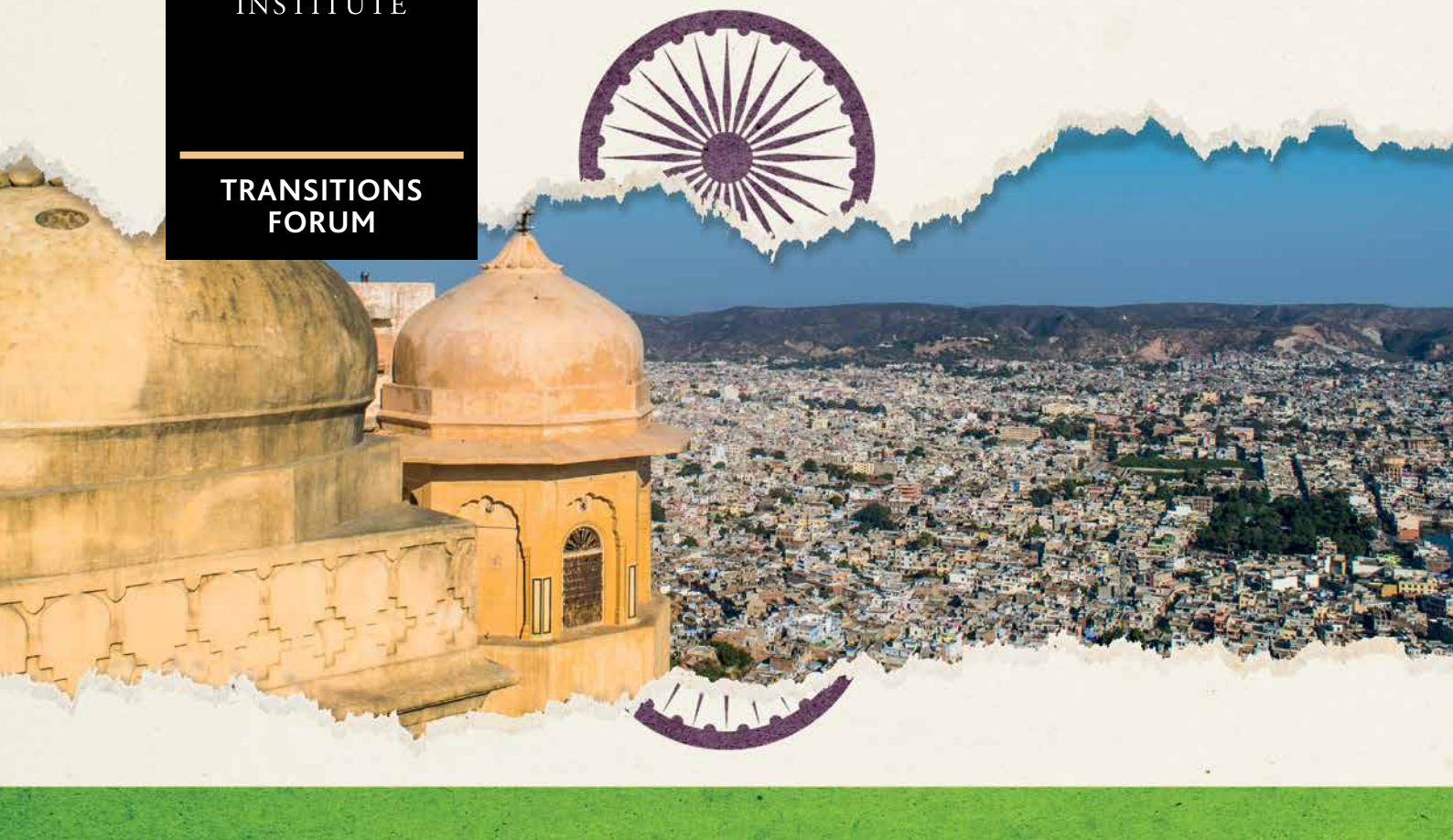


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APRIL 2015

India 2015: Towards Economic Transformation

by Rajiv Kumar

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Agra, Uttar Pradesh



INTRODUCTION

India is in the midst of a historical triple transition. Its economic transition is affected by, and in turn, drives the social and political transitions that are unfolding simultaneously. India's diverse and pluralistic society makes this a hugely complex development. The challenge facing India is to generate 12 million jobs every year and in addition wean millions who are currently trapped in low-productivity agricultural and informal sector employment. This has to be sustained over the next two to three decades. Therefore, the country must achieve high rates of economic growth and create conditions to attract investment from domestic and foreign investors. If successful, India will emerge as the third largest economy in the world by 2047, when it will celebrate the centenary of independence from colonial rule. Given the exploding aspirations of its young population, the socio-political consequences of another episode of aborted economic transition could be catastrophic. The stakes are very high. In this paper we assess the likely impact of the political changes of 2014 on economic policy-making and prospects for India. The focus is on prime minister Narendra Modi's performance so far and the way forward.

2014: THE YEAR OF HISTORICAL POLITICAL SHIFT

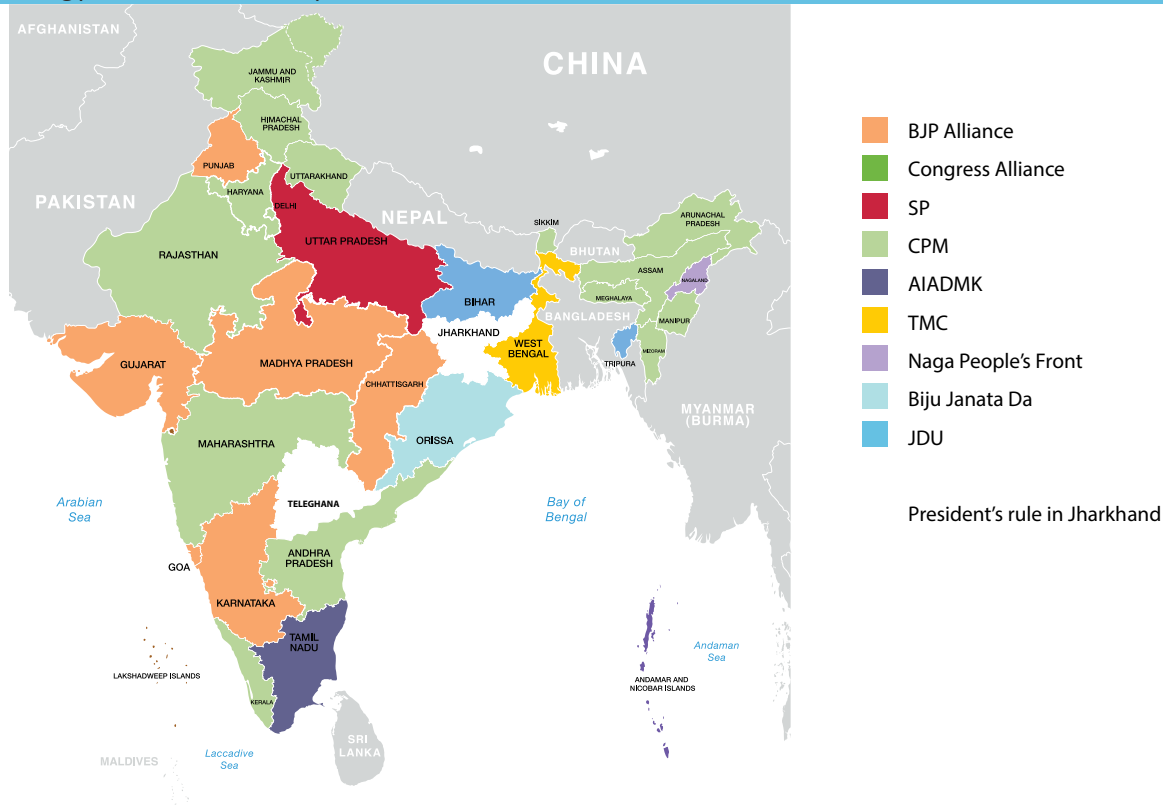
2014 produced a political outcome in India that defied all past trends and forecasts. The Indian National Congress (Congress), which led India's independence movement and has ruled for 49 of the last 67 years, managed a mere 19 per cent of the 554 million votes cast and the lowest ever tally of 44 seats in the *Lok Sabha* (the powerful lower house of the bicameral federal parliament). The *Bhartiya Janta Party* (BJP) became the first non-Congress political formation to win a clear majority of seats. It secured 33 per cent of the vote, and with its pre-election allies, won 335 of the total 565 parliamentary constituencies. This was a surprising result.¹ The trend towards increasing political fragmentation and primacy of local issues and regional parties, as witnessed over the last three decades, was decisively reversed. The complete rout of identity-based regional parties in Uttar Pradesh and Bihar also gave the lie to the often-expressed assertion that the May 2014 verdict represented only an anti-Congress vote. The electorate unequivocally supported Narendra Modi, who ran a presidential campaign that touched the aspirational chord of young voters, an electoral majority in themselves. He thus became the first prime minister to be born in post-independent India, with a greater degree of freedom in tackling the country's current challenges.²

The BJP's remarkable victory in the 2014 general elections came on top of unprecedented gains in three major states—Chhattisgarh, Madhya Pradesh and Rajasthan—where elections were concluded in December 2013 and in Gujarat, where they took place in December 2012. The BJP resurgence continued even after the 2014 general election, as it scored equally impressive victories in provincial elections in Haryana and Maharashtra held in October 2014. Within the space of less than a year, India had witnessed a historical political change in which the BJP has replaced the Congress as the natural party of national government. The two maps on page 4 show the change in India's political landscape.³ Clearly, the BJP now dominates the heartland of the Indian political scene with Congress having been literally marginalised. Indian democracy, considered to be an aberration by many at its inception in 1947 and not given high survival odds, had matured and deepened.⁴ Politics is unlikely to be the same again.

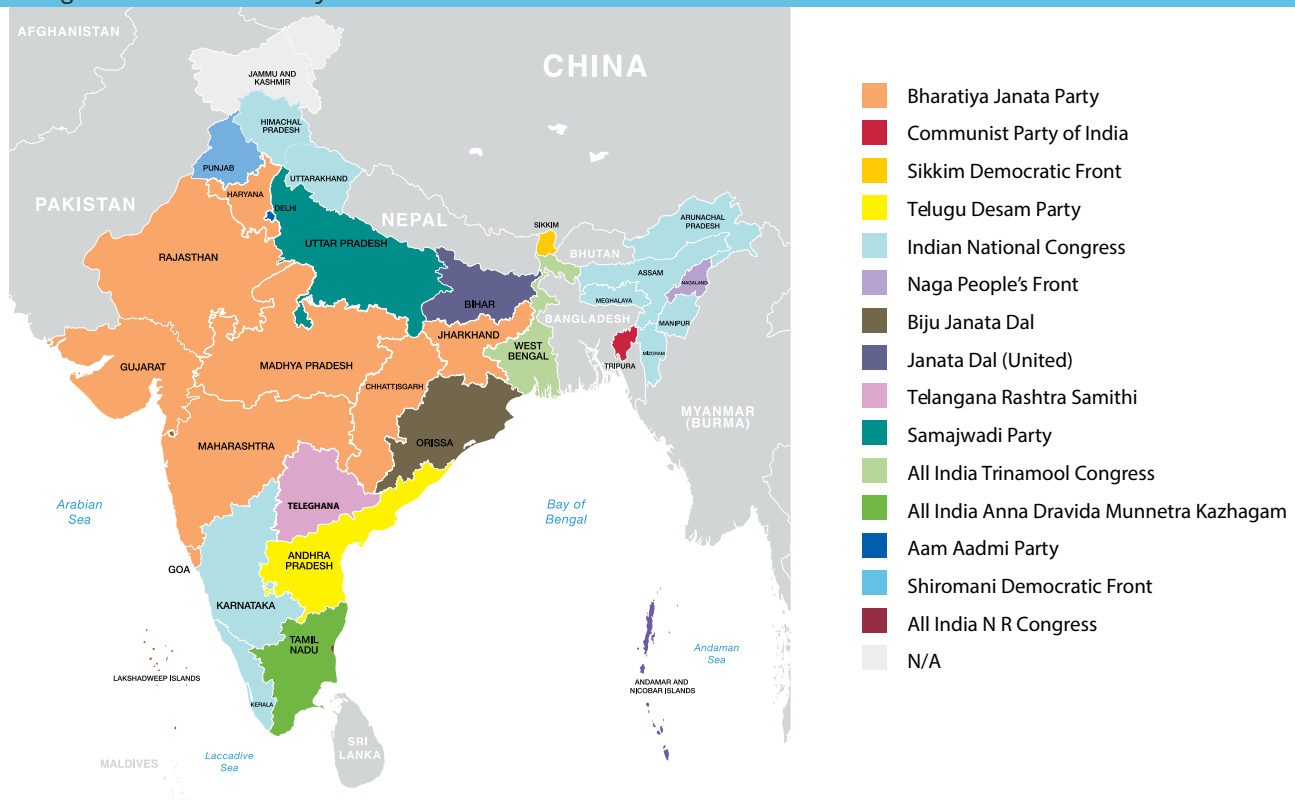
But there is no mistaking the fact that the BJP, like other political parties, is on notice from the young Indian electorate. These Indians are impatient for a paradigm shift in economic performance that will benefit the great majority and not merely select segments of the Indian elite. This is starkly evident in the BJP's resounding defeat in the Delhi elections held in January 2015. The party did not only lose: it was vanquished. It barely managed to retain its presence in the provincial assembly, winning only three of the 70 seats. This was despite running the same presidential-style campaign that Modi had led a year earlier and designed by the 'master strategist' and newly appointed party president Amit Shah. The BJP left nothing to chance. It mounted a slick carpet advertising campaign and commandeered its leadership from across the country to campaign in Delhi. Despite this high-voltage BJP campaign, the newly born *Aam Aadmi Party* (AAP, "common person's party") won an unimaginable 67 of the 70 seats and 53 per cent of the votes.

The critical difference between the two parties was not, as some have argued, the AAP's unbridled populism. Populism did play a role. However, the more important factors were, first, AAP's ability to connect with the people. It successfully highlighted the BJP's inability to improve the daily lives of Delhites during the eight months of the president's rule.⁵ Second, voters were already wary of the BJP, which had adopted the traditional practices of a ruling party, visibly enjoying the trappings of power and beginning to appear arrogant and complacent. The politically conscious Delhi electorate conveyed its disapproval loudly and unambiguously.⁶

Ruling parties in India before April 2013



Ruling Parties in India after May 2014



THE MIDDLE CLASS AS A DRIVER OF POLITICAL CHANGE

Some observers have seen the political changes over the last 18 months as reflecting the emergence of a post-ideological generation in India.⁷ I prefer to attribute the electoral outcomes to the inexorable rise of the great Indian middle class. Attempts at quantifying the size of this middle class have come up with a wide range of 13 to 35 per cent of the population.⁸ But these estimates do not tell the real story of the pervasive influence that the middle class now plays in Indian political and economic discourse and outcomes. As I have argued elsewhere in detail, middle-class values and material aspirations are now the principal behavioural drivers of nearly the entire Indian population.

As is often pointed out, 65 per cent of the Indian population is below 35 years old and nearly 50 per cent are below 25.⁹ This cohort of voters has come of age in the post-1991 reformed India. These reforms took the country away from its socialist, centrally planned and scarcity-dominated past. They reinforced middle-class aspirations even among lower-income groups, who recognised the importance of investment in human capital and access to physical infrastructure. Education and electricity are considered the surest route to prosperity by all segments of the middle class. Voters have moved away from their dependence on government hand-outs and legal entitlements. The quintessential middle-class quest for a better standard of living for itself and for the next generation has emerged as the determining force of Indian politics. Unfortunately for the Congress Party, its leaders—particularly Rahul Gandhi and his mother, the Congress President Sonia Gandhi—did not grasp the importance of this grass-roots shift. People were no longer satisfied that the government would move them out of poverty. They aspired to lead a middle-class existence with the dignity that comes from being employed.

ENTITLEMENTS TO EMPOWERMENT AND FROM POVERTY ALLEVIATION TO RELATIVE PROSPERITY

In contrast, Narendra Modi recognised the emergence of the middle class and its importance in driving political outcomes. He coined the term 'neo-middle class' to refer to those who had recently escaped from poverty and wanted to achieve middle-class status. This category of neo-middle class overlapped with young voters who had similar aspirations. In response, Modi jettisoned entitlements and instead promised empowerment through accelerated growth and employment. He introduced the heady idea of India as a major global economic power in the foreseeable future. The middle class and the young voters, who had seen India being mocked as a land of scams, scandals and social deprivation, were irresistibly attracted to the slogan of *Shreshtha Bharat* (India first among nations).

The trillion-dollar question now is whether Modi will lead India on to an economic trajectory that will ensure rapid, inclusive and sustained growth. The stakes are unusually high. If successful, India can emerge as an example of a pluralistic democracy that has broken out of the low middle-income trap. This will have global implications in both economic and geo-strategic terms. In contrast, surrender to hubris, populist economic

nostrums and premature ambitions of a global role would create another episode of unsuccessful economic take-off. This could see the country convulsed by social and political upheaval of unforeseen magnitude that could put the whole idea of India at risk.

A young, impatient and aspiring population is a double-edged sword. It can yield a positive demographic dividend. But it can also precipitate social and political strife if its aspirations are thwarted and its potential goes unrealised. The challenge is best summarised by the daunting challenge of generating a minimum of 12 million jobs each year for the next 20 years. Absorbing one million people into newly created jobs each month is the enormous economic challenge facing Modi's government.

MODI'S ECONOMIC AGENDA

Modi was elected on a promise of large-scale change to India's economic prospects, producing growth while ensuring that the benefits reach the majority at the bottom of the pyramid.¹⁰ Modi's economic policy challenge is therefore to eliminate the perceived trade-off between rapid growth and improving the welfare of the masses. This is reflected in the opening sentence of the 2015-16 budget speech of the finance minister Arun Jaitley which states: "My proposals, therefore, lay out the roadmap for accelerating growth, enhancing investment and passing on the benefit of the growth process to the common man, woman, youth and child: those, whose quality of life needs to be improved."¹¹

In voting so decisively against the Congress and reducing left-wing parties to a mere 10 seats in the Lok Sabha, Indians have also rejected the statist model of economic development. They are disillusioned with the poor quality of public services. In effect they have opted for the primacy of private sector investment and the growth of a well-regulated market. Recognising this, Modi has put forward an economic programme with the seven principal components:

1. Maintaining a stable macroeconomic environment by emphasising fiscal prudence and reining in inflationary expectations;
2. Addressing the three perennial deficits of infrastructure, governance and education;
3. Establishing an investor-friendly environment for both domestic and foreign investors with the explicit objective of accelerating employment intensive growth in the manufacturing and services sectors;
4. Levelling the playing field for medium, small and micro enterprises (MSMEs) by dismantling the dysfunctional system of procedural clearances and permissions;
5. Improving the efficiency of public expenditure, specifically in the distribution of subsidies by moving to a system of direct cash transfers, thereby minimising leakages and misuse.
6. Devolving a larger share of revenues to states to create greater fiscal autonomy for designing social sector programmes and participating in national flagship programmes; and
7. Strengthening energy and food security while protecting the environment through maximising generation of renewable energy and conserving water use in irrigation.

The Srisailem Dam across the Krishna River is the 3rd largest capacity hydroelectric project in India



These seven components were implicit in Modi's election campaign, which was built around the development theme of *sabka saath sabka vikas* (taking everybody together to achieve development). Other electoral slogans emphasised infrastructure development by promising 24/7 electricity to everyone by 2022; maximum governance and minimum government; 100 GW of solar energy generation capacity by 2019; more crop per drop for water conservation in agriculture; and housing for all economically weaker sections by 2022. The BJP's election campaign has focussed sharply on the development agenda and not on religious and communal appeal, as was widely expected because of its right-wing *Hindutva* background.¹²

Following the formation of the government on 4 June and the presentation of the interim budget on 9 July, some progress has already been achieved on these seven components over the past nine months (June 2014–February 2015). The government has ensured that macroeconomic stability is maintained while the basis for faster growth and social inclusion is initiated. Retaining the fiscal deficit target of 4.1 per cent, steps to rein in inflation, and raising railway passenger fares reflect its commitment to macro stability. The introduction of new legislation to put in place pro-investment conditions in land acquisition and the passing a clutch of ordinances to address judicial objections convey the government's commitment to faster growth. At the same time, the launching of financial schemes like the *Jan Dhan Yojna*, under which 120 million new bank accounts were opened in eight months, initiating the process of shifting subsidies to a system of direct cash transfers, demonstrates the government's commitment to greater inclusion.¹³

The central feature of these measures is their incremental and pragmatic nature. There is no attempt to go for big-bang reforms and to fire investor sentiment with headline-grabbing announcements. Given high expectations of bold reforms, this emerges as a conscious decision to minimise political opposition even at the cost of a slower pace of change. The only bold innovation was the revision of the Land Acquisition Law through an ordinance. This has evoked sharp and united political opposition, including from the BJP coalition partners and the *Rashtriya Swayam Sangh* (RSS—the BJP's sister organization). This has put the government on the defensive despite the development-orientated nature of the amendments.

This experience could reinforce Modi's bias towards incrementalism. He evidently supports the Chinese approach of crossing the river while feeling the pebbles under one's feet and changing direction as required. This is in direct contrast to the more glamorous but risky approach of trying to cross the river in one leap.¹⁴ However, Modi's incremental approach risks being ensnared in bureaucratic inertia and being unable to deliver development as the political cycle moves towards the next set of elections.

The common characteristic of policy initiatives taken in the first nine months of the government is an attempt to lay the foundations for action over the medium term. In this respect, most measures represent work in progress that will require continued policy attention and follow-up. This reflects two of Modi's traits. One, the preference for taking a longer-term strategic view of India's development prospects, which he sees as coinciding with his own political innings. This allows him time for much-needed preparatory work rather than being pressurised into maximising short-term gains. Two, Modi's 12-year experience in Gujarat was characterised by a corporate style of project execution with necessary attention to project design and follow-up. This has already been implemented and will be much needed in the coming period.

BUDGET 2015-16

This incremental approach, however, was not greeted by a strong positive response from the investment community. Regulatory clearances, governance procedures, accountability and transparency have improved only marginally, if at all. This has prompted investors to adopt a wait-and-see stance. Private investment sentiment has at best shifted from negative to neutral, in expectation of stronger signals from the government about its reform intentions. The first full budget of the Modi administration was expected to provide such concrete pro-investor signals and some out-of-the box measures to reignite growth. This made it one of the most anticipated economic events in recent history.

The budget presented on 28 February 2015 by finance minister Arun Jaitley, carried the full Modi imprint.¹⁵ It can best be described as full of small steps for a forthcoming 'big bang'. It persists with the seven-fold economic agenda intended to reignite investor confidence, accelerate growth, and ensure that benefits are shared with those at the bottom of the pyramid. Most importantly, perhaps, the budget marks a change in policy towards infrastructure development, with the government accepting its principal responsibility in this regard. This is a much-needed policy re-orientation in the face of a breakdown of the PPP model that had been in vogue during the previous regime. Further, the budget and its related documents have delineated the government's strategy for re-igniting investment on the one hand and at the same time achieving higher efficiency in the delivery of subsidies and public services.¹⁶

The budget has, therefore, taken forward the development agenda in a workmanlike and pragmatic manner rather than announcing flashy big-bang reforms. Even the target for disinvestment from public sector enterprises, which has been doubled to INR 69,500 crore¹⁷ from the actual collection of INR 31,350 crore in 2014-15, has been understated, perhaps to avoid political opposition. The budget continues with the Modi approach of pushing forward the reform agenda while minimizing the scope for political opposition that could derail the process.

At the same time, the Prime Minister, acutely aware of his coalition's minority status in the *Rajya Sabha* (the upper house of the federal parliament), is reaching out to regional parties to ensure the passage of important legislation. This has already resulted in both houses of parliament approving six bills in the budget session, making it one of the more productive in recent history.¹⁸ However, the entire opposition has come together against the Land Acquisition, Rehabilitation and Resettlement Amendment Bill, which is crucial to government's plans for infrastructure development and expanding manufacturing capacities. The prime minister has shelved the Bill for a while to give himself and his party the time to reach out directly to farmers and galvanise ground-level support for the Bill. Such an approach augurs well for the future.

However, in crucial aspects the budget, with its cautious approach, falls short of expectations. Critics draw attention to the failure to remove retrospective taxation from the statute books; a lack of essential details in areas such as the mobilisation of resources for constructing 60 million housing units; a failure to address the debt overhang of state electricity utilities; the lack of second-generation reforms in the agriculture sector; and failure to define a road map for transferring fertiliser and food subsidies to a system of direct cash transfers. This would have implied the dismantling of the existing system of public distribution of food that is characterised by large-scale leakages and corruption. Overall, however, the budget has avoided populism and stuck to the objective of accelerating growth and generating employment.

THE WAY FORWARD

From the above discussion we can safely surmise that, having won an unprecedented political mandate, Modi's government has maintained a sharp focus on the development agenda. During the past nine months, he has initiated a range of incremental measures whose cumulative impact could suffice to reverse the downward investment and growth cycle of 2011-13.¹⁹ The budget has assumed a higher growth rate for 2015-16, compared to the current fiscal year.²⁰ However, it is universally accepted that India requires a GDP growth rate of 9-10 per cent for two to three decades in order to absorb its rapidly expanding work force and reach middle-income economy status. The goal of generating 12 million jobs each year for the next two decades is indeed a daunting but an unavoidable target. Can the economic measures initiated by Modi put India on the trajectory for achieving these growth and employment generation targets?

The answer depends on five factors, First, Modi's ability to build a political coalition in support of his legislative agenda for reform. Second, maintaining the support of the middle class and neo-middle class to avoid a repetition of the Delhi elections. Third, securing recognition from the business community of his reform credentials, so that they drop their current scepticism and rally to his cause. Fourth, Modi has to ensure that

the bureaucracy has the capacity and incentives to implement his reforms. This will call for significant changes to the administrative system. Fifth, benign economic conditions, allowing India to retain the interest of foreign investors.²¹

To assemble a supportive coalition, Modi must stay focused on the development agenda and not allow partisan issues to distract him. Most importantly, he will have to rein in his right-wing supporters from exploiting community tensions and using anti-minority rhetoric. He has already gone on record that his government will not support any communal programme. This will also help retain the support of the broadly secular middle class. This support will become stronger if corruption is minimised and there is a tangible improvement in the daily lives of the people. His government must focus on improving the efficiency of the delivery of public services so that benefits from high growth are equitably distributed. It is possible that such a clear centrist and development-orientated stance will yield similar rich electoral and economic dividends across India as it did in Gujarat.

The business community continues to be sceptical because, so far, life has remained unchanged on the ground. Modi will have to win over ordinary businessmen. This means addressing the regulatory framework; showing urgency in addressing the infrastructure deficit; and broadening the coverage of e-governance to minimise red tape and procedural bottlenecks.

Substantial progress in these three areas can be achieved through executive action, without having to face a legislative hurdle. The government should aim for measurable and visible reduction in corruption; easier entry and exit conditions for businesses; the freedom of MSMEs from petty bureaucracy and rent seekers; and greater efficiency in the delivery of public services, especially primary education and basic health. Success in these areas will ensure that Modi's political credibility continues to rise, making it more difficult for opposition parties to unify against his reform agenda.

It is not entirely clear that the required executive capacity is in place. The bottom line for Modi is, therefore, to create the capacity in his cabinet and senior bureaucracy for the executive action required to address the three critical deficits. There is also evidence that the incentive structures for both the political leadership and senior bureaucracy are not robust enough for them to deliver or be held accountable for desired outcomes. Modi has a well-earned reputation for exploiting the inherent potential of an operating system. Let us hope that this will allow him to get the best from the bureaucratic establishment he has inherited and which he himself described as 'broken' during his Independence Day address.

He would, therefore, do well to augment this capacity by freely borrowing talent from the private sector and civil society. He must come up with new solutions to replace incrementalism. Modi may find this instinctively difficult, as he seems to have relied almost exclusively on bureaucracy for ideas and their execution. But it is important that, while he drives the bureaucracy to higher levels of efficiency, transparency and accountability, he identifies fresh talent in civil society and the corporate world. This alone will ensure that India gets on to the double-digit growth trajectory, sustains it for the next two decades while ensuring greater empowerment, equity and inclusion through the generation of large-scale employment.

APPENDICES

1 LIST OF MEASURES TAKEN BETWEEN JUNE 2014 AND FEBRUARY 2015

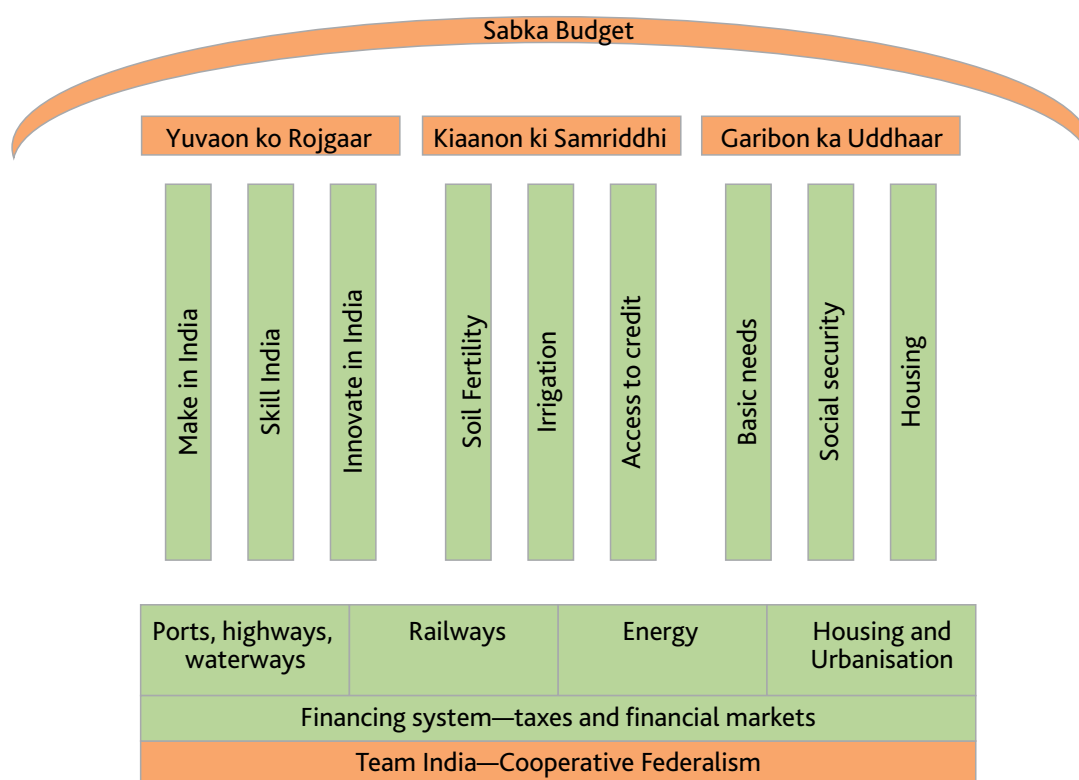
- » The fiscal deficit target of 4.1% of GDP has been achieved and the commitment to achieving the FRBM target of 3% has been reaffirmed.
- » Inflation has been sharply reined in, with wholesale price based inflation now negative and retail price inflation at 5.11% in January 2015, lower than RBI's target of 6%.
- » MOU signed between the Government and the Reserve Bank of India for targeting retail inflation at an average of 4%.
- » Railway passenger tariffs were raised by 14% and freight rates by 6% in July 2014, in order to make railways more financially viable and permit much-needed capital investment.
- » The Coal Mines (Special Provisions) Bill (2015) addressed objections raised by the Supreme Court on the entry of private mining companies. The first set of auctions of coal mining blocks, still restricted to actual users and not to commercial miners, was completed.
- » The *Jan Dhan* scheme for financial inclusion was launched in August 2014. A total of 120 million saving bank accounts with deposits of nearly \$2 billion have been opened in eight months.
- » Price-based subsidy for cooking gas was replaced by direct transfers to bank accounts, initially in 49 districts. Subsequently the coverage has been extended across India to 100 million consumers.
- » Government introduced the Constitutional Amendment Bill in the Lok Sabha for promulgating the nationwide Goods and Services Tax (GST) with effect from 1 April 2016. The Bill is likely to be passed in the Lok Sabha during the current budget session but could face partisan opposition in the *Rajya Sabha* (Upper House).
- » Diesel prices were decontrolled on 19 October 2014 following the earlier decontrol of petrol prices by the UPA government. Fuel price decontrol is expected to yield up 50% savings in fuel subsidy.
- » Expenditure Reform Commission has been set up to rationalise public expenditure and improve effectiveness.
- » A new Ministry of Skill Development has been established to bring about inter-ministerial coordination. The government also launched an apprenticeship encouragement scheme.
- » While the previous government's legislation on retrospective taxation has been retained, the finance minister has repeatedly assured investors that no such case will be pursued. The government also announced that it will not contest lower court judgements on tax matters in superior courts.²²
- » FDI limits were increased in defence production up to 49% and permitted in railways. The Bill for increasing FDI limits in the insurance sector has already been cleared in the Lok Sabha and is pending the *Rajya Sabha*'s approval. FDI conditions were further eased in the construction sector.
- » The Ministry of Environment and Forests has initiated online clearances within prescribed timelines.
- » Similarly, the Department of Industrial Promotion and Policies (DIPP) has also initiated online applications for industrial licenses.
- » The validity period of industrial licenses has been increased from two to seven years.
- » DIPP has also permitted self-inspection of boilers and self-certification of documents to reduce procedural delays and transactions costs.
- » A large number of parts/components, castings/forgings, etc. have been excluded from the purview of industrial licensing from the defence angle.
- » Private sector participation in defence production is being encouraged. Several pending procurement decisions have been cleared.
- » Road projects worth Rs 400bn (about US\$6.4 bn) have been cleared and measures taken to enable faster construction of highways and ports.
- » Natural gas prices were raised to US\$6.2/mmbtu from US\$4.2/mmbtu. These will be reviewed every six months.

- » The Clean India mission was launched on 2 October 2014. Its goal is to provide every school with a functioning toilet by 2019. The program also focuses on removing urban squalor and environmentally friendly disposal of municipal waste.
- » To encourage investment in the power sector, tax breaks were extended until March 2017.
- » The government passed the Land Acquisition Rehabilitation and Resettlement Ordinance in December 2014. The ordinance, while retaining monetary compensation levels for farmers, facilitated land acquisition for eight sectors, principally for infrastructure development.
- » Fresh applications were invited for setting up small banks and payments banks.
- » The increase in minimum support prices for summer crops was kept to a minimal level of 1.6% as compared to 5% in the previous year and high double-digit increases in earlier years.
- » The Planning Commission, reminiscent of central planning, was abolished and replaced with a government think tank, the National Institution for Transformation of India Aayog (NITI).
- » The Digital India programme, for broadband internet connectivity for all village local bodies was launched.

2 SOME KEY MEASURES ANNOUNCED IN THE 2015-16 BUDGET

- i) Achieving the fiscal target of 4.1% of GDP in 2014-15 despite the shortfall in tax revenue collections and lower than anticipated nominal GDP growth.
- ii) Commitment to the fiscal target of 3% of GDP, though with a more moderate three-year rather than a two-year glide path.
- iii) Announcing a \$20 billion higher allocation for electricity generation, highways, irrigation works and ports. Further measures include setting up the National Investment and Infrastructure Fund with seed capital of \$3.4 billion and issuing tax-free sovereign bonds for the infrastructure sector.
- iv) Giving the railways budget a sharper investment focus. This is reflected in retaining passenger fares despite declining fuel costs; increasing freight rates by an average of 5%; focusing on capacity enhancement in high-density routes rather than opening new routes; and announcing a series of measures for mobilising additional investment resources.
- v) Announcing a number of measures for improving governance. These include setting up an independent Public Debt Management Agency; moving towards establishing a holding company for all public-sector banks; replacing the current dysfunctional provisions for closure of business with a globally comparable bankruptcy law; and the setting up of an expert group to draft regulatory guidelines to replace the cumbersome number (about 17) of ex-ante permissions currently required to start a business.
- vi) Announcing the establishment of new centrally managed and supported Institutes of Management, IITs and medical colleges in several states. Also the allocation of larger resources for scholarships and skills development.
- vii) Establishing the MUDRA bank for facilitating access to formal credit for the MSME.
- viii) Announcing fresh incentives for the tourism sector, which is a highly employment-intensive sector, including increasing the number of countries eligible for visa on arrival facilities.
- ix) Allowing factory workers to choose between government and privately managed medical insurance and pension schemes, thereby introducing some flexibility in labour market conditions.
- x) Signalling the shift of all price-based subsidies for fertiliser and food to a system of direct cash transfers with the use of an identity card scheme and mobile telephony.
- xi) Accepting the recommendations of the 14th Finance Commission, a statutory independent body, to increase the allocation of centrally collected tax revenues to 42% from the present 32%. This will significantly enhance the states' fiscal autonomy.
- xii) Announcing several measures for expanding energy-generating capacities including the four ultra mega power plants; raising the target for solar generation from 20 GW to 100 GW. Allocating Rs 5,300 crore to support micro-irrigation, watershed development under the *Pradhan Mantri Krishi Sinchai Yojana* (Prime Minister's Irrigation Scheme).

3 KEY BUDGET FEATURES (JAYANT SINHA'S PRESENTATION, 2015)²³



REFERENCES

1. See the column by Liz Mathew and Ami Shah of *Mint*, 16 May 2014.
2. For further commentary on the electoral outcome, see Pratap Bhanu Mehta, Sadanand Dhume, Tanvi Madan, Milan Vaishnav, Richard Rossow and Dhruva Jaishankar (2014).
3. These maps have been drawn by Rajnish Ahuja for the author using the website www.mapsofindia.com
4. See Sanjay Basak, *Deccan Chronicle*, 17 March 2014.
5. This can be attributed to a sense of hubris and complacency that overtook the party after two rounds of electoral success in May and November 2014. This led the party to believe that Modi's charisma would ensure victory in Delhi as well. See *Business Standard* '10 reasons why the BJP lost the Delhi elections to AAP'.
6. As is always the case, a number of other factors went into such a massive defeat for the BJP, whose president Amit Shah had boasted of winning as many as 60 of the 70 seats. One major cause could have been the late selection of Kiran Bedi, a complete outsider and political novice, as the BJP's chief ministerial candidate. This was done both to provide an acceptable alternative to AAP's leader Arvind Kejriwal and to remove blame for the likely defeat from Modi. But in the process it ended up alienating core BJP supporters and voters, which resulted in the party losing even its safest seats. See *Times of India* 'Delhi election results 2015: List of AAP candidates who won by a margin of over 20,000'.
7. See Shekhar Gupta 'Modi: Your Time Starts Now' (2014).
8. Compiled from 'Changing Electoral Politics In Delhi: From Caste To Class', Sanjay Kumar (2013).
9. See 'India's Population 2015.'
10. This, in effect, is the promise of emulating the Chinese experience over the past three decades, which has seen Chinese per capita incomes rise to nominal \$6,807 at the end of 2014 and barely a handful of Chinese still left below the poverty line. It has made China the second largest economy in the world while India languishes at seventh of eight positions. From times immemorial, Indians have compared themselves to their northern neighbour. They were earlier conscious of the enormous human costs of Chinese development; now they are painfully aware that India's economy is barely a fifth of the Chinese and their per capita incomes are a fourth of their Chinese counterparts. It is also recognised that this substantially greater economic strength endows China with much greater geo-strategic advantage, which can erode India's position both regionally and globally. See World Bank Indicators 2014.
11. See Finance Minister Arun Jaitley's Budget Speech p.1
12. See 'Digvijaya Singh speaks to First Post: Does PM Modi want growth or Hindutva?' (2014).
13. These can be seen in the Appendix where a comprehensive list is provided.
14. The big bang approach (or crossing the river in one leap) towards reforms was strongly pushed by Jeffery Sachs with disastrous results for Russia and several other economies. Fortunately, for India Modi has opted for the alternated way forward, which also has its own risks as discussed above. See 'Chinese takeaway: Modi's China' (2014).
15. In his post-budget presentation, Jayant Sinha (2015) called it the *Sabka Budget* (Budget for Everyone). The second slide of his presentation sums up the BJP's understanding of the budget. See 'Jayant Sinha's statement Budget has unleashed 3rd wave of reforms' Moneycontrol.com Published on 28th February 2015.
16. A list of major measures announced during the budget is given in the Appendix.
17. A crore is a unit in the Indian numbering system equal to ten million.
18. Modi went out of his way to attend a family function of two of the principal leaders of major regional opposition parties and seems to have reached some understanding with them on the need to push forward the economic agenda. However, quite expectedly there is no give and take between the BJP and the Congress, the two national parties who are locked in a zero-sum electoral game, with the BJP holding the upper hand at present.
19. This statement is valid despite the recent revision of growth numbers by the Central Statistics office announced in the beginning of February (see Ministry of Statistics and Programme Implementation's Press Note on advance estimates of national income 2014-15 and quarterly estimates of gross domestic product for the third quarter 2014-15). These revisions were made consequent to changing the base year for estimating the growth of overall GDP and constituent sectors. GDP growth for 2013-14 has been revised upwards to 6.9% from the original 5.1% and in particular manufacturing sector growth was revised from minus 1.7% to 5.3% for 2013-14. GDP estimates for 2014-15 are given as 7.4% which implies that the Indian economy has been recovering since 2012-13. This will completely reverse the general understanding of the state of the Indian economy over the last three years. Having looked carefully

at the numbers and discussed them with senior government officials, I find it difficult to accept these revisions as valid. Even the Chief Economic Advisor, Arvind Subramanian, is on record as not understanding the revisions and the economic survey that is prepared under his watch is at best equivocal about them. I agree with Ruchir Sharma and others who argue that, unless carefully reviewed and explained, these revisions will be as seriously questioned, just as Chinese economic statistics have been in the past.

20. Earlier estimates of GDP growth in 2015-16 by the RBI, Ministry of Finance and us were in the range of 5.5-6.0% as compared to GDP growth of 5.1% in 2013-14. With the recent revision of growth numbers, the budget has set a growth target of 8.5% as compared to the revised estimate of 7.4% for 2014-15. In either case GDP is expected to grow at a faster rate in 2016 compared to 2015.
21. This implies that commodity including oil prices do not harden in the medium term; advanced economies in the euro zone and Japan follow in the footsteps of the US economy with a sustained economic recovery; and China successfully manages a soft landing to a lower but sustained rate of economic growth. We do not discuss either the regional (South Asian) or global geo-strategic issues that will affect India's economic future. From past experience, it is safe to say that given India's relatively low dependence on external demand as a key driver of its economic growth and the generally positive sentiment towards India among major global powers, the external environment is unlikely to turn hostile for India in the coming years.
22. See ArunJaitley's statement: 'India won't resort to burden of retrospective tax', *Business Standard* (18 July 2014).
23. See Presentation: 'Budget 2015-16 At A Glance By Hon'ble Minister, Shri Jayant Sinha.'

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