# Economic Policy after the Elections*

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The election results, which gave both the BJP and the NDA far lower seats than they had in the previous parliament and led to a coalition government, surprised many. But now, attention has shifted to assessing what that would do to the behaviour and policies in different spheres of this version of a Modi-led government. One such sphere is economic policy, where the results suggest that the sense of comfort that the second Modi government claimed to have had with the nature and outcomes of its policies was misplaced. Speculation is rife whether the combination of that signal and the compulsions of coalition politics would trigger change on the economic policy front. Some suspect that it would, while others believe that Modi is incapable of change, as the composition of the new cabinet indicates.

However, assessments of the likelihood of such change are hampered by the difficulty of characterising the nature of economic policy under the two previous Modi governments. Reading policy based on statements from Modi and his spokespersons yields a framework with an eclectic set of features: capital spending with a focus on infrastructure; efforts to build India’s woefully inadequate manufacturing base, not least by offering subsidies under the production-linked incentive scheme; and special welfare schemes varying from transfers to farmers to provision of free foodgrains, to name a few. Arriving at a holistic understanding of the government’s policy stance from elements of that kind is difficult.

In fact, even in each of such policy areas, the details suggest that decisions seem to have been driven by the demands of propaganda rather than a concern with substance and impact. For example, under infrastructure, much was made about transforming the railways by showcasing more than 50 new Vande Bharat trains, even while periodic accidents revealed the failure to renovate and modernise track and signalling infrastructure. While the extension of COVID-era food provision schemes and transfers to chosen sections were flagged as indicators of enhanced emphasis and spending on welfare, allocations for a whole host of welfare schemes on the books, targeting areas varying from employment generation to housing provision and nutrition, have in consecutive budgets been kept at woefully inadequate levels. The emphasis has been on branding and presenting many old and a few new schemes as measures and guarantees directly attributable to the Prime Minister. The presumption seems to have been that with an aggressively communal and divisive political agenda helping gather majority voter support, political legitimacy does not depend on the outcomes of economic policy.

Besides the obsession with propaganda, there have been rather diverse drivers of whatever goes by the name of economic policy. To start with, the numbers make clear that central to the BJP’s strategy of winning political power was the monopolisation of the mobilisation and use of political funding. This required obtaining the maximum in the form of political donations, as well as finding ways ranging from use of state agencies to the alleged use of demonetisation to freeze funds available to the opposition. Carrots and sticks were both deployed to mobilise funds, as the court-directed release of evidence on the operations of the now defunct ‘electoral bonds” scheme revealed.

There are implications for economic policy of this funding strategy. If humongous sums have to be mobilised from the private sector, those private donors have to be rendered capable of making such large donations and be incentivised to do so. This has encouraged a policy environment in which the accumulation of assets and wealth of favoured wealth holders is facilitated and engineered. The net result has been an unusual increase of income and wealth concentration in the hands of a few business houses, which in turn are direct or indirect sources of political funding. It is to be expected that this mutually beneficial nexus between state actors and private capital would influence the character of "industrial policy".

A second feature of policy during the Modi regime has been an effort to extract resources from the states, the Reserve Bank of India and some public sector entities to ensure that its spending on selected infrastructure projects and welfare schemes does not result in too much of a deviation from its fiscal consolidation targets and damage its claim to be fiscally prudent. A growing reliance on revenues from cesses and surcharges that are not shared with the states, refusal to continue compensating the states for shortfalls in revenues under the goods and services tax regime, record transfers of special dividends from the RBI, and enforced payments of large dividends to the government as owner by profitable public sector units have all been deployed to this end. This also allows for continuing with a light direct tax regime, required to keep both domestic and foreign capital happy, with virtually no taxes on wealth and inheritance.

Third, the squeeze on spending at the state level as a result of the concentration of tax revenues in the hands of the Centre, has been consciously worsened by capping borrowing by the states, including borrowing by off-budget public sector entities like the Kerala Infrastructure Investment Fund Board (KIIFB). Most states have been forced to substantially prune their spending. With opposition parties still exercising power in many states this has a political benefit. It prevents opposition parties at the state level from winning legitimacy and voter support through capital and welfare expenditures. And even when they manage to spend on such projects, to the extent that the cost is shared by the Centre through its centrally sponsored schemes, allocations are increasingly tied to attributing those projects to the Centre and Prime Minister Modi. Undermining the opposition at the state level has been an objective of economic policy,

With these economic measures being driven by political objectives, actual economic policy making becomes a residual and often distorted activity. Much is done to present the government as being business and market friendly, partly also to neutralise the resentment that special benefits for favoured corporates and business houses generate among the rest. This can take the form of widely distributed largesse. Thus, the production linked incentive scheme uses subsidies to pay off and persuade foreign and domestic investors to establish capacity or expand in chosen manufacturing sectors, with no indication as to whether and how this will build indigenous technological and production capability.

Given these drivers of economic policy under successive Modi regimes, it is unlikely that there would be much desire to change so long as the objectives remain the same. So, the question is whether the failure of the communal agenda to deliver adequately, and the harm that economic outcomes with regard to prices, employment and social protection seem to have inflicted, will change the objectives of the BJP and its leadership. Moreover, with parties ruling the states now wielding power as coalition partners, there would be pressure to either unwind the centralisation of resources or pay off the partners. But these could imply small changes, leaving the framework of policy relatively untouched.

*** This article was originally published in Frontline on June 24, 2024.**