

## **Leadership and Mandates: India's Prospects for Economic Reforms under Narendra Modi**

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India's sixteenth parliamentary general elections have been described variously as historic, landmark, and groundbreaking. In May 2014, with over 800 million people eligible to vote in the world's largest democratic exercise, the right-wing Bharatiya Janata Party (BJP) won the right to form the largest majority government since 1984. The party's leader Narendra Modi campaigned on a platform of governance and development, trumpeting the success of his home state of Gujarat during the three terms he served as its Chief Minister. For the most part, commentators have endorsed this interpretation of Mr. Modi's success. They suggest that the resounding mandate given to his party reflects a deep desire by India's citizens for bold economic reforms that will return India to the days of per capita GDP growth rates of 8 and 9 percent.

India has had a halting relationship with economic reform over the past fifty years. The 1991 economic reforms enacted under the threat of national bankruptcy are often thought to have ushered in a period of rapid economic growth and to have lifted hundreds of millions of India's citizens out of abject poverty. Yet, economists and investors alike bemoan the lack of continued reform efforts by recent governments, and the hope is that Prime Minister Modi will use his political capital to enact far-reaching economic reforms to jumpstart India's economy.

Early signs of Mr. Modi's intentions yield mixed signals at best. Observers have been disappointed by the lack of dramatic reforms in the first few months of his administration. During this time, Mr. Modi has preferred to focus on high-profile visits to Japan, the United States, and Australia, each of which involved meetings with the Indian diaspora, business leaders, and government officials to seek commitments to invest in India. On the home front, there have been small-scale

reforms, including enforcing better work habits for India's bureaucratic classes, continuing the previous government's efforts to deregulate diesel prices, and a recent announcement to streamline the process of receiving permits complying with India's numerous labor regulations. The appointment of Arvind Subramanian as India's Chief Economic Advisor has also encouraged pro-reform advocates to expect bolder steps in Modi's first budget, which he is due to present to Parliament in early 2015.

Can Mr. Modi fulfill the desires of pro-reform advocates in India and abroad? On the one hand, the fact that he heads a majority government in a parliamentary system permits him legislative powers of which his predecessors over the past twenty-odd years could only have dreamed. Similarly, a drop in world oil prices has boosted India's economy and its budget situation, giving its leaders room to maneuver on economic reforms that might have been less politically palatable had oil prices stayed high, such as deregulating the price of diesel. On the other hand, there are several indications that Mr. Modi's powers are not unlimited, and that he must tread cautiously as he moves forward with his agenda.

The main limitation is that while Mr. Modi's BJP party did win a majority of the seats in India's parliament, it did not win a majority of the votes. In fact, just 31 percent of India's voters cast their ballots in favor of the BJP.<sup>1</sup> Alternatively, over two-thirds of all voters preferred a party other than the BJP. I do not stress this point to detract from the achievement of securing a parliamentary majority, but rather to indicate that this mandate is perhaps less secure and emphatic than Mr. Modi's ardent supporters might wish to believe. Perhaps as important, the citizens who support the BJP tend to be better off than those that do not, and tend to be less dependent on large state programs that might need to be curtailed for Mr. Modi's reforms to work.

A brief analysis of the 2014 National Election Study (NES), which uses a representative sample of over 22,000 Indians, underscores these points. First, while media pundits have been quick to attribute the BJP success to the apparent failure of the incumbent Indian National Congress-led United Progressive Alliance to generate high rates of economic growth during its second term in office (2009-2014), a clear majority of the NES respondents state that they think India's

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<sup>1</sup> "India's next prime minister: The Modi era begins," *The Economist*, May 18, 2014, <http://www.economist.com/blogs/banyan/2014/05/indias-next-prime-minister-0>.

economic situation is better today than it was five years ago, *and* that their personal economic situations had similarly improved. If anything, what has been popularly termed the “aspirational voter” was disappointed not with India’s economic performance, but rather with its relatively slow growth rates compared to the heady days of much of the 2000s, during which the country experienced unprecedented and sustained near-double-digit growth rates. The consequent generation of employment opportunities raised expectations to arguably unrealistic levels, and the pressure now falls on Modi’s BJP government to meet them.

Second, fully one-fifth of participants in the sample say that they personally or someone in their family has benefited from a major government initiative such as home loan subsidies, pension programs, national health care missions, and the National Rural Employment Guarantee Act. Given the size of India’s population, this group of beneficiaries is, at a minimum, over two hundred million strong, but a majority of these beneficiaries did not vote for the BJP in the recent election, and any efforts by Mr. Modi to cut benefit schemes as part of his reform initiatives will galvanize a currently dispirited opposition into action.

Third, it is unclear that reform has a popular mandate, even though development does. It remains an open question as to whether citizens will support difficult reform policies that will result in short-run dislocations in exchange for the promise of long-term benefits to the economy. India’s high levels of electoral volatility and anti-incumbency voting reflect an electorate impatient for results and unwilling to give politicians long honeymoon periods to deliver. On this front, two signal reforms are worth keeping an eye on. First, will Mr. Modi be able to generate the political will to enact genuine reforms of India’s labor laws that make it virtually impossible for firms to fire employees and that consequently have been seen as a major impediment to the generation of new jobs? A super-majority of the NES respondents say that employment and job security are primary concerns and will be wary of any reforms that threaten their livelihoods, even if those reforms are endorsed by technocrats in Delhi or D.C. Likewise, will Mr. Modi be willing to backtrack on his refusal to negotiate multilateral trade treaties such as the World Trade Organization’s Doha Round unless granted provisions to continue food subsidies and India’s present patent regime? Also, will India’s citizens be willing to accept higher food and medicine prices in exchange for greater trade facilitation?

Finally, it is unclear just what type of reformer Mr. Modi aspires to be.

Proponents of deeper reforms might be mistaken if they assume that Mr. Modi is a pro-market reformer. Rather, his record in Gujarat suggests that, like most Indian politicians, Mr. Modi is very comfortable with a strong state and sees the role of the state as facilitating business activity. In Gujarat, he courted investment initiatives by big business and provided deep tax concessions as well as generous investment subsidies, enabling access to cheap credit and land, and fighting unions to provide business-friendly labor regulations. It is likely that his efforts to invest in India's ailing public infrastructure will see similar business-government linkages at the expense of market competitiveness. However, even if we leave aside the question of whether such pro-business (as opposed to pro-market) reforms are positive, we must confront the reality that the landscape for enabling big business initiatives around India will likely prove harder than it did in Gujarat, where he brooked little opposition, enjoyed a favorable budget situation, and had a pliant civil society.

In *Coalition Politics and Economic Development* (Cambridge University Press, 2011), I make a somewhat contrarian argument, especially in light of this essay. Contrary to its detractors, I argue that the era of coalition government in India was good for its economic development because its reforms, while constrained by the reality of having to compromise with coalition partners, were more credible for having the support of a large number of parties representing distinct swathes of India's diverse electorate. Mr. Modi does not have to deal with coalition partners, but he is well advised to heed the diktats of coalition *dharma* (the rules of coalitions): rather than spend his political capital rashly, he should be bolstered by his victory and emboldened to pitch a big tent into which he invites his would-be opponents to craft a reform agenda that enjoys broad bipartisan support. The next generation of reforms to India's economy requires strong leadership of the kind willing to accept criticism and generate partnerships. Whether Mr. Modi is that sort of a leader remains to be seen.

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