

India Elects

Who Lost This Election? The Economy, Stupid

Modi has been handed a blank cheque. He must ensure it doesn't bounce



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Narendra Modi's pulverising victory has wiped out every semblance of opposition in Parliament's lower house. The Congress' humiliation is so total that it will fail to be recognised as the main Opposition party in the Lok Sabha for the second time in a row. What does this mean for the economy?

The 2019 campaign was distinguished by the near-absence of economic debate and by a submersion in nationalism and slander. Is it possible for voters to ignore economic reality and choose emotional rhetoric? It appears that India's voters still hope that a strong central government will bring them security, and security will subsume well-being. Some BJP leaders flipped the argument around that 'notebandi' was an act of whimsical recklessness: demonetisation, as much as Balakot, demonstrated decisive leadership, they said; and this is what voters endorsed.

If the economy grew by a modest 7% in 2018/19, it does not seem to matter. The latest data shows GDP growth slowing steadily, from 8 to 7 to 6.6% in the first three quarters, and a predicted 6.4% in the January-March quarter. To be sure, consumption will be boosted in 2019-20 by the ginormous spending on the elections, especially in the south — Jagan Reddy's YSR Congress has erased N Chandrababu

guish; industrial production shrank in March for the first time in two years; the current account deficit (CAD) is rising, and the trade deficit widened to \$96 billion in 2018-19 from \$86 billion a year earlier. Farmers' distress is steadily growing, fuelled by low crop prices and mounting indebtedness. Worst of all, the unemployment rate rose to 7.35% in April, according to the Centre for Monitoring Indian Economy.

CMIE managing director and CEO Mahesh Vyas said the government will have to spend more, but more strategically. "It will have to run the economy in a more deliberate way, not on auto-pilot," he told me. "Private investment is low because demand is low. Plant-load factors (in electricity generation) are at just 60%, and capacity utilisation in industry is at 75%."

Some economists have suggested the government ought to expand the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREA) to urban areas to generate more jobs. Modi 2.0 will have to create millions of 'quality' jobs — jobs that are secured by contracts and carry with them benefits like healthcare and insurance and, above all, security.

Over the past two years, and especially after the devastation unleashed by demonetisation, Modi swerved decisively towards the kind of welfare-state populism that he derided the Congress for when he was a candidate in 2013-14. The difference now is that he can no longer lean on the misgovernment of the past. The past five years have been his, and he has promised to usher in a New India by 2022. "Together we will build a strong and inclusive India," he promised on Thursday as the results came in.

The Economist Intelligence Unit, which predicted a coalition government, said earlier this month that Modi might not accelerate the pace of economic reforms in his second term. "Notably, we do not expect significant progress on the reform of India's notoriously difficult labour laws," it said. Modi also needs to leverage his new mandate to bite the bullet on land acquisition laws. Some reforms will continue to be difficult because the NDA does not have a majority (yet) in the Rajya Sabha, but that is only a matter of time.

Interestingly, a recent Pew Research survey said that 68% of Indians polled said the current economic situation is bad. A significant 52% said their rights to express their views in public are not protected, against 24% who said they are. A good 45% of Indians said elected officials do not care about what ordinary people think, against 27% who said they do.

The same Pew survey across 27 countries found people were dissatisfied with the way democracy was working in their countries: 60% felt no matter who wins an election, things do not change very much, and 54% thought most politicians were corrupt.

However much of a shock this Modi landslide might deliver to India's political system, a 66% voter turnout is a thumping reaffirmation of democracy — and Opposition politicians, especially in the Congress, would have to be brainless lemmings not to effect drastic changes in their party leaderships and goals.

There is a long list of things that need to be fixed in the economy. This is the first time since the 1970s that a government has won a strong majority for the second time running. Modi needs to resist the temptation to reach for band-aids, or hyped-up populism. He has been handed a blank cheque for tough decisions that could put India firmly on track for middle-class stability. He must make sure it does not bounce.



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MODI 2.0 WILL HAVE TO CREATE MILLIONS OF 'QUALITY' JOBS THAT ARE SECURED BY CONTRACTS AND HAVE BENEFITS

Naidu and the Telugu Desam Party (TDP) in both the state assembly and Parliament with more money as much as a better message. The Election Commission's seizures of cash and contraband nationwide totalled about ₹3,400 crore, so you can safely assume parties spent at least twenty times that on the mother-of-all election campaigns.

Inflation has started ticking up; private investment continues to lan-