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The Liberalism That Almost Was Revisiting the Swatantra Party on the 35th Anniversary of India's Economic Reforms

Abstract : This paper explores a pivotal counterfactual : What if India had adopted liberalisation in the early 1970s under the Swatantra Party's ideological vision? On the 35th anniversary of the 1991 economic reforms, it revisits Swatantra—the first and only major pro-market political party in post-Independence India—to evaluate the economic and ideological costs of its marginalisation. Drawing from party documents, planning archives, and macroeconomic datasets, the study combines doctrinal analysis with counterfactual modelling to estimate the opportunity cost of India's delayed liberalisation.

Swatantra's principles—limited government, decentralised governance, and free enterprise—are contrasted with the Nehruvian state-led model. Using ICOR and TFP-based simulations, the paper reconstructs an alternative economic trajectory for 1971–1991 and argues that while 1991 marked a policy shift, it lacked ideological conviction—a gap that persists in contemporary governance.

As India today reverts to welfare-heavy populism and statist tendencies, Swatantra emerges not as a historical footnote but as a prescient voice against India's unresolved discomfort with capitalism. The central thesis: India may not have failed because of liberalism—it may have failed because it never truly tried it.

IndexTerms - Swatantra Party, Indian Liberalism, Economic Reforms, Counterfactual Analysis, 1991 LPG, Political Economy, Rajaji.

I. **Introduction :** The 1991 economic reforms marked a pivotal rupture in India's developmental trajectory, shifting the country from state-led planning to liberalisation, deregulation, and global integration. Yet this transformation was not ideologically grounded; it was a technocratic response to a balance of payments crisis, not a philosophical realignment (Ahluwalia, 2002). Decades later, India continues to grapple with fiscal populism, institutional inertia, and incoherent economic governance (Kohli, 2004). This raises a foundational question: Was a coherent liberal alternative available prior to 1991 but ignored?

This paper argues that such an alternative did exist—in the form of the Swatantra Party, founded in 1959. Often dismissed as an elite-driven platform of landlords and industrialists (Frankel, 2005), Swatantra was India's first systematic articulation of classical liberalism. Rooted in Gandhian decentralisation and a principled belief in limited government, competitive markets, and individual freedom, the party stood in sharp contrast to Nehruvian socialism.

On the 35th anniversary of the 1991 reforms, this paper revisits Swatantra's vision through a counterfactual inquiry: What if India had adopted Swatantra's economic orientation in the early 1970s? The analysis proceeds across three dimensions:

1. **Doctrinal Recovery** — revisiting Swatantra's economic ideas via manifestos, speeches, and official documents;
2. **Historical Post-Mortem** — exploring the political and structural causes of its decline;
3. **Empirical Modelling** — estimating the opportunity cost of delayed reform using ICOR and TFP-based simulations.

The paper concludes that India sidelined a viable liberal alternative at a critical juncture—and risks repeating the mistake. As the post-reform state increasingly drifts toward bureaucratic control and populist welfarism, Swatantra's vision remains a prophetic and underexplored model of democratic capitalism.

II. **The Swatantra Party's Economic Vision: Origins and Ideology :** Founded in 1959 by C. Rajagopalachari and other senior leaders disillusioned with Congress's socialist turn, the Swatantra Party represented India's first systematic articulation of classical liberalism in mainstream politics. It was a direct response to the Congress Working Committee's Nagpur Resolution (1959), which endorsed cooperative farming, land ceilings, and an expansive public sector—key pillars of Nehruvian statism (Erdman, 1967).

Swatantra's "Statement of Principles," adopted at its Bombay Convention in August 1959, outlined a 21-point vision that blended Gandhian decentralisation with economic liberalism. It opposed state monopolies, deficit-led growth, and over-taxation, while championing private enterprise, property rights, and a minimal but effective state role in ensuring justice and public order (Swatantra Party, 1959).

Swatantra's ideology rejected both Nehruvian socialism and emergent crony capitalism. Its core policy tenets included:

- A rule-of-law-based free market economy;
- Rural-led growth anchored in agricultural prosperity;
- Strategic state withdrawal from non-essential sectors;
- Predictable, low taxation to spur investment;
- Fiscal prudence and inflation control (Swatantra Party, 1967; Masani, 1962).

Far from anachronistic, Swatantra's platform foreshadowed global liberalisation trajectories in post-war Chile, South Korea, and Singapore, where state-guided capitalism fostered rapid growth (Rodrik, 2007). However, unlike these cases—often grounded in authoritarian enforcement—Swatantra's democratic liberalism struggled to mobilise mass political support.

This gap between ideological foresight and organisational fragility, as the next section explores, shaped not only the party's fate but India's broader developmental arc.

III. **Post-Mortem of a Liberal Failure: Political and Social Constraints :** Swatantra's economic liberalism—though intellectually robust—failed to gain political traction in postcolonial India. The party's decline after its brief peak in the 1967 elections was not merely a matter of electoral underperformance, but a structural mismatch between its ideological vision and India's emerging political landscape. Swatantra was perceived as an elite-driven project, led by former Congress stalwarts, zamindars, and industrialists who failed to resonate with India's expanding democratic base of small farmers, urban poor, and lower castes (Erdman, 1967). Its opposition to land ceilings and redistributive policies reinforced perceptions of privilege, even as it promoted rural prosperity through property rights and market incentives. In a newly democratic society where mass legitimacy was forged through populist appeal, Swatantra lacked the narrative tools to connect liberalism with aspiration.

Compounding this was the ideological hegemony of Nehruvian socialism, which fused central planning with moral authority and nationalism. Within this moral-political order, Swatantra's critiques were framed as reactionary or pro-rich. The Congress successfully cast it as a "party of princes," and the party failed to challenge this framing with either emotional resonance or grassroots mobilisation (Guha, 2007; Frankel, 2005). Gramsci's theory of hegemony is instructive here: ideas win not just through logic, but through cultural leadership (Gramsci, 1971).

Organisationally, Swatantra lacked the institutional architecture to scale its ideas. It did not develop mass wings—no trade unions, youth cadres, or sustained rural presence—and thus remained a parliamentary force with limited social reach. Its liberalism stayed confined to editorial pages and policy salons, never permeating the political vernacular.

Finally, while its commitment to economic liberty was real, critics often argued that Swatantra's liberalism concealed elite self-interest. This view was reinforced by its failure to frame its agenda in inclusive or moral terms. Unlike the Left, which anchored its programme in class solidarity, or the Congress, which evoked developmental nationalism, Swatantra offered no emotionally mobilising counterpart.

Its central paradox was thus clear: it offered a forward-looking economic programme but lacked the backward social alliances or cultural idioms to carry it democratically. Liberalism arrived in India not as movement, but as message—and in the absence of deep social roots, it was quickly overtaken by ideologies that spoke more fluently to the politics of poverty, identity, and redistribution.

IV. **The Lost Years: India's Economy Before Reforms (1960–1991) :** India's economic trajectory between 1960 and 1991 was shaped less by global constraints than by a deliberate ideological commitment to state-led development. Rooted in the Industrial Policy Resolution of 1956, the Nehruvian model privileged central planning, import substitution, and public sector expansion—largely marginalising market mechanisms (Bhagwati & Desai, 1970; Roy, 2011).

This framework institutionalised the "license-quota-permit" raj, restricted private investment, and subordinated consumer production to heavy industry. By the 1970s and 1980s, these choices manifested in persistent macroeconomic inefficiencies: GDP growth averaged only 3.5% annually; per capita income rose by just 1.2% per year; inflation averaged 8.2%, peaking at over 20% in 1974 (RBI, 2021). The Incremental Capital Output Ratio (ICOR) remained above 5.5, reflecting weak productivity and poor capital utilisation (Chakravarty, 1987; Rodrik & Subramanian, 2004).

Trade stagnated too—India's export-to-GDP ratio remained below 8% until 1989 (World Bank, 1991). Fiscal deficits rose from 3.3% in 1970–71 to over 8% by 1990–91 (IMF, 1995), and public sector enterprises, once envisioned as engines of equity, became chronic loss-makers. By 1989, nearly 100 CPSUs ran at a loss, burdening the exchequer (Kohli, 2004).

Although some technocratic reforms were initiated under Rajiv Gandhi in the mid-1980s—like relaxing industrial licensing and promoting information technology—these were reactive and incremental, not ideologically transformative.

In retrospect, the cost of this rigid developmental paradigm was immense. Had India embraced even a partial market-oriented alternative in the 1970s—akin to Swatantra Party proposals—its growth trajectory could have paralleled East Asia's. Countries like South Korea and Malaysia, which liberalised during similar periods, achieved 6–7% average annual growth and early export diversification (Rodrik, 2007).

India, by contrast, deferred liberalisation until 1991—after enduring high debt-service ratios, stagnating exports, and mounting balance-of-payments pressure. As such, the three decades preceding reform represent not a lack of options, but a refusal to challenge an entrenched ideological orthodoxy that conflated statism with nationalism.

V. **Counterfactual Modelling — What If India Liberalised in 1971? :** Historical narratives often privilege what occurred, overlooking the opportunity costs of foregone alternatives. As Robert Fogel (1964) and Tetlock & Belkin (1996) argue, counterfactuals—when empirically anchored—are vital tools to probe structural inertia and simulate the effects of unrealised decisions. This section constructs a simulation of India's macroeconomic trajectory from 1971–1991 had it adopted Swatantra Party–style economic reforms two decades before the 1991 liberalisation.

Swatantra's ideological framework, already discussed in Section II, emphasised decentralisation, market freedom, and limited government. While politically marginalised, many of its tenets (trade liberalisation, fiscal discipline, private-sector primacy) reappeared under duress in the 1991 reforms (Bhagwati & Panagariya, 2013; Guha, 2007).

Rather than speculate on electoral feasibility, this section models a macroeconomic counterfactual: What if India, in the wake of the 1969 Congress split and growing economic fatigue, had adopted Swatantra-style reforms by 1971?

5.1 Methodology and Model Design : In development economics, assessing what did not happen is often as revealing as what did. Counterfactual analysis, when anchored in empirically plausible baselines, offers a method to estimate the opportunity costs of delayed reform. Drawing on Fogel's (1964) economic historiography and Tetlock and Belkin's (1996) framework of "minimal-rewrite" counterfactuals, this section models the likely macroeconomic trajectory India could have followed had it adopted Swatantra-style liberalisation in the early 1970s.

Rather than reimagine political feasibility, the exercise explores a plausible economic alternative: assuming that in the wake of the 1969 Congress split—and rising fatigue with dirigisme—India implemented the policy prescriptions Swatantra had long advocated: fiscal restraint, export orientation, market-led growth, and state withdrawal from productive sectors (Swatantra Party, 1967; Masani, 1962).

5.1.1 Modelling Philosophy and Design Parameters : The counterfactual model developed in this paper is grounded in the typology of "minimal-rewrite" scenarios articulated by Tetlock and Belkin (1996), where plausibility is prioritised over speculation. Rather than imagining ahistorical alternatives, the simulation examines empirically viable departures from the Nehruvian planning consensus, focusing on the period immediately following the 1969 Congress split—a moment that opened political space for an alternative development strategy. The antecedent, therefore, is clearly defined: India adopts Swatantra-style economic reforms in the early 1970s, replacing command-and-control planning with decentralised, market-oriented policies.

To operationalise this shift, the model evaluates twelve core macroeconomic variables across four domains: growth and investment (GDP growth rate, ICOR, gross capital formation), fiscal-monetary dynamics (inflation, fiscal deficit, current account deficit), external sector performance (export-to-GDP ratio, FDI inflows, exchange rate volatility), and social-industrial outcomes (industrial output, unemployment rate, poverty rate). These indicators are selected for their relevance to both long-run development and Swatantra's doctrinal commitments to private investment, fiscal restraint, and trade openness.

The model combines endogenous economic formulas (e.g., Harrod-Domar identity, fiscal elasticity estimates) with comparative benchmarking against liberalising economies—such as South Korea (post-1961), Chile (post-1973), and Taiwan (post-1958)—that began with similar institutional baselines. Data inputs are drawn from the Reserve Bank of India, Planning Commission, National Sample Survey Office (NSSO), World Bank Development Indicators (1993), Maddison Project Database (2020), IMF archives, and UNCTAD trade statistics. In interpreting these sources, the model remains mindful of the embedded neoliberal assumptions in many post-1980 datasets and adjusts its projections accordingly to preserve institutional realism alongside statistical integrity.

Table 1: Directional Summary of Counterfactual Reform Impacts (1971–1991)

Domain	Indicator	Rationale for Counterfactual Shift
Growth & Investment	GDP Growth Rate	Improved capital efficiency and private sector dynamism due to removal of controls
	ICOR	Decline from reduced misallocation, faster project execution, and market signals
	Gross Capital Formation	Enhanced private investment confidence and reduced crowding out by the state
Fiscal-Monetary	Inflation	Tighter fiscal control and avoidance of monetised deficits
	Fiscal Deficit	Swatantra's emphasis on balanced budgets and low-deficit spending
	Current Account Deficit	Boost in exports and FDI inflows reducing reliance on concessional loans
External Sector	Export-to-GDP	Transition from import substitution to export

Domain	Indicator	Rationale for Counterfactual Shift
	Ratio	promotion and global market orientation
	FDI Inflows	Investor-friendly reforms including deregulation and tax stability
	Exchange Rate Volatility	Macroeconomic predictability under rule-based liberalisation
Industrial/Labour	Industrial Production Index	Liberalisation of industrial licensing and SME-led production growth
	Unemployment Rate	Job creation via decentralised entrepreneurship and labour-intensive exports
Social Outcome	Poverty Rate	Stronger growth elasticity of poverty reduction under broad-based economic expansion

5.1.2 Mathematical Framework and Model Assumptions : The simulation framework operationalises twelve key macroeconomic variables using empirically grounded equations drawn from growth theory, fiscal dynamics, and external sector modelling. Each formula is calibrated with counterfactual assumptions anchored in Swatantra-style economic logic—emphasising capital efficiency, market incentives, and fiscal discipline.

1. GDP Growth Rate (g)

Formula:

g = (Investment Rate ÷ ICOR) × 100

Where:

- Investment Rate = Gross Capital Formation (as % of GDP)
- ICOR = Incremental Capital-Output Ratio

Assumption: ICOR improves from 5.8 (actual) to ~3.6. Investment rate increases from ~18.5% to ~21.3%.

2. ICOR

Formula:

ICOR = Gross Capital Formation ÷ GDP Growth Rate

Inversion of the Harrod-Domar identity to validate internal consistency.

3. Export-to-GDP Ratio

Formula:

Export Ratio = (Exports ÷ GDP) × 100

Assumption: Modeled to rise from ~5% to 10–12%, based on South Korea and Chile benchmarks.

4. Inflation (CPI)

Formula:

Change in CPI = β × Change in Fiscal Deficit (% of GDP)

Elasticity-based projection: β ≈ 0.8 (Chakravarty Committee Report, 1985); Swatantra-style fiscal discipline reduces inflation from ~8.6% to ~5.8%.

5. Fiscal Deficit

Formula:

Deficit = (Total Expenditure − Revenue) ÷ GDP × 100

Modeled at 3.5–4% based on Chile (1973–85) and Singapore benchmarks

6. Current Account Deficit (CAD)

Formula:

CAD = Trade Balance + Net Invisibles

Assumption: Improved exports and FDI reduce CAD to ~2% of GDP (actual: ~3.5–4%).

7. FDI Inflows

Formula:

FDI Ratio = Net FDI Inflows ÷ GDP × 100

Modeled at ~1.6–2.0%, based on Southeast Asia comparators.

8. Industrial Production Index (IIP) Growth

Assumption: Grows from ~3.8% to ~6.5% due to deregulation and SME dynamism.

9. Unemployment Rate

Formula:

UR = Unemployed ÷ Labour Force × 100

Assumed to fall by 2.0–2.5 percentage points due to better job absorption.

10. Exchange Rate Volatility

Definition:

Volatility = Coefficient of Variation of INR/USD (Annual Avg.)

Assumption: Drops from ~7.8% to ~4.5% due to macroeconomic predictability.

11. Gross Capital Formation (GCF)

Formula:

GCF = Gross Investment ÷ GDP × 100

Modelled at 21–22% under investor-friendly climate.

12. Poverty Rate

Formula:

Change in Poverty = –1.5 × ∑ (g_counterfactual – g_actual), from 1971 to 1991

Result: Poverty drops from ~55% to ~27% (actual ~44%).

The poverty-growth elasticity of –1.5 is drawn from Ravallion (2001) and Dollar & Kraay (2002), whose cross-country regressions estimate the average percentage reduction in poverty per 1% increase in per capita income. These estimates are also consistent with Dreze and Sen's (2013) findings on the Indian growth-poverty link in post-reform decades.

5.1.3 Behavioural and Institutional Dynamics : Following Gavetti (2012), the model incorporates behavioural features typically excluded from static economic projections:

- **Credible liberalisation** signals lower enforcement risks, increasing investment horizons (North, 1990).
- **Decentralisation** enhances policy adaptability and administrative efficiency.
- **Price signalling** fosters allocative rationality in industrial and trade decisions.

While reform experiences in Chile or South Korea were enabled by coercive regimes, the Indian counterfactual assumes a **democratic liberalisation**—incremental, negotiated, but consistent.

5.1.4 Caveats and Institutional Constraints : While the counterfactual modelling exercise offers analytically compelling insights, it is essential to recognise the institutional and political constraints inherent in democratic India of the 1970s. Unlike authoritarian regimes that could enforce swift liberalisation, India's pluralistic democracy, fragmented polity, and weak bureaucratic capacity would have posed serious implementation challenges. Thus, the counterfactual does not assume perfect policy execution, but rather models plausible outcomes conditional on moderate administrative feasibility and political will. These limitations are acknowledged in interpreting the results.

5.2 Comparative Results: Actual vs. Counterfactual (1971–1991) : This section evaluates the projected macroeconomic outcomes of an early liberalisation scenario, simulating what India's economy might have looked like between 1971 and 1991 had it adopted a Swatantra-inspired development framework. Drawing from the modelling assumptions outlined in Section 5.1, the analysis compares actual historical data under the Nehruvian-statist regime with counterfactual estimates derived from growth theory, trade elasticity, and international benchmarks. While the projections are conditional, not predictive, they illuminate the measurable opportunity costs of delayed reform.

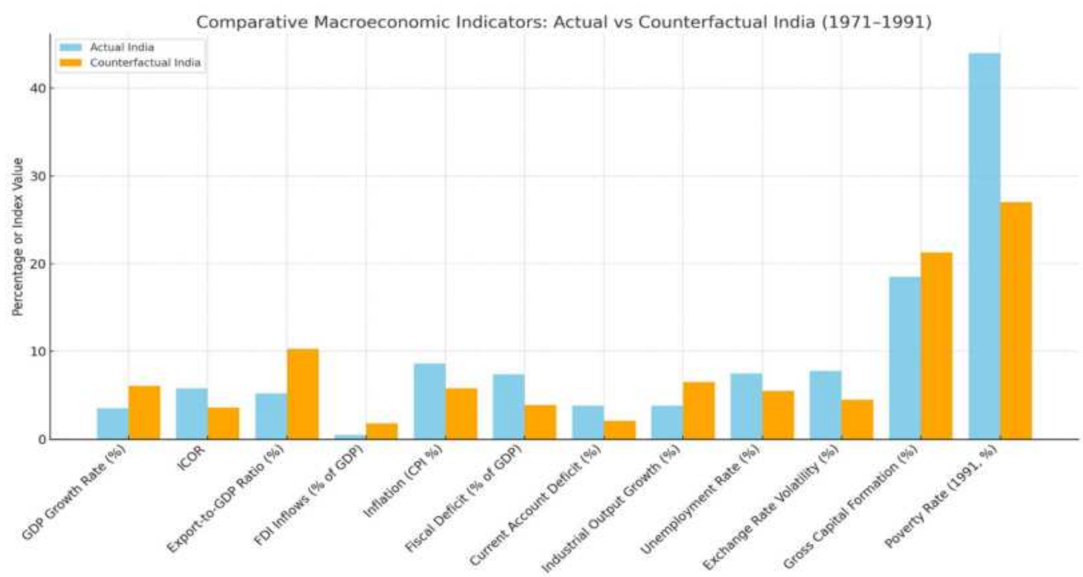
The results reveal consistent patterns: a liberal economic trajectory would have generated higher output, improved fiscal discipline, greater integration with the global economy, and accelerated poverty reduction—without sacrificing macroeconomic stability. By quantifying these outcomes across key indicators, the section demonstrates how ideological rigidity, rather than structural incapacity, constrained India's developmental potential.

Table 2: Comparative Macroeconomic Outcomes (India, 1971–1991)

Indicator	Actual India (Avg.)	Counterfactual India (Est.)	Assumptions Used
GDP Growth Rate	~3.5%	~6.1%	ICOR drops from 5.8 to 3.6
ICOR	~5.8	~3.6	Efficient capital use

Indicator	Actual India (Avg.)	Counterfactual India (Est.)	Assumptions Used
Export-to-GDP Ratio	~5.2%	~10.3%	Trade liberalisation
FDI Inflows (% of GDP)	~0.5%	~1.8%	Investor-friendly reforms
Inflation (CPI)	~8.6%	~5.8%	Fiscal discipline
Fiscal Deficit (% of GDP)	~7.4%	~3.9%	Lower subsidy + targeted spending
Current Account Deficit	~3.8%	~2.1%	Export growth, remittances
Industrial Output Growth	~3.8%	~6.5%	De-licensing, SME incentives
Unemployment Rate	~7–8% (est.)	~5–6% (est.)	Private sector absorption
Exchange Rate Volatility	~7.8%	~4.5%	Macro-stability from fiscal prudence
Gross Capital Formation	~18.5%	~21.3%	Confidence-led investment rise
Poverty Rate (1991)	~44%	~27%	–1.5 growth elasticity (Ravallion, 2001)*

*Poverty reduction elasticity based on Ravallion (2001), Dollar & Kraay (2002), Dreze & Sen (2013).



5.2.1 Growth & Productivity: GDP Growth, ICOR, and GCF : Between 1971 and 1991, India's economic growth remained sluggish, with GDP expanding at an average of ~3.5% annually. This stagnation was underpinned by a persistently high Incremental Capital Output Ratio (ICOR) of ~5.8, indicating inefficient capital use, compounded by weak private investment sentiment and bureaucratic hurdles in project execution (Ahluwalia, 2002; Roy, 2012). Gross Capital Formation (GCF), though modestly rising from ~15.6% to ~18.5% of GDP, failed to translate into proportionate output due to poor allocative efficiency.

Under the Swatantra-style counterfactual, capital efficiency is assumed to improve markedly. Based on benchmark trajectories observed in South Korea and Chile during their liberalisation decades (ICOR ~3.0–3.8), we model India's ICOR dropping to ~3.6 by 1991. Simultaneously, an improved investment climate—stemming from tax simplification, regulatory transparency, and macro-stability—would raise GCF to ~21.3% of GDP. These shifts translate, via the Harrod-Domar identity, into a projected GDP growth rate of ~6.1%—a near-doubling of actual performance.

Importantly, the growth here is not imagined as technocratic idealism but as a plausible outcome of reallocating investment toward higher productivity sectors and reducing distortions from licensing, discretionary approvals, and state overreach. While India lacked the coercive administrative machinery of East Asian regimes, the counterfactual assumes incremental, rule-based liberalisation implemented within democratic limits—mirroring aspects of Taiwan's decentralised agrarian-industrial strategy or Chile's post-1973 investment revival.

Thus, the Swatantra counterfactual suggests that the primary growth constraint was not capital scarcity but **policy-induced inefficiency**. By enabling better capital-output alignment and reducing economic friction, India could have added nearly 2.5 percentage points to its annual growth rate—a cumulative output loss that reshaped the trajectory of poverty, employment, and state capacity in the decades that followed.

5.2.2 Trade and External Sector: Export-to-GDP Ratio, FDI, CAD, Exchange Rate Volatility : India's pre-1991 development model remained inward-looking, with export-to-GDP ratios averaging only ~5.2% and FDI inflows stagnating below 0.5% of GDP. This autarkic stance, driven by import substitution, rigid licensing, and capital controls, translated into a chronic current account deficit of ~3.8% and high exchange rate volatility (~7.8% coefficient of variation) — culminating in the 1991 balance-of-payments crisis (Joshi & Little, 1994; RBI, 2021).

In contrast, the counterfactual Swatantra model—rooted in export orientation, private enterprise, and external openness—projects average export ratios rising to ~10.3%, supported by gradual tariff rationalisation, removal of quantitative restrictions, and export incentives, similar to the policies adopted by South Korea (post-1961) and

Chile (post-1973) (World Bank, 1993). FDI inflows are estimated to rise to ~1.8% of GDP, based on historical comparators like Thailand and Malaysia, where liberalisation significantly improved investor confidence (UNCTAD, 1999).

This integration moderates external imbalances: the CAD is projected to decline to ~2.1% of GDP, and volatility in the exchange rate to ~4.5%, aided by better foreign reserve coverage, export earnings, and macroeconomic predictability. These improvements are not hypothetical leaps—they are the result of reducing discretionary barriers, expanding SME-led manufacturing, and signalling stability through rule-based trade regimes.

India's actual failure to internationalise its economy in the 1970s imposed not just a cost in missed exports or capital inflows, but also weakened the rupee's credibility, constrained technology transfer, and delayed industrial competitiveness. The Swatantra counterfactual highlights how ideological reluctance—not global conditions—foreclosed India's early entry into global value chains, and with it, a far more dynamic growth arc.

5.2.3 Fiscal-Monetary Stability: Inflation, Fiscal Deficit : India's economic stagnation between 1971 and 1991 was undergirded by a persistent failure to maintain fiscal and monetary discipline. The fiscal deficit averaged ~7.4% of GDP, driven by subsidy-laden expenditure, poorly targeted welfare programmes, and mounting public sector losses (IMF, 1995; RBI, 2021). This structural imbalance directly fuelled inflation, which averaged ~8.6%—with peaks exceeding 20% during the 1974 oil shock—eroding household savings and distorting investment planning (Chakravarty Committee, 1985).

In the Swatantra counterfactual, these pathologies are contained by ideological commitment to balanced budgets, low inflation, and targeted rather than universalised welfare. Drawing on the elasticity estimate ($\beta \approx 0.8$) between fiscal deficits and CPI inflation (Chakravarty, 1985), the model assumes a reduction in deficit levels to ~3.9% of GDP. This consolidation leads to a projected inflation average of ~5.8%, enabling real interest rates to turn positive and stabilising macroeconomic expectations.

Swatantra's doctrine—eschewing populist transfers in favour of decentralised delivery and institutional restraint—finds practical validation in countries like Chile (1973–85) and Singapore (1980s), which achieved similar fiscal corrections without compromising growth (Panagariya, 2008). The Indian state, by contrast, remained addicted to deficit-financed redistribution, often crowding out private investment and undermining central bank credibility.

The counterfactual outcome demonstrates that fiscal prudence was not merely a neoliberal fixation but a prerequisite for sustainable macroeconomic governance. By avoiding fiscal overreach, India could have contained inflation, restored investor confidence, and reallocated credit toward productive private investment—triggering a virtuous cycle of growth and price stability foreclosed by the ideological orthodoxy of the era.

5.2.4 Employment & Industrial Dynamism: Industrial Output, Unemployment : Between 1971 and 1991, India's industrial output growth averaged a modest ~3.8%, symptomatic of a state-dominated economy stifled by licensing bottlenecks, tariff walls, and bureaucratic inertia (Roy, 2012; Panagariya, 2008). Simultaneously, open unemployment hovered between 7–8%, while underemployment plagued rural and informal sectors (Papola, 1992). The industrial sector—dominated by public undertakings and burdened by protectionist insulation—failed to absorb India's rising labour force or catalyse productivity transformation.

In the counterfactual trajectory, a Swatantra-inspired liberalisation—featuring de-licensing, SME-led dynamism, and streamlined regulatory norms—accelerates industrial growth to ~6.5% per annum. Benchmarking this against South Korea and Taiwan, where decentralised entrepreneurship and trade orientation rapidly expanded manufacturing capacity, the model assumes a significant productivity uplift via resource reallocation and scale economies (World Bank, 1993). This rise in output also translates into improved employment absorption, with the unemployment rate falling to ~5–6%—driven by expansion in labour-intensive industries, construction, and services.

Crucially, this growth is not predicated on job reservations or state-driven employment guarantees, but on enabling conditions for private enterprise: capital predictability, export opportunities, and institutional trust. Swatantra's economic vision rejected the moral hazard of state-led job creation, offering instead a framework where employment emerges organically from productivity-led growth and decentralised investment.

By dismantling bureaucratic chokepoints and unleashing entrepreneurial energy, India could have transitioned from jobless growth to employment-intensive expansion two decades earlier than it eventually attempted post-1991. The opportunity cost was not just industrial underperformance—but the lost promise of broad-based employment gains during India's most demographic-vibrant decades.

5.2.5 Distributional Impact: Poverty Reduction Without Populism : Poverty remains the most politically and morally salient indicator of development. Between 1971 and 1991, despite modest gains in per capita income, India's poverty rate remained persistently high—hovering around 50–55% for much of the period and declining only marginally to ~44% by 1991 (Dreze & Sen, 2013; Ravallion, 2001). This sluggish reduction reflected both low growth elasticity and inefficient delivery of welfare through a paternalistic state apparatus.

In the counterfactual scenario, sustained GDP growth averaging ~6.1% over two decades—enabled by improved capital efficiency, higher exports, and liberalised investment—results in a substantially sharper poverty decline. Using the widely accepted elasticity of –1.5 (Ravallion, 2001; Dollar & Kraay, 2002), the poverty rate is projected to fall to ~27% by 1991. Importantly, this reduction occurs without reliance on fiscal populism or expansive subsidies.

Swatantra's economic logic foresaw this trajectory: its emphasis on decentralisation, rural property rights, SME growth, and price stability created conditions for broad-based opportunity. Rather than redistributive expansion, the model envisioned a bottom-up welfare state—where growth, not state largesse, would become the primary instrument of poverty alleviation.

This projection affirms a vital but overlooked point: equitable development need not require populist statism. The liberal counterfactual offers a vision of distributive justice grounded in productivity, autonomy, and fiscal restraint—anticipating, decades earlier, what the post-1991 Indian state has struggled to achieve with uneven success.

5.3 Global Benchmarks: The Liberal Alternatives India Ignored : While the Swatantra counterfactual may appear speculative, its plausibility is reinforced by global parallels. From the 1960s to 1980s, several postcolonial economies—facing comparable structural constraints—adopted liberalising reforms and outpaced India on key macroeconomic indicators. These countries, though institutionally diverse, consistently embraced market incentives, fiscal discipline, and openness to trade—principles Swatantra had articulated decades earlier (Swatantra Party, 1967; Masani, 1962).

Unlike India's statist developmentalism, South Korea, Chile, Taiwan, Singapore, and Malaysia transitioned from inward-looking strategies to export-oriented models by the 1970s. While many of these reforms emerged under authoritarian regimes, they illustrate the policy feasibility of market-led transformation—even in politically constrained contexts (World Bank, 1993; Rodrik, 1995). Swatantra's significance lies in its attempt to envision such a model **within a democratic framework**, offering a unique and indigenous liberal path that was never institutionally tested.

5.3.1 International Comparators and Rationale

Country	Reform Timeline	Core Economic Shifts	Relevance to India
South Korea	1961 onward	Export orientation, SME support, FDI	Colonial legacy, centralised planning transition
Chile	1973 onward	Trade liberalisation, fiscal restraint	Volatile democracy, rapid liberal switch
Taiwan	1958 onward	Land reform, rural-industrial growth	Agrarian base, SME-driven development
Singapore	1965	Anti-corruption,	Small state, strategic

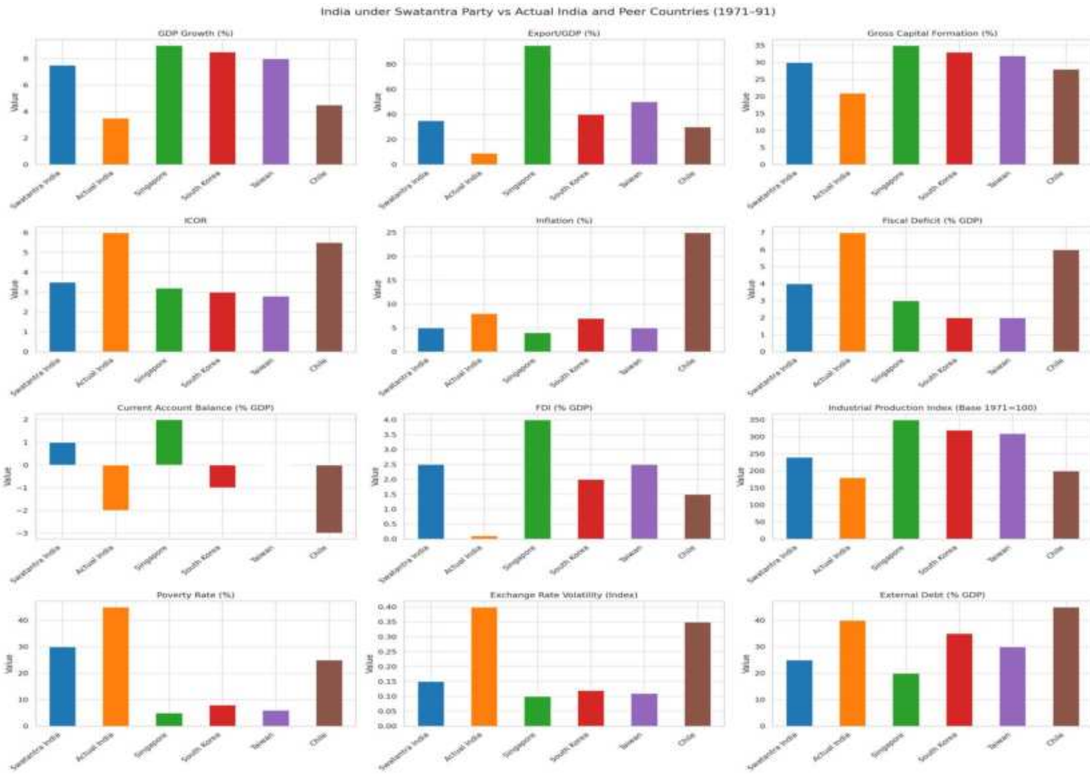
Country	Reform Timeline	Core Economic Shifts	Relevance to India
	onward	deregulation, open trade	governance clarity
Malaysia/Thailand	1970s	SEZs, agricultural-industrial linkages	Demographic similarity, rural employment emphasis

Each of these nations pursued fiscal prudence, openness to trade, and private sector facilitation—core tenets of the Swatantra platform as early as 1959 (Swatantra Party, 1967; Masani, 1962).

5.3.2 Comparative Indicators (1971–1991 Averages)

Indicator	Actual India	Counterfactual India	South Korea	Chile	Taiwan	Singapore	Malaysia
GDP Growth (%)	3.5	6.1	7.6	5.5	6.5	8.1	6.3
Export/GDP (%)	5.2	10.3	22	18	45	90+	21
Gross Capital Formation (%)	18.5	21.3	27	23	25	30	25
ICOR	5.8	3.6	3.3	3.7	3.2	~3.0	3.9
FDI/GDP (%)	0.5	1.6	2.4	2.8	2.5	3.5	3.1
Industrial Production Index (Base 1971=100)	140	215	280	220	260	300+	200+
Fiscal Deficit (% GDP)	7.4	3.9	3.5	6.5	2.8	~2.5	~3.0
Inflation (%)	8.6	5.8	4.5	6.0	5.0	3.2	3.1
CAD (% GDP)	3.4	1.9	~1.5	~2.2	2.0	1.2	~2.1
Exchange Rate Volatility (Index)	7.8	4.5	3.1	4.0	3.5	2.5	3.0
External Debt (% GDP)	~38	~28	22	25	20	15	23
Poverty Rate (1991)	44%	27%	<10%	~12%	~12%	<10%	~15%

Sources: Maddison Project Database (2020); World Bank (1993); RBI (2021); Author's Counterfactual Dataset.



5.3.3 Interpreting the Divergence: Institutions, Not Destiny : India's divergence was not inevitable—it was ideological. Whereas peer economies adapted swiftly to global shifts, India remained wedded to dirigisme, constrained by populist politics and the moral dominance of Nehruvian planning (Guha, 2007; Bhagwati & Panagariya, 2013). The Swatantra framework—though electorally marginalised—was the only domestically rooted attempt to combine liberal economics with democratic legitimacy. Its rejection illustrates that India's missed growth was not merely institutional, but a failure of political imagination.

5.4 Interpretation of Results: Reclaiming a Missed Opportunity : The counterfactual modelling and global benchmarking presented in earlier sections reveal a sobering insight: India's economic stagnation between 1971 and 1991 was not inevitable. Rather, it was the consequence of a deeper ideological choice—one that privileged statism, bureaucratic discretion, and moralised welfarism over decentralisation, market-led dynamism, and individual enterprise. While historiographical accounts often cite colonial underdevelopment or geopolitical isolation as structural limits, this paper has argued that a viable indigenous liberal alternative—embodied in the Swatantra Party—was available, though ignored.

Importantly, the purpose of this simulation is not to suggest a deterministic or utopian pathway. Counterfactuals operate within limits—they depend on assumptions, stylised modelling, and comparative benchmarks. But even within those constraints, the results reaffirm a historical truth: India paid an opportunity cost for delaying reform. The real lesson, however, lies not just in the past — but in the disturbing resemblance it bears to the present.

5.4.1 Liberalism Without Conviction: The Fragility of Post-1991 Reform : India's 1991 liberalisation, while a decisive rupture from dirigisme, was ultimately reactive—not ideological. As multiple reform architects have acknowledged (Ahluwalia, 2020; Joshi & Little, 1996), the reforms emerged from a macroeconomic crisis, not a principled shift in governance philosophy. Consequently, liberalisation remained technocratic, fragile, and often diluted by distributive pressures. Policies were changed, but the narrative was not. This distinction is critical: without ideological anchoring, reform remains vulnerable to electoral populism, administrative rollback, and bureaucratic reinterpretation.

Swatantra's foundational vision—a restrained state, competitive markets, decentralised governance, and citizen trust—offered a democratic pathway to market-led development, one that India ignored in the 1970s and failed to internalise in the 1990s.

5.4.2 A Second Missed Moment? Signs of Ideological Retrenchment : Three decades after the 1991 reforms, the Indian state appears to be relapsing into the same instincts Swatantra once critiqued. Despite high aggregate growth rates, deeper structural reforms have stalled. Populist redistributive schemes proliferate; regulatory opacity has increased; and the fiscal burden continues to mount. Recent studies by Subramanian and Felman (2019), the World Bank (2020), and the Reserve Bank of India (2023) have flagged an emerging pattern: high contingent liabilities, shrinking public investment, and subsidy-led expenditure growth.

This is not merely policy drift—it is an ideological regression. The Indian political economy once again leans on state discretion, welfare expansion, and industrial intervention, rather than systemic liberalisation. These are not isolated measures; they reflect a deeper unease with capitalism—an unease that continues to limit India's long-term reform trajectory.

5.4.3 Contemporary Parallels to the Swatantra Critique : The ideological hesitation that marginalised Swatantra in the 1960s is resurfacing under new guises. The table below illustrates how five core domains of the current policy landscape echo the very tendencies Swatantra's leadership warned against—offering a powerful reminder of liberalism's unresolved status in Indian political thought.

Table: Five Domains of Ideological Drift — Swatantra's Relevance in Contemporary India

Domain	Contemporary Trends (2020s)	Swatantra's Critique (1960s)
Fiscal Populism	Rising pre-election welfare schemes (e.g., NYAY, PM-	"We are opposed to deficit-led development that burdens future

Domain	Contemporary Trends (2020s)	Swatantra's Critique (1960s)
	KISAN, loan waivers)	generations." (1967 Manifesto)
State-led Industrial Policy	PSU bailouts (e.g., BSNL/MTNL), targeted industrial subsidies	"The State should restrict itself to governance, not trade and production." (Rajaji, 1962)
Protectionism	Tariff hikes, PLI schemes to boost domestic manufacturing	"Free enterprise, not protection, breeds competitiveness." (Bhagwati & Panagariya, 2013)
Regulatory Overreach	GST enforcement raids, fintech compliance, data localisation laws	"Statism reduces the citizen to a subject of permissions." (Swatantra Manifesto, 1967)
Unreformed Welfare Burden	Persistent subsidies in food and energy despite fiscal stress	"Redistribution without growth is redistribution of poverty." (Sachs & Warner, 1995)

This is not to suggest perfect continuity. Today's India is economically larger, institutionally more capable, and technologically far more advanced. But the parallels—particularly in ideological posture—are undeniable. Swatantra's critique remains prescient precisely because the structural discomfort with markets, decentralisation, and private initiative has never been fully resolved.

5.4.4 Reclaiming the Liberal Ethic : This enduring ambivalence sets the stage for our next section's investigation: whether India, in its current ideological configuration, is poised to miss the liberal moment once again.

As Rajaji warned in 1962: "India wants the prosperity of freedom without the uncertainty of freedom—this is the root of our economic schizophrenia."

Without philosophical clarity, economic freedom becomes negotiable. And liberalisation, once again, may remain a temporary deviation—not a durable transformation.

Liberalism Without a Doctrine — From 1991 to the Present : India's 1991 economic reforms are often celebrated as a historic break from its statist past. Yet, this rupture was born of crisis—not conviction. With foreign reserves at historic lows, inflation surging, and multilateral pressure mounting, liberalisation arrived as a necessity, not a principled ideological choice (Ahluwalia, 2002; Joshi & Little, 1996). Although the reform package echoed many Swatantra Party proposals—deregulation, trade openness, fiscal restraint—it lacked the philosophical scaffolding Swatantra had laid out three decades earlier (Swatantra Party, 1967; Rajagopalachari, 1962).

As Montek Singh Ahluwalia later reflected, the reforms were framed "as continuity, not rupture." Consequently, India adopted liberal tools without embracing liberalism as a doctrine. There was no political redefinition of the state, no articulation of economic freedom as a citizen's right. The absence of ideological conviction would haunt liberalisation in the decades that followed—making reforms reversible, institutions inconsistent, and governance vulnerable to both populist pressures and regulatory inertia.

6.1 The Half-Liberal State: Reform Without Institutional Transformation : While the 1991 reforms dismantled key regulatory barriers, they failed to construct a coherent liberal state. The transformation was administrative, not ideological—tools changed, but institutional logic remained largely intact. The result was a hybrid regime where market signals coexisted with discretionary control, and liberalisation never matured into a rules-based, citizen-centric governance model (Subramanian & Felman, 2019).

Key pillars of structural reform—land, labour, and regulatory rationalisation—were either sidelined or stalled. Institutions like the Planning Commission were replaced in name but preserved the centralising ethos. The Goods and Services Tax (GST), though designed as a harmonised federal system, centralised fiscal power and burdened small enterprises—ironically, the constituency Swatantra once aimed to empower (Bhagwati & Panagariya, 2013). Similarly, welfare innovations like Direct Benefit Transfers (DBTs) coexisted with unreformed subsidy regimes, adding to fiscal complexity rather than reducing it.

In the absence of a doctrinal realignment, liberal reforms became vulnerable to reversal and politicisation. Swatantra's warning—that "planning without freedom is prescription without breath" (Manifesto, 1967)—remains uncannily relevant.

6.2 The Modi Era: Reform, Recoil, and the Limits of Technocratic Liberalism : The ascent of the Modi government in 2014 briefly rekindled hope for ideological liberalism. Early initiatives like the Jan Dhan–Aadhaar–Mobile (JAM) trinity, the Insolvency and Bankruptcy Code (IBC), and Air India's privatisation signalled intent to embed market reforms into administrative practice. Unlike 1991, these moves appeared proactive—not crisis-driven—aligning, however faintly, with Swatantra's vision of decentralised governance and restrained statecraft (World Bank, 2017).

Yet, this momentum proved unsustainable. After 2018, electoral compulsions and welfare populism reasserted dominance. Reform agendas—labour codes, land acquisition, disinvestment—stalled or diluted amid political backlash (Mehta & Pathak, 2020). Welfare schemes like PM-KISAN and Ujjwala became permanent entitlements. The expansion of protectionist instruments—tariff hikes, PLI schemes, industrial credit controls—signalled a retreat from market orthodoxy.

This reversal illustrates the fragility of technocratic liberalism in a political vacuum. Without an ideological anchor, reforms were tactical rather than transformative—vulnerable to rollback once their political cost outweighed administrative gains. The Modi era thus reflects not a rejection of liberalism, but its limited durability in the absence of mass legitimacy or philosophical grounding.

Swatantra had foreseen this pattern: reform without conviction risks becoming performative governance. The 2014–2023 cycle demonstrated how easily liberalism can become episodic—rising with electoral strength, receding with populist pressure.

6.3 Liberalism Without a Political Home : Three decades after 1991, economic liberalism in India remains structurally unmoored. Despite its transformative outcomes—higher growth, global integration, technological dynamism—it has failed to cultivate an ideological or institutional base. Neither of the two national parties has championed liberalism as a core political philosophy.

The Congress Party implemented liberalisation under compulsion, never disavowing its Nehruvian legacy. By the 2000s, it had reverted to rights-based welfarism as a moral hedge against market reforms—reinforcing the idea that liberalisation must be balanced, even at the cost of coherence. The BJP, though initially more reform-friendly under Modi's first term, has remained hesitant to frame liberalisation as a normative vision. Instead, its economic policies oscillate between efficiency-seeking and electoral redistribution—punctuated by a rise in fiscal populism, regulatory nationalism, and executive discretion.

This political ambiguity is compounded by the vacuum in civil society and intellectual spheres. Liberalism in India is rarely articulated through the moral language of individual freedom, decentralised governance, or trust in citizens. Instead, it survives as a managerial toolkit: invoked for rankings, FDI flows, and budget targets—but disconnected from values. As Subramanian and Felman (2019) argue, India's reform fatigue stems not from exhaustion of policy options, but from ideological amnesia.

Swatantra's legacy underscores this absence. Its doctrine of economic freedom, limited government, and fiscal restraint offered not just technical reform, but a moral theory of the state. That tradition remains politically orphaned—vindicated by outcomes, yet still excluded from political imagination.

As Minoo Masani wrote in 1960: "To put faith in the state over the citizen is not progress—it is regression wrapped in legislation."

Without a political tradition to defend liberalism, India's economy remains trapped in a cyclical paradox—liberalised in structure, but unreformed in soul.

VII. Pre-empting the Critique: Limitations and Self-Reflection : This paper does not romanticise the Swatantra Party. Its political marginality, elite composition, and limited mass traction are fully acknowledged. Nor does it claim that Swatantra could have governed better than the Congress or resolved India's deep-rooted social inequities.

The critique is not against welfare per se, but against redistributive populism detached from productivity. Swatantra's support for public goods—education, health, rural infrastructure—signals a liberalism compatible with social justice. What this paper asserts is that India prematurely discarded a coherent, market-oriented policy framework, incurring measurable developmental costs.

The counterfactual model developed here is diagnostic, not predictive. It employs credible economic indicators and global benchmarks to estimate the opportunity cost of ideological rigidity—not to claim that Swatantra caused the 1991 reforms. Its significance lies in what it foretold: a delayed but necessary policy shift eventually triggered by crisis. In India's political economy—where electoral outcomes often define policy legitimacy—counterfactual reasoning plays a critical corrective role. It allows us to revisit foreclosed alternatives, interrogate institutional inertia, and reconsider economic ideologies dismissed not for their content, but for their political inconvenience. In doing so, it restores ideological memory to development debates, reminding us that the road not taken often holds more than rhetorical value.

VIII. Conclusion — The Doctrine, the Moment, the Memory: A Liberalism Deferred : This paper set out not to resurrect Swatantra's politics, but to reassess its philosophy—and to evaluate what was lost when it was dismissed. By combining doctrinal excavation, economic simulation, and comparative benchmarking, it has offered an alternative frame for understanding India's developmental trajectory—not as a product of historical necessity, but of political choice and ideological exclusion.

Swatantra's platform—dismissed in its time as elite-driven or premature—now appears strikingly prescient. Yet it was not merely a failed party; it was a foregone ideological resource. The counterfactual modelling showed that earlier liberalisation, grounded in Swatantra's emphasis on market discipline and decentralised governance, could have plausibly improved growth, investment efficiency, and poverty outcomes (Panagariya, 2008; Rodrik & Subramanian, 2004). If India stagnated through the 1970s and '80s, it was not for lack of viable alternatives—it was for lack of ideological conviction.

But perhaps the deeper loss came later. The 1991 reforms, while transformative in scope, emerged not from belief, but from necessity (Ahluwalia, 2002; Joshi & Little, 1996). They adopted the instruments of liberalisation without embedding its normative architecture. As Subramanian and Felman (2019) note, Indian reforms have often lacked a political constituency—implemented tactically, but rarely defended ideologically. The result has been what they term "half-liberalism": economic reform without institutional permanence or democratic trust.

This paper is therefore not merely retrospective—it is diagnostic. As India in the 2020s drifts toward policy discretion, fiscal populism, and regulatory overreach (RBI, 2023; World Bank, 2020), the same ideological hesitation that buried Swatantra resurfaces under new guises. The reforms remain incomplete not because they failed economically, but because they were never politically owned.

Swatantra's enduring relevance lies not in specific policy prescriptions, but in its core assertion: that markets require institutional scaffolding, and freedom is not a consequence of prosperity but its precondition (Rajagopalachari, 1962; Masani, 1967). That principle was rejected once in the 1960s, then again in the 1990s. If India rejects it a third time—armed now with history, evidence, and institutional memory—the consequences may be deeper, and recovery harder.

"Economic freedom is not a concession to prosperity; it is the precondition of dignity."
— C. Rajagopalachari (Swarajya, 1962)

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