quality increases of goods and services for the masses. Competition also promotes economic growth of the nation as a whole and updates the standard of living of the people, promotes innovation, and harbours increased job opportunities. Competition has its positive as well as negative impact. Capitalism can also lead to wealth disparities, as members with more capital can always dominate the system and create inequality. Correspondingly, there is competition among the workers for employment. Then again, they also associate with trade unions to battle the capitalists. The producers also form associations to safeguard their welfare. Hence, under capitalism, combination and competition go abreast. Joseph Schumpeter defined the dynamism of capitalism, stating that capitalist entrepreneurs don't just compete; they change the nature of competition.<sup>19</sup>

The Macmillan Dictionary of Modern Economics defines capitalism as “a political, social, and economic system in which property, including capital assets, is owned and controlled for the most part by private persons. Capitalism contrasts with an earlier economic system, feudalism, in that it is characterized by the purchase of labour for money wages as opposed to the direct labour obtained through custom, duty, or command in feudalism. Under capitalism, the price mechanism is used as a signalling system that allocates resources between uses. The extent to which the price mechanism is used, the degree of competitiveness in markets, and the level of government intervention distinguish exact forms of capitalism.”<sup>20</sup> Economists have marginalized means of production into four major sectors: land, capital, labour, and enterprise. Under capitalism there is no restriction towards entering the market for starting a production. There is no monopoly or imperfection that may put a halt on entering this market. Capitalism, as mentioned earlier, promotes individualism to its zenith. This also promotes individuals to acquire goods and services as per their liking, and the labour market is unrestricted as well. Under capitalism, free market characteristics prevailed, which in turn created employment opportunities for the working class. Each individual under this system is free to elect any business or occupation they prefer. The playing field is levelled for all members of the society. However, in realism there is no absolute autonomy in these respects.

Individuals are free to relish the property in any manner that they like, and this is applicable for production goods as well, for instance, land, capital, machinery, etc. Every individual has the right to acquire chattels, keep them, and pass them on to their legatees after their bereavement. This creates disparities in the dispersal of income and wealth. However, this right is constrained. The right to relish the property still comes with certain rules and regulations that come hand in hand and are rather invisible. For instance, one

<sup>17</sup> Sam de Muijinck, Capitalism: A Summary, at (Exploring Econ., June 21, 2024)

<sup>18</sup> Macmillan Dictionary of Modern Economics 54 (3d ed. 1986)

<sup>19</sup> Joseph A. Schumpeter, Capitalism, Socialism and Democracy 82-85 (Harper & Bros 1942)

<sup>20</sup> Macmillan Dictionary of Modern Economics 54 (3d ed. 1986).

cannot own a property and use it to sell illegal objects or run a gambling house. The state has a very nominal role under a capitalistic economic system, but it can stop an individual and hold them accountable for their actions. The state can also own property under capitalism, such as roads, dams, railways, and more. Every individual, be it under capitalism or under any other economic system, has the right to pass their legacy to their heirs after their demise. This acts as a powerful incentive for savings and capital formation for the capitalists. The very origin of capitalism is reinforced by this right of inheritance.

Whereas the socialist system envisions establishing a socio-economic order within a state, and to do so, it relies on certain values or principles. One of the main ideals of this theory is eradicating exploitation of the working class by the capitalist or the bourgeoisie class. It is also the central diagnosis by Karl Marx with respect to the capitalist system. Exploitation in a generic sense means unfair advantage of one party over another. Karl Marx, in his theory, provided a concise analysis of exploitation and how it is a core of capitalism in the economic system. This analysis was presented in a puzzle, as in, "If goods are exchanged for other goods or money of equal value, then how is it possible to end up with profit?" The answer to which, according to Marx, is labour power.<sup>21</sup> In layman's understanding, the capitalist class used to make the workers work far beyond what they got paid. That means the working class was overworked in comparison to the money or salary they got, which led to their exploitation. Whatever surplus was derived from the extra work so done was consumed by the capitalist class alone, leading to poverty within the working class due to low wages in exchange for overtime work and exhaustion, and thus this appropriation of surplus value produced by the workers is exploitation in its technical Marxian sense and the core of capitalism, as the owners of capital accumulate more capital using the labour power of workers Karl Marx, who do not receive the full value for what they are producing. Marxism sometimes speaks of it as "robbery" or "theft" from the workers.

The second diagnosis of capitalism by Karl Marx was "alienation of work and of workers." In a generic sense, it means problematic separation between a self and others that belong together. Marx's most elaborate discussion of alienation is found in the Economic and Philosophical Manuscripts.<sup>22</sup> Marx propounded four ways of alienation of work in capitalism- A. The first is alienation from the product. It straightforwardly means that the workers are alienated from their products, as what they produce by their hard work is not actually theirs. B. The second way is alienation in productive activity, which means work under capitalism is of a repetitive nature and hence does not require skill. Marx observed this and derived the conclusion that workers become separated from their own work activity, merely functioning as an "appendage to the machine."<sup>23</sup>

C. The third way is alienation from man's own species. The idea here is that a human being has his own will and creative mindset. We tend to naturally use this ability as and when required. Marx closely relates this way to the second way of alienation by stating that due to the repetitive and de-skilled work requirements of the capitalist system, where there is no individual control, one is alienated from using his own creative mindset.

D. Lastly, the fourth way in which alienation takes place in capitalism is alienation from other human beings, or alienation of man from man, a kind of separation from the fellow human beings by whom one is surrounded. Thus, alienation is a negative aspect, and many socialists believe that it can be overcome by following a socialist system wherein everyone works in a community or solidarity for equality.

<sup>21</sup> Karl Marx, *Capital: A Critique of Political Economy* vol. 1, (Ben Fowkes trans., Penguin Books 1976) (1867)

<sup>22</sup> Karl Marx, *Economic and Philosophic Manuscripts of 1844* 270-282 (Martin Milligan trans, Int'l Publishers 1975) (1844)

<sup>23</sup> Karl Marx & Friedrich Engels, *The German Ideology* 490-91 (Int'l Publishers 1976)

A major reason why socialism was favoured over capitalism was justice. The view that the capitalist system was unjust led to major motivation for many of the socialists. In the present context, justice is relevant to the factor of exploitation, and hence, to eliminate exploitation and do justice to the working class, the socialist movement was largely supported by them. Along with this, the concept of a welfare-oriented state was strongly supported by socialists as a state with the ideology of welfare for people provided for their needs, not only the needs of the workers but also the needs of groups outside work for numerous other reasons, such as illness, age, poverty, disability, etc. Therefore, it's plausible that most of the socialists root for the elimination of exploitation and the promotion of welfare-oriented principles to be just for the people and provide opportunity for the ones who are ignored.

Another aspect of socialism that is highly supported is the abolition of the class system. The abolition of the class system means placing all people on the same footing with regard to the means of production belonging to society as a whole, thus promoting equality. Equality in opportunity, equality in surplus of society, equality in publicly owned land, factories, and so forth. The term "equality" hereinabove means social equality and is by no means related to physical or mental equality of individuals. During the 19th century, when capitalism prevailed, the freedom of the working class was sacrificed for the well-being of their owners. The working class was left with no choice but to work in the inhumane conditions to sustain their lives. Their power to choose a free life or work was compromised and neglected. The proponents of socialism were of the opinion that in a capitalist system, people are unfree, and hence, a socialist system is necessary for people's freedom. In today's time, freedom is one of the essential rights of an individual. Part III, Article 19 of the Indian Constitution guarantees six freedoms to the citizens. Articles 32 and 226 of the Indian Constitution empower the Supreme Court and High Court, respectively, to enforce these rights if violated.

The welfare of the people within a society is another essential requirement that was lacking in the capitalist system. In the capitalist system, there was no interference from the government. Everything was under the control of the capitalists, such as private ownership, free markets, profit distribution, etc. This type of society was focused on surplus generation, and hence the involvement of the government was considered irrelevant, and thus the power was completely drawn away from them. The policy of laissez-faire was followed by the capitalist. Whereas, in the socialist form of society, the government has to play an important role. It is composed of elected representatives of people, and these representatives are supposed to perform their duties in exchange for the power and authority vested in them by the people. It's the responsibility of the government to look after the means of production. Take initiative towards the welfare of the public and society at large, determine the fields of different businesses; and execute them according to their priorities, etc. The government then becomes the decider for the whole territory, making decisions for the betterment of the society altogether while even protecting the public interest. It bolsters social ownership or public ownership instead of capital ownership. In a socialist setup, the government owns the property for the benefit of the society or community. It acts as a people's representative and looks after the overall development of the society. The objective of a socialist setup is not increasing profit margin but aiming at public welfare and creating goods and services according to the people's needs and consumption. The public's interest and welfare is their basic priority. It supports the concept of a "welfare-oriented state." The absence of extreme competition results in utilization of the natural resources in the best form. This setup eliminated wealth accumulation by single individuals wholly, and therefore the gap between the poor and rich is slender. All citizens enjoy equal opportunities and facilities.

## NORMATIVE VIEWS ON CAPITALISM AND SOCIALISM

In this society, beyond the textbook analytical understanding of capitalism, there is also a normative argument surrounding it that helps understand the importance of capitalism. Hirschman, updated in 2007 by Fourcade and Healy, identified the three fundamentally different moral positions, arguing that capitalism is-

1. civilizing,
2. destructive, or
3. feeble.<sup>24</sup>

The civilizing view is very important, as it states that capitalism does not only promote economic growth, efficiency in work, and escalation in production, but it also deviates the society from using armed force and directs it towards a more harmonious and productive form of competition. Under a capitalist economy, an individual's wage automatically increases, which leads to additional savings. Economic integration through markets promotes a market web where everyone mutually benefits off of each other's exchange. Inducement to work at a higher efficiency rate to earn profits makes the labourers not only diligent but also promotes healthy competition amongst them. An individual works according to their interest under this setup; hence, there is maximum utilization of resources, and one is not oppressed to work for others, like under a socialistic setup, where the fruits of the hard work of an individual are borne by others, giving the individual unfair treatment.

Economists such as Marx and many others heavily criticize capitalism. Most people also argue that a capitalistic society is ii) destructive in nature. This system is deemed to be selfish, short-sighted, and wasteful. According to Marx, capitalism creates an elite class that always has an upper hand and exploits the labour class by underpaying them or by making them work for an unrealistic amount of time since the labour class has no other viable option. The elite class amasses social, political, and cultural power and establishes laws that are detrimental to the rights and welfare of the working class. The rich become richer, and the poor have to live in poverty; this creates a huge class struggle among the masses. While the production of goods is high under this economic system, the relevance of the product is not considered. The product can be harmful or not obligatory at all for society, but it will still be produced because of the maximization of profit goal. The production decisions are always in the hands of the producer; hence, the production can always be underproduced or overproduced. Boom periods are followed by depression, hence creating no stable system, resulting in sudden unemployment. The capitalist setup was originally linked to many small firms, but over the centuries the monopolistic approach gave rise to big firms that charge their customers higher prices and restrict output. This is destructive, as only a few yield higher power in their hands.

Even after civilizing and destructive points, a capitalist economic system is considered a very powerful political-economic system. As far as the feeble point is concerned, capitalist economics inherently isn't entirely good or bad. Though considered powerful, it is not the most versatile system. A capitalistic system depends on the culture and the workings of the system. Like for the working class, capitalism isn't the most idealistic society; however, at the same time, capitalism for the aristocrats is the most ideal economic system. For some sectors capitalism creates the most positive outcomes; however, for some it introduces class struggle. The point is that capitalism in itself isn't desirable or undesirable; rather, it depends on which sect of the society it is applied to.

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<sup>24</sup> Sam De Muijinck, Capitalism: A Summary (June 21, 2024) (unpublished summary)

The capitalist system as a societal setup is looked at as a setup promoting individuality. It only favoured the tiny upper class of wealthy individuals. The power was completely biased in the capitalist setup, leaving the working class with no help. Though both economic systems have pros and cons, one of them always finds a way to overpower the other in one way or another. At the present time, the concept of socialism is widely accepted and applauded for the advantages that it brings along. Every society is in need of a system that promotes its growth and economy while making sure that the people within the society are taken care of. Socialism as a concept nurtures the economy as well as the people within the economy. It promotes rapid growth through economic planning and works in a systematic and orderly manner. In the words of Pt. Nehru, "It is only through a planned approach on socialistic lines that steady progress can be attained."<sup>25</sup> Along with the growth of the economy, this concept also establishes ideas in order to use the resources available in the environment in a more resourceful/productive way. It reduces wasteful expenditure due to competition, which was prevalent in the capitalist setup. Unlike capitalist society, in which the large masses were heavily exploited, the socialist society aims to eliminate such unfair treatment. Socialists are of the opinion that the public should be given security in terms of income, work, lifestyle, and living conditions, and the burden of these requirements should be borne by the society as a whole, and that is why it is said that the socialist setup looks forward to communal development and not individual development, which was one of the major drawbacks of the capitalist society according to prominent socialists.

In this society, the government plays a very important role by actively participating in the decision-making arena and is also held responsible for initiating various social and welfare policies for promoting communal development. Thus, a socialist state is truly considered a welfare state. The socialist setup curbed the evils of capitalism. It discarded the class system, which resulted in eradicating the class struggle. The socialist setup is considered a classless or no-class system, where everyone stands on an equal footing. The concept of equality of opportunity was highly favoured in this economy, and the government was held responsible for maintaining this principle. All citizens are supposed to work for the state, and in exchange they will receive income in the form of labour income, and therefore the distinction between rich and poor came to an end. The socialist setup is a more just society and makes sure that the power is not vested in the hands of a few people. It does not let a few people control or hamper the society, which would lead to injustice.

The socialist system majorly eradicates the wrongs of the capitalist system, yet it cannot be said that it is completely or wholly free of wrongs. One of the major drawbacks is "bureaucracy." In layman's terms, bureaucracy means the power shift from a few individuals to government officials, also known as civil servants. There is a high risk that these officials might misuse the power vested in them. These officials are not similar to the capitalists or any employer of a private organization. They have the knowledge that they will be promoted on the basis of seniority rather than on the basis of extra work, and this assurance or security in their job tends to hamper their work, as they would not work extra and still get benefits, leading to being less of a resource to society. Also, the fact that the power was shifted from a few individuals to the state, does not curb the possibility that there will be no misuse of this power. As the power in this setup is concentrated in the hands of the state, there can be cases where a few politicians or bureaucrats may turn into dictators, thus leading to the destruction of the whole idea of socialism. Another drawback of this setup is that the individuals lose their economic freedom to the state. The workers are

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<sup>25</sup> Jawaharlal Nehru, *The Discovery of India* 404 (Oxford Univ. Press 1981) (1946).

now supposed to oblige the state instead of the bourgeois class. Also, the consumers were compelled to accept whatever products were produced by the government.

### **ECONOMIC FRAMEWORK IN INDIA**

The Indian economic system has expanded over the years, marked by profound developments. Starting off from the ancient Indus Valley Civilization, where urban planning, architectural achievements, and extensive trade connections with civilizations like Mesopotamia were defining features. The economy during this period of history thrived majorly on trade and commerce. Around 600 BC, the emergence of Mahajanpadas was seen, which embarked on the expansion of trade and urban developments. Later, the Mauryan Empire contributed towards political unity and economic stability while fostering a successful commercial network and well-established land routes. Similarly, over the next few thousand years, India's various classical civilizations, like the Rashtrakutas, Hoysalas, and Western Ganges, bloomed, thus becoming a significant global economic power by the 15th century. Despite this prosperity, European colonization later undermined and altered India's economic system. as well as its independent future. Before the arrival of Europeans, the Indian subcontinent was already well established in trade and merchant communities. However, its commercial activity in itself did not lead to the growth of capitalism in itself. When the Europeans arrived, especially the East India Company, the United Kingdom was the first to experience the Industrial Revolution. India supported and contributed a lot towards the economic growth of Britain. Scholars argue that colonialism interrupted a possible indigenous conversion to capitalism, but the capitalism developed in India was majorly developed due to colonialism and not internal evolution.

For hundreds, perhaps thousands, of years the Indian subcontinent was pivotal to world trade. During the “Nehruvian” period, India opened up independently for foreign trade, thus returning to its capitalistic roots. India followed a development strategy that entirely depended on domestic fuel for economic growth. Inspired by Russia during the time India aimed at becoming self-reliant and building its own industries in strategic sectors of the economy. This economic strategy included non-reliance on foreign capital and the private sector, which was beneficial in the political aspect as well. Due to colonialism in India, Indian leaders were opposed to the idea of capitalism and imperialism, as the colonizing countries, such as the United Kingdom and other Western countries, were economically exploiting and were capitalists. So India thought it'd be best to focus on the domestic industries, promoting self-reliance, and giving the state heavy control of the industries. This strategy was then known as an inward-oriented economic strategy. This was followed until the year 1991. In 1991 major economic reforms were brought by then-finance minister Narsimha Rao such that India, as an economy, was open to different economic systems. Capitalism blossoms where there is very little government intervention in terms of production and selling of goods. India was never a completely capitalistic economic nation, but that does not mean it did not support the idea of it. India today is a mixed economic nation. Capitalism is the dominant mode of production in the Indian economy. India's agriculture is progressively coming its way. The industry has long been the home of capitalism. During the last three decades, the capitalist class in India has strengthened its position almost beyond recognition. India's industry has taken a long stride. If its growth has not accelerated, it has remained at an average of about six percent during the last three decades. The industrial base in India is well-defined, and today it is reckoned as a major industrial power in the Third World, if not the world as a whole,<sup>26</sup>

Despite this visible expansion of capitalist tendencies, India's economic evolution has always been guided

by a broader socio-political vision rooted in inclusivity and welfare. Many thinkers were adamant about reconstructing Indian society by following the guidelines of socialism and bringing along socio-economic revolution and believed that following a socialist system was the only apt option to pave the way for the nation and achieve the goal of "growth with justice." A huge debate struck with respect to the addition of the word "socialist" in the preamble of India during the making of the Indian Constitution. Nearly three decades after the making of the constitution, the word "socialist" found its way into the preamble by the 42nd Amendment Act of 1976 as one of the essentials for governance. Therefore, changing India from a "Sovereign, Democratic, Republic" nation to a "Sovereign, Socialist, Secular, Democratic, Republic" nation.<sup>26</sup> Pt. Jawaharlal Nehru said, "I see no way of ending the poverty, the vast unemployment, the degradation and the subjection of the Indian people, except through socialism that involves vast and revolutionary changes in the feudal and autocratic Indian state system ... In short, it means a new civilization radically different from the present capitalist order."<sup>27</sup>

The concept of socialism has profoundly shaped India's economic policies and reforms since its independence in 1947. It emerged as a contraction to the historical happenings marked by colonial exploitation, poverty, class struggle, disparity in income, inequality, etc. The socialist ideology is rooted in the principles of equity, social justice, and the redistribution of resources, putting together the aspirations of a newly independent nation striving for growth. Pt. Jawaharlal Nehru, the first prime minister of the nation, was immensely inspired by Fabian socialism and Soviet-style planning and hence inculcated it in the development of the Indian economy. His interest led to the adoption of a mixed economy model, which combined state control with private enterprises. The five-year plan proposed by the planning commission became the cornerstone of economic governance, enhancing the importance of state ownership of important industries, allocation of resources, and, very importantly, reduction of socio-economic disparities. During the initial phase post-independence, the socialist policies prioritized land reforms and poverty, established public sector enterprises, and aimed at reducing inequality, empowering marginalized communities, and fostering economic self-sufficiency. However, over time, there were issues seen that arose due to this setup. The ineffective state control over the enterprises, increase in bureaucratic red tape, and lack of market competition began to hamper the economy, leading to challenges like fiscal deficits, low productivity, and an overbearing private sector. Furthermore, the pivotal turning point in India's economy was seen during the economic crisis of 1991, for which India undertook structural reforms that embarked on a shift away from its traditional socialist orientation toward a more market-driven approach. This period saw liberalization, privatization, and globalization [LPG] of the Indian economy, which lowered state interference, dismantled trade blockages, and opened the Indian economy to foreign markets, inviting foreign investments. These major reforms reflected a positive adaptation of socialist ideals, balancing growth with social welfare. Despite the dynamic nature of the Indian economy, the principles of socialism continued to influence Indian policymaking. Studying the impact of socialist ideologies helps to understand the decisions made during India's formative years. Public sector dominance, land reforms, and centralized planning are some policies that were deeply webbed with socialist ideals. Thus, the addition of socialist reforms in the Indian system has provided mixed results. While these policies support eliminating inequalities to some extent, they are prone to being inefficient, such as

<sup>26</sup> Prof. Dr. P. B. Pankaja, 'Socialist' Sailing into the Constitution of India- A Politico-Legal Narrative, 7 Indian J. L. & Legal Rsch. 7695, 7695-96

<sup>27</sup> B.C. Rout, Nehru's Views on Secularism, Socialism, and Democracy, [ed.] Jagadish P. Sharma, Nehru and the People's Movement, Manak Publications, New Delhi, (1991), p. 21.

bureaucratic red tape, corruption, and sluggish economic growth. Therefore, the tension between economic efficiency and social equity remains a central concern for India.<sup>28</sup>

## CONCLUSION

Even though capitalism and socialism are on opposite ends of the spectrum, they still contain numerous resemblances as well as disparities. Capitalism promotes individualism, where the focus is on an individual and how to upgrade their personality. It also creates an inequality amongst people, where it mainly bifurcates the society into two classes: the capitalists and the working class. Today, most nations, like the USA, India, and many more, are mixed economy nations where both these ideologies are followed as per their necessities. In culmination of the foregoing analysis, the structural analysis of economic systems reflects not merely a transformation in modes of production and distribution but also a deeper ideological shift in how society perceives justice, freedom, and welfare. From the rigid hierarchy of feudalism to the dynamic yet unequal framework of capitalism, and further to the egalitarian aspiration of socialism, each system has emerged as a response to the limitations of its predecessor. The theory of capitalism as proposed by Adam Smith, precisely emphasized individual liberty, private ownership, and market efficiency, fostering unprecedented economic growth and innovation. However, according to Karl Marx, this theory generated numerous contradictions in the form of class conflict, exploitation, and alienation of the working class. In contrast, the theory of socialism was introduced to rectify these disparities by endorsing collective ownership, equitable distribution, and social welfare, yet this theory also encountered difficulties such as bureaucratic inefficiency, lack of incentive, and excessive state involvement.

Over time, it has become evident that neither capitalism nor socialism in their absolute forms can singularly fulfil the diverse and evolving needs of society. The constrained application of capitalism risks deepening inequalities and restraining wealth, while an uncompromising socialist framework may stifle individual initiative and economic dynamism. Consequently, modern economic thought has increasingly moved toward the synthesis of these ideologies, recognizing that sustainable development requires both efficiency and equity, competition and cooperation, and freedom and regulation.

Taking into account the journey from the 19th century to the present underscores that economic systems are not static doctrines but living frameworks that must adapt to the changing realities of societies. Referencing the Indian context, the merger of these two economic systems is visible in the form of a “mixed economy framework” that has evolved through historical events. India today reflects a pragmatic balance where market-driven growth coexists with welfare-oriented principles, goaling to achieve both economic and social development while navigating the persistent challenges occurring one after the other. The true impact of any economic system lies not merely in its capacity to generate wealth but in its ability to distribute it justly, uphold human dignity, and promote the collective well-being of all members of the society of any economic system. Therefore, the ongoing debate between capitalism and socialism should not be viewed as a conflict of opposites but as a continuum of ideologies that, when harmonized, can contribute to the creation of a more balanced and progressive socio-economic order.

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<sup>28</sup> Samriti Sharma & Kanav Gupta, The Impact of Socialist Ideology on Indian Economic Policies and Reforms, 6 Int'l J. Multidisciplinary Trends 105, 105-06 (2024)