

Approaches to Development: An Introduction

The post Second World War period has witnessed two dominant models of development shaping the development discourse, policies and practices of majority of the nations of the globe. They are: the Capitalist model and the Socialist model. The capitalist model of development is mobilization by provision of private ownership of property and means of production, minimum state control on economic enterprises, and a free economy regulated by competition. This developmental model (model adopted by the developing nations) also mobilized sustained growth and mobilization with massive state investment at the takeoff stage. From the view of this perspective, “economic development would revolve around Industrialisation and the transfer of an underemployed rural labour force to the more productive occupations in the urban industrial sector. The state would have to mobilize domestic and foreign saving to create an investment pool from which it could finance a programme of directed industrial development.” This model of development is often termed as the First world model of development.

The First World model of development, however, encountered several challenges with the expansion of the socialist model of development represented by the Second World. The socialist model was contradictory to the capitalist model of development as it propagated the abolition of ownership of private property and means of production, emphasised state ownership of means of production, state-owned public enterprise, and a state regulated economy and centralised planning by the state for economic growth. While both the capitalist and the socialist models laid primary emphasis on economic growth, the socialist model also emphasised on the equal distribution of the fruits of growth among all sections of the population. It heavily criticised wealth being rationed by a microscopic minority and the benefits of development getting confined to a particular group without trickling down to the masses.

The developing world is represented by the ex-colonial, newly independent and non-aligned countries of Asia, Africa and Latin America. These countries are marked with massive poverty, low literacy, low productivity, low

technology and industrial backwardness. These countries represented a diverse variety in terms of their socio-cultural and political setting and historical experiences and levels of technological and economic development. Indeed the developing world development perspectives are caught between the conflicting ideologies of the First and Second world.

However, notwithstanding these variations these countries are economically and technologically underdeveloped, and are undergoing the process of nation-building and fast social transformation in the post-colonial era. As against these backdrops, these countries have been experimenting with diverse models of development. For example, India has followed the path of “mixed economy” by adopting a path of development in between the capitalist and socialist models. It becomes worthwhile here to mention the typical indigenous model of development found in India. It is based on the ideology of Mahatma Gandhi. Therefore it is called the Gandhian model of development. The prosperous society visualised by Gandhi, is not a materially or economically affluent society, as conceived by mainstream economists. Gandhi called his prosperous society Sarvodaya. It is a society that ensures the welfare and well-being of all its members. Its emphasis is on all the three components of well-being that are: material, mental and moral-spiritual.

2.1.2. The Post Globalisation Era and the Ascendancy of the Capitalist Model

Significantly, in the 1950s, the capitalist model of development faced its tragic failure in many developing countries. At this juncture, it was realised that development visualised in terms of economic growth will bring only miseries and not prosperity. Growth centred development leads to poverty of deep magnitude among the majority. So, at this point development theory was tuned according to the social, cultural, and political settings of the nations which coincided with the modernisation perspective on development. The modernisation theory was associated with both the capitalist and socialist social and cultural orders. A vast number of developing world societies followed the path of modernisation with varied degrees of success. Indeed the historical experience and specific social-cultural contexts have

given rise not only to diverse patterns of modernity across the globe; also they contributed towards the emergence of imbalanced economic and political relationships among the nations.

The dependency theorists argued that unequal trading relationships and capitalist development have made the countries of the southern hemisphere dependent on the northern hemisphere, especially Western Europe and North America, for capital, technology and market. To Gunder Frank, the exposures of the developing countries to the economic influence of the capitalist countries have contributed to their dependency later which has resulted in economic colonization.

It is important that since the 1980s there have been serious changes in the approaches to and theories of development.

With the collapse of communism in Russia, the capitalist model is gaining ascendancy. It has also been observed that developing countries have been struggling under the weight of accumulated debt to the developed countries. Globalization has contributed significantly to the popularisation and spread of the capitalist model of development. The “structural adjustment programmes” have been forced on the countries following the socialist and developmental model of development by the West, especially the World Bank and the International Monetary Fund (IMF) with a view to creating conditions of economic growth by removing obstacles to the efficient operation of the free market. This is expected to create a homogenized model of economic development.

Thus, in this unit, three main approaches to development are being discussed in detail. They are the Capitalist, the Socialist models. They are also called the models of development.

The Capitalist Model of Development

The capitalist model of development became a dominant model of development with the growth and success of the industrialised nations of the west. Simply speaking a capitalist model of development is characterised by free markets and the absence of government intervention in the economy. It is a social system based on the principle of **individual rights**. It is based on the principles of **laissez-faire** which advocates for “letting the individuals free.”

Fundamentally the capitalist model of development rests upon the ideological tenets of capitalism.

2.3.1. Capitalist Model of Development: What it is?

The engine of capitalism is private property and its primary motivational factor is profit. The capitalist model of development is the polar extreme of the socialist model of development in its principles and practice.

Whereas the socialist model of development advocates for an economic system in which the major factors of production and large industries are state owned or controlled, while smaller businesses remain under private control,

Models of Development

Socialist Model Capitalist Model
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Gandhian Model

capitalist model of development champions the cause of private ownership of the means of production and industries. Privatization, profit motive are its guiding principles. Socialist model of development is thus a state managed and people centric development model whereas capitalist model of development is a private owner managed and market driven model of development.

Capitalist model of development was the model of development followed by the first world. It was adhered to by the industrialised nations of the west. The inherent miseries of capitalism had led to the introduction of the socialist model of development. But, after the falling of the Berlin wall in 1989 and the new transitional economies of the former Soviet bloc moving towards a market economy, capitalist model of development started getting revitalized. The few remaining stalwarts of communism, such as Cuba and the People's Republic of China, are now in a process of transition from the socialist to the capitalist model of development. So, now capitalist model of development has become a dominant world model of development.

2.3.2. History of the Capitalist Model

The roots of the capitalist model of development can be traced through the origin of capitalism. Capitalism as a way of economic pursuit started with the establishment of trade links. Trades were taken as the means for accumulation of wealth. Economic trade for profit has existed since the second millennium BC. However, capitalism in its modern form is usually traced to the emergence

of agrarian capitalism and mercantilism of the Early Modern era.

Capitalism emerged gradually from an evolution of feudal social values. With the emergence of the concept of private property and man's acquisitive instincts getting strengthened, capitalism started gaining momentum as a practice. The term capitalism is derived from the Latin term "caput" meaning "head". As an economic system it got established and popularised in the 12th and 13th centuries. The main ideas behind capitalism were collecting interest, money, and stocks of merchandise. This evolution occurred most rapidly in Europe during the social revolts in the 15th century that produced the Renaissance. A new secular merchant class evolved with tremendous capabilities to generate and accumulate personal wealth. Commercialism became the dominant mode of social interaction.

In the mid-1700s, a group of French economists began promoting what came to be known as laissez-faire (originally a French phrase translated as "allow to do") economics. This principle is the guiding law of capitalist model of development. Laissez-faire economics replaced the tariffs and trade restrictions of mercantilism. This type of economic system dominated Europe from approximately 1400 to 1700. Under the laissez-faire, capitalism grew and new capitalists, mostly merchants, developed better production skills and cultivated privileged trading information to maintain profits. Profits served as a personal reward for efficient transactions. The idea of capitalism got extensive treatment in the intellectual writings of several philosophers. Here a reference is made to Adam Smith, Max Weber and Karl Marx.

One of the earliest and most articulate exponents of this new economic system was Adam Smith (1723-1790), a Scottish economist and moral philosopher. Smith championed the idea that laissez-faire economics. To him laissez faire would benefit its practitioners while also promoting society's general welfare. His best known work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, was published in 1776 and remains today a guiding book for the capitalist philosophy. *The Wealth of Nations* sets forth the idea that the wealth of a nation is to be measured in the number and variety of consumable goods it is able to produce for sale or trade. Free trade with no government interference is thus vital to the prosperity of a country because the demand

brought about by free trade will result in the production of more goods. The unfettered production and sale of consumable goods is done in response to the needs of the populace. In fulfilling these needs, the capitalist profits and society prospers.

Intrinsic to capitalism is the marketplace. In fact the noted social theorist Max Weber (1864-1920) defined capitalism as an economic activity aligned toward a market and defined capitalists as those profiting from market exchanges and agreements. The marketplace is of course a concept rather than a physical reality. It is a situation in which buyers and sellers come together for the exchange of goods, labour, and capital.

In the mid-1900s, sociologist Karl Marx coined the term “capitalism” which he implies to be any private ownership of property or enterprise. Today economists define capitalism as an economic system based on private ownership of the means of production and distribution of goods, characterized by free competitive market and motivated by maximizing profit. During the 18th century, it designated productive capital. Karl Marx, the German philosopher and radical economist suggested that “capital” and “mode of production” were interchangeable terms. Another characteristic of capitalism according to Marx is its exploitation of the surplus value of labour. During the period of industrial expansion in Europe and during the fag end of colonial domination, capitalism was taken as a foundational model of development and it started getting popularised as model of development.

Finally, in the period following globalization, capitalist model of development is emerging as a dominant development worldwide. There is the harmonization of economies due to the opening of borders, deregulations and market expansions. There is the hybridization of the development models followed by the countries formerly following the socialist model of development and the third world countries trying with their own innovative model of development. Thus homogenous capitalist model of development is now followed throughout the world.

2.3.3. Types of Capitalist model of Development

Over the period of its evolution, the capitalist model of development has taken different forms. Though the ideology remains almost the same, there is a

little variation in practice among them. These models are:

1. The agrarian capitalist model
2. Mercantile capitalist model
3. The industrial capitalist model
4. The post globalization neoliberal model

The Agrarian capitalist model: The agrarian capitalist model of development had its origin in the 16th century England. It was established with the emergence of large estate system in England with the concentration of large acres of lands with few landlords. Under this system, workers were increasingly being employed as part of a broader and expanding money economy. The system put pressure on both the landlords and the tenants to increase the productivity of the agriculture to make profit. The landlords encouraged the labourers to try out better methods, and the tenants were also given incentive to improve their methods, in order to flourish in an increasingly competitive **labour market**. The stagnant system of custom and feudal obligations was in a process of evaporation. Market forces were the driving forces for production.

Mercantile Capitalist Model of Development: This model of capitalist development took place between 16th to 18th centuries. The age of discovery, geographic explorations, and discovery of sea routes contributed significantly to the development of this type of capitalist model. Mercantilism was a system of trade for profit, although commodities were still largely produced by noncapitalist production methods. This type of capitalist model is often said to be the founder of modern capitalist model of development and laid the foundation of colonialism.

The Industrial Capitalist Model: During the Industrial Revolution, the industrialists replaced the merchants as the dominant and deciding group in the capitalist system. It affected the decline of the traditional handicraft skills of artisans, guilds. During this period, the surplus generated by the rise of commercial agriculture encouraged increased mechanization of agriculture. Industrial capitalism marked the development of the factory system of manufacturing, characterized by a complex division of labour between and

within work process and the routine of work tasks; and finally established the global domination of the capitalist mode of production. During this system of capitalist development, there was mass scale machine based production.

Market was becoming expanded and diversified.

The post globalization capitalist model of development: The post globalization period stressed on a neoliberal economy and private ownership started gaining momentum. There was the withering away of the state. Market started becoming the guiding and governing actor. Due to the opening of the borders, deregulations, market was getting expanded. This brought new zeal to produce better quality and higher quantity of products and to diversify production. But, this led to the development of a temperament to maximize profit and capital accumulation was triggered. This established the post globalization capitalist model. This became an avowed aim of both the socialist as well as the capitalist countries. The model was also emulated by the third world economies while shaping their course of development.

2.3.4 Features of the Capitalist Model of development

The capitalist model of development has got its typical features which are discussed below.

(i) Private Property: The institution of private property lies at the basis of modern capitalist model of economic development. It is the guiding principle of capitalism. In capitalism every person has the right to earn and maintain property. The right to property is considered as a basic human right. Private property without state regulation is encouraged to motivate people for production and profit.

(ii) Large Scale Production: It is another important feature of capitalist model of development. Capitalism arose as a result of industrial revolution which made large scale production possible. Under the capitalist model of development, capital is the chief driver and deciding factor of change and development. It insists upon mass scale machine based production to capture the market. The installation of gigantic plants and division of labour are adopted as the foundational principle to increase production. More production means wider use of capital which leads to more profits. Further, large scale production is expected to increase the number of consumers and the prices

will be lowered. This would generate more profit, the ultimate aim of capitalist model of development.

(iii) Profit Motive: Capitalist model of development is tuned according to the philosophy of capitalism. According to Marx, capitalism cannot exist in the absence of institution of profit. Property and profit are the lubricating principles of the capitalist model of development. Without the individual's freedom to own private property and motive to earn profit, there cannot be the process of production. When the system of production is driven by both property and profit, it generates a drive to amass them. This not only increases the quantum, but also the quality of production and galvanizes the process of development. The capitalists invest money and out of investments earn profit. Production under capitalist model of development is profit-oriented. Sometimes under the capitalist model of development so much significance is attached to profit that, growth becomes the end of development, but not people's welfare.

(iv) Competition: Competition is one of the inevitable principles of a capitalist model of development. The capitalist model of development intends to bring development by encouraging competition. Competition is encouraged to maintain the quality, introduce innovations in production which ultimately contribute for development. There is a sharp growth due to rising competition which subsequently increases production quality and enriches the market by competitive prices, better alternatives and quality products.

(v) Price Mechanism: Under the capitalist model of development, price of products are in a fluctuating situation. Demand and supply positions in the market determine the price. There is almost no regulation from the state side. Thus, the people become the ultimate deciding authority for price determination. With increasing demand, the price increases and this generates profit and leads to capital formation. Capital formation is the foundation of economic growth and development.

(vi) Wage Distribution: In capitalist model of development, the wage distribution is not equal. Wages are determined on the basis of the skill and productive capacity of the workers. There is heavy competition among the labourers and they try to improve their skill, knowledge and capacity to deliver

the best. Thus, under this model of development, there is not only competition, but a requirement for the human factors of production to improve their capital. Both human capital and knowledge capital flourish under capitalist model of development which spearheads the process of economic development.

(vii) Money and Credit: Credit fuels the capitalist model of development. In the capitalist model of development, the institution of credit plays an important role. The capitalist producers get money on loan and develop their business. Thus, despite a lack of capital, the capitalist increases his property on the basis of credit.

(viii) Business Organization: Capitalist model of development is marked by vast business structures. The capital of numerous shareholders is pooled and an industrial house is set up. Business organizations are the hall mark of modern day economic development. The role of the state is very limited under the capitalist model of development. The business organizations become the development designers and drivers.

(ix) Market Economy: Under the capitalist model of development, there is no governmental control over the forces of production, distribution and exchange. It is controlled by the forces operating in the market. There is no price control or regulated distribution by the government. The economy operates freely under the law of demand and supply. The capitalist economy is a liberalised or market economy. Fluctuations in the market bring changes and stable market ensures development.

2.3.5. Positive Outcomes of Capitalist Model of Development

Capitalist model of development reaps its own positive outcomes. The most spectacular among them are:

The governmental interference is minimized under this model of development. So, corruption, lack of a self-interest and poor circulation of information within the market are prevented allowing freedom to individual enterprise and allowing individuals to exercise their choice, decision and reap their results. This not only encourages individuals, but also seems to be highly yielding for the country's economy. This also reduces the burdens of the state and makes the people conscious participants in the process of development. A sense of

ownership develops among the people which make development healthier. Capitalist model of development is market driven in character. It honours individual's choice both in commodity purchase and employment opportunities. It allows resources to be distributed according to consumer choice rearing the market to be more productive and consumer friendly in character.

Capitalist model of development promotes economic efficiency. A capitalist model of economy is efficient as it yields high levels of GDP, innovation is encouraged, and one is allowed to exercise freedom of choice. It is positive for economic growth.

Capitalist model of development increases productivity. It solicits rapid innovations in designs, in technology, in products. So it is always forward looking and development boosting in nature.

Under the capitalist model of development, social mobility is better. It pushes individuals to work harder in the interest of self-preservation to achieve more. Profit increase within the economy and changes the personal identity of the individual. The society becomes not only economically prosperous, but socially progressive. The trickling down effect is felt on the marginalized population too.

2.3.6. Negative Outcomes of Capitalist Model of Development

The capitalist model of economic development however lucrative it may be suffers from certain inherent pitfalls. The worst among them are:

Capitalist economic development always favors the rich and is alleged to be anti poor. It invariably leads to inequalities in the distribution of wealth and income which negates healthy development to a society.

In a capitalist society, markets dominate the economy. The owners of property gain monopoly power over consumers and workers. The role of the state is highly limited. So, capitalist model of development leads to mal development and lop sided development which are identified as development maladies by development theorists. It restricts participation of majority in the decision making process. Only the wealthy dominate the decision making process. This challenges development.

A society based on a capitalist model of development is driven by the profit

motives. It tries to maximize economic income in the short term. There is ruthless production and industrial production is emphasized to increase the quantity of production. It has a huge cost on environment in the long-term. Instead of increasing the quality of life it denounces it. It is against the norms of sustainable development.

Under capitalist model of development income is distributed in accordance to the skills and qualifications an individual possesses. Those possessing the skills, qualifications as well as capital resources are highly valued by the market and are entitled to receive high incomes, whereas lower incomes are allocated to persons without such skills and resources. Thus there is wide spread income inequality in the society which is not a healthy sign for development.

Economic growth is liable to be slow in a capitalist economy. Economic growth can be measured as the increase in real GDP. Productivity is the key component, i.e. producing more at a lesser operational cost. There are fluctuations in the business cycle under a capitalist model of development. This makes economic growth unstable and recession creeps in.

Capitalist model of development remains blind to the ideals of distributive justice and human rights and as such defy the principles of balanced development.

Thus, the capitalist model of development becomes growth centric, materialistic and often ignores people centric development and quality of life which have appeared as the new indices of development.

2.3.7. Present status of the Capitalist Model of Development

Irrespective of its vices, the capitalist model of development is gaining currency throughout the world following the period of globalization. In its attempt to homogenize the model of development the International Development Agencies are insisting on this type of development model. The failure of the Socialist model of development has strengthened it as the reigning development paradigm in the world. The East Asia miracle has added further positive note to this model of development. Gradually it is turning to be the determinant, dominant and driving model of economic development.

2.4. The Socialist Model of Development

2.4.1. Socialist Model of Development: What it is?

The socialist model of development was one of the reigning paradigms of development in the post Second World War period. This model had its root in the Soviet Russia. It is based on the philosophy of equity and state ownership as against the growth and market driven strategy of development propounded by the capitalist model of development. Simply it can be said that when the ideology of “Socialism” are put into development practice, it is called a socialist approach or model of development.

2.4.2. History of the Socialist Model of Development

The word “Socialist” is a derivation from the ideology called socialism. The word ‘socialism’ finds its root in the Latin word “sociare”, which means to combine or to share. Modern socialism originated in the 18th-century. During this period there was an intellectual and working class political movement against the blind process of industrialization that was taking momentum in the west. The movement also raised voice against the concept of private property that was emerging as an off shoot of the growing capitalism and was generating inequalities of ad deep magnitude in the society. The revival of republicanism in the American Revolution of 1776 and the egalitarian values introduced by the French Revolution of 1789 became the founding values of socialism as an ideology.

In the early 19th century, “socialism” gained currency as a practicing ideology to curb the evils of capitalism. However, by the late 19th century, “socialism” got its root as a contrast to the capitalist system of development and production. It advocated for some form of social ownership. During this time, German philosopher Karl Marx and his collaborator Friedrich Engels published works on socialist trends and ideologies. To these philosophers, socialism would appear as a phase of development. It will be established through a revolution by the people against the conflicting class interests and exploiting relationship. To the socialist thinkers development of a society becomes impossible with gross inequalities, lack of distributive justice and exploitation of a group by the other. To be more specific, in 1888, the Marxists used the term socialism in the place of communism.

The socialist movement came to be the most influential worldwide movement

and political-economic worldview of the 20th century. It was after the Bolshevik Revolution Vladimir Lenin used it as an intermediary model between capitalism and communism. Gradually this model was adopted by different nations as an operational model of development.

2.4.3. Features of the socialist model of development

The socialist model of development has its typical features which can be stated as follows.

1. Public or Collective Ownership of Resources:

The socialist model of development opposes ownership of private property. To the advocates of the socialist model of development, private property is the root cause of social inequality and social disparity which challenge development of a society. In the socialist economic model of development, all the material means of production are owned and used by state organs in order to avoid private ownership and control. However, it does not mean that private enterprise and private property are totally nonexistent in socialist economy. But state ownership surpasses them and the bulk of the means of production are state owned and state run.

2. Economic Planning:

Under socialist model of development, the economy is well planned. Planning may be centralized or decentralized. All the basic decisions for the control and regulation of the economy are taken by government. Similarly all the basic and strategic functions are performed according to a definite plan. Formulation of plans is the responsibility of a central planning authority which is again state decided, state established and state directed in nature. Emphasis is given on economic planning to avoid unwanted production and to put a check on unwanted production. Economic planning tries to make production according to the real needs of the people and to synchronise production and distribution.

3. Social Welfare Motive:

The socialist model of development aims to maximize the welfare of the people. It focuses on equal rights of all individuals and equal opportunity for all members. Social welfare becomes the basis of all economic decisions and economic policies. Price policy is guided by social welfare motive. Everyone is entitled to the benefits of socialized production on the basis of equal rights.

According to the socialist model of development, welfare of the people is not only the aim of development but the prime measure to assess development.

4. Little Importance of Price Mechanism:

A socialist model of development is not growth centric, but people centric in nature. Therefore, price regulation remains in the hands of the state to benefit all. The state too does not emphasize on hiking prices to ensure access, equality and quality for all people. Availability of the product remains the goal rather than making profit through fixing high price. Thus the socialist model of development tries to maximise availability, accessibility and affordability of resources and opportunities for the people.

5. People's Co-operation:

Socialist model of development rests on the ideology of people's participation through cooperation rather than cut throat competition. It aims at a planned economy. No plan can possibly succeed without the active participation of people. Therefore, while fixing the priorities of plans the central planning authority keeps in mind the interest of the community to seek the active participation of people in the implementation of plan. The government makes provisions for special incentives to seek people's cooperation in the process of production. Community planning, bottom up planning ideas later on became outcomes of the socialist model of development.

6. Lack of competition:

The resources are under government ownership in a society adhered to the socialist model of development. Therefore, government decides-what to produce, how to produce and for whom to produce. Prices are determined by government because productive enterprises are monopolised by the state. Govt., avoids all sorts of rivalries and competition among state enterprises. Thus there is absence of competition in a socialist model of development. The socialist model of development thus promotes partnership, collaborations rather than competition.

7. Non-existence of Social Parasites:

The socialist model of development tries to break the division between haves and have-nots or between 'master and servants' or the economically rich and economic under dogs. It does not create a group of producers and a group of

consumers. Everyone is both a producer and a consumer. The philosophy of a socialist model of development is “to each according to his needs and from each according to his ability.” Thus there is no place of social parasites and no possibility of exploitation.

8. Equality of Opportunity:

Under a socialist model of development design, the state guarantees equality of opportunities and equal pay for equal work. Government does not discriminate among members of the society on the basis of caste, creed, religion and sex. In short, a socialist economy is not regulated and driven by market mechanism. It is a comprehensively planned economy. This economy is in sharp contrast to a capitalist economy. In contrast to a capitalist economic system which goods and services are produced to generate profit, a socialist economy is a system which goods and services are produced directly for use.

2.4.4 Socialist vs. Capitalist model of development

Thus, the socialist model of development emerged as a sharp reaction against the capitalist model of development. The basic differences between the two models of development can be described as follows.

During the 20th century many countries like, Soviet Russia, Poland, Yugoslavia, Austria, Cuba, Hungary, China, Vietnam opted for a socialist model of development.

2.4.5 Types of Socialist Model of Development

In the 20th century, there are three major established “socialist” economic models of development. Though the ideology remains almost the same, there is a little variation in practice among them. These models are:

1. Soviet model (centrally-planned / command economy)
2. European social model (social democratic mixed economy)
3. East Asian Model (socialist market economy)

The chief features of the three socialist models of development are cited below.

The Soviet Model: The chief features adhered to by the Soviet socialist model of development can be described as below.

- Centralized state planning done through Gosplan (state planning

committee)

- Decisions regarding the quantity of goods and services to be produced are planned in advance by a planning agency. The planning process is to balance economic inputs with planned output targets for the planning period.

- Five-year plans are prepared to fix the targets. Production quotas are pre fixed to avoid short falls and unnecessary surplus.

- Allocation of resources and jobs are done through bureaucratized political control.

- Prices of goods and services are determined by the government.

- Full employment is guaranteed.

- There is a system called bureaucratic collectivism where the bureaucratic state owns the means of production, while the surplus is distributed among the layer of party's bureaucratic elites, rather than among the working class. It is the bureaucracy – not the working class or the people in general – who control the economy and the state.

Thus, the Soviet model is neither genuinely socialist nor truly capitalist.

Achievements:

The socialist model of development proved to be quite successful in the former Soviet Union. Soviet Union evolved from a mainly (backward) agrarian society to one of the world's top manufacturers of a large number of capital goods and heavy industrial products. Soviet became a second superpower that matched the might of imperialist US for over 40 years after World War II.

Decline of the Soviet Socialist Model of Development:

Economic liberalization during Perestroika under Mikhail Gorbachev moved the economy towards a market-oriented economy and contributed to the dissolution of the Soviet Union. The last years of the socialist model of development in Soviet Union witnessed the poor governance of bureaucratized state apparatus, inefficiencies with the centrally-planned economy, pervasive corruption and socio-economic stagnation. All these led to

a demand for economic reformation and there was the demise of the Soviet socialist model of development.

Social Democratic Mixed Economy Model of development

This model of socialist development emerged during the post World War II period. This came as a response by European bourgeoisie to working class movement after World War II to curb the post-war revolutionary waves in Europe. The chief features adhered to by the social democratic mixed economy model of development can be described as below.

- There is the co existence of public and private sector enterprise.
- There is the nationalization of key industries.
- National planning is done by the state authorities for industrial development.
- The state implements welfare state policies like minimum wage, social insurance, pension, full employment.
- The state recognizes the organization and functioning of trade unions etc.
- Care is taken for the redistribution of wealth through progressive taxation.

India opted for this model of development.

Challenges faced by the Social Democratic Mixed Economy Model of

development: This model of socialist development encounters the following challenges. Under this typical model of development, there is a cyclical fluctuation of capitalist economy that threatens the functioning of the welfare state. The collapse of Eastern Bloc opened up doorways for capital flight from social democratic economies. Neo-liberalism – privatization, trade liberalization, and deregulation gave a death blow to this model of development. In the era of globalization social democratic parties embracing the “third-way” become more aggressive in implementing neo-liberal agendas.

Socialist Market Economy Model of Development:

This type of development model is based on a largely free market. Capital accumulation for profit and substantial private ownership along with stateownership of strategic industries are the other remarkable features of this

type

of socialistic development model. State ownership is monopolized by a single political party. China (socialist market economy with Chinese characteristics); Vietnam (Socialist oriented market economy) opted for this variety of socialist model of development.

Socialism in China is a mixture of economic planning with a market economy. It was spearheaded during the regime of Mao when land reform was introduced to break the monopoly of landlordism and semi-feudal relations in rural areas. The Chinese revolution prior to market reform brought huge social gains for the impoverished population. People's Republic of China has "emerged" into an important economic power in the world today through its "market reforms". Although poverty reduction and the levels of development achieved by China after its market reform are commendable, but capitalist restoration as an unavoidable result of market reform also created tremendous problems (social inequality, environmental destruction etc.) and posed threat to socialist construction.

Socialist-oriented market economy in Vietnam is a form of mixed-economy consisting of state, private, co-operative and individual enterprises coordinated by market mechanism. The state is playing the leading role in the diversification of forms of ownership and modes of production. It is intended to be a transitional stage in the development of socialism.

Problems and challenges faced by the Socialist Market Economy Model of Development: The following are the challenges faced by the socialist market economy model of development.

- It ultimately restored capitalist commodity relations and production.
- This model gave birth to sharp increase in social inequality resulting from widening income gap.
- This model disempowered the working class.
- This model reflected the domination of state bureaucratic capitalists/elites.

2.4.6. Advantages of Socialist Model of development

Prof. Schumpeter has advanced four arguments in favor of socialism: which are reflected in the model of development based on this ideology. These advantages are: greater economic efficiency; welfare due to less inequality; absence of monopolistic practices; and absence of business fluctuations. These are discussed below.

- Under this model of development there is efficient use of resources to produce socially useful goods without taking the profit margin into account. Production is increased by avoiding wastages of competition.
- In this type of development model, over-production and unemployment are arrested. There is no business fluctuation. The economy is stable as production and consumption of goods and services are well regulated by the state mechanism.
- Under this model of development social welfare is well ensured and basic needs for human development are met.
- There is no corporate monopoly under the socialist model of development.
- This type of development practises egalitarianism. Social inequality is prevented to a great extent.

2.3.7. Disadvantages of Socialist model of Development

A socialist model of development has the following shortfalls. These shortfalls are discussed in detail below.

8. Loss of Consumers' Sovereignty:

There is loss of consumers' sovereignty in a socialist economy. Consumers do not have the freedom to choose the products they want in terms of quality, diversity and quantity. Often the quality, variety and quantities which they can buy are fixed by the state.

9. No Freedom of Occupation:

There is also no freedom of occupation in such a society. Every person is provided job by the state. But he cannot leave or change it. Even the place of work is allotted by the state. All occupational movements are sanctioned by the state.

10. Mal allocation of Resources:

Under socialist model of development, the central planning authority often commits mistakes in resource allocation because the entire work is done on trial and error basis.

11. Bureaucratic:

Under the socialist model of development model there is heavy dominance of bureaucrats. A socialist model of development is said to be a bureaucratic designed and driven model of development. Here people have least autonomy and motivation and room for innovation. So, sometimes the quality of production becomes poor.

2.4.8. Present status

However, it can be concluded that with the rise of global capitalism due to the process of globalization, the socialist model of development has lost its popularity and is in a process of decline. The onset of globalization in the 1980s–90s coincided with the shift in China and Russia from socialistic model of central planning to trade-driven market economies, the hall mark of a capitalist model of development. The Chinese leadership consciously embraced globalization, and saw it as an opportunity rather than a threat. Globalization was itself one of the causes of the collapse of the Soviet state. Russia has regained political stability and experienced rapid and sustained economic growth while transiting into a capitalist model of development. Thus, with the entrenchment of the capitalist model of development to the socialist models adhering states, the socialist model of development has declined. Socialist model of development is a development model of the past and not of the present. Its delivering character has ceased to exist.