Economic Distress Amidst Political Success: India's Economic Policy Under Modi, 2014-2019

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Paper Abstract:

Narendra Modi came to power in 2014 promising robust economic management and more employment. The campaign promise of "maximum governance, minimum government," created hope that Modi would transform India's economy by removing obstacles to growth and job creation. We assess the Modi government's economic policies from 2014-2019 focusing on salient initiatives like demonetisation, bankruptcy law, GST reforms, and "Make in India." We argue that Modi's economic policies must be understood, first and foremost, as a political strategy to build political support and ensure the BJP's hegemony through the next decade. In addition, we show that Modi's success in building his personal image as a decisive leader perversely triggered institutional changes such as centralization of decision-making and political management of information that diminished India's state capacity and led to policies that failed to address, and in many cases exacerbated, India's economic problems. [141 words]

Keywords: Narendra Modi, economic institutions, economic rhetoric, Demonetisation, Make in India, GST, Bankruptcy bill, social welfare

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Introduction

Even before the onset of the coronavirus pandemic, India experienced economic distress evident in slowing growth, declining investment, high unemployment, and a recession in the manufacturing sector.[1] India's growth rate has fallen in the three years since 2017 (2017-2019), dropping to an eleven-year low of five percent after reaching just 4.5 percent in the second quarter of 2019-20. India's unemployment rate stands at a 45-year high, and for the first time ever, the National Sample Survey Office's 2017-18 household consumption survey found that the real consumption expenditure of the average Indian had declined from the previous survey five years earlier.[2] The health crisis has imposed serious disruption and demand contraction and presents multiple challenges for the economy.

Though some of the root causes of India's economic problems preceded the formation of the Narendra Modi government in 2014, there is a striking contrast between the sober economic realities and Modi's pledges to bring about '*Sabka Saath*, *Sabka Vikas*' (together with all, development for all), massive job creation, and structural transformation. Our paper focuses on the gap between Modi's ambitious policy goals and the disappointing performance of the Indian economy during the first term (2014-2019). In order to explain this discrepancy between promise and performance, we focus on explaining the paradox of emerging economic distress amidst political success: First, we explore the motivations behind the government's economic strategies and their contributions to Modi's popularity. Second, we analyse how the economic policies were designed and implemented before assessing their economic consequences. We argue that Modi's successful efforts to build his personal image as an indispensable leader whose decisiveness was essential for surmounting India's economic challenges perversely triggered institutional changes that diminished India's state capacity and led to policies that failed to address, and in many cases exacerbated, India's economic problems. The challenges posed by the Covid-19 pandemic makes attending to India's economic problems all the more urgent.

We begin our study by providing an overview of the political imperatives that shaped economic policy decisions to develop a political explanation for the paradox of political success amidst economic distress. In order to understand the economic policies adopted by the government, we must understand the contextual challenges and opportunities in 2014, which we discuss in the first section. Next, we analyse the economic narrative articulated by the BJP government since the framing of policies and economic agendas is central to our political explanation. Then, we examine the BJP's government's most substantial reforms: the Insolvency and Bankruptcy Code, 2016 (IBC), and the Goods and Services Tax, 2017 (GST). We continue to analyse the achievements and limits of the "Make in India" initiative before demonstrating the economic sacrifices imposed by Modi's demonetisation scheme. Next, we examine India's fiscal performance and the perils resulting from the political manipulation of India's economic data. Finally, we survey changes in India's state capacity and economic governance. We find that political motivations such as marketing Modi's image as a great leader and electoral coalition building help to explain many of the government's policy initiatives and their shortcomings in addressing the roots of India's economic problems.

Argument: Political strategy and the economic agenda

Narendra Modi's economic policies over the period from 2014 to 2019 must be understood, first and foremost, as elements of his political strategy to win the 2019 elections and build the hegemony of the BJP and its Hindu nationalist world view. The result has been the implementation of a broad array of policy initiatives, many contradictory and mutually undermining. Prime Minister Modi initiated some reforms early in his tenure to revive the economy and restore investor confidence —introduction of the goods and services tax system (GST), a new bankruptcy law, 'Make in India' to revive manufacturing for example,-- but he soon pivoted towards broadening and expanding welfare in order to build political support among the urban and rural poor and to ensure the backing of RSS's leadership and base for the government's economic agenda as well as its ideological project.[3] This combination of iterative goals, ideological and political compulsions created an inconsistent and rambling economic policy agenda as fiscal expansion necessitated by welfarism had to contend with a legal commitment to fiscal responsibility, centralised institutional reorganization had to be rendered popular in the name of the 'poor,' and pro-business policy orientation had to be reframed to avoid an elitist image.[4] Most of all, Modi took a personalised approach to economic policy management, claiming credit for his decisive leadership and rendering invisible the collective efforts of his government. The political marketing of Modi and his policies was a key factor in what Sircar observes as Modi's efforts to build support through a politics of trust or "vishwas" based on the "personal popularity of Narendra Modi, and the trust that voters have placed in him."[5]

Institutional governance, as it evolved over the first term, ensured that economic policymaking was influenced by electoral imperatives and the ambition to produce marketable achievements. While previous leaders drew on input from regional administrations, bureaucrats, expert policy advisers, and consultations with private sector leaders, Modi relies on a much narrower group of advisers, largely a coterie of trusted civil servants, some of whom moved with him from the Government of Gujarat. While his government has reached out to district officers his overall approach has centralised and monopolised policy initiative in the PMO. This also has implications for the federal economic balance of power. Though Modi was elected in 2014 pledging to strengthen Indian federalism by placing "Centre-State relations on an even keel through the process of consultation" and evolving "a model of national development, which is driven by the states,"[6] it has effectively centralized power within India's federal system by: eliminating the Planning Commission and its fora for center-state negotiations and replacing it with NITI Ayog which has come to function as a technocratic space responsive to the central government rather than the states; making large increases in Central Sector and Centrally Sponsored Schemes since 2016; and establishing direct communications between the PMO and state-level bureaucrats to the exclusion of Chief Ministers.[7]

Though Modi has never had a strong commitment to a guiding economic philosophy, he has always been receptive to statism, given his immersion in Gujarat politics, where state-guided economic policies had become the norm for many decades.[8] While Vajpayee and other members of the governing BJP team during the 1999-2004 period were more willing to forgo some popular support in their pursuit of reformist internationalism, Modi's political goals led him to abandon economic reforms when they became politically disadvantageous. Rather than place exclusive policy bets onto economic reform and a pro-global agenda, he has aspired to create a wide coalition through welfarist initiatives that he used to burnish his political brand and enhance electoral support for his government   Modi gave even greater priority to these initiatives after the defeat of the BJP in the Bihar assembly elections (2015) and Delhi (2015) and as signs of economic distress became apparent between 2016 and 2018. As more conventional economic reformers have been marginalized, economic policy has been shaped by Modi's political instincts and to a lesser degree by the economic ideas promoted by the RSS and the Sangh parivar.[9]

To say that the Modi government does not have a guiding economic philosophy is not to say that it has not been swayed by economic ideas.[10] The economic ideology of the Rashtriya Swayamsevak Sangh (RSS), the leading element of the Sangh Parivar (the 'family' of Hindu nationalist organizations), has had some influence on Modi's economic policy. The RSS and affiliated organizations such as the Swadeshi Jagran Manch (SJM), Bharatiya Mazdoor Sangh (BMS), Bharatiya Kisan Sangh (BKS), and the Laghu Udyog Bharati are critical of many of the tenets of economic liberalism such as free trade, foreign investment, and *laissez faire*. Instead they advocate Integral Humanism, a distinctively Indian approach to economic development, that differs from capitalism and socialism. Rather than multinational corporations with their cosmopolitan culture, the RSS favors promoting local small and medium sized enterprises, particularly family-owned businesses founded on Indian values and customs and which are conducive to a decentralized economy. Instead of market fundamentalism, the RSS and its affiliates favor state interventions that limit inequality and alleviate poverty. Speaking at the iconic Mumbai Stock Exchange, RSS chief Mohan Bhagwat declared that the true measure of economic policy is whether it benefits the poorest people.[11]

The proponents of the RSS approach to economic nationalism contend with advocates of more liberal nationalism wishing to make India a global economic power by integrating into global markets in conventional ways. This contestation exists within policy networks including the government and elements of the Sangh Parivar, and likely within the mind of Modi himself.

When the BJP-led National Democratic Alliance (NDA) ruled the country from 1998 to 2004 under Atal Behari Vajpayee, there were frequent clashes between NDA leaders Jaswant Singh and Yashwant Sinha and some of the organizations of the Sangh Parivar. Vajpayee tipped the balance towards a more global definition of economic nationalism, a form of "strategic internationalism" and marginalized the indigenous inward-looking versions of policy espoused by Swadeshi Jagran Manch and affiliated organizations.[12] While Modi is prepared to listen to the economic views of activists in the Sangh Parivar he has also been selective in his response. An informal power sharing arrangement has been worked out whereby core areas of governance, including economic affairs, remain under the close purview of the Prime Minister while the RSS is allowed more input in areas such as education. Therefore, activists critical of government policy have been persuaded to dilute 'their expressions of resentment' and over controversial policies, such as land acquisition and GST.[13]

Yet, unlike the Vajpayee NDA, the Modi government has accommodated some of the demands of the Sangh Parivar. The accommodation increased as the economy faced multiple self-inflicted and exogenous problems. As the 2019 election approached, acknowledging the concerns of the Sangh Parivar in economic policy helped increase the RSS's support for the election campaign. Under Modi, the BJP created fora to facilitate the resolution of differences between pragmatists and militants of the Sangh Parivar. The Modi government appeared sensitive to criticism by Mohan Bhagwat, leader of the RSS. It also appointed RSS economic policy advocates like S Gurumurthy to influential policy positions. These mechanisms nudged the Modi government's policies closer to RSS positions while simultaneously motivating the RSS and its affiliated organizations to increase support for government policies.[14] The accommodation advanced Modi's interests by incorporating welfarist policies that increased its popular support while ensuring commitment by the RSS and its followers to deploy their formidable organizational reach to help the BJP win assembly elections and the 2019 general election campaign.

Modi's welfare initiatives help to explain the paradox of political success amidst economic distress. By providing voters with tangible private goods including cooking gas, bank accounts, toilets, and medical insurance rather than more diffuse public goods like expenditures on education and public health,[15] they enhance the credibility of Modi's promise to deliver economic benefits and create a "new India" that is more affluent and equitable at a time when the country is experiencing of historic levels of unemployment, rising inequality, and slowing growth. Nonetheless, Modi's policies frequently resembled schemes to advance his political interests rather than initiatives to address underlying economic problems. They often contradicted and undercut some of his most notable reforms and promises. The impression that economic policy was becoming politicized was underscored by the Modi government's manipulation of economic data. When data revealed negative developments, it was repressed or manipulated to cast a more favourable light. Experts who asked hard questions were intimidated, and analysts were discouraged from proposing incisive policy solutions. The marketing of Modi's economic policies through grand official events and messaging via mainstream and social media has contributed to his political success at the same time that they have failed to alleviate India's growing economic distress.

In a democracy, politicians always have to consider the electoral repercussions of economic policy-making. As such, economic policy is always politicized to some extent. Politicization does not always lead to economic problems. When democratic pressures oblige politicians to favour policies that enhance broad societal welfare, politicization can lead to inclusive economic development. Politicization is counterproductive when politicians interpret their political interests in ways that interfere with good economics and sacrifice social welfare. The rest of the paper argues that politicization of economic decision-making under the Modi government has been detrimental to India's development when it has involved: 1) the transfer of resources to voters prior to elections in ways that are not fiscally sustainable; 2) implementation of policies that directs benefits to particular groups at the expense of broader social welfare (for example many types of rents); 3) manipulation of governing institutions in ways that advance the narrow political interests of the Modi government in ways that diminish the institution's capacity to promote collective social welfare; and 4) ignorance, distortion, or repression of vital economic information that is necessary for good policy decision-making and for a well-informed electorate.

India's economic challenges, 2014-2019

Although GDP growth rates increased during the early years of the Modi Government, reaching 8.2 percent in 2016-17,[16] signs of the current economic slowdown were already apparent early in its tenure. Furthermore, a number of analysts contend that the government has overestimated India's growth rate. Arvind Subramanian, Chief Economic Advisor from 2014 to 2018, after leaving the government, estimated that rather than the official growth rate of seven percent from 2011-12 to 2016-17, India's actual growth rate was about 4.5 percent.[17]

Falling oil prices and easing inflationary pressure created a window of opportunity for reforms that might address the problems and maintain the high rates of growth to which India had become accustomed. The Modi government did not pass the oil price savings to consumers but preferred to reduce the fiscal deficit. In the context of declining international commodity prices—especially India's large imports of oil and gold—the Modi government's fiscal prudence and its reforms to implement flexible inflation targeting through an independent Monetary Policy Committee contributed to the steady reduction of inflation from 6 percent in 2014-15 to just 3.4 percent in 2018-19.[18]

Problems arose in the financial sector. The surge in investment that occurred during India's five-year economic boom preceding the global financial crisis in 2008 led to an increase in non-performing loans after growth decelerated in the aftermath of the crisis.[19] As early as 2015, India was faced with the "twin balance sheet challenge," as Chief Economic Advisor Arvind Subramanian called it, when the deteriorating position of overleveraged companies, especially in the infrastructural sector, increased the non-performing assets (NPAs) held by India's banks.[20] Despite the RBI reforms to alleviate the banks' bad debt problems and the government's attempt to address financial institutions' debt overhang with the passage of the 2016 Insolvency Banking Act, the banks' non-performing loan ratio grew from 4.3 percent in 2014 to 5.9 percent in 2015 before hitting a peak of 10 percent in 2017, remaining above 9 percent in the following two years (2017-2019).[21] The banking sector's problems spread to the non-bank financial companies (NBFCs) with the Infrastructure Leasing & Financial Services (IL&FS) crisis in the fall of 2018. The mounting NPAs made the banks and NBFCs reluctant to lend. The growing distress of the infrastructure and real estate sectors, weak domestic and international demand, and the growing prospect that promoters might lose control of their companies through bankruptcy made the private sector reluctant to invest. These developments led to a vicious cycle in which declining investment rates led to slower growth which in turn further reduced investment.[22] Gross capital formation as a share of GDP dropped from 39 percent in 2011-12 to 29.3 percent in 2018-19.[23]

Declining investment contributed to diminished growth rates and unprecedented declines in employment and welfare. Annual growth of India's GDP dropped from 8.0 percent in 2016-17 to 6.6 percent in 2017-18 to 6.1 percent in 2018-19 to just 4.4 percent in the second quarter of 2019-20 and 4.1 percent in the third quarter, before the onset of the Covid-19 pandemic[24] From 2011-12 to 2017-18, the rate of unemployment experienced an unprecedented increase from 3 percent to 8.8 percent, while youth unemployment jumped from 6.1 percent to 21.4 percent. At same time, the labor force participation rate decreased from 39.5 percent to 36.9 percent. The Indian countryside was the hardest hit. Rural India lost 21 million jobs while employment in India's cities grew by just under 15 million. Despite the Modi government's efforts to promote job growth in manufacturing, total employment in the sector declined by 3.5 million jobs. Increases in employment were confined to the service sector and within this sector to primarily low paying jobs. Average real wages for both rural and urban workers remained flat.[25] For the first time in more than 25 years, the absolute poverty rate grew by one percent. The number of people living below the poverty line increased by 30 million people.[26] While these economic facts tell a revealing story, the narrative about the economy—articulated by the Prime Minister and also evident in the budget speeches— is also important, as the Modi government hoped to change people's perceptions about the economy; we analyse a variety of speeches in the next section.

Narrative and framing of economic goals and policies

In India, the government uses the finance minister's annual budget speech to construct its approach and narrative about economic policy and signal its priorities. Prime Minister Modi also made a number of important speeches designed to shape public understanding of his government's approach to economic development. Of course, the budget and Prime Minister's speeches always present policies in ways that advance the government's political interests. We learn three lessons from examining budget speeches on economic policy during the first Modi government: 1) the narrative was more partisan than usual; 2) there was an evolution away from pro-business policies to heavily promoted policies claiming to improve the lives of India's rural population; and 3) the government linked its policies to Modi's persona. These features had an important consequence: the campaign-style mobilization and the priority that it gave to political marketing led the government to prioritize public perceptions over economic expertise, contributing to economic distress amidst political success.

The rhetoric was not always consistent, but over time the NDA government shifted the emphasis away from macroeconomic outcomes to targeted benefits to specific electoral constituencies. The government began with an unfocused narrative in 2014 and 2015 that attempted to balance the interest of business and ordinary voters. The Finance Minister presented fairly conventional budget speeches which began with a macro-economic overview and did not hesitate to plunge into fairly technical discussions of fiscal discipline and investment rules. Agriculture was covered in five short paragraphs in the February 2015 budget speech. However, a process of recalibration got underway in 2015, and the government began to concentrate on policies that would be electorally beneficial. Policies and spending decisions that would affect the fortunes of the majority of the population were given much more attention from early 2016 onwards. Agriculture, social sector spending and schemes were given first priority in the rhetoric used in the latter part of the first Modi government. Modi did not break links with business, but he was careful not to associate too closely with the privileged segments of Indian society.[27] Whether or not this was a harbinger of genuinely populist politics, the Modi government adopted populist mannerisms.

The Modi government was unashamedly partisan, going to great lengths to differentiate its administration from the previous Congress-led United Progressive Alliance (UPA) government. In part, it did so by re-working recent history, and ‘adjusting the past’ to portray the previous government in highly negative terms.[28] Beginning in the first budget speech in July 2014 the baleful legacy of the United Progressive Alliance (UPA) was established as a standard refrain throughout the whole five years of the first Modi government. The Modi government was particularly intent on portraying the previous government as out of touch and corrupt. Building on his success in painting Rahul Gandhi as a *shahzada* (Muslim princeling), *pappu* (foolish young man) and “Mr. Golden Spoon,” during the 2014 election campaign, in 2019 Modi colourfully mocked the Congress-led opposition as the “Khan Market Gang” referring to New Delhi’s upscale shopping center patronized largely by English-speaking elite. Similarly, as Indian banks’ loan problems began to mount, Modi blamed the previous Congress-led government for leaving the economy on a “land mine” resulting from a “phone-a-loan” scam in which top government officials called bank officials and ordered them to issue lucrative loans to cronies who felt free to default without penalty.[29] Perhaps most harshly, Modi frequently calls for a “Congress-mukt India” or time when at least the corrupt culture of the Congress Party, if not the party itself, will be eliminated from the Indian scene.

The Modi government also sought to positively differentiate itself by highlighting its innovation and novelty. It introduced new schemes, and re-presented old schemes, with catchy labels. One of the distinctive elements of brand Modi is his naming of schemes, slogans, acronyms and metaphors about the economy. The NDA’s first budget called for a “blue revolution" for inland fisheries. Acronyms with puns were a frequent feature. Pilgrimage rejuvenation was to be advanced by the PRASAD mission and the heritage character of selected cities was to be preserved via the HRIDAY project.[30] The names given to many social welfare programs identified Prime Minister Modi with them by affixing the Hindi term 'Pradhan Mantri' (Prime Minister) to their names – Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Ujjwala Yojana (PMUY), Pradhan Mantri MUDRA Yojana (PMMY), and so on. Several flagship programs got repeated mention in the budget speeches including Smart Cities Mission, Make in India, Digital India and Skill India. These associate the BJP with the application of technology and modern development. Finally, the Modi government promoted its Hindu nationalist cultural and ideological agenda through its symbolic framing of policies. It named schemes after Shyama Prasad Mukherji and Deendayal Upadhyaya (both former leaders of the Bharatiya Jana Sangh, the forerunner of the BJP). At the same time, in an effort to extend its hegemony, it attempted to co-opt important figures associated with the Indian National Congress. It honoured Pandit Madan Mohan Malviya, B.R. Ambedkar, and Jai Prakash Narayan with new projects. In 2014 the Finance Minister allocated Rs. 200 crore towards the cost of the gigantic statue of Congressman Sardar Patel in Gujarat.

As its first term progressed, the Modi government attempted to transform its image, going to great lengths to present itself as being independent of big business while presenting itself as a government dedicated to transforming the lives of the common people.[31] During his thirteen years as chief minister of Gujarat Narendra Modi capitalised on a state administration that had a long history of supporting business and promoting investment.[32] As chief minister, he took ownership and credit for the Vibrant Gujarat Investment Summits to solicit investments from large domestic and international corporations even though these investor meets had preceded him. During the 2014 election campaign, and in his first years in office, Modi invited multinational corporations to come to India where he declared his policy was "No red tape, only red carpet."[33] Later in 2014, the Modi government issued an ordinance to facilitate the acquisition of land for industrial and infrastructural use. Its attempt to institutionalize the ordinance by passing a new law in parliament was stifled after opposition, including at least initially the Sangh Parivar's own BKS, BMS and SJM, charged that the legislation favored big business at the expense of farmers.[34]

After the defeat of the Land Acquisition Bill and Rahul Gandhi's acerbic charge that Modi was running a "suit-boot ki sarkar" (a government of wealthy people wearing expensive clothes), Modi carefully began to distance himself from big business. Instead, finance minister, and close Modi ally, Arun Jaitley, used his budget speeches to articulate a "transformative vision" for India. In 2015 the Finance Minister talked of a balance between macroeconomic and social objectives, that were summarised in a list of 17 priority areas which formed a vision for India in 2022.[35] In February 2016, Arun Jaitley promised to "Transform India" by acting on an agenda with nine pillars.[36] In February 2017 the slogan was adjusted to "TEC India" based on an agenda to "Transform, Energise and Clean India" which was broken down into ten priority areas.[37] In February 2018 the Finance Minister proposed to promote the "ease of living."[38] In February 2019, the budget promised that by 2030 India would see important changes in "ten dimensions" of national life, and it would grow into a five- and then a ten-trillion dollar economy. It pledged to create "an India where poverty, malnutrition, littering, and illiteracy would be a matter of the past. India would be a modern, technology driven, high growth, equitable and transparent society."[39]

The government's grand objectives were backed by specific programs intended to have a palpable impact on people's lives. While Modi distanced himself from big business, he continued to cultivate small businesses—a BJP core constituency whose interests were forcefully advocated by Sangh Parivar advocates like the Swadeshi Jagran Manch and the Laghu Udyog Bharati—with the PMMY program designed to encourage entrepreneurism by providing up to Rs. one million in non-collateral loans to non-corporate, non-farm, small/micro enterprises. During the first four years of operation since its inauguration on April 8, 2015, the PMMY took credit for 182 million loans valued at Rs. 8.93 trillion.[40] In 2014, the Modi government inaugurated the Swachh Bharat Abhiyan (SBA) to make India free of open defecation. The Pradhan Mantri Jan Dhan Yojana (PMJDY) was introduced in 2014 to promote financial inclusion by providing the poor with bank accounts and financial services. The Pradhan Mantri Ujjwala Yojana (PMUY) was launched in 2016 to provide families living below the poverty line with subsidized access to LPG, a cooking fuel whose use reduces indoor pollution and improves women's health. Finally in 2018, the Modi government launched the National Health Protection Scheme (NHPS), known in Hindi as the Ayushman Bharat Yojana, also promoted as "Modicare." The government claimed that the NHPS would be the world's largest government funded health program with the goal of providing health insurance coverage to 100 million "poor and vulnerable" families.[41]

All of these programs have objectives that support the social welfare approach of the Sangh Parivar. The programs are heavily publicised and intended to have large numbers of beneficiaries. Though these programs were usually developed from the policies of previous governments, Modi largely succeeded in convincing the public that they were his own new initiatives.[42] The Modi government's energetic implementation of its policies arguably made an impact improving millions of peoples' lives. Nonetheless, its campaign style implementation, along with its efforts to market its success—especially as it faced a series of crucial provincial legislative assembly elections from 2017 onwards— led the government to focus on policy outputs rather than social outcomes. For instance, the PMMY has extended more than 130 million loans, but in 2019, the number of non-performing loans (NPLs) resulting from the program doubled, and though they remained a relatively small share of total PMMY loans at 2.9 percent, the increase was disturbing enough that in July RBI Governor Shaktikanta Das warned about these mounting NPLs, and Deputy Governor M.K. Jain issued a second warning at the end of November.[43] The SBA has succeeded in building toilets and latrines throughout the country, but whether it has succeeded in altering the behaviour of Indians is a matter of considerable controversy.[44] The program also raises concerns that the challenges of solid liquid waste and faecal sludge management will either render the toilets useless or lead to an increase in manual scavenging, perpetuating the degrading and exploitative aspects of India's caste system and possibly posing a public health threat.[45] The PMJDY has provided 380 million new bank accounts, and it has curtailed corruption by making possible government to citizen direct cash transfers. Nevertheless, 79 percent of the households with PMJDY accounts also have other bank accounts, and according to government reports, 70 million of the PMJDY accounts are inoperative.[46] In September 2019, the government claimed success in attaining the PMUY's ambitious goal of providing LPG connections to 80 million poor households. However, the December 2019 report by the Controller and Auditor-General noted that the PMUY was facing difficulties in engendering the sustained use of LPG. Initial beneficiaries often reverted to less expensive fuels, and the average number of refills declined to only 3.21 cylinders as of 31 December 2018 compared to the average of seven cylinders that would indicate regular use of

LPG. In addition, the PMUY suffered from a diversion of gas for commercial use as nearly 1.4 million PMUY consumers were recorded as purchasing from three to 41 cylinders in a single month, and 344,000 PMUY beneficiaries having a single bottle cylinder connection were issued between 2 to 20 refills in a single day.[47] The NHPS overstates its potential impact by ignoring that many Indian states already have health insurance programs in place. Many similar state-level programs are better tailored to accommodate local circumstances. Then, there is the partisan angle. State governments run by opposition parties are more inclined to improve their local programs than terminate them in favor of a program promoted as Modicare.[48] Social welfare programs ultimately depend on the broader economy to maximize their impact since the state is dependent on economic growth to generate revenues necessary to fund its social welfare programs. In the following sections, we highlight how the Modi government's politicization of public policy affected its major macro-level policy initiatives especially the bankruptcy bill, GST reform, Make-in India, and demonetization. We will show how politicization diminished the policies' effectiveness in alleviating the problems causing India's economic distress. Furthermore, we demonstrate how the Modi government's political manipulation of economic information undermines its ability to reform its policies to enhance their impact.

The Insolvency and Bankruptcy Act, 2016

Passage of the Insolvency and Bankruptcy Code (IBC) in December 2016 was one of the most substantial reforms enacted during the Modi government's first term. India had been one of the few major economies without a bankruptcy code. Nonetheless, the law only begins to address the underlying problems driving the non-performing asset (NPA) or bad loan problem that has historically plagued Indian banks, particularly its public sector banks. Delays in the rehabilitation and liquidation of distressed assets limit the effectiveness of the IBC in alleviating the bank's NPA problem. In the period prior to the 2019 elections, the Modi government implemented measures that exacerbated the very NPA problem that the IBC was designed to address.

India's banking sector is dominated by public sector banks. After waves of nationalization in 1969 and 1980, more than 90 percent of banking was in the public sector. While public sector banks still predominate, more dynamic private banks have expanded their share of the sector. As of March 31, 2019, the public sector banks' share of deposits and outstanding loans had declined to 65.8 percent and 61 percent.[49] The government had three objectives in asserting control over India's banks: 1) to extend banking facilities in rural areas, 2) to provide for banking sector stability; and 3) to ensure that bank credit was directed to achieve policy objectives such as lending to small industries and socially marginal groups. Perversely, given the objective of stability, bank nationalisation undermined India's central bank, the Reserve Bank of India (RBI) which is responsible for regulating the banking sector.[50] The legislation authorizing bank nationalization withdrew the RBI's authority to remove the directors and managers of public sector banks. The central bank also lost its power to withdraw public sector bank licenses and merge or liquidate them. Furthermore, the RBI is susceptible to pressure from the government. Dincer and Eichengreen ranked the RBI as having the least independence of any central bank in the world.[51]The government's use of public sector banks to achieve policy objectives has led to a vicious cycle that erodes the viability of India's public sector banks. Loans made to help achieve government policy objectives, sometimes without careful scrutiny for commercial viability, erodes the banks' financial viability. When the level of NPA's reaches the point of undermining the banks' financial position, the government recapitalizes the banks. Recapitalization in turn, creates moral hazard which incentivizes bank managers to extend new loans that are not commercially viable and the cycle begins anew.[52] The problem is exacerbated because bank managers, with relatively short tenures, prefer to "evergreen" (roll over) bad loans rather than have them recorded as problems arising during their tenure From 2011 to 2019, the ratio of non-performing loans to total outstanding loans rose from 2.7 percent to 9.2 percent.[53] The ratio for public sector banks on September 30, 2019 was 12.7 percent whereas those for private sector banks and foreign banks in India were only 3.9 percent and 2.9 percent respectively.[54] The average nonperforming loan ratio for eight other comparable emerging market economies was 2.6 percent.[55]

The PMO was the most powerful actor with regard to the financial sector during the first Modi government.[56] The Modi government was anxious to increase India's position in the World Bank's Ease of Doing Business rankings where India's overall position was only 130 out of 189 countries. Bankruptcy reform was seen as an expeditious means of moving India up the rankings.[57] The reform resonated with Prime Minister Modi's critique that the banks' mounting NPA problem was the result of political pressure that the previous Congress government had placed on the banks.[58] The deteriorating asset quality of India's banks along with the new Basel III requirements for increased capital buffers placed the government on the hook for a massive expenditure to increase the reserves of the public sector banks. It may be that far-sighted officials in the PMO understood that the IBC could limit the funds needed for recapitalization.

As parliament was deliberating on the IBC, the Vijay Mallya scandal hit the headlines. Mallya was politically well connected and prevailed upon several banks to fund the diversification of his United Breweries Group into loss-making activities including Kingfisher Airlines. By spring 2016, Mallya who owed more than $1.35 billion,[59] became a fugitive from the law fleeing to the United Kingdom. The public furor that ensued facilitated the passage of the

IBC by making it politically impossible to defend those who defaulted on their loans.

There is no disputing that the IBC has contributed to alleviating the Indian banking system's problem with mounting NPAs though much remains to be done. During the fiscal year 2018-19, more than Rs. 70,819 crore was recovered through the IBC. This was up from Rs. 4,926 crore recovered in 2017-18. It comprised more than 56 percent of all NPAs recovered by India's scheduled commercial banks. The recovery rate or share of the value of all assets at issue was only 42.5 percent, but this was substantially higher than the recovery rate for other avenues available to the banks.[60]

The resolution process under the IBC has been disappointingly slow. Of the 2542 corporate insolvency resolution processes that were initiated as of September 30, 2019, only 743 had been resolved through resolution or liquidation. Of the 1497 ongoing cases, 535 had been in process for longer than more than the 270-day limit specified in the initial legislation. The average time for completing a case under the IBC is 409 days.[61]

The reasons for these delays reflect the underlying political economy of Indian banking. The IBC threatens the power of promoters who evade their debts by colluding with public sector bankers who decide not to report their debts as NPAs. Yet, the political scrutiny of the decisions of public sector bank managers continues to discourage them from declaring loans as NPAs. The promoters' response when the bankers decide to put their firms through the IBC process has been to engage in delaying tactics by raising what financial sector expert Jaimani Bhagwati describes as "never-ending legal challenges."[62] The odds favor the delaying tactics in light of the conflicts that exist between the IBC and other laws and the fact that India has an activist judiciary with little inclination to create an independent system of regulatory jurisprudence.[63]

Implementation of the IBC has produced mixed social outcomes. On the positive side, there is limited evidence that the threat posed to promoters' control over stressed firms when public sector bankers refer defaulting firms to the IBC, has altered their behavior. Promoters have more incentive to avoid defaults, sell their firms prior to the onset of the IBC process, or negotiate restructuring of their debts prior to or immediately after IBC referrals. Evidence of changes in promoter behavior is indicated by the fact that prior to the initiation of the resolution process, 116 cases have been withdrawn under the provisions of IBC section 12A and 186 cases have been settled.[64] On the negative side, the IBC has not changed the government's continued use of the public sector banks to achieve various policy objectives. The IBC may limit the costs of the public sector banks' NPAs, but it has not altered the forces that produce them.

While implementation of the IBC was intended to alleviate the NPA problem, the Modi government has taken actions that have exacerbated it. Eager to spur rapid growth, especially prior to the 2019 general elections, the Modi government pressured the RBI to ease the restrictions on the 11 of India's 21 public sector banks that the central bank had placed under Prompt Corrective Action regulations due to their problems with NPAs. It has urged the RBI to lower interest rates and relax restrictions on loans to micro, small, and medium sized enterprises (MSMEs), especially through the PMMY even though the central bank's Financial Stability Report underscored that the sector was under stress due to rising NPAs.[65] One study showed that PMMY loans by India's six largest public sector banks had a larger NPA ratio (16.5 percent) than any other sector.[66] Finally, the Modi government pressured the RBI to provide large amounts of liquidity to India's non-bank financial companies that form India's shadow banking sector at a time when a crisis in the sector threatened to freeze its lending. Tensions between the government and the RBI came to a head in December 2018, leading to the resignation of RBI Governor Urjit Patel a year before the end of his term. This was the first time since the 1950s that a RBI governor had left office before completing his term.[67]

Passage and implementation of Goods and Services Tax (GST)

At midnight on July 1, 2017, the Modi government convened a special joint session of Parliament at its Central Hall to celebrate the passage of the Goods and Services Tax (GST), which he claimed was India's most ambitious tax reform since Independence. Securing unanimous parliamentary passage of the GST in addition to winning the support of India's 28 states was indeed a remarkable feat of statesmanship, especially when considering that both the BJP and Congress governments had been attempting to pass the GST since BJP Prime Minister Atal Bihari Vajpayee had begun advocating the need for it in 2000.[68] In his speech celebrating the initiation of the GST, Modi declared, "The scope of GST is not limited to the financial system." The GST will give "a big boost to cooperative federalism." It will "help us fight corruption and black money," and "it will also help us introduce a new type of governance."[69] A month later, Modi proclaimed, "The speed at which the smooth transition [to the GST] has taken place … has instilled a new sense of confidence in the entire country. And some day, the Pundits of Economics, Pundits of Management and Pundits of Technology, will certainly undertake researches and write about India's GST experiment as a model for the world."[70]

Although Modi's speech exaggerated the transformational impact of the GST, he was correct to note that the GST had the potential to bring broad social benefits. Replacing myriad state tax codes with a single Value Added Tax (VAT) would help forge a single market whose population exceeded that of Europe, the United States, Mexico, and Canada combined. It was estimated that this would increase India's growth rate by as much as two percent annually. Another potential benefit was increasing the international competitiveness of Indian exports by eliminating the tax cascade that helped make Indian manufacturers high cost producers. At the same time, the GST was designed to bring informal sector producers into the tax base and increase tax revenues.

Despite its considerable promise, the Modi government's implementation of the GST created many problems, some of which were unavoidable consequences of the extensive change accompanying the new tax. Many other problems resulted from the Modi government's limited understanding of the complexities of, and inordinate haste to initiate the new tax. The GST was levied at six different rates instead of the more conventional one or two rates. This motivated businesses to lobby for lower tax rates for their products, and the government has frequently succumbed to these pressures. Also, transactions in land and real estate—the most common avenue for money-laundering—were excluded from the GST.

The Modi government began implementing the GST just three months after the bill was passed. The electronic filing system was set up in haste, before it was debugged, resulting in delays for filing returns. The GST platform was often unable to process claims, and many reimbursements were provided only after lengthy delays that exceeded the 10-day promise. At a time when the Modi government was attempting to promote small and medium size enterprises (SMEs) and exporters, the GST imposed substantial burdens. Small producers could not afford the accounting costs necessary for the multiple GST filings. The frequent delays in reimbursement challenged small firms with limited credit and burdened exporters who already have to locate export finance. Finally, the GST imposed charges on inputs from unregistered companies which obliged these small firms to either incur the GST's substantial compliance expenses or lose their largest customers.

The poor design and hasty implementation meant small producers and exporters experienced production declines in the immediate aftermath of the implementation of the GST.[71] The government responded to these pressures by reducing the frequency of required filings and raising the threshold for required filing.[72] Even though the GST ultimately is likely to prove beneficial for the Indian economy, the avoidable problems that arose due to its design flaws and hasty implementation tarnished Modi's reputation as an exceptional economic manager.

Reviving manufacturing: "Make in India"

During his very first Independence Day speech from the Red Fort on August 15, 2014, Prime Minister Modi promoted Indian manufacturing, and called out to people around the world to "Come, Make in India." At the formal launch of 'Make in India' on September 25, 2014, Modi announced the ambitious goal of lifting the share of manufacturing from 16 percent to 25 percent of GDP by 2025.[73] He also claimed that his policies would create 100 million additional jobs in the manufacturing sector by 2022. 'Make in India' was supposed to introduce new initiatives to help expand manufacturing, including increased FDI and protection of intellectual property rights.[74] Its stated goal was to create "new processes, new infrastructure, new sectors, and a new mindset."[75] The larger program focuses on twenty-five core sectors including automobiles, defence, and energy.

Two main initiatives stand out: FDI policy and "ease of doing business in India" reforms. FDI was said to be a priority: "FDI reforms reflect a decisive change in philosophy, from viewing FDI as a tolerable necessity to something to welcome."[76] The government route for approving FDI was identified as a source of delay, so as much FDI as possible should pass through the automatic route.[77]

‘Make in India’ was a high profile set of goals promoted by the government early during its tenure, which achieved some improvement in its “ease of doing business in India” rankings and modest increases in FDI. However, it failed to revive manufacturing evident in its shrinking share of GDP and stagnant job figures. By 2018, the share of manufacturing in the Indian economy at 14.8 percent was lower than in 2014 (15.1 percent) and unemployment was at a 45-year high.[78] The increase in FDI in the early years was followed by rapid decline after 2016, and was also counteracted by capital outflows of Indian businesses seeking overseas investments. Investment outflows increased to 30-47 percent of all FDI inflows.[79] By 2017-2018 FDI inflows had fallen from $9.6 billion in 2014-2015 to $7 billion. Importantly, FDI in service sectors grew but FDI in the manufacturing sector declined, an important failure in the “Make in India” program.[80]

PM Modi made this program a centrepiece of his economic policies and directed all government departments to focus attention on it.[81] He targeted specific goals such as improving the business climate and attracting FDI through his many foreign tours. Opening up FDI in sectors such as defence and railways was the biggest change in policy; in 2016, 100 percent FDI was permitted in the defence sector. The manner in which the government launched and implemented “Make in India” was characteristic of many other related schemes such as ‘Skill India,’ ‘Digital India,’ which grabbed headlines but without a coherent or well-thought plan to link manufacturing with trade, investment, and other policies. Schemes were initiated one after another. While these were well-publicised, it was not always clear how they were integrated with existing departments and protocols. Institutional development and innovation seemed less of a priority.

What are the real achievements of “Make in India” for FDI inflows and for reviving the manufacturing base? In the build-up to the BJP’s 2014 electoral victory there was a surge of FDI reflecting a widespread belief that Modi’s government would implement reforms that would liberalize the economy. In 2015-2016, India received the largest flows of FDI it has ever received, to the tune of $55.6 billion. One of the striking achievements has been opening to the FDI in sectors such as railways, defence, insurance, and medical devices. Policy incrementalism has also been a pattern. Analysis of various FDI policies from 2014 to 2019 shows that the government kept tinkering with policies, abolished the Foreign Investment Promotion Board (FIPB) in 2017 and gave the authority to the Department of Industrial Policy and Promotion (DIPP), which was later reconstituted as the Department for Promotion of Industry and Internal Trade. Changes in the rules governing FDI in new sectors such as defence were superseded within a few days.[82] The repeated policy changes have been ineffective, and FDI in the defence industry has been very limited. Investors also complained about “lack of clarity” and “confusion” about policy details.[83] The share of FDI flows going to manufacturing continued to be a smaller share than for services, another indicator of shortcomings in the “Make in India” program. Foreign investors did not seem to react enthusiastically to the new policies announced despite claims by the government or international organizations.[84]

In contrast to the indifferent FDI flows, the first term Modi government managed a significant and consistent improvement in the “ease of doing business” rankings moving from a rank of 142 in 2014 to 63 in late 2019.[85] This might be expected given the Modi government’s emphasis on meeting numerical targets rather than resolving underlying economic problems. In 2015, the government set a target of moving up to the 50th rank. During Modi’s first term, India’s rankings improved after a series of reforms made it easier for companies to get construction permits, pay taxes, and trade across borders.[86] The rankings need to be viewed carefully, as they are based on 11 indicators which are measured only for Delhi and Mumbai. However, India's ranking, for all its limitations, matters because of its global visibility. While India was among the top 10 most improved economies praised in 2019 for dealing with construction permits (rank 27), getting electricity (rank 22), getting credit (rank 25), protecting minority investors (rank 13), and resolving insolvency (rank 52), it did not perform well for starting a business, registering property, paying taxes and enforcing contracts.[87] India's improved score was helped by changes to the bankruptcy law, which we discussed earlier.

How was it achieved? The government at the highest level—the PMO—prioritised and tasked ministries with coming up with a plan to ease business entry and procedures. This specific goal-oriented program was linked with the 'Make in India' goal of reviving India's manufacturing and ensuring that investors would face less problems. Many members of the government met with World Bank officials to publicise India's actions and efforts. They persuaded the World Bank to add Kolkata and Bengaluru to the list of cities surveyed from 2021 onwards.[88] The government also advertised the achievements of the program even before many of the outcomes could be measured.[89] Overall, while procedures and processes improved as evident in the governance reforms related to 'ease of doing business,' especially in the two metro cities, "Make in India" remains a promise yet to be fulfilled. It is possible that its effects on the long supply chain of the manufacturing sector would only be felt in a few years. The government's efforts have failed to address the challenges faced by the manufacturing sector and have not increased the share of manufacturing in the country's GDP.

Demonetisation

Demonetisation epitomises the centralisation of policy making and Modi's confidence in his own judgement over that of conventional experts. The exact origins of Modi's policy is not clear. Some identify Anil Bokil, founder of the unconventional right-wing, Pune-based, think-tank ArthaKranti Pratishthan who has met with Modi several times since Modi became the BJP's candidate for Prime Minister in 2013.[90] Others highlight the importance of S Gurumurthy, an RSS ideologue and co-convener of the Swadeshi Jagran Manch.[91] In any case, the initiative was implemented over the objections of mainstream economists.[92] When Modi's advisors consulted with the Reserve Bank of India, the institution responsible for India's monetary policy, they were strongly advised against the policy.[93] The precipitous implementation of demonetisation on November 8, 2016 imposed social costs that far outweighed its benefits. Yet, Modi was undaunted by his critics, and claimed the initiative as evidence of his decisive leadership.

Modi's demonetization was as much a currency swap as demonetization.[94] Citizens were informed that Rs. 500 and Rs. 1000 currency bills would no longer serve as legal tender. Persons holding the old bills were permitted to exchange them at banks between November 10 and December 30. While no ceiling was placed on the total currency that could be exchanged, the daily and weekly amounts were limited to Rs. 10,000 and Rs. 20,000.

In his speech announcing demonetisation, Modi declared that despite the measures that he had taken in his first two years, the fact that India had moved only from "close to one hundred in the global corruption perceptions" to "a ranking of seventy six… shows the extent to which corruption and black money have spread their tentacles." The prime minister asserted that demonetisation would achieve two objectives: curtailing terrorist use of counterfeit currency to finance their activities, and helping the fight to "break the grip of corruption and black money." Modi concluded with a stirring rhetorical question, "…in this fight against corruption, black money, fake notes and terrorism, in this movement for purifying our country, will our people not put up with difficulties for some days?" He concluded, "I have full confidence that every citizen will stand up and participate in this 'mahayagna."[95]

The problems caused by demonetisation were not due to a lack of citizen support. They were due to the policy's misconceived premises. Demonetisation assumed that most of the illicit or "black" income was held in cash when data collected by Modi's own Income Tax Department showed that less than ten percent of illicit wealth was held in cash.[96] Those who held their black income in cash were able to circumvent demonetisation through intermediaries who converted their large denominated notes into smaller denominations not subject to demonetisation. Finally, demonetisation was a one-time measure that failed to address the underlying causes of black income.

The effort to rid India's economy of black income failed while imposing substantial costs on individuals and the economy more broadly. The value of black income and wealth that was removed from the economy was miniscule. Attorney General of India, Mukul Rohatgi had predicted that roughly Rs 3 trillion (lakh crore) of the untaxed income held in cash would remain outside the banking system and hence be eliminated.[97] Yet according to the RBI, 99 percent of the invalidated banknotes was returned to the banks, and within a year, the amount of currency in circulation had returned to its pre-demonetization level.[98] As demonetization's failure to achieve its initial goals became apparent, the Modi government declared that the policy had two other objectives: digitizing the economy and bringing black income into the government tax net, but Lahiri's careful analysis shows that demonetization had little impact on previous trends.[99]

Demonetization imposed substantial costs in jobs, investment, and growth. A Centre for Monitoring the Indian Economy (CMIE) survey of 173,000 households during the four months before and after the November 6 announcement found that demonetisation was responsible for up to 3.5 million job losses and a 15 million person reduction in the labor force.[100] Demonetisation also led to an investment slowdown. According to the CMIE, from October 1 to December 31, 2016, 227 investments worth Rs 81,800 crore were proposed during the 39 days prior to the demonetisation announcement and only 177 proposals worth Rs 43,700 crore were made in the 53 days after. The Rs. 1.25 trillion value of investment proposals for the quarter was the lowest level in ten years, and well below the Rs 2.36 trillion average for the previous nine quarters.[101] Small businesses were particularly hard hit. The monthly year-on-year Index of Industrial Production slowed significantly. After averaging 5.6 percent for April through October 2016, it averaged just 2.8 percent during the following 12 months.[102] More broadly, demonetisation contributed to a continuing decline in GDP: Growth declined from 7.5 percent in the quarter ending on September 30, 2016 to just 5.7 percent in the quarter ending on March 31, 2017.[103]

Although demonetisation failed in achieving its economic objectives, it supported Modi's political objectives. Corruption under the previous Congress-led UPA government had been an important theme in Modi's populist campaign in 2014. A major achievement of Modi's remarkable 2014 campaign was its success in dispelling the perception that the BJP was a party dominated by *Brahmins* and *Banias* in large measure by pointing out Modi's humble background as a member of the backward castes and by his promise of "*sabka saath, sabka vikas.*" However, in early 2015, this image took a battering, summed up in Rahul Gandhi's "*suit-boot ki sarkar*" jibe labelling Modi and his government as being out of touch with India's poor.[104] Modi framed demonetisation as an attack on the wealthy and corrupt as part of their strategy to counter this charge. In addition, demonetisation was thought to be an attack on the illicit finances of the

BJP's rivals, while the BJP was more plugged into the world of large corporations and high finance and had ways to more easily circumvent the demonetisation measures.[105] Furthermore, it stands to reason that the BJP would suffer less, because it is likely to have had more advanced notice to safeguard its funds from the regulations imposed by demonetisation.

The BJP's landslide victory in the 2017 Uttar Pradesh (UP) state assembly elections seemed to vindicate Modi's political strategy. Modi's BJP won 325 of 403 assembly seats, the largest electoral victory in UP in over 35 years. In addition to framing demonetisation as a measure to combat corruption and ill-begotten wealth, Modi sought personal sympathy declaring, "I know the forces up against me…. They may not let me live. They may ruin me because their loot of 70 years is in trouble."[106] Key to the public's support for demonetisation was the manner in which Modi's moral authority enhanced the credibility of his claim to be combating corrupt vested interests. This helped to persuade many to join with Modi even if it meant personal economic sacrifice. However, Modi's political success should not be overestimated. While his overwhelming victory in UP was accompanied by an important victory in the state legislative assembly in Uttarakhand, the BJP lost the other three—Punjab, Manipur and Goa—that were contested at the time. Furthermore, the BJP campaign downplayed the issue of demonetisation during the campaign and mobilized support in UP by polarizing religious tensions.[107] Demonetisation did not enable the BJP's victories, but Modi's campaign succeeded in limiting it as an impediment to electoral success.

Fiscal outcomes

As growth declined and the 2019 elections approached, the Modi government found itself in an increasingly difficult fiscal position. On the one hand, it was committed to meeting the fiscal targets outlined by the Fiscal Responsibility and Budget Management Act. On the other, it was under pressure to increase expenditures for its growing panoply of social welfare programs. Some improvements were made in revenue collection, but this did not keep pace with spending commitments. Fiscal discipline was promised but only partly achieved. Taken together debt interest payments and subsidies accounted for 41.4 percent of planned revenue expenditure in 2018/19. The Pradhan Mantri [PM]-Kisan scheme was projected to become the largest government welfare scheme in 2019/20 (expected outlay at Rs 75,000 crore), as spending on MGNREGA levelled off (at Rs 60,000 crore) while the Ayushman Bharat health insurance remained a relatively small scheme (Rs 6,400 crore).[108] The Modi government reduced the central government's fiscal deficit from 4.48 percent of GDP in 2013-14, the last year of the previous government, to 3.34 percent in 2018-19.[109] At the same time there were growing concerns about the accuracy of these figures. In 2019, the Comptroller and Auditor General issued a report estimating that the Modi government had substantially understated the central government fiscal deficit. According to its calculations, the actual central government fiscal deficit was 5.85 percent of GDP rather than the 3.46 percent reported by the government.[110] The government created the discrepancy by keeping expenditures off the books and funding them through loans from a range of government-controlled financial agencies or rolling them over to the next year. The fiscal legerdemain enabled the government to finance the varied populist schemes, stimulate the economy, and improve its prospects for the May 2019 elections while ostensibly continuing its commitment to fiscal responsibility. However, in the process, it threatened to diminish India's longer-term growth prospects by depriving investors and consumers of accurate information and eroding their confidence in the government. The political manipulation of economic data must be understood in the context of the specific institutional design that emerged to manage the variety of economic and social welfare goals.

Politicization of economic governance institutions and economic statistics

We have argued that politics has been an important driver of the economic policy of the first Modi government, and we have shown how the government's pursuit of its political objectives has resulted in a number of flawed policies as well as contradictions among policies that have undermined their effectiveness. This politicization has produced policies that are economically detrimental (such as demonetization), and it has also contributed to the weakening of important economic policy-making institutions. Despite the potential and promise of a significant re-working of the convoluted institutional structure that preceded him, Modi's institutional interventions have limited the government's capacity to come to grips with the complexity of the Indian economy and develop institutions of economic governance necessary to sustain rapid growth. Modi's re-shaping of institutional agencies started with the goal of coordination but ended with over-centralization and political management of many aspects of economic policies. Importantly, the Modi team's attempt to articulate a consistent political narrative in an attempt to favorably impress the Indian public has undermined the integrity of the government's economic statistical systems. The increasing unreliability of official economic data has meant that economic problems could not be accurately assessed.

In 2014, candidate Modi pledged to reform procedures of government.[111] The BJP promised a clearer and rational approach to policy making. Some important changes have nodded in this direction including the abolition of the separate railway budget and ending the distinction between plan and non-plan expenditure in the budget. In order to address what he claimed was a "policy paralysis" and fragmented management of the Indian economy under UPA-II government, the PM himself took responsibility for addressing the problems in the economy. As Arvind Panagariya, part of his initial policy team, noted: "Modi directly intervened to speed up clearances and decision-making. He instituted a process whereby he himself regularly presides over meetings of senior staff members of ministries relevant to making decisions on specific projects and policy issues."[112] Modi's actions at first seemed innovative. The date of the budget was advanced to February 1 of every year rather than the end of February, and from 2016 onwards the railway budget was integrated into the larger budgetary process rather than remain separate. The government introduced biometric checks on the attendance of central government employees. The use of technology more generally allowed the government to bypass the bureaucracy and transfer benefits directly to recipients' bank accounts, through the JAM (Jan Dhan-Aadhar Mobile) and Direct Benefits Transfer (DBT) initiatives.[113] Again, there were some innovative ideas like the tracking of social progress regarding health, education and development outcomes across districts, but it became an "attempt to deploy data as a tool for centralized monitoring and administrative action."[114] Over-centralization and overriding of separate spheres of institutional accountability given to states, experts and different stakeholders became a regular issue. As noted by Narendra Pani,

> Conceptualisation is constrained by the reliance on a few trusted minds in the PMO or other small groups, rather than gaining from the wider set of ideas that public debate throws up. The reliance on a highly centralised PMO also prevents policymakers from getting genuine feedback from those who are directly affected by the government's policies.[115]

The coordination and centralization of economic policymaking under Modi I, allowed the Prime Minister to claim credit for social welfare programs and successes such as improvement in 'Ease of Doing Business' rankings. At the same time that the centralization of governmental authority gives the Prime Minister greater control over information, his identification with India's public policy creates pressure to shield him from policy failures.

In an effort to present its performance in a favourable light, the first Modi government manipulated official statistics about the economy. Prior to the 2019 general elections, BJP tried to suppress unfavorable unemployment statistics despite the objection of leading government experts and the resignation of the head of the National Statistical Commission.[116] According to the former Chief Economic Advisor, Arvind Subramanian, 2014-2018, official data exaggerates India's rate of growth.[117] As we have previously discussed, the government distorts reporting of the fiscal deficit by delaying its payments until after the end of the fiscal year, requiring public sector enterprises to advance payments from future fiscal years, and by financing deficits with off-budget borrowing. The central government's delayed payments have already had counterproductive consequences. They played an important role in precipitating the IL&FS crisis.[118] Data inaccuracy extends to FDI where problems of data quality—incompleteness, duplication, and round-tripping issues are long-standing;[119] However, the current government's strong desire to inflate its performance has perpetuated the problem. The political management of the information economy helps to explain the paradoxical coincidence of political success despite the shortcomings of Modi's economic policies. At the same time, deceptive data makes it more difficult to assess India's economic problems and devise effective solutions. This implies India's current economic problems may be even more serious than they appear at the time of writing.

Conclusion

Most political scientists contend that good economic performance is fundamental to electoral success. How has the BJP government experienced such remarkable political success amidst serious economic distress? The marketing of Modi as a masterful leader is key to Modi's political success even though the effectiveness of his economic policies has been quite limited.

As this narrative was being constructed, Modi was concentrating authority over economic policy and staffing his administration with loyalists. Rather than promote strong, independent, and transparent institutions that enhance economic governance, the government has undercut their independence and eroded their credibility.

As the ultimate decision-maker surrounded by loyalists, Modi has devised economic policy that has been a mixed bag of limited reforms, welfarism, and policies based on the integral humanism advocated by Hindu nationalist organizations associated with the RSS. He has jettisoned his commitment to economic reform when it is politically disadvantageous. Modi was always more pro-business than pro-market, with priority given to business houses close to his regime in Gujarat. The prime minister's commitment to integral humanism is qualified. While Modi was content to allow Sangh Parivar organizations to perform social work among the poor in Gujarat, his government's funding of social welfare in Gujarat was surprisingly limited.[120] Atop the central government, Modi has implemented a range of social policies targeted at underprivileged groups, especially the poor and women. This approach resembles the turn towards the poor adopted by Indira Gandhi in the 1970s. In a poor and unequal country like India, welfare measures benefiting the poor have a political logic, and they have begun to resonate with increased demand for economic services across the polity.[121] As it happens, some of these policies, like the PMMY, overlap with the policy priorities of Hindu nationalists. Others contribute to the prime minister's image as a compassionate and dedicated political leader who empathizes with the common people.

The failure to deliver jobs and to sustain economic growth raises an important puzzle: Why was Modi not able to translate the success of Gujarat in attracting investment and growth to the national level? First, the chief minister's image as an exceptional economic manager in

Gujarat has to be probed. The state's success as a growth engine was built and developed over almost four decades starting in the 1960s.[122] Modi benefitted from existing institutions and policies rather than creating that success de novo. Second, it would be a mistake to think of the Gujarat model as "less state and more markets." Rather, "the Gujarat model is a model of hybrid growth that grew by prioritizing investment, harnessing state resources as well as private sector capacity in the service of growth."[123] Many of Modi's national-level policies have the mark of that statism and "business friendly" policies[124] without the fine-grained expertise that the Gujarat industrial bureaucracy developed over many years. Gujarat's success was built upon institutional capacity that included monitoring of investments (similar to measures deployed in South Korea), providing information to investors in a calibrated way, and ensuring institutional autonomy and credibility for attracting investments.[125] In contrast, and as our analysis of institutional effects of Modi's first term's policies has revealed, Modi's centralization of power, exclusion of expert advice, and manipulation of economic data have diminished India's state capacity.

Will the BJP government continue to achieve political success while perpetuating economic distress and further weakening capacity for effective policy making? The answer to this question is ever more urgent in mid-August 2020 when India's growing incidence of confirmed Covid-19 cases are necessitating continued lockdowns with serious economic consequences [126] A key component of the answer will depend on Modi's ability to sustain his political support through appeals to Hindu nationalism and his image as an indispensable leader. Over the long-term, the effectiveness of Modi's economic policies will inevitably be an important factor. The Modi government's precipitous lock-down in response to the Covid-19 pandemic has made the economic challenges facing India even more formidable. Modi's social welfare policies may have touched the lives of millions, as the NES post-poll survey shows,[127] but those lives remain embedded in an economy unable to generate enough jobs to absorb its youthful entrants into the labor force. Increasing inequality, persistent poverty and uncertainty, especially as economic effects of the pandemic mount, remain important challenges for economic management. At a time of declining growth, Modi's social welfare policies have placed growing pressure on India's fiscal position, and without reinvigorating economic growth, it is difficult to see how Modi can continue to expand these policies to meet India's growing demands. The political manipulation of economic information and the intimidation of experts and critics diminishes the prospect of developing solutions that affect India's underlying economic problems. Political success amidst economic distress may persist for some time, but it is likely to be an increasingly unstable combination.

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