

MODINOMICS AND THE LONG DISTANCE TO THE FINISH LINE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

'No announced macroeconomic goal has been achieved' | Photo Credit: Getty Images/iStockphoto

On May 31, 2022, in its press note on provisional estimates on national income, the National Statistical Office (NSO) released the 2021-22 fourth quarter GDP growth rate figure at 4.1% (April 1-March 31, 2022 in annual equivalent terms) compared to fourth quarter figures for the previous year, 2020-21.

In the first quarter of 2020-21 (April 1 to June 30), GDP growth rate according to the NSO, was -23.8% ,which is when the COVID-19 pandemic began spreading.

The combined subsequent and remaining three quarters of 2021-22 annualised growth rate was negative, and thus for the fiscal year of four quarters, the GDP annual 2020-21 was placed at -4.8%.

The following two conclusions are important to the Narendra Modi government for a badly needed reality check. First, which I have detailed in my earlier Opinion articles in *The Hindu* is that the Indian economy had been declining in growth rate since 2016 and fell below what was earlier sneeringly referred to by economists in the Congress-ruled period (1950-77) as "The Hindu Rate of Growth" of 3.5%-4% per year growth rate in GDP.

Second, the Modi government should recognise that during the present Prime Minister's tenure since 2014, his plan for "Vikas" is more genuinely akin to the Hindu rate of growth planning of Jawaharlal Nehru. No P.V. Narasimha Rao tenure type structural reforms were systematically implemented. The decline in GDP growth rate from 2016 till today is thus a national shame for a dispensation that claims to bring "Vikas" to the country.

Not only has the growth rate of GDP been consistently declining since 2016 but the brazen but rosy predictions that were impossible to achieve without major reforms, such as a \$5 trillion GDP by 2024-25, have been publicised in the media, (which in 2019, when Mr. Modi announced the goal, meant a 14.8% per year growth rate in GDP).

I am prepared to debate publicly with any Government official to prove to the Indian public that "Modinomics" to date is a gigantic failure. That is, to prove that no announced macroeconomic goal has been achieved during the Modi tenure as Prime Minister so far from 2014 till date.

What the Indian economy needs today is a new economic policy that is based on clearly stated objective targets, priorities, a strategy to achieve the targets, and an intelligent and transparent resource mobilisation plan. At present we have an incoherent hotchpotch set of public announcements, with no accountability or logic.

The Atal Bihari Vajpayee government lost badly in 2004 despite the confidence in advancing the general election by six months before the due date because of the imaginary paradise of "India Shining". The Bharatiya Janata Party (BJP) could not make an electoral comeback for 10 years after the debacle in the 2004 elections.

The BJP was lucky to come back in 2014 because of the Supreme Court judgments cancelling the 2G Spectrum licences, hopes of Ram Mandir re-building, and a failing economy.

Today, the BJP is in its eighth year of its tenure as the ruling party. Although some socio-religious successes have helped to raise the morale of party workers, the 2024 general election is still not a done deal. State elections in West Bengal and Punjab are also not good omens. In the recent elections in Uttar Pradesh, the margins of victory were mostly very narrow. My own reading is that economic failure, which is fast becoming the main issue, could drastically unsettle even the most conservative forecast in 2024. Democracy could be threatened by desperate political extremists.

In every nation, democracy is structured on four pillars: electoral legitimacy, constitutional safeguards, functionally independent institutions, and embedded accountability. Mere elections are not sufficient for a democracy.

But there is a conflict between the market and democracy that requires to be resolved: a flourishing and vibrant democracy that empowers a relatively poor uncorrupted majority to vote, and hence can influence legislation against the relatively rich capitalist and entrepreneurial minority, and a thriving market economy driven by a rich empowered minority with disproportionate access to capital, skills and media and other networks has the capacity to undermine the electoral system through strategic funding of the same.

Therefore, there is a need to understand the dynamics of democracy especially since, in India, even economic reformers such as Narasimha Rao have so far lost elections.

Thus, designing reforms is most important because leaders initiating reforms must win elections. Let us understand how a democratic Japan came to have such an opaque financial system with no prudential norms or accountability because of cronyism that had to be pleased, or how the United States that had no proper regulation in place for the new sophisticated financial products gave free play to so much greed that it led to the global financial crisis in 2007-09.

Economic reforms in a democracy can be electorally successful if so designed that the losers from it (usually touts who organise quotas and licences for the rich for a price, and who, because de-regulations implicit in reforms make them immediately lose the "rent") do not hijack the election, while the unorganised poor who cannot see early returns from reforms are kept satisfied by reducing unemployment and controlling galloping inflation.

Deregulations should also not mean that we reject government intervention for safety nets, affirmative action, market failure and creating a level-playing field.

Democratic institutions have to be empowered to guard against public disorder arising from rapid de-regulation, as it happened in Russia, post-1991. The Russians underwent chaos and misery. Thus, dictatorship has returned for the Russians.

Thus, the trade-offs as between public order and de-regulation, through affirmative action, social security and a safety net, are essential to create a stake for the poor in the system, levelling the playing field to create hope, ensure transparency, accountability, and trusteeship (philanthropy) as also corporate governance to legitimise profit making that drives the market system.

Market systems are not a free-for-all. It is capitalism with rules of transactions. With that proviso, market system capitalism works since the principal driver is capital and its deployment for innovation to raise productivity.

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