

## The Economic Mind of Narendra Modi

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**ABSTRACT** India's ruling Bharatiya Janata Party (BJP) has always sought a methodology to create economic policy that goes beyond the communism-capitalism binary. While the BJP is assumed to be more free-market-friendly than its main rival, the Indian National Congress (INC), it is also true that the BJP government has usually greenlighted significant government expenditure in areas like infrastructure. The current BJP government led by Prime Minister Narendra Modi is building a model that marries some of the largest and most expensive government programmes ever rolled out in the history of independent India to deliver goods and services, with a simultaneous push to trigger mass entrepreneurship by introducing reforms such as major tax cuts. This brief examines the task for the BJP government.

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## INTRODUCTION

Throughout its four-decade-long history, India's ruling Bharatiya Janata Party (BJP) has always been divided between two viewpoints on economics: the free market model that embraces globalisation and is private capital-oriented, or the more indigenous, protectionist system with a significant welfare component. In the years the BJP ruled India in the late 1990s, and beginning in 2014, the party has been wrestling with whether it should make the role of the state more prominent, or that of business; and within business, should it open the doors to the world or focus on promoting—and protecting—domestic businesses?

Understanding the history and context of such a dichotomy explains many aspects of the BJP's history and its stints in power as India's ruling party. Most importantly, it sheds light on the seemingly contradictory policies of the incumbent government led by Prime Minister Narendra Modi.

From the time Modi rose to prominence in the early 2000s as chief minister of Gujarat, the prime minister has been noted for his affinity towards promoting business and entrepreneurship; he himself has reiterated such inclination on different occasions. Indeed, under his leadership, the western state's economy grew at a faster pace than the national average for more than a decade. During that time, Gujarat also transformed from a power-deficit to a power-surplus state,

and managed the difficult task of achieving growth in agriculture while reducing its share in the state gross domestic product. This is particularly significant because Indian agriculture has for long been plagued with low productivity, and while it employs vast numbers of people, often such participation in farm labour is due to the lack of alternative better-paying professional opportunities. The movement of excess farm labour to manufacturing and services remains one of India's key challenges. Gujarat became a model for “freeing up space for private initiative and enterprise and the creation of an enabling environment by the State.”<sup>1</sup> Shortly before Modi became prime minister in 2014, the Ministry of Commerce and Industry noted in a report that Gujarat's land acquisition system for business under the then chief minister Modi was the best in the country.<sup>2</sup>

## WELFARE STATISM

Modi's rise to power as prime minister in 2014 came with great expectations of a slew of economic reforms. The government has brought several significant changes in the economic environment—including introducing a transformational bankruptcy law<sup>a</sup> and pushing through the long-awaited Goods and Services Tax.<sup>b</sup> Certain key reforms, however, remain pending including, critically, a game-changing land reform law. Some early signs of building consensus for land reform were stalled early in his first term as prime

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- a The Insolvency and Bankruptcy Code (2016) has been a major reform in doing business in India which has simplified a maze of time-consuming regulation into one time-bound law.
  - b The Goods and Services Tax has simplified numerous layers of taxation between federal and state law in India into a short list of countrywide taxes designed in slabs for various categories of goods and services, thus, decluttering the country's labyrinthian taxation system.

minister following criticisms by the opposition that the government's proposal was anti-poor.<sup>3</sup> The other critical, and long-pending, task of labour reform is also impeded and is unlikely to see the light of day anytime soon.<sup>4</sup> The government has been hesitant to address issues of land acquisition, or labour, especially those involving wages and retrenchments because they often become mired in political protest and carry the risk of being used against the party during elections.

After the government in its first budget of Modi's second-term in office announced a hike in the surcharge on income tax (the so-called tax on the super-rich), and a continuance of the long-term capital gains tax introduced in 2018, foreign institutional investors (FIIs) sold more than \$1 billion in Indian equity shares in July 2019. Widespread criticism of tax harassment followed, including from prominent entrepreneur supporters of the BJP like investor Mohandas Pai who spoke of "tax terrorism".<sup>5</sup> There has been a sustained push-back on a tax on angel funds and jail term for failing to meet mandatory spending on corporate social responsibility (CSR).

Following a barrage of news reports of sinking corporate profits and fleeing investors, Prime Minister Modi gave an interview reiterating his commitment to entrepreneurs as "growth ambassadors".<sup>6</sup> The finance ministry announced a series of roll-backs including on the surcharges on foreign portfolio investors, long-term capital gains, the removal of the controversial angel tax on start-ups, and jail terms for CSR rule violations. As more worrying economic data on slowing growth appeared, the Modi government also announced a major reduction

in corporate taxes, responding to foreign funds having sold nearly \$5 billion of Indian stocks since June 2019.

While such a swift turnaround suggests that the Modi government has its ear to the ground, what still surprises many free-market supporters of Modi is the state-driven focus on the delivery of public goods in his first term, and an even more ambitious plan in the current second term. In fact, some of his targets are distinctly borrowed from ideas of the welfare state. This brief defines 'welfare state' using the framework conceptualised by the theorist Asa Briggs in 1961: "A welfare state is a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of the market forces in at least three directions - first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; - second, by narrowing the extent of insecurity by enabling individuals and families to meet certain 'social contingencies' (ill health, old age and unemployment) which lead otherwise to individual and family crisis; and - third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services."<sup>7</sup>

In his first term, the Modi government embarked on a mission to build toilets for every household in India and announced by the end of its term earlier in 2019 that around 90 million of them had been built.<sup>8</sup> In the same period, around 80 million gas cylinders were handed out to help women, especially in rural India, escape indoor air pollution – which kills more than four million each year<sup>9</sup> around the

world – and more than 350 million LED bulbs<sup>10</sup> were distributed. Around 100 million people have received e-cards that would help them access cashless treatment scheme under the Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (AB-PMJAY), the national health insurance scheme.<sup>11</sup>

To enable the efficient delivery of these goods and services, the state has pushed the adoption of the Aadhar platform for identity verification; the system has since registered about 90 percent of Indian citizens. Moreover, its flagship United Payments Interface has surpassed the combined number of transactions in credit and debit cards.<sup>12</sup>

Through this entire process, what Modi has strived to create is a direct benefit interface with the Indian citizen—and of course, the voter—with an unspoken promise that retaining him in power would result in tangible benefits in their day-to-day lives. Philosophically, the strategy is the public policy equivalent to his regular radio show, *Mann ki Baat*, where he shares his thoughts with the citizens. It could also be compared to the artful use of his Twitter account where he now has more than 50 million followers – as a tool for engaging in direct conversations with the citizen. Indeed, it would appear that every delivery of a good or service has the imprint of Modi on it.

## PROMISE OF ‘SMALL GOVERNMENT’

Contrary to the expectations of some libertarians, Modi as prime minister has not sought to dramatically reduce the role of the state. Rather, what he has done is a reinterpretation of the promise of small

government – by reducing the government-to-citizen interface via technology with local bureaucracy, which is often a point of corruption. What the prime minister has done is to attempt to smoothen the strife at the touchpoint of delivery, for instance, petty corruption while delivering a service given by the state to the citizen. However, the overall role of the government has widened in scope. One of the early realisations of the first-term Modi government seems to have been that the Indian citizen may in fact not be seeking *less* government in a society where few other institutions offer even nominal guarantee of monetary security; it wants *better* government, with a clear path of transactional delivery. People want to know what exactly they will receive from the government, and how.

Building on earlier work by Gøsta Esping-Andersen and Richard Titmuss, Jørgen Goul Andersen’s 2012 paper, “Welfare States and Welfare States Theory”<sup>13</sup> divides the world of welfare models into three types: residual, universal, and corporatist. These can be understood broadly as a liberal model, a social-democratic model, and a corporatist model. The first envisions low taxes and focuses on poverty alleviation based on a right to access the resources depending on need, while the other two are a sort of ‘people’s insurance’ model where redistribution happens “from everybody to everybody” via high taxes. The difference between the conservative model and the social-democratic model is that while the first is based on the principle of entitlements depending on contributions and security depending on social status, the second is universalist and is based on equality and citizenship for all.

In the case of the Modi government, the strategy veers towards a ‘liberal welfare model’ which has streamlined the delivery of specific benefits (such as cooking gas cylinders or toilets) to the financially impoverished sections of the population. Instead of taking an open-for-all-citizens approach, the Modi government has preferred to sharply target the beneficiaries using identification technology to ensure minimum leakage. (This was one of the critical problems of the welfare schemes of its predecessor, the United Progressive Alliance government.<sup>14</sup>)

This kind of targeting has had the electoral benefit of changing Modi’s image from being a markets-and-entrepreneur-friendly politician to someone who is much more focused on delivering governance to the bottom-of-the-pyramid. In doing so, Modi has heightened a gradual but unmistakable transition of the party’s core voter base from mainly urban to predominantly rural and semi-urban: In 2009, the BJP had 77 seats in rural India, and in 2019, it had 207; in semi-urban India, the number grew from 20 to 58 seats.<sup>15</sup> After doubling between 2009 and 2014, the number of seats the BJP won in highly urban seats remained static.<sup>16</sup>

As far as the BJP is concerned, this is the ideal electoral demographic transition—not only are they picking up the erstwhile solid voter base of their nearest national rival, the Indian National Congress, but as India urbanises, they are essentially tapping into the entire chain. The BJP maintained its historical strength of urban voters, while also reaping the rewards of the turning over the rural and semi-urban voters to their side. What used to

be their main rival’s strength is becoming theirs.

## INDIA’S ‘THIRD WAY’?

The question then remains as to whether Modi is growth-and-free-market-oriented, or he is transitioning to the welfare state model. Scholars like Krzysztof Iwanek have pointed out some of the early contradictions in economic thinking with the Rashtriya Swayamsewak Sangh (RSS), the ideological parent of the BJP and the mentoring ground of Modi. The second head of the RSS, M. S. Gowalkar, for instance, denounced both communism and capitalism for confining man’s experience of life merely to the material. But Gowalkar also argued that “the success of any government or any particular theory of government is to be measured in terms of its capacity to give every citizen two square meals, a place to rest in, sufficient clothing, treatment in case of illness, and education. That is the acid test.”<sup>17</sup> Iwanek has argued that “Gowalkar probably really favored capitalism, but he chose to hide it under the garb of some old Indian tradition of political economy which was somehow more ethical than modern capitalism.”<sup>18</sup>

This contradictory theme recurs throughout the history of the BJP. Consider the views of another economic stalwart of the RSS and its affiliate organisations, the Sangh Parivar, Dattopant Thengadi. For example, Thengadi’s 1995 book, *The Third Way*, promotes what its title says—a ‘third way’, between capitalism and communism both of whose demise it foresees. It advocates instead an indigenous, sustainable path with a special focus on environmental upkeep. “The world

communism has virtually collapsed. But this need not generate euphoria. Apart from the weight of its own internal self-contradictions a number of contributory factors have been responsible for its downfall. These have not yet been properly evaluated. Capitalism is on the decline. But its demise is being delayed. Knowledgeable circles have started their search for a third alternative.”<sup>19</sup>

The most ardent defender of this indigenous alternative may be S. Gurumurthy, a part-time director of the Reserve Bank of India; considered the most prominent economic thinker within the current government, he is credited by many for sowing the seed of demonetisation.<sup>20</sup> Gurumurthy argues against a “one-size-fit-all cultural model which evolved because of one-size-fit-all economic model.”<sup>21</sup> Both Thengadi and Gurumurthy belong to a worldview which, while not entirely dismissing the impact of globalisation, argues for a domestic-first model with strong elements of protectionism. In this, they are joined by the stalwart of the Hindutva worldview, V. D. Savarkar, a great believer in *swadeshi* or self-manufacture, arguing, “every step must be taken by the State to protect national industries against foreign competition.”<sup>22</sup>

However, another leading light of the Parivar pantheon, Syama Prasad Mookerjee, “judged every scheme and policy by the criterion of its practicability and usefulness to the people and was not wedded to any dogma or concept.”<sup>23</sup> He was India’s first industries minister who laid the foundation for major industrial projects after independence in 1947, including the Chittaranjan Locomotive Works. The political party Mookerjee started, the

Bharatiya Jana Sangh, the predecessor of the BJP, occasionally defended village enterprises in a Gandhian way, while also promising to let in foreign capital, promote enterprise and reduce taxes.<sup>24</sup> For his part, Deen Dayal Upadhyaya, another key ideologue in the 1960s, gave the Hindutva movement its Integral Humanism text and argued for similar *swadeshi* ideas. When the Bharatiya Janata Party was created in 1980, however, it committed itself to Gandhian socialism. The BJP’s current constitution document has a clause that talks about the party’s commitment to “Gandhian approach to socio-economic issues leading to the establishment of an egalitarian society free from exploitation.”<sup>25</sup>

All of this is to be compared with the BJP’s record of disinvestment under Prime Minister Atal Bihari Vajpayee between 1999 and 2004, including the setting up of a separate ministry for disinvestment and selling Videsh Sanchar Nigam Limited, Hindustan Zinc, Balco, Indian Petrochemicals Corporation Limited, several state-run hotels and Modern Food Industries. It should be noted, however, that Yashwant Sinha, a finance minister of that period, lamented about economic reforms that “national highway project is regarded as the high point of the NDA government’s achievement, yet in 2004 general elections the NDA lost all the 14 seats it had won in 1998 along NH-2 (the key highway).”<sup>26</sup> Sinha argued that economic reforms must be seen to be touching the lives of people.

Modi promises to bring the power of the markets to the country’s economy, including bringing the large investors summit format—a model he used successfully in Gujarat—to Kashmir later this year. This summit could be


seen as Modi's way of trying to heal the fissures in Kashmir after the government in early August abrogated the special status of the Himalayan state to absorb it into India. The prime minister is also setting a disinvestment target for the financial year 2019-2020 of Rs. 1.05 lakh crore, a 31-percent jump from the previous year across 23 government companies,<sup>27</sup> and has vowed to provide 141 million homes with tapped water – a project six times as ambitious as providing electricity for all. It would be fair to assume that Modi's government will continue to engage both the free market model and welfare statism, and prove that these principles could work together.

## CONCLUSION

Modi's breakthrough realisation seems to have been that most of India is at a stage where globalisation has critically sharpened cultural and economic inequities – and mass-scale delivery of public goods by the state can assuage grievances. While the focus on growth is critical for India, unless the benefits of that growth are felt at the grassroots through a direct delivery of the goods and services directly from the state, it might be impossible to contain the anxieties and restlessness unleashed by globalisation. At the same time, Modi is signaling that giving up on growth

would lead to a downward spiral that would make it impossible for the state to deliver goods and services. Flight of global capital from India could cripple and even imperil his government.

Faced with the upcoming challenge of mass automation, there is an understanding that the state must step in to assist in crucial ways, while ensuring that it is seen to be doing so. The benefit of this endeavour is already clear – unlike Vajpayee who pitched 'India Shining' but was rejected by a large number of India's poorest voters who perhaps felt that their lives were not directly touched by the 'shine'— Narendra Modi's model is to ensure that there are direct touchpoints of benefit which are embedded in the minds of the voters. That it has helped the BJP to win successive elections with full majority speaks of the potency of such a model.

By embracing both challenges, Prime Minister Modi is seeking to subsume, and transcend the old dichotomy on economic thought within his own party. The question of how much money will be available to the state to spend remains unanswered especially since already significant shortfalls in tax collections have emerged. Modi, however, has a window of opportunity where India still has a demographic advantage and a relatively peaceful political economy. 

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