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Modi-nomics and the Politics of Institutional Change in the Indian Economy

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Abstract

The term ‘Modi-nomics’ gained widespread publicity across India and resonated internationally during the *Bharatiya Janata Party*’s (BJP) campaign for the 2014 general elections. Named after the BJP’s star campaigner and then Prime Ministerial candidate, Narendra Modi, *Modi-nomics* refers to his success as Chief Minister in Gujarat, a state richer, with faster GDP growth, more jobs and industry than most other Indian states. The 2014 campaign promised that the ‘Gujarat model’ of clean government and economic competence, could be replicated across the country.

In our paper we identify the promises and premises behind *Modi-nomics*. We take stock of claims and criticism, drawing on comparative development statistics to discuss a much lauded but also highly contested ‘success’ story. To assess whether *Modi-nomics* is guiding policy we draw upon Douglas North’s new institutionalism. In addition, we use a sociological understanding of institutions to argue that a central component of *Modi-nomics* is to achieve economic change by altering perceptions and images as well as policy. However, *Modi-nomics* remains highly contested within India’s domestic political arena and has unleashed other political entrepreneurs drawing on politics of entitlement (the Patel agitation) or religious sensibilities (the beef ban controversy). To gain resilience, *Modi-nomics* will have to combine ideational and institutional change and to reconcile the tensions arising in the process.

Keywords: *Narendra Modi, Modi-nomics, Gujarat model, institutional change, political entrepreneur.*

Introduction

According to Douglas North the agent of change is an entrepreneur who perceives and acts upon opportunities arising from an alteration in the external context, the acquisition of skills and learning or a combination of both. In this reading, institutional change is a deliberate process, contingent upon perceptions and highly susceptible to political competition and conflict. Prime Minister Narendra Modi came to power on the wave of a landslide electoral victory in 2014 and a campaign that widely championed his administrative experience as Chief Minister in the State of Gujarat along with his ‘Gujarat model’ of economic development. Modi’s political party, the *Bharatiya Janata Party* (BJP) has been associated with cultural nationalism (based on the ideology of *Hindutva*) and the pursuit of politics based on religion and identity. However, observers noted that 2014 was the first general election in India where matters of the economy occupied centre stage and the pursuit of economic reforms as well as economic growth were explicit promises. Narendra Modi was the face of an election campaign that projected new issues and drew upon new resources such as social media and technology. Given the focus on the economy during the election campaign we explore the role that economic ideas and policy play as instruments of change.

Modi-nomics is a popular and largely media-generated term, one that has been criticised for being vague. However, it has come to refer to a number of ideas and policies associated with and advocated by Narendra Modi and his government. These include improving the country’s business environment (through enhanced efficiency and transparency), investing in infrastructure, a focus on manufacturing, skills and vocational training and the harnessing of technology for economic development. In many articles the term *Modi-nomics* is equated with a style of economic governance, where Modi is depicted as being ‘an efficient, tough and incorruptible administrator’ (Ghatak and Roy 2014). On the other hand, *Modi-nomics* has been criticised for not having a well-articulated vision and concrete policies, in contrast for instance with *Abenomics* the eponymous term used to refer to Modi’s Japanese counterpart, Shinzo Abe’s economic philosophy and programme (Inamdar 2013). Nonetheless, the term ‘Modi-nomics’ has become a moniker and serves to focus attention on the reality and rhetoric behind the current government’s economic agenda. Having contested an election with the promises of delivering growth, jobs and poverty-alleviation, the stakes are high and the regime’s first year elicited extensive scrutiny and analysis.

Although the economy was meant to be the government's priority, the eruption of movements like the Patel agitation in Gujarat or the Dadri lynching incident in Uttar Pradesh is a constant reminder of how the polity and economy are inextricably interlinked. The Patel agitation earlier this year, galvanised frustration about lack of jobs and opportunities into a movement against the quota system in Modi's own state of Gujarat. The second event came in the wake of widespread controversies surrounding a government-led initiative to ban cow slaughter and the sale and consumption of beef. On 28 September 2015, based on the rumour that beef had been eaten in his household on the occasion of *Eid*, a Muslim family was attacked and the father, killed. The politics of *Mandal* and *Mandir*, caste reservations and religion respectively, have long played a role in Indian politics. Furthermore, they both have connections to traditional constituencies within the BJP – the Patels in Gujarat and the beef-ban lobby. As a result, the government is vulnerable to agents from within, promoting and pursuing a politics of grievances and intolerance. How far, Prime Minister Modi, as political entrepreneur can remain in control of, and maintain the focus on an economic agenda, resolving disagreements and mediating within his party in order to deliver on the electoral promise of 'sabka saath, sabka vikas' ('Together with all, Development for all') is a crucial question. Before coming to an analysis of Modi's economic policies and political constraints we first examine the state of the Indian economy.

I. India: Fastest Growing Market Economy.

India's economic growth is currently back at more than 7 per cent and it is predicted to be the world's fastest growing economy in 2015 and 2016.¹ Economic growth between 1990 and 2014 averaged 6.9 per cent per year – with accelerated growth rates between 2003 and 2010 of 7.9 per cent to 10.3 per cent (with the notable exception of the international financial crisis year of 2008 when growth was a mere 3.9 per cent). In 2011, the growth rate slowed down due to declining investments for a number of reasons including high interest rates, growing inflation and a general pessimism about the government's will and capacity to instigate further economic reforms. India's growth figures fell to a decade low (aside from the crisis

¹ The IMF reports in its *World Economic Outlook* an Indian growth rate of 7.3% for 2014 – the same as China. The IMF furthermore predicts India to grow at 7.3% (2015) respectively 7.5% (2016). This would make India the fastest growing market economy – ahead of China with 6.8% (2015) and 6.3% (2016) and well ahead of the predicted global growth rate (3.1% in 2015 and 3.6% in 2016) and the overall growth rate in emerging market and developing economies (4.0% in 2015 and 4.5% in 2016). See International Monetary Fund (2015, 2).

year 2008) caused by macroeconomic imbalances such as the country's deep fiscal and current account deficits and mounting cases of corruption. The 2014 general elections spurred great optimism about the prospect of further reforms, in the aftermath of a sweeping victory by the BJP.² Given the sensitivity of stock markets to future orientations it was telling that Mumbai's benchmark Sensex index rose 15 per cent between the announcement of the elections in early March, and the declaration of Modi's victory on May 16, 2014.

The recent figures, coinciding with worries about a slowing Chinese economy and a general pessimism with regards to emerging economies, have turned India into a bright spot in the world economy. This is remarkable given that when Narendra Modi took over as Prime Minister the economy was suffering from inflation at 9 per cent, declining industrial production, a severe balance of payments deficit. Overall the situation of bottlenecks and suspended projects often led to the UPA regime being described as a government gripped by 'policy paralysis' (Pannu 2014).

While many blame or credit exogenous conditions for past and current performance respectively, most economists agree that domestic factors are key. During a discussion on the outlook for Asian emerging markets at the 2014 *World Economic Forum* Planning Commission deputy chairman Montek Singh Ahluwalia stated, 'India's government cannot blame the country's flat growth entirely on the global economy ... roughly a third of its slowdown could be attributed to cyclic downturn and two-thirds to domestic factors' (The Economic Times 2014).

The real economy thus was the focus of the general election in May 2014. Not only did the elections results mark a clear clarion call for change by delivering the BJP a two thirds majority in the Lok Sabha (the lower house of India's Bicameral-Parliament), it was also the first election fought and won on the basis of an electoral campaign openly committed to pro-market reforms (See Bharatiya Janata Party 2014). This, it has been pointed out makes Narendra Modi the first genuinely post-socialist political leader of India. Furthermore, not only is Modi the first sitting Chief Minister to have been appointed as Prime Minister, he is also the country's first leader born after Independence in 1947. To assess the implications and impact of three factors: (1) ideology, (2) experience and (3) generational shift, we turn to a discussion of the claims of and contentions over *Modi-nomics*.

² For details and analysis of the 2014 elections see: Mitra and Schöttli 2016 (forthcoming).

II. The Promise and Premises of *Modi-nomics*.

Making 5827 appearances across the country – including rallies, events as well as his appearance in the form of a 3D hologram– for the run-up to the 2014 general elections and introducing town hall style addresses termed, *Chai pe Charcha* ('conversation over tea'), Modi vastly outpaced his main contender from the Congress Party, Rahul Gandhi.³ Criss-crossing the country, Modi promoted a message that was to a large extent focused on the economy. We analyse this in terms of the *ideas* behind *Modi-nomics* as conveyed during the campaign. Next, his record in Gujarat as Chief Minister sheds light on the degree to which improvements in the state can be attributed to his policies. As a third point, we turn to the proposition that Modi represents a post-socialist generation and era of development in the Indian economy.

The Ideas behind Modi-nomics

Judging from Modi's speeches during the 2014 campaign his agenda rested upon promises to rationalise and reform government. Whether or not these claims have carried through into the BJP government's agenda will be explored further on in the paper. An oft-repeated line, 'Less Government, More Governance' proclaimed the need to rationalise the role of government in its impingement on the lives of common citizens as well as its impact on the business environment. Specific steps promised under this slogan, included reforming the tax regime, simplifying the system and enhancing transparency. Aimed at reducing the arm of the state, this measure was supposed to help tackle the problem of black money and encourage citizens to file their tax returns. According to various media reports, only 3 per cent of Indians paid income tax in 2014 marking a major shortfall in government finances. Rather rashly and, it has been suggested, under pressure from the *Rashtriya Swayamsevak Sangh* (RSS), the BJP's organisational and ideological wing, the Modi campaign regularly promised to set up a task force to bring back India's black money stashed abroad and to distribute this money amongst honest tax payers. Whilst this clearly played to the galleys, it also fitted into the general promise of providing good governance and clear government and the restoration of trust in and efficiency of the bureaucracy.

³ On Narendra Modi's homepage it is claimed to be the 'Largest Mass Outreach Campaign in Electoral History of a Democracy' (Modi 2014).

A second leitmotif throughout the Modi campaign was the argument that reducing the role of government in some areas did not mean a withdrawal of the State. To the contrary, Modi was a persistent promoter of government as a provider of ‘public goods’, namely heavy infrastructure such as railways and urban development. The promise to build one hundred ‘smart’ cities may sound like a tall order but it draws attention to a crucial feature of the Indian economy. India currently has the largest rural population in the world at 857 million and an urban population of 410 million. It is expected that India will add 404 million urban dwellers between 2014 and 2050 (United Nations 2015).

A corollary to the urban focus and infrastructural promise is the need to enhance human capital. Here the stated priority during the election campaign was not only the need to create jobs but also to train people through vocational and skill-development programmes. Thanks to India’s demographic dividend of a growing and youthful population, the government projects the labour force to increase by 88 to 113 million people between 2010 and 2020 (OECD 2014). At the same time, in order to break out of the trap of widespread poverty, it is also necessary to tackle the informal sector, which continues to generate low-paying, insecure and low-skilled jobs (ibid.).

The focus on an urban and largely middle-class segment of society led to critics pointing out that Modi was ignoring the vast majority of Indians who continued to live in rural India and to a large extent in poverty. World Bank and India’s census data reveals that slightly less than half of the country’s labour force works in agriculture and more than 833 million people live in rural areas. Only 40 per cent of the population have access to improved sanitation facilities (World Bank 2015b). In response to his critics, Modi often showcased his achievements as Chief Minister where he was able to revitalise both industry and agricultural sectors of the economy. An additional premise for his success and one could argue, a cornerstone in his vision of economic policy is the argument that power needs to be decentralised to the States. To explore this further, we turn to the so-called ‘Gujarat model’.

Modi’s Record in Gujarat

The Gujarat model resonated with voters during the national election campaign. In his speeches Modi was quick to point to his success as the State’s Chief Minister of more than 12 and a half years. The state’s annual GDP growth averaged almost 10 per cent, faster than the

country as a whole with nearly 8 per cent. (See Table 1.) In this period only Andhra Pradesh performed better with an average growth rate of 10.5 per cent. Furthermore, he often challenged Rahul Gandhi on his lack of experience, contrasting it with his long administrative experience.

Table 1: Gross State Domestic Product (GSDP) of Top Five Indian States, 2012/13, 2004/05 and Average Growth (% Year over Year)

	<i>Maharashtra</i>	<i>Tamil Nadu</i>	<i>Uttar Pradesh</i>	<i>Andhra Pradesh</i>	<i>Gujarat</i>	<i>India</i>
<i>Gross State Domestic Product 2012-13 (in Rs. Crore)*</i>	825,832	447,944	443,191	432,112	427,219	
<i>Gross State Domestic Product 2004-05 (in Rs. Crore)*</i>	415,480	219,003	260,841	224,713	203,373	
<i>Average Growth (% Year over Year)</i>	9.04	9.44	6.85	10.52	9.75	7.97

* at Constant 2004-05 Prices.

Source: Government of India (2014a).

Gujarat is among the Top Five states with regard to Gross State Domestic Product. With the exception of Maharashtra, home to the nation's financial capital Mumbai, all four other best performing states registered a similar growth pattern. Gujarat did not outperform its peers in the top five. However, while they have done well over the last decade Gujarat has improved its relative position vis-à-vis its peers (see Table 1 GSDP 2004-05 in comparison to GSDP 2012-13).

According to the figures, Gujarat is a high-performing state; although the extent to which this is thanks to Modi's government is disputed. The Economist (2015) points out some important facts: 'With just 5 per cent of India's population and 6 per cent of its land mass, it accounts for 7.6 per cent of its GDP, almost a tenth of its workforce, and 22 per cent of its exports.' However, the article goes on to mention the state's natural endowments and endogenous advantages: 'Climate and geography pushed it towards commerce. Poor rainfall made it hard to scratch out a living in farming; a long coastline favoured international trade. Today a quarter of India's sea cargo passes through its ports.' (ibid.) While other exporting states such as Maharashtra and Tamil Nadu also perform well-above average in economic terms, it has to

be recognised that delivering and sustaining growth even in a well-off state is not a mean achievement.

Concrete accomplishments that Narendra Modi is credited for as Chief Minister, are infrastructural improvements, transforming the state from having a deficit in electricity in 2002 to having a surplus despite growing energy demands (The Economist 2015). The state is proud to showcase its 18,000 rural villages, which are connected to the electricity grid and with adequate water supply. Providing basic infrastructure and efficient government has been seen as a symbol of the Gujarat model (ibid.). This includes making land easily available for commercial development, a contentious subject but one, which gained much publicity in 2008 when Tata Motors, an Indian multinational car manufacturing company, switched from West Bengal to Gujarat to set up the factory producing its *Nano* car. When politics in West Bengal and mass agitations mired the project, Narendra Modi stepped in with an offer to hand over land in record time. Other companies have followed in its wake, with Ford opening a plant in 2015 with an investment of over US\$1 billion (Gupta 2015).

Among the major manufacturing states, Gujarat has the largest industrial base. The success of industrial development in Gujarat has also spawned criticism about crony capitalism, of government cosying up and selling out to big business. One such example is that of the *Adani Group* whose flagship project, the *Adani Port and Special Economic Zone* is India's largest private multi-port operator, stretching out to more than 15,000 hectares of land, which it is argued, could only have been acquired thanks to close relations with the ruling party and the Chief Minister himself (Sud 2014). It is thus often pointed out that the Gujarat model is neither replicable nor desirable as a national model given its big-business bias, arguably at the expense of human development. Even more crucially and worrisome however, are the arguments that Narendra Modi's economic programme is based upon anti-secularism and divisive politics. It was after all under Modi's watch (about five months after he assumed office) that the state experienced one of its worst bouts of communal violence in 2002 with Muslims being the main victims.

A comprehensive evaluation of the year to year changes in governance, human development and economic indicators – comparing all big as well as all small States with each other – is provided by the *India Today Group* 'State of the States' reports, available since 2003. The Overall Index comprises eight categories: Prosperity and Budget, Governance, Health,

Education, Consumer Market, Agriculture, Infrastructure and Investment (See Appendix A.1). Rather than using perceptions (e.g. by experts) the indicators draw data solely from official and academic sources. For the composite index all eight categories are weighted equally. Given that the index tracks year to year changes, states with high values can still be ranked at the bottom of the (e.g. 20 big) states, if their improvement within the last year was meagre (India Today 2014, 25.)

There are only three states, which managed to stay in the Top Ten in all 'State of the States' reports: Kerala, Gujarat and Haryana. Given the term of Modi as Chief Minister of Gujarat stretched from the end of 2001 to mid 2014, this success can be attributed to his policies and their implementation. In 2011 and 2012 Gujarat was ranked number one – as the overall best performing state with regard improvements in the eight categories. India Today claimed, that 'development has reached all corners of Gujarat. Focusing equally on all sectors is the reason behind the state's current 10 per cent growth, the only one to boast of double digit growth in both industry and agriculture.' (Mahurkar 2012) Positively emphasized were Gujarat's development well-endowed schemes for tribal areas (*Vanbandhu Yojana*) and coastal regions (*Sagarkhedu Yojana*) as well as investment in civic infrastructure and the cutting out of middle-men in aid distribution (ibid.). This success has been sustained and in certain areas (like health and education) also improved by the succeeding government under Chief Minister Anandiben Patel. Gujarat was again in November 2015 – 18 months after Ms. Patel took over as Chief Minister – rated as the best performing state in the *State of the States Index*.

Table 2: India Today's "State of the States", Ranking 2003 to 2015 with Trends

Source: India Today, several years.

	Ø2003-2015	Ø2011-2015	Trend	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Kerala*	3,0	3,4	↔	2	3	1	2	9	4	4	4	2	2	2	2	2
Punjab	4,2	9,0	↓↓↓↓	11	2	9	13	10	2	1	1	1	1	1	1	1
Tamil Nadu	4,7	6,6	↓	20	1	3	4	5	3	3	2	4	4	4	4	4
Gujarat*	4,8	2,6	↑↑↑	1	6	4	1	1	5	5	8	5	7	7	7	6
Haryana*	5,8	6,0	↔	8	8	5	5	4	6	6	5	8	5	5	5	5
Himachal Pradesh	6,3	12,2	↓↓↓↓	13	15	8	19	6	1	2	3	3	3	3	3	3
Maharashtra	6,6	6,4	↔	6	14	7	3	2	9	8	6	6	6	6	6	7
Karnataka	7,8	8,4	↔	3	9	13	10	7	7	7	7	7	8	8	8	8
Andhra Pradesh	9,2	7,4	↑	9	5	2	9	12	10	10	11	10	10	11	11	10
Telangana	-	-	-	10	-	-	-	-	-	-	-	-	-	-	-	-
Uttarakhand	11,0	13,0	↓↓	21	4	16	16	8	11	11	9	9	9	9	9	-
Jammu & Kashmir	11,3	13,8	↓↓	4	12	20	20	13	8	9	10	11	11	10	10	9
Rajasthan	12,8	14,2	↓	17	11	6	18	19	12	12	12	12	12	12	13	11
Madhya Pradesh	13,1	12,4	↔	18	7	10	7	20	14	13	15	13	14	14	12	13
West Bengal	13,1	12,4	↔	12	13	14	6	17	13	14	14	15	13	13	14	12
Assam	14,2	12,8	↑	7	19	15	12	11	18	15	13	14	16	16	15	14
Odisha	14,5	10,2	↑↑↑↑	5	16	19	8	3	15	17	17	18	18	18	18	16
Chhattisgarh	15,1	14,0	↑	14	17	12	11	16	17	16	16	16	15	15	16	-
Uttar Pradesh	17,1	17,4	↔	19	18	17	15	18	16	18	18	17	17	17	17	15
Jharkhand	17,3	14,8	↑↑↑	15	10	18	17	14	19	19	19	19	19	19	19	-
Bihar	17,9	15,2	↑↑↑	16	20	11	14	15	20	20	20	20	20	20	20	17

Trend based on difference between Ø 03-15 and Ø 11-15:

↔ less than 1,0 positive or negative change

↑ 1,0 till 1,9 pos. change

↑↑ 2,0 till 2,9 pos. change

↑↑↑ 3,0 till 3,9 pos. change

↑↑↑↑ 4,0 till 4,9 pos. change

↑↑↑↑↑ min. 5,0 pos. change

↓ 1,0 till 1,9 neg. change

↓↓ 2,0 till 2,9 neg. change

↓↓↓ 3,0 till 3,9 neg. change

↓↓↓↓ 4,0 till 4,9 neg. change

↓↓↓↓↓ min. 5,0 neg. change

* The states, which in all years (2003-2015) were in the Top Ten. Narendra Modi was Chief Minister of Gujarat from October 7th, 2001 to May 22nd, 2014

It is interesting to note the performance of Gujarat in the eight categories. While it had a consistent good performance in areas such as consumer market and agriculture (till 2014), it did not perform very well in comparison in education and health (till 2014). (See Table 3.) These are also the areas in which the performance of Modi as Prime Minister is called into question (Mallet and Crabtree 2015). While this requires further in-depth analysis it is intriguing why a pro-business politician like Modi would have neglected education – probably the single most important key to individual prosperity and social mobility.

Table 3: Gujarat's Performance in the Eight Categories of the 'State of the States'

	2015	2014	2013	2012	2011
Governance	21	5	4	11	17
Health	4	17	5	9	11
Education	2	7	13	12	16
Agriculture	20	7	2	5	4
Infrastructure	16	12	13	6	5
Investment	1	5	16	1	1
Macro Economy	10	6	1	16	3
(before: Prosperity & budget)					
Consumer Market	<i>discontinued</i>	5	5	2	6
Inclusive Development	4	-	-	-	-
Environment	3	-	-	-	-
Cleanliness	1	-	-	-	-

Source: India Today (2014, 28-44) and India Today (2015a, 14).

The area in which Modi really outperformed his Chief Minister colleagues is economic freedom. The *Economic Freedom of the States of India Report* provides an index based on (i) size of the government – expenditures, taxes and enterprises, (ii) legal structure and security of property rights and (iii) regulation of business and labour (Debroy, Bhandari and Aiyar 2014, 12, 25). It reports: 'Gujarat has shown by far the best performance in economic freedom. Its score has risen from 0.46 in EFSI 2005 to 0.65 in EFSI 2013, by far the biggest increased among states (...). It has improved its ranking among states from fifth position in 2005 to top position today, and its score of 0.64 is well clear of the others—Tamil Nadu comes second, some distance behind, with 0.57, which is no higher than its score back in

2005. Bihar remains at the bottom of league, but its score has improved significantly from 0.25 to 0.31, and this improvement in percentage terms is heartening.’ (ibid., 25).

Despite concerns about communalism, Hindu nationalism and the influence of the Sangh Pariwar, people voted for the BJP in the May 2014 election, nonetheless. For the first time, the BJP won more votes than the Congress with about 1 in 3 votes for the BJP while only about 1 in 5 chose the Congress. According to most analyses, it was also the first Presidential style election in which personality and persona made a key difference, leading to a vote not just for the BJP but specifically for Narendra Modi. The allure of Modi, we contend was primarily economy-based and thus a credit to the vision and strategy behind *Modi-nomics* which succeeded in catapulting the Gujarat model into the limelight and capturing the mood and opportunity for substantive change.

A Generational Shift

The source of *Modi-nomics* can be said to lie in the story of Modi himself.⁴ Growing up in poverty, having to support his own parents who were doing menial jobs and working his way up within the organisational structure of the BJP, the Modi phenomena carries the message that hard work and effort can pay off. As a result, *Modi-nomics* also caters to an aspirational class of voters and citizens, targeting and criticising the failings of a decades-old model of development and poverty alleviation that created an entrenched system of subsidies, vote-bank politics and dependency.

Appealing to a new political generation, Modi’s campaign drew heavily on social media and made a point of emphasizing a disjuncture with the past. This served the purpose of casting his vision as new, in contrast with the ‘old’ world of Congress party dynastic politics, symbolised by Rahul Gandhi, himself a member of the post-Independence political generation. In keeping with his image of breaking with the past, Modi made a number of appointment decisions that distinguished his cabinet: more women than ever before, at an average age of 60, younger than ever before, fewer members with prominent family links to politics, almost none who had studied abroad (usually a mark of privilege) and at 45 members, the smallest cabinet in sixteen years.

⁴ For recent biographies see Marino (2014) and Menon (2014).

Ministerial and other important appointments with particular relevance for the economy include Finance Minister, Arun Jaitley (born: 1952), Arvind Subramanian, chief economic advisor (born: 1959) and Arvind Panagariya (born: 1952) the Vice Chairman of the newly created Niti Aayog, successor to the Planning Commission. Each born within the space of a few years (Narendra Modi was born in 1950), they represent an important transformational development in India's politics, a generation of politicians who came of age during the repression of the Emergency and who chose to make careers outside the one-party dominant system (either within India or by going abroad). This raises some interesting questions to which we turn in the following section where we examine Modi and his team in government. Is the new post-Independence generation of political decision-makers more inward or outward looking than the past? Does *Modi-nomics* manage to reconcile the tension between *Hindutva* (the ideological basis for Hindu Nationalism) and the embrace of globalization in the 21st century, needed to stimulate growth and deliver the promise of job-creation?

III. Turning Right of Centre: A new Institutionalist Analysis of the Modi Government's Economic Policies.

Ideas, Interests and Institutional Change

To explore the contention that *Modi-nomics* represents a disjuncture with the past, this section draws upon a new institutionalist theory of change as proposed by the economic historian and Nobel Prize winner, Douglas C. North. First presented in his book *Institutions, institutional change and economic performance* published in 1990 and later elaborated in his 2005 publication, *Understanding the process of economic change*, North combined the ideas of historical institutionalism, specifically the notion of path-dependency, with the argument of transactions costs, common to economic history. He puts forward an argument that incorporates the role of institutional legacies with the transaction costs that arise during reform processes, where ideas and interests both explain the success and obstacles to institutional change.

In constructing his theory North makes an important distinction between organisations and institutions. The former represents agency and the latter is described as the formal and informal rules with which agents interact strategically while creating and transforming institutions. The mechanisms that generate change include an alteration in the structure of incentives and adjustments in agents' preferences. However, changes or reforms involve high

transaction costs and uncertainty. Hence, in order to promote change and galvanise the dynamics of change, agents must act strategically in order to mobilise resources and legitimate the need for transformative action. This includes mechanisms such as agenda-setting and the use of veto-power but these in turn, give rise to the dilemmas of collective action and unintended consequences.

Institutions take centre stage in North's seminal works given that they determine the constraints to economic as well as political models. Most importantly, "the specific institutional constraints dictate the margins at which organizations operate and hence make intelligible the interplay between the rules of the game and the behaviour of the actors." (North 1990, 110) This is therefore used to explain why inefficient economies continue to underperform thanks to institutional legacies, which give rise to a lock-in effect, making change too costly and risky. In order to explain why change happens nonetheless, North propounds that ideas and ideologies matter, shaping the mental models that individuals use to make sense of the world around them.

From Douglas North therefore three interlinked variables emerge: (1) the institutional constraints through which politics frames the incentive structures of an economy. These give rise to (2) the organizations that exert agency as filtered through (3) the mental constructs of crucial players. The interplay between all three, results in a complex, competitive environment where information is limited and cultural conditioning as well as historically inherited perceptions, make institutional change incremental and path dependent.

Transferred to the Indian context, we present an analysis of change looking at how far the economic policies introduced by the Modi government seek to alter institutional constraints by bringing in new organisational actors, changing the rules of the game and adjusting informal institutions. Below we focus on two aspects that were often repeated during the elections campaign and which we propose, could be key to changing the path of development, namely Cooperative Federalism and the Make in India campaign.

Cooperative and Competitive Federalism

Speaking from the perspective of a former Chief Minister, Narendra Modi has often advocated the need to empower the States and to encourage cooperation and competition between the

States in order to stimulate reforms and investment flows. Since coming to power in 2014, two concrete steps have been taken to encourage developments in this direction. On the 1st of January 2015 Narendra Modi announced the formation of the NITI Aayog, the *National Institution for Transforming India* as a replacement to the 65-year old Planning Commission. Aimed to act more like a think tank rather than a centralised coordinating body, the NITI Aayog is designed to give state governments a larger say in decision making, although this is not undisputed (Patnaik 2015).

At the first meeting of the NITI Aayog the Prime Minister spoke about new mechanisms that would enable the country to move away from a “one size fits all” scheme to a system that draws on the strengths and differences across the states. Thus, for example the new organisation provides for the appointment of Regional Councils to improve cooperation among two or more states facing common problems, or in order to initiate and implement joint projects in the area of travel, transportation and tourism.

The ability to win the trust of State leadership is key to Modi’s economic programme given that one strategy is to implement many of the controversial reforms via State legislatures. As a result, it is telling that Modi has made an effort to engage also with non-BJP Chief Ministers heading regional parties such as Naveen Patnaik of Orissa, J Jayalalitha of Tamil Nadu and Mamata Banerjee of West Bengal. In fact, Mamata Banerjee accompanied the Prime Minister on his recent visit to Bangladesh, which she did not do when former PM Manmohan Singh visited.

Another crucial signal from New Delhi has been the decision to follow recommendations of the *Fourteenth Finance Commission* which proposed that 42 per cent of tax revenue be devolved to States, an increase from the existing 32 per cent (Government of India 2015b). More recently, the government’s e-auctioning of sixty-seven coal blocks highlighted improved transparency in the allocation process and also made the promise that a large part of the proceeds would go to the state governments, in this case the coal-bearing states of West Bengal, Odisha and Jharkand. The Central government has also been encouraging states to reform labour laws in order to create jobs, stimulate manufacturing and improve the ease of doing business.

Despite efforts to uproot entrenched structures, questions have been raised about the extent to which the NITI Aayog marks a change from the Planning Commission especially as the organisation will answer directly to the Prime Minister. Furthermore, it remains to be seen whether controversial reforms can simply be relegated to the State level. For instance, at a meeting of the Niti Aayog in July 2015, a number of Chief Ministers were not present when the main item on the agenda was the land acquisition bill (India Today, 2015b).

The Make in India Campaign

A much-publicised initiative undertaken by the Modi government has been the ‘Make in India’ campaign. Launched by the Prime Minister in September 2014 and spearheaded by the *Department of Industrial Policy and Promotion*, the main objective is to make India attractive for manufacturing. Twenty-five sectors including automobiles, chemicals, IT, pharmaceuticals are being targeted as opportunity sectors for job creation and skill enhancement. In the hope of stimulating investment flows, foreign equity caps in various sectors were relaxed, for example the 2014 budget announced that 49 per cent foreign direct investment would be allowed in the defence sector (up from 26 per cent) and 100 per cent in railways infrastructure (up from none).

Aside from inducing foreign investment and improving infrastructure (transport, electricity, digital connectivity), a core stated aim of the *Make in India* campaign, is the need to change mindsets or the informal rules and institutions that constitute the Indian business environment. The focus on mindsets has found expression in a number of avatars including for example the Prime Minister’s statements on the need for society to rethink its attitudes towards the girl child and the need to improve notions of hygiene. Most recently, the Defence Minister Mr. Manohar Parrikar talked about the need to change mindsets in the *Ministry of Defence* to enhance public-private cooperation and improve indigenous manufacturing capabilities. (FICCI 2015).

Regardless of the theme, the need to change mindsets is aimed at altering prejudices and patterns of thinking that have hindered innovation and entrepreneurship. Furthermore, the focus on mindsets has drawn attention to the fact that transforming an economy requires more than altering laws and procedures. It also rests upon a change of attitudes across the board of economic actors including labour, bureaucrats, employers, businessmen and consumers.

IV. Conclusion

The hurdles facing the Modi government remain huge. Manufacturing output accounts for only 15 per cent of national output, compared with 32 per cent in China and 34 per cent in Thailand. Overall costs in India remain high, undermining the government's bid to become a labour-intensive manufacturing destination – for instance according to the *Boston Consulting Group* (2014) manufacturing in India is only five per cent cheaper than for instance in Mexico. Infrastructure projects lag behind most other Asian countries and India has failed so far to create clusters of companies as has occurred very successfully in China, for instance around the Pearl River Delta.

India's economy has internationalised considerably, the openness index (share of trade in GDP) has tripled over the last thirty years, accompanied by declining tariff levels. Nonetheless, the share of exports, especially for manufactured goods, in India's economy has grown slowly. The government's own *Economic Survey* of 2014–15 identifies as a major concern, the country's "muted export growth" and trade challenges (Government of India 2015a, 16 and 34).

Meanwhile discussions continue to rage as to the extent to which the Modi government is and can be truly market-oriented in its reforms.⁵ On the one hand the question pertains to the political capacity of the government to push through controversial laws and on the other hand, to the ideology underpinning the government's initiatives. While Modi and certain cabinet members such as the Finance Minister are regarded as liberalisers, traditionalist within the ranks of the BJP or from influential organisations such as the RSS do not necessarily share the view that greater globalisation and industrialization is the need of the hour.

A recent report by the *Peterson Institute* argues that many countries have used external liberalization to promote and lock-in domestic reform (Bergsten 2015). The examples are given of China when it joined the *World Trade Organisation* and Japan under Prime Minister Abe who has made Japanese membership in the *Trans-Pacific Partnership* (TPP), an integral component and driver of his economic recovery strategy. In both cases, the report argues, economic diplomacy to integrate the respective countries more deeply within the global

⁵ See the discussion in Fernandes (2014, 12-18) on Modi's pro-market credentials.

economy was bold and risked opposition at home. However, the decisions strengthened and institutionalised reform processes at home. The report argues that the Modi government needs to take similarly bold action to signal India's commitment to reforms and globalisation. It can be contended that economic diplomacy is in fact a current priority of the government. Prime Minister Modi has made a record number of foreign visits to countries where the emphasis has been on attracting investments and enhancing industrial collaboration. Interestingly, on his trips abroad Modi has sought to play both cards, that of the internationalist and the indigene – eager to tap into high-tech industry and cutting-edge innovation as well as appeal to the economic success of a prosperous Indian diaspora.

The paper has argued that *Modi-nomics* is founded upon concrete preferences in economic policy, a record of administrative experience and transformative leadership. The creation of NITI Aayog as a replacement to the Planning Commission and the launch of a concerted campaign to boost manufacturing were used as illustrations of *Modi-nomics* in application. Both showcase the administration's emphasis on the need for altering the models and modes of thinking and acting, in terms of recasting state-centre relations and re-directing resources and efforts towards industry and entrepreneurship as a means of job-creation and economic growth. Formal institutions need to change as well as informal practices – emphasised in the government's slogans of changing mindsets. However, adjusting models of economic development face strong path dependency effects, including institutionalised vested interests, entrenched mentalities and embedded organisational forces. It remains to be seen whether *Modi-nomics* can truly galvanise change by focusing on the economy or if it will be eclipsed by the necessary rigmarole of politics.

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Appendix

A.1. Indicators of the State of the States Index

Prosperity and budget – (i) percentage of *population above poverty line*, (ii) percentage of *urban population*, (iii) *per capita capital expenditure*, (iv) *inflation*, (v) *per capita debt*, (vi) *per capita Gross State Domestic Product (GSDP)*.

Governance – (i) number of *policemen per lakh people*, (ii) *ratio of cases filed to pending cases* in district and lower courts, (iii) share of *murders* to total cognizable crimes, (iv) share of *kidnappings* to total cognizable crimes, (v) share of *rapes and molestation* to total cognizable crimes.

Health – (i) *infant mortality rate (IMR)*, (ii) *ratio of male IMR to female IMR*, (iii) percentage of *births assisted by trained personnel*, (iv) percentage of households having *tap water* as principal source of water, (v) registered *doctors per million population* (vi) *sex ratio*, (vii) *per capita expenditure on health and family welfare* by state government.

Education – (i) *literacy rate*, (ii) proportion of 10-plus children having *completed primary education*, (iii) *ratio of boys to girls* in elementary school, (iv) *teacher-student ratio*, (v) *expenditure on elementary education* on every six to 14-year-old child.

Consumer Market – (i) households owning *television*, (ii) proportion of middle class and *affluent households in urban areas*, (iii) proportion of middle class and *affluent households in rural areas*, (iv) *per capita deposits in banks*, (v) *per capita ownership of two wheelers*.

Agriculture – (i) percentage of cultivated area under *cash crops*, (ii) *agriculture GSDP per rural population*, (iii) *agriculture electricity consumption per rural population*, (iv) *food grain yield*, (v) *loans* extended to farmers and net irrigated area.

Infrastructure – (i) percentage of households with *electricity*, (ii) percentage of villages connected with *pucca roa*, (iii) *per capita road length*, (iv) *bank branches*, (v) *LPG connections*, (vi) *post offices*, (vii) telephones.

Investment – (i) *per capita capital expenditure*, (ii) *commercial bank credit*, (iii) gross capital formation in *manufacturing*, (iv) *ratio of factories to number of disputes*, (v) *ratio of industrial workers* to urban 15-59 population, (vi) percentage of sick SSIs.'

Source: India Today (2014, 25).

Note that there has been a change in the dimensions used for the *State of the States Index* in 2015: *Prosperity and budget* as well as *consumer market* have been absorbed in the new dimensions named *macro economy* and *inclusive development* (with new indicators like progress of financial inclusion scheme or ratio of women representatives in panchayats, local government assemblies, in comparison to female population). New are the two dimensions, *environment* (the inverse concentrations of SO₂, NO₂, RSPM as well as tree cover as percentage of geographical area) and *cleanliness* (the percentages of households with improved sanitation facility, improved source of drinking water and with clean fuel for cooking as well as schools with separate toilet facility for girls).

Source: India Today (2015a, 14).