

Gurcharan Das

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Can Modi deliver good governance?

India's economic rise over the past decades has been a remarkable event, lifting tens of millions out of abject poverty and creating a solid middle class. But it is a story of private success and public failure. Prosperity has indeed been spreading across the country, but it has been doing so in the face of appalling governance. Indians despair over the state's inability to deliver the most basic public services – law and order, education, health, and clean water. India desperately needs honest police officers, diligent officials, judges who deliver swift justice, functioning schools, and effective primary healthcare centres. Where it is needed, the Indian state is near-absent; where it is not needed, it is hyperactive, tying people up in miles of red tape.

As I look back on our 68-year history as an independent nation, I can discern three great milestones: in August 1947, India won political freedom; in July 1991, it gained economic liberty; and with the election of Narendra Modi in May 2014, the emerging middle class attained dignity. The landslide victory of Modi, the self-made son of a *chaiwalla* (tea seller), invited us to broaden our conception of human dignity and question our prejudices. Modi's success affirmed, for the first time in India's history, the aspirations of millions who had pulled themselves up into the middle class through their own efforts in the post-reform decades after 1991. It forced us to challenge our bias against the petit bourgeois – *kiranawalla* (shopkeeper), *paanwalla* (betel-leaf maker), *auto-rickshawalla* (rickshaw driver) – and other occupants of the street. The idea that anyone can aspire to the middle class is the new master narrative of our society. It is also with this impatient class that the hope for governance reform lies.

India's bottom-up success

I grew up in the idealistic days after independence when we passionately believed in Jawaharlal Nehru's dream of a modern, just India. We were all socialists then. But, as the years went by, we found that Nehru's "mixed economy" was leading to a dead end. Instead of socialism we had ended with statism, which we sardonically called the "licence raj". The reforms in 1991 finally ended that agony. Since then, India has risen relentlessly, enabled by two institutions of liberty – democracy and free markets. Nehru laid the foundations for our vibrant democracy, but prosperity only began to spread once Nehru's over-regulating state stepped out of the way.

No one quite understands how India's noisy, chaotic democracy of 1.25 billion people has become one of the world's fastest-growing economies. After all, some 60 countries implemented the same reforms as India did. Clearly, suppressed energy burst out after 1991. But no one imagined that Indian entrepreneurs would respond so well to the reforms, rapidly creating dozens of innovative, red-blooded firms that would compete brutally at home and rapidly stomp onto the global stage. The rise of India is also their story.

India is a "bottom-up" success. It has risen almost despite the state, unlike China's "top-down" triumph, orchestrated by the technocratic elite of an authoritarian state. The stubborn persistence of democracy over the past 68 years is even more bizarre. Time and again, India has shown itself to be resilient and enduring – giving the lie to the old prejudice that the poor are incapable of the kind of self-discipline and sobriety that make for self-government.

However, India's rise is still a work in progress. While it has become a middle-income economy, it will have to go beyond economic reform and fix its institutions of governance if it wants to truly become a "developed nation" and avoid what economists call the "middle-income trap". India will have to modernise its bureaucracy, police, and judiciary, and improve the quality of government services – in particular, it needs more diligent teachers and health workers – while creating a predictable and transparent environment for doing business.

Generally, leftists desire a large state and rightists a small one, but what India needs is an effective state, with a greater capacity to act. We seem to have forgotten that the state was created to act: it should not take eight years to build a road when it takes three elsewhere; it should not take 12 years to

get justice when it takes two elsewhere. At the centre, parliamentary gridlock prevails, and the courts routinely dictate action to the executive. An aggressive civil society and media have enhanced accountability, but at the expense of enfeebling an already feeble executive with limited capacity.

A weak state but a strong society

However, it is a mistake to think that the Indian state was weakened in recent times by coalition politics, feckless leadership, and economic liberalisation. India historically had a weak state, though one counterbalanced by a strong society – the mirror image of China. India’s history is one of political disunity with constant struggles between kingdoms, unlike China’s history of strong empires. The type of despotic and intrusive governments that emerged in China and divested people of their property and their rights have never existed in India.

The king in Indian history was a distant figure and hardly touched the life of the ordinary person. The law, *dharma*, preceded the state and placed limits on the king’s power in pre-modern India. The king also did not interpret the law, unlike in China; the *Brahmin* of the priest-scholar class assumed that function. This division of powers may have contributed to a weak Indian state at birth, but it also prevented oppression.

The modern Indian state is a product of British rule, which, beginning in the mid-nineteenth century, imposed a rule of law with explicit codes and regulations. Though efficient, that state was not accountable to its citizens. That changed in 1947, as independent India took those institutions of governance and made them accountable by developing into a vibrant, if untidy, democracy. In the twenty-first century, true to its history, India is rising economically from the bottom up. But a modern liberal state must have a strong executive to get things done and a strong society to hold the state accountable.

Can Modi create a more effective state?

Many Indians hope that, in Modi, they finally have someone who can enhance the state’s capacity to act. However, reforming state institutions is much tougher than reforming the economy. Modi recognised this problem when he promised “minimum government, maximum governance”.¹ He vowed to create an enabling environment that would allow people to do business without stifling red tape and the notorious “inspector raj”. So far, he has failed

1 Narendra Modi, “Minimum Government, Maximum Governance”, 14 May 2014, available at <http://www.narendramodi.in/minimum-government-maximum-governance-3162>.

to deliver on that pledge. His choice of incremental rather than radical change has disappointed many of his supporters. Continuing retrospective taxation, in particular, has undermined his image.

However, there has been some institutional change. Natural resources, such as mines and spectrum, are now being auctioned transparently online.² The campaign to improve the ease of doing business is reportedly slashing clearance times and creating healthy competition between the states. The process is being aided by digitising all data and posting it on public websites, making transparent which file is held where. The proposed official ranking of states on different aspects of doing business will soon expose the laggards. Modi has un-gummed the central bureaucracy and broken the paralysis at its core.

Reforming the institutions of governance is, however, a much tougher job – as Margaret Thatcher found while prime minister of Britain in the 1980s. More important than her market reforms was the institutional reform that made the British government more accountable. In India, both political will and savvy are needed to fight vested interests. The manner in which Modi quietly took control of his party suggests that he has the savvy. But he has not shown the willpower to rock the boat.

Since the demand for institutional reform is unlikely to come from within the state, the answer may lie with India's newly awakened middle class. This class now makes up almost a third of the Indian population; another quarter aspires to be a part of it – what Modi calls the “neo-middle class”. The latter will probably get there in the next decade once the economy gets back to an 8 percent growth trajectory. Clearly, India's centre of gravity is shifting and so is its politics. The anti-corruption movement (which spread across the country in 2011, led by activist Anna Hazare) showed that this class will no longer accept a civic life shaped by those who are powerful and corrupt, and it has demonstrated considerable ability to use social media to bring about change. In the event that Modi wins a second term, he may be able to mobilise middle-class anger against bad governance and reform institutions.

In the East, unlike the West, this is an age of rising expectations. Whether or not Modi succeeds in improving governance, the rise of India remains the defining event of my life. India's evolution into a middle-class nation is good not only for India but also for the rest of the world – including the West. At a time when the

² “Spectrum” refers to the legal rights to broadcast signals over specifically defined ranges or bands of the electromagnetic spectrum.

West is filled with doubts about the capitalist system, a vast nation is rising in the East based on political and economic liberty. In doing so, it is proving once again that open societies, free trade, and multiplying connections to the global economy are pathways to lasting prosperity and national success.