

Modi with the Magic Wand

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His votaries now see India's new Prime Minister Narendra Modi as the man with the magic wand. He has not only managed to get the BJP a 30 per cent vote share in [elections 2014](#), but even convert those votes into an wholly unexpected 282 seat majority for a single party in parliament. To boot, with his pre-poll allies he has enough seats to make any opposition that remains in the Lok Sabha a mere formality.

Such a mandate brings responsibility. Many who backed Modi did so with the expectation that this 'decisive' leader, with a hyped-up track record and a muscular style would deliver to each of them what they intensely want but thought they could never get in full measure. The poor want a stable livelihood and basic necessities, the middle class wants a better life and low inflation, the youth bulge wants jobs with a high degree of upward mobility, the peasants want higher returns from an agriculture that has been neglected and discriminated against, and corporate India wants more freebies, greater flexibility, lower taxes and even higher profits than they already garner.

These desires and aspirations are in part the result of the propaganda that went into pushing through the neoliberal agenda after the 1990s, and in part a fall-out of the consumerism and the visible increase in inequality created by neoliberal reform. Starting from the late 1980s Indians have been told that deregulation and liberalisation will un-cage a tiger, increase opportunity and mobility, and bring some riches to all. Many seem to have bought this message. Their aspirations were further whetted by the brief boom that coincided with the first UPA government, when GDP growth touched 9 per cent, the country was discovered by foreign finance capital, the international media feted India, and India's resident and non-resident elites celebrated the arrival of the country on the global stage. Prime Minister Manmohan Singh and his economic team were contemporary heroes.

Among the many factors that explain the UPA's decline during its second tenure and its recent ignominious defeat is not just the fact that it could not sustain the early boom it rode on, but also that it could not prevent the collapse of the bubble towards the last years of its reign, leaving behind a trail of stagflation. This was to inevitable. The reality was that the boom that the UPA II, its Prime Minister and his team could not sustain, was not something of their making. India's post-2004 economic boom was in part the result of the global surge in cross-border flows of international finance to emerging markets, the financial liberalisation that it set off, the credit expansion that it triggered and the risky behaviour that the financial system was encouraged to adopt. The emerging market boom rode on a bubble of debt-financed consumption and investment. In India's case it helped, no doubt, that the government was willing to dole out concessions (such as the abolition of taxes on long term capital gains) to keep the boom going. But the boom itself was substantially externally driven, and internally only lubricated.

That made it difficult for the UPA to rekindle growth and appear to deliver on the promises made to justify the transition to neoliberalism. The 'failure' to live up to those promises explains in significant measure the anger that has reduced the Congress to an ineffective opposition. (The allegations of humungous corruption and the scandals they triggered, of course, did not help).

However, the success of the Modi-led BJP reflects not just a vote against the Congress for not having fulfilled the aspirations it generated and fuelled. It is also a vote for Modi and the BJP in the belief that they would deliver what the Congress could not. It is the same set of unfulfilled desires and aspirations that have delivered this huge mandate to the BJP and the NDA. The anti-corruption wave that benefited the [Aam Aadmi Party](#) in the Delhi elections appears a ripple when compared to the mandate for something termed (wrongly) as "development' by the BJP. It is quite possible therefore that if Modi cannot deliver on the almost utopian promises the BJP has implicitly held out and if it cannot generate the spin that can conceal the failure to deliver (as he partly managed in the case of the 'Gujarat model'), then the current euphoria can prove short-lived. Not that there is any threat to the NDA's full term in office, but only that the personality cult around Modi generated over a short span of time may wane.

Given the stakes involved, the desire to deliver is bound to be there. But can they? Consider an immediate problem such as stagflation. Consumer price inflation still runs high. On a point-to-point basis it stood in April at well above 9 per cent in rural areas and close to 8 per cent in urban areas. Industrial growth as measured by the IIP stood at a negative 0.1 per cent in 2013-14 when compared with the previous year. And GDP growth in 2013-14 is projected at 4.9 per cent, not far above the 4.5 per cent of the previous year. Given the kind of language Modi speaks, this is the first set of problems he will have to address.

Let us start with growth, which languishes because the demand stimulus that an unsustainable credit splurge provided can no longer be sustained. Unfortunately, the essential features of Modi's economic programme have never been spelt out. Will Modi demand a lowering of interest rates and a loosening of credit to stimulate demand? Would he give up on Chidambaram's obsession with the deficit and just borrow to spend in order to revive growth? The new Prime Minister seems to be against high interest rates. But treading on the toes of the Reserve Bank of India and forcing it to lower rates, could precipitate an exodus of foreign investors who have rushed into India's financial markets to celebrate Modi's arrival. Given the pro-business credentials he brings with him from Gujarat, he may not be willing to risk that outcome.

In Gujarat, Modi is also known to have a penchant for taking on large volumes of debt to finance measures that reward selected capitalists with tax concessions, cheap credit and substantial infrastructural support. It is not clear that this would necessarily revive investment. But with the Congress having made a virtue of cutting the deficit and tying the hands of the government at the Centre with the Fiscal Responsibility and Budget Management Act, even replicating this strategy of a deficit financed, supply-side stimulus would be difficult. International finance is bound to express its anger. Having won the battle for a

'lean state' when the UPA was in power, international finance would not easily accept a reversal. And if a deficit is used to finance a Keynesian-type demand stimulus the anger would be all the greater.

So a Modi *sarkar* will have to either choose to alienate foreign finance and face the immediate consequences so as give itself short-run policy space, or it will have to rely on "supply side measures", such as cheap land for investors, transfer of coal and other mineral blocks for free, quick environmental clearances with limited scrutiny, and so on. This is what big business that backed Modi wants, because it would enhance profit margins. If he delivers, he will be praised as decisive. But these policies may not deliver investment and growth, for lack of demand. Nor will it deliver much to the many others outside corporate India who voted for him with wish-lists of their own. In fact, it may require cutting back on even the meagre benefits that flow from the limited social expenditures that the centre currently expends. Many who voted Modi will be affected adversely. They are likely to complain.

But every new government enjoys a grace period when it can do what it claims it will not do. Whether that will be excused depends on the results of being contrary. If growth revives, the response can be forgiving. But a substantial stimulus would be needed for growth to revive. Moreover, these measures will do little about inflation, and will in all probably aggravate it. Inflation, it is now clear, is cost-push driven and not the result of excess demand. In fact, if the NDA government is successful on the growth front, by raising demand, it may worsen the cost-push inflation that is its legacy.

So the other challenge before the new government is to address cost-push inflation directly. That requires rethinking a number of "reform" measures that contribute to the inflationary tendency. The decision to do away with the administered price regime in the petroleum sector raised the prices of that universal intermediate. Cutting subsidies on fertiliser and raising user charges for irrigation and power increased agricultural costs and prices. And, the reduction in food subsidies directly raised food prices. Some or all of these measures need to be reversed.

Though not his first preference, Modi may be willing to experiment with some of those measures to show some short-run results. But even that would attract the disapproving eyes of global finance and India's wealth holders, and risk capital flight and a corporate backlash. Addressing inflation is not a question of being "decisive" whatever that may mean. It is one of choosing policies that are predicated on a retreat from India's recent dalliance with global finance. Doable, but not easy, especially given the huge volume of foreign institutional investment that has come into the country with the expectation that a Modi government would come to power and implement all that the UPA had promised but failed to adequately deliver. Moreover, a retreat from "reform" is not the language Modi or the BJP speaks.

Thus, even if we consider the short term challenge facing the new government, meeting it is just not easy, but involves doing what a person who comes from where Modi does would prefer not to do. This conflict is only intensified when we look at the challenges that need to be addressed if the promise of high growth

over a long period—a China-type trajectory—is to be redeemed. To get to where he has, Modi has promised much and set the bar extremely high. That was part of the spin that aimed to persuade people that Modi with his magic wand can deliver what others will not dare to promise. He would now need another set of spin doctors to persuade people that he is giving them what he cannot. If that does not work, the development slogan will go out of the window, and all that many feared would be the real agenda of Modi, the BJP and the RSS behind them would show itself. With an opposition that is at its weakest in a long time, what that could mean for India's future is difficult to contemplate.

* This article was originally published in the Frontline, Print edition: June 13, 2014.