

# ISAS Brief

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## Indian Elections – Welfare Economics versus the Market

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There appears to be considerable interest in the outcome of the ongoing elections to the *Lok Sabha* (the powerful Lower House of Parliament) in India. The results are likely to be announced by 17 May 2014, and the fierce battle between the Bharatiya Janata Party (BJP)-led alliance and the Congress alliance would have concluded by that time. In the international media, the *Economist* and the *New York Times* have come out strongly against the candidature of Narendra Modi of the BJP for the post of Prime Minister, accusing him of condoning the riots against Muslims in Gujarat in 2002, in his first term as Chief Minister there. English newspapers in India, including *The Hindu*, are critical of him. Non-governmental organisations and activists, such as Arundhati Roy, have written strongly against him. Even newspapers in Singapore have been cautious about evaluating him even

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while recognising the economic performance of Gujarat. The Congress and its allies continue to harp on the secularism versus communalism theme, with Mr Rahul Gandhi of the Congress alleging that there would be communal riots if the BJP were to come to power now. There are also a host of regional parties, seeking to consolidate gains in their own states and hoping that the emerging coalition government at the Centre would enable them to participate in governance and power. As of today, the odds appear to be in favour of a strong BJP-led government consisting of a few coalition partners, but the Indian electorate has often proved to be unpredictable.

While the media and political rhetoric is about secularism and communalism, and accusations are being hurled every day in the newspapers, the issues before the electorate appear to be substantially about the economy and development. The criticisms against the ruling United Progressive Alliance (UPA) Government under the stewardship Manmohan Singh are well known: low growth, increasing corruption, and inability to implement and govern.

At a more fundamental level, there appears to be a conflict between two ideologies of development. The UPA has favoured the entitlements approach, and introduced a series of legislations including the Right to Information Act, the Food Security Act, the right to education, and a number of programmes including the flagship National Rural Employment Guarantee programme and the Jawaharlal Nehru Urban Renewal Mission. These programmes promise to different sections of the underprivileged a range of livelihood entitlements. In addition, regulatory controls on the pricing of products, including fuel, medicines and even fertilisers, have increased. The support prices for agriculture products like wheat, rice, sugarcane and cotton have been revised upwards substantially. There has been a focus on providing support for the underprivileged and the poor. In this, the National Advisory Council headed by Sonia Gandhi, and consisting of important social activists, has had an important role to play.

There are visible results from these interventions. Average income levels in rural areas, including Tier-3 and smaller towns, have increased significantly, much faster than in towns with wage-earning middle-class population. There is considerable monetary liquidity in agriculture, and consumption patterns have changed. FMCG companies consider Tier-3 and 4 cities as the fastest growing markets in India. Sales of tractors, agricultural implements and motor cycles have been growing year on year. Small cars are visible in most small towns, and

*Maruti*, the Indian car maker, has a special marketing focus on small towns. The ruling party would expect the electorate to recognise these gains and vote them back.

However, there is another side to the picture. The complaints against the UPA Government are about increasing corruption and supporting crony capitalism. The Government has been embroiled in a number of scams and enquiries, including those relating to the telecom spectrum and allocation of coal blocks. Several of the ministers have been arraigned and are facing legal action.

Most importantly, the entitlements that have been promised have not been followed through in implementation. While the Food Security Act has been passed, there is no architecture in place to deliver its benefits. The employment guarantee programme has been fraught with corruption and leakages. Banks have substantial non-performing assets on their books caused by lending to undeserving projects, presumably on political pressures. The public image of the present government, as portrayed by the media, is of an ineffective and corrupt rule.

The alternative that is being offered, in the BJP manifesto released on 7 April, is an economic reform-based approach where the State would focus on developing infrastructure, creating employment and making it easier for businesses to invest and to grow. Development of skills and making education more relevant for the job market is promised. They are also strongly promising a transparent, objective governance system.

The question is which of the alternatives will appeal to the electorate.

First, there is no clear view on the choices between entitlements- and social support-based development agenda on one side, and the market reform-based development agenda on the other. The Amartya Sen-Jagdish Bhagwati debate is not just an academic debate: it is a serious matter of governance choices that the electorate will have to vote on. Surveys among youth, especially those in academic institutions and in the job market, appear to indicate that they would prefer a regime that would enable them to pursue livelihood alternatives and enjoy an opportunity to improve their economic lot. They are less interested in subsidies than in employment opportunities. The National Sample Survey results indicate that while 50 million jobs were created between 2000 and 2004, only 27 million jobs have been created since then, which is an abysmal record.

Second, there are also stark numbers that are difficult for the government to explain away. GDP growth is at an all-time low of 4.9%, inflation has been persistent and high at 9.1%, exports are stagnant, except when the rupee depreciates, and governmental borrowings are at an all-time high. Revenue receipts have fallen, and the economy appears to be slowing down rapidly. Growth in industrial production is close to zero, and it is only the last year's sterling performance in agriculture, on the back of a good monsoon, which has resulted in some positive growth figures for the economy.

Third, India has globalised significantly over the last two decades. An open financial market, consumer preferences that are global, and investment opportunities for growth, all signal opportunities for international investors. A reform-unfriendly, rights-based government would not be attractive for foreign investors, and analysts are hoping that there will be a Modi-led government. These analysts also realise that given India's fiscal position, government has to choose between a reform-based approach and a social support-based approach. Market economies all over the world are hoping it would not be the latter.

Surprisingly, the welfare approach to development was popular between the 1950s and the 1980s, and India was a faithful adherent to this school of welfarism. Growing inefficiencies in public delivery systems, and fiscal constraints forced the government to open up to market-based economics; and the last two decades have witnessed growth as well as improvements in incomes. Poverty rates as well as absolute numbers have fallen significantly. Income disparities have been under control, though not declined. However, there are several of the old school development economists still around who are arguing for a welfare state.

It is now for the youth of India to decide – they constitute the largest percentage of the voting electorate, and their choice will be crucial.

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