Editorial of the Day – 07.10.2025

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1. Investment Models

Topic - GS3/Economy

The ongoing global economic uncertainty, marked by protectionist measures and trade distortions demands a shift toward an inclusive economic system—one that prioritizes public welfare alongside private capital interests.

About the Indian Capital Investment - Rethinking Growth and Demand

Economic growth relies on expanding supply with robust and inclusive demand. Historically, three processes shaped the global capitalist system -

1. The creation of a wage-labour class;
2. Productivity gains from industrial mass production; and,
3. Rising demand through income growth.

In the modern and globalized world, aggregate demand has both domestic and external components. India's focus needs to turn inward — stimulating domestic demand through investment, fair wage growth, and innovation-driven productivity, with exports under pressure from global uncertainties.

Need of Domestic Investment

Reviving Private Investment - Indian private investment has stagnated, despite record-high profits. Between FY20 and FY25, public capital expenditure grew at a robust CAGR of 25%, while private investment lagged behind. Domestic firms accounted for 94% of private sector investment announcements in the first half of FY26, up from 77% in 2018–19. Indian outward FDI grew at a CAGR of 12.6% — higher than domestic investment growth — indicating capital's preference for foreign markets.

Ensuring Moderate Wage Growth - The Economic Survey 2024–25 highlighted a widening gap between corporate profits and wages. While profits reached a 15-year high, wage growth stagnated, weakening purchasing power and suppressing domestic demand. Moreover, the increasing contractualisation of formal sector jobs has diluted workers' bargaining power.

Strengthening Research and Development (R&D) - India's gross R&D expenditure stands at 0.64% of GDP, with only 36% contributed by the private sector—far below global benchmarks where businesses drive over 70% of R&D spending.

Declining Trend of FDI - Net FDI inflows have sharply declined—from \$84.8 billion in FY 2021–22 to just \$0.4 billion retained in FY 2024–25 after repatriations; Disinvestments surged by 51% in FY 2023–24 and rose again in FY 2024–25; Short-term profit-seeking behavior has replaced long-term strategic commitments;

Demand-Side Weakness - Weak consumer sentiment and uneven post-pandemic recovery have dampened domestic consumption.

Regulatory and Policy Bottlenecks - Issues like land acquisition delays, complex tax structures, and inconsistent enforcement of regulations continue to deter investment.

Why Does Domestic Investment Matters?

Stimulating Demand - Domestic capital can fuel internal consumption, creating a virtuous cycle of growth.

Job Creation - Investment in manufacturing and services directly translates to employment opportunities.

Resilience Against Global Shocks - With FDI showing signs of retreat, domestic capital can anchor stability.

Confidence Signaling - When Indian firms invest at home, it sends a strong message to global investors about the country's prospects. Domestic investment offers several advantages -

Stability - Less prone to sudden withdrawals;

Alignment With National Priorities - More likely to invest in infrastructure, manufacturing, and employment-generating sectors;

Multiplier Effect - Stimulates local demand and entrepreneurship;

Government Initiatives to Bridge the Gap

Make in India - Promotes manufacturing and innovation;

Production-Linked Incentives (PLI) - Encourages domestic production in key sectors;

Ease of Doing Business reforms - Simplifies compliance and reduces red tape;

Invest India - A facilitation platform for investors

Special Assistance to States for Capital Investment 2023–24 Scheme allocated ₹1.3 lakh crore in interest-free loans to states for infrastructure projects in health, education, transport, and water supply. Public capital expenditure surged from ₹3.4 lakh crore in FY20 to ₹10.2 lakh crore projected for FY25—a compound annual growth rate of 25%.

Road Ahead

- Indian capital needs to evolve — beyond profit maximization — prioritizing national development over narrow profit motives. It means -

1. Investing in underserved regions;
2. Supporting innovation and startups;
3. Partnering with government initiatives;
4. Prioritizing long-term national interest over short-term returns;

Inclusivity, innovation, and domestic reinvestment should define the new phase of capitalism that can help India achieve a $30 trillion economy by 2047.

Source - [https - //www.thehindu.com/business/Economy/why-indian-capital-needs-to-invest-domestically/article70135134.ece](https://www.thehindu.com/business/Economy/why-indian-capital-needs-to-invest-domestically/article70135134.ece)

2. Creative Capitalism - Redefining Capitalism With Compassion

TOPIC - GS3/ECONOMY

The legacy of Ratan Tata, whose first death anniversary falls on October 9, continues to shape the contours of Indian industry and social enterprise through what has come to be known as Creative Capitalism — a philosophy that blends market forces with moral responsibility to uplift the underserved.

About Creative Capitalism

- Creative Capitalism was coined by Bill Gates in a 2008 address at the World Economic Forum (WEF) in Davos, by arguing that capitalism's traditional focus on profit maximization needs to evolve to address pressing global inequities. It is a reimagined philosophy that seeks to align profit with purpose, innovation with inclusion, and growth with equity. It is a hybrid model that bridges market mechanisms and moral imperatives, and proposes that businesses, governments, and nonprofits collaborate to extend the reach of market forces to underserved populations.

Creative Capitalism in India

- India's economic transformation post-1991 liberalization created fertile ground for Creative Capitalism. Tata Group became a model of stakeholder capitalism, balancing commercial success with social impact. Later on Infosys Foundation, startups and legacy firms are embedding social purpose into their business models. The private sector is increasingly solving public problems, from fintech platforms offering microloans to underserved communities, to edtech ventures bridging the education gap in rural India.

Benefits of Creative Capitalism

Inclusive Growth and Social Innovation - Creative capitalism promotes inclusive growth, by encouraging firms to serve underserved markets. Initiatives such as Microsoft's Affordable Access Initiative and Grameen Bank's microfinance model illustrate how companies can drive innovation for low-income populations.

Corporate Reputation and Trust - Firms practicing creative capitalism often gain reputational capital, strengthening brand loyalty and stakeholder trust. Consumers increasingly prefer companies demonstrating ethical leadership and social purpose.

New Market Opportunities - Serving the 'bottom of the pyramid' opens untapped markets. For instance, Unilever's Project Shakti in India empowered rural women entrepreneurs while expanding distribution networks — creating both economic and social value.

Enhanced Collaboration between Public and Private Sectors - Creative capitalism fosters public-private partnerships where businesses, governments, and NGOs collaborate on issues like education, healthcare, and sustainability. The Gates Foundation's partnerships with pharmaceutical firms to develop affordable vaccines exemplify this synergy.

Driving Structural Changes - Firms adopting creative capitalism not only enhance Corporate Social Responsibility (CSR) but also drive structural change within global capitalism.

Challenges of Creative Capitalism

Profit-Social Mission Conflict - Balancing shareholder returns with social objectives is difficult. Firms may prioritize profit under the guise of social responsibility without robust governance.

Measurement and Accountability - Quantifying social impact remains complex. Many companies lack transparent metrics for evaluating their social initiatives, leading to 'impact-washing'.

Short-termism in Corporate Strategy - Shareholder pressure for quarterly profits can discourage long-term social investments, especially when returns are uncertain or indirect.

Dependence on Philanthropic Capital - In developing economies, creative capitalism often depends on philanthropic subsidies or donor-backed initiatives—raising questions about sustainability once funding ceases.

Case Studies

Gates Foundation & Big Pharma - Collaborations to produce low-cost vaccines have improved global health outcomes, demonstrating the practical potential of creative capitalism in saving millions of lives.

Google.org's Renewable Energy Projects - The blending of corporate expertise and social objectives shows how innovation can serve environmental and social goals simultaneously.

Future Outlook - Creative capitalism offers a transformative framework for reimagining corporate purpose in the 21st century. It continues to evolve through Environmental, Social and Governance (ESG) investing, and impact entrepreneurship. The future challenge lies in institutionalizing accountability mechanisms to ensure that profit and purpose coexist sustainably. It introduces moral innovation into economic logic—urging businesses to 'do well by doing good', while it cannot entirely replace market dynamics. The path forward requires aligning incentives, transparency, and long-term commitment to ensure creative capitalism remains both ethical and effective.

Source - [https - //www.thehindubusinessline.com/opinion/pioneer-of-creative-capitalism/article70140619.ece](https://www.thehindubusinessline.com/opinion/pioneer-of-creative-capitalism/article70140619.ece)