

# India's Coalitions for Change

## Transforming the world's most dynamic economy



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- The transformation of the Indian economy and the modernisation of the Indian state is essential if one million new job seekers a month are to be employed
- India's current government, expected to focus exclusively on transformational economic reform, has been something of a disappointment
- The socio-political coalition that elected the government in 2014 continues to have potential to be a supporter of transformative economic policy
- This support however would require tweaks to the composition of the coalition, and a change in rhetorical focus among those calling for reform

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## Foreword

The multiple crises crippling our societies – from climate change to financial meltdown, from rising inequality to mass migration – are shaking the foundation of the world order. Taken together, these crises go well beyond the policy level, but call into question the very paradigms that the foundation of our economies are built around.

In 2011, economic thinkers and political decision-makers from China, Germany, India, Indonesia, Korea, Poland, Sweden, Thailand and Vietnam came together to discuss how our development models need to be adapted. Later joined by Bangladeshis, Filipinos, Malaysians, Pakistanis and Singaporeans, several regional dialogues discussed how to reconcile growth and equity, find a balance between boom and bust cycles, and how to promote green growth and green jobs. The findings, endorsed by 50 prominent thought leaders from Asia and Europe, have been published as “The Economy of Tomorrow. How to produce socially just, resilient and green dynamic growth for a Good Society” (available in English (5th edition), Bahasa, Korean, Mandarin, Thai and Vietnamese on our website [www2.fes-asia.org/economy-tomorrow](http://www2.fes-asia.org/economy-tomorrow) ). The EoT Manifesto calls for an inclusive, balanced and sustainable development model which can provide the conditions for a Good Society with full capabilities for all.

True to our understanding that development models need to be tailor-made, in the second phase of the project national EoT caucuses have worked on adapting these sketches to the local context. At the regional level, the focus was on the political and social challenges which needed to be addressed to encourage qualitative economic growth. The national studies carried out on the political economy of development as well as the synthesis “Mind the Transformation Trap: Laying the Political Foundation for Sustainable Development” are available on the website.

In the third phase, the EoT project will focus on specific sectors of transformation.

In India, for example, the focus is on energy transformation, urbanization and digital transformation. Seed

Communities in Kolkata, Jaipur, Delhi and prospectively other cities are identifying catalytic projects to shape these transformations in an inclusive way.

After graduating to the status of a low middle-income country, the focus of the EoT project in Bangladesh is on economic growths and decent work as well as institutional reforms for development.

In Thailand, resilient fiscal policy is the focus of the EoT network. A Policy Community on Taxation Reform will continue to promote taxation policy as well as look into the spending to identify needs and perspectives in the context of upcoming challenges of an aging society.

Supporting the phase-out of a resource-driven and therefore extractive economic model, while strengthening the promotion of a sustainable manufacturing sector as well as the maritime and digital economy are the main efforts in Indonesia.

Vietnam is putting emphasis on an export-oriented, FDI-driven development strategy, focusing on wage-led growth models, productivity gains and value chain improvement to find a way out of the middle income trap.

The EoT project in China focusses on the socio-economic consequences of innovation-driven changes in the manufacturing and service sectors, and explores how China can achieve growth while implementing a sustainable climate and energy policy.

In Pakistan, the current focus is on institutionalising the EoT discourse. A comprehensive compilation of previous research work will serve as a blueprint for political discussions during the upcoming election campaign.

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## India's Coalitions for Change Transforming the world's most dynamic economy

### Introduction

India is the fastest-growing large economy in the world. But it is, even so, an under-performer. In fact, since 1991, when the Indian economy liberalised by relaxing some regulations and opened up to trade, the Indian economy has performed reasonably well, posting between five and eight percent growth in gross domestic product (GDP) most years. This growth has been accompanied by a massive reduction in poverty.

Yet, it is clear that the economic status quo is not good enough. There are several problems with the nature of Indian growth – problems that indicate that severe obstacles on the path to economic development remain. Part 1 of this paper explores the nature of these obstacles. Part 2 examines why these obstacles remain in place and the incentives of the 'blocking coalition' that prevents them from being removed. Part 3 looks at the current 'winning coalition' in India, why it holds promise for economic transformation, and why that promise appears to be yet unfulfilled. Lastly, Part 4 lays out a concrete pathway to change, in which the coalition's components and discourse are altered sufficiently so that the political obstacles to Indian economic development are removed.

### Obstacles to Indian economic development

It is worth noting that while India's growth has not been slow, it is fragile. Rather than insulating the economy from the fluctuations of commodity prices, much of India's economic growth comes from the use of imported commodities. At times when commodities become expensive – as was the case before mid-2014 – costs increase and profit margins decline, pushing the country into recession. When commodities are cheap, the economy appears to do well. But a genuinely flexible and reformed market economy would seek

ways to insulate itself from such volatility, which serves as an obstacle to investment and thus to long-term economic development.

The biggest problem of all, however, is that India may provide fast growth – but such growth is neither fast enough, nor of the quality needed. It is not good enough to lift those fresh out of poverty towards the middle class. It is not good enough to provide sustainable jobs to the approximately one million young people who join the Indian workforce every month. These one million people a month join the 47 million already looking for work (and not finding it), according to the 2011 Census of India.

The mathematics of job creation is not hopeful. By most estimates, to create 12 to 13 million jobs every year, the number of employment opportunities must grow by around three percent per year. But in the years between 1991 and 2012 – the high-growth years, when India's economy was being hailed as a miracle – the number of jobs grew by only 1.6 percent a year. This is in fact lower than the 2.3 percent a year at which employment opportunities grew between 1972 and 1983, a period when India – like everywhere else in the world – suffered through the stagflation that surrounded the oil price crises. In other words, India is currently creating jobs for its one million new workers a month at about half the rate at which it needs to; and to actually employ these people, it would need to create jobs at a rate faster than it ever has.

The stakes are high. Without sufficient opportunities for sustained employment, these young people will struggle to build the foundations of the sort of middle class that would make India a 'normal' country, and a more egalitarian, functional democracy.

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The second, and related, way in which Indian growth is problematic is that it has prioritised its service sector at the expense of its manufacturing sector. It is the absence of manufacturing that causes there to be a shortage of sustainable jobs. This is a consequence of India having failed to completely reform what used to be called the Licence Raj – a system in which unelected bureaucrats and remote politicians in New Delhi micromanaged the vast Indian economy.<sup>1</sup>

Under the Licence Raj as it continues to exist today, anyone running anything but the very smallest of enterprises is subject to a stiflingly large number of regulations. They are required to maintain literally dozens of registers, any of which might be inspected at any time by government officers who are poorly monitored and poorly paid – and thus susceptible to corruption. By and large, the various environmental, safety, and labour regulations – none of which have been repealed, and some dating back to the 19th century – have never been harmonised, and it is considered impossible to follow them all. In effect, most employers are in violation of some rule or another. This means that they are constantly paying off various inspectors.

Just as importantly, potential employers' access to the basic markets associated with the factors of production – land, labour, and capital – is severely limited. India has the most restrictive labour laws in the world, according to the World Bank. In many Indian states, it is simply impossible to fire even one worker without the permission of a certain bureaucrat. In addition, the more workers a company has, the more severe the types of Licence Raj it is subjected to. It is therefore unsurprising that only a tiny portion of the Indian workforce is employed in the formal sector. Estimates vary, but it may be less than 10 percent. Almost every Indian works in a tiny enterprise, or is self-employed, with minimal protections or access to employer-provided welfare.

Nor are land or capital markets more open. Indian farmers are forbidden from selling land to anyone other than another small farmer. This has rendered Indian agriculture unproductive and non-remunerative, as landholdings become progressively smaller: farm-owning families have multiple children across multiple generations, and the land is divided among them.

But it also means that the 'extra' hands in the agricultural sector cannot be employed elsewhere. In particular, they cannot move to factory jobs, as has been the case in every other country across the world that has experienced economic development. They cannot move for the simple reason that their parents are forbidden from selling their land to people who want to build a factory.

In effect, the government has created a situation where it serves as the sole intermediary in the land market – expropriating land from farmers when individual bureaucrats feel it is necessary, and passing it on to favoured real-estate developers or industrialists.

Capital markets are also restricted. Public sector banks dominate capital markets – two-thirds of Indian banking is state-controlled. The nationalisation of banks over four decades ago was meant to democratise finance and to make lending more accessible. While this may have worked in the initial decades after nationalisation, it is clearly not the case now. Few public sector bank officials have any incentive to go out and seek productive returns on the funds they manage. Bank credit, thus, expands at an anaemic rate. Meanwhile, prospective entrepreneurs struggle to find financing unless they are powerful enough to warrant a phone call from a politician or a bureaucrat to a bank official.

Therefore, without major reforms to land, labour, and capital markets, there is no prospect of a solid manufacturing sector developing in India, and thus no prospect of

sustainable employment. Entrepreneurs and companies (i.e. prospective employers) need to be free of government control in certain areas, and exposed to better and lighter-touch government regulation in other areas.

Why are these much-needed reforms not being put in place? Clearly there are social and political forces that manage to block productivity- and employment-increasing economic change. India is a democracy; its economic choices are freely made. The question is why would a democracy hamper its own growth in this manner? What are the electorally and politically powerful coalitions that support the status quo?

### **Political economy of change – the blocking coalitions**

As the brief sketch of the Indian economy and its blocked pathways to development outlined, there would have to be a consequential set of interest groups that are capable and desirous of blocking major change that would free up India's resources and abilities. In this section, we will closely examine the incentives of these interest groups, and how they are aligned in preserving the status quo.

The first consequential set of decision makers are **unelected bureaucrats**. The Indian Administrative Service and its allied All India Civil Services are guaranteed job security and powers by the Indian Constitution. They are thus in a unique position and have considerable ability to perpetuate a Licence Raj that empowers them.

The roots of the bureaucracy's unusual amount of power within the Indian system are two-fold. First, the existing civil services of independent India are the inheritors of the powers and privileges of the pre-independence Indian Civil Service. The framework of the Indian government – including the Government of India Act, passed by the British Parliament in 1935, and which forms the backbone of the Constitution of independent India – is set up

to privilege unelected civil servants over elected politicians. It is possible that this came to be because Britain's parliamentarians were capable of looking ahead to a time when there was limited self-government in India – when the politicians might be elected Indians, who might need to be circumscribed and controlled by civil servants who were ultimately responsible to Whitehall. Independent India's politicians have inherited this system in toto.

Newly independent India preserved the privileges of the tenured All India Civil Services for a second, very important reason. It was believed that it would serve as a "steel frame", in the words of one of the republic's founders, holding the young nation together in the face of multiple fissiparous tendencies. Elected politicians might be forced to respond to, or be tempted to stoke various sub-nationalisms or other forms of identity. Keeping ultimate power with an unelected, centralised bureaucracy – tempered only by the power to transfer the most defiant members of the cadre – would ensure that independent India's politicians would be, once again, circumscribed and controlled.

The upshot of this power and independence is that deregulation or reform of any sort goes against the grain of the Indian system – since it would require all-powerful civil servants to give up some of their power to license or inspect, or otherwise control the economy. There are few reform-minded bureaucrats in the Indian civil service today, and any initiative they may have is kept in check by their colleagues, since many decisions are collective in nature.

The second set of major decision makers are **elected politicians**. To an extent, they share the unwillingness of India's bureaucrats to give up control over the economy, if for subtly different reasons. Politicians seek the power of patronage.

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Firstly, such returns may only be reaped after a politician's term is over. Secondly, accountability through elections may not be direct enough – in other words, a politician who actually delivers greater private formal employment through development-oriented economic reform may not be easily identified by voters as the reason for the increased employment opportunities.

Voters are after all, likely to see a job won through the free market as a result of their own efforts, and not partly as a product of a reformed, development-oriented economic environment. Conversely, voters can more easily evaluate directly 'created' jobs as being the product of the clever use of their franchise or democratic support – especially if the job needs to be obtained through intercession with a local politician.

The third set of decision makers that are influential in the status quo coalition are **job seekers**. This may seem paradoxical; why would any group of individuals choose to support a system that eventually provides them with fewer opportunities?

In fact, the reasons can be easily discerned and are not irrational at all. First of all, there is the apparent difference between government jobs and private sector jobs. Life in India is uncertain; people are frequently at the mercy of an arbitrary state. Basic healthcare, law and order, pensions, housing, contract enforcement – all these requirements of a civilised existence

frequently require some sort of interaction with the state. The weakness of the Indian state means its attention is severely rationed; even minor civil servants of the state or the public sector might move to the head of the queue seeking such attention.

As a concrete example, take the possibility of a burglary: a regular citizen in private employment reporting a break-in might be forced to bribe the local police to pay attention to his/her losses, whereas an individual in a state job would likely receive preferential attention from the local police station.

This ability to be noticed by the other organs of the state is rarely spelled out, but it is often expressed as the greater 'respect' attached to having a job linked, even if peripherally, to the government. It is difficult to see this changing anytime soon, unless the state itself is expanded so that its basic functions no longer need to be rationed – whether through corruption or through 'connections'.

Another reason job seekers are currently likely to be supporters of the status quo is due to the cost-return ratio of current vocational training or other job-focused education or apprenticeship. This factor may perhaps be more open to future intervention. Consider the fact that according to the World Bank, in 2010, skilled machine operators in India were paid just 14 percent more than unskilled workers. In other words, job seekers will not automatically see a system that requires them to build up skills as being in their interest, since they would see the returns as negligible. However, building up a workforce's skills is essential for a productivity-oriented, development-focused reform programme. Of course, it is likely that such a reform programme would also raise the returns to skills – but this future higher return is unquantifiable for the average worker, and it is futile to expect him/her to make a voting decision on that basis. Job seekers need a concrete demonstration of the need to enter the formal sector and to develop skills,

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The next group in this status quo coalition are the **gatekeepers of education**. Indeed, there is likely to be a significant overlap between the political decision makers and those who have an interest in the education status quo, particularly in higher education. Many Indian legislators have an interest in educational institutions, particularly those that provide medical, engineering, and other technical training. This powerful lobby would strenuously oppose any alteration to the system of higher education that brings it more closely in line with the market, and reduces the possibility of patronage and exceptionally high fees.

The final consequential interest group that supports the current system are **owners of capital**. As with job seekers, it is not immediately obvious why owners of capital would be part of a political coalition sustaining a low-productivity equilibrium.

However, this makes the assumption that Indian capital is homogenous in the returns to investment it can access. But that is not quite true. In fact, in an unreformed economy such as India's, there is significant variation in the returns that capital would receive. The returns on a project – whether it is successful or not – can be higher or lower than normal, depending on the investors in question, and whether or not they can 'manage' the political environment.

Consider a road-building project, for example. Suppose that it would, if all went well, return two percent over the risk-free interest rate – the amount such capital could earn elsewhere, invested in government securities for example. But it is also possible that problems could arise in the government's actions; for example, there could be delays. Time and cost overruns would lower the return to capital, perhaps bringing it below the riskless rate. Owners of capital that have the ability to minimise such interference would thus consistently earn above-normal returns. This leads to a situation

where the most powerful owners of capital consistently earn the highest returns, and would oppose any reform that reduces government control over the returns to capital, even if that reform increases the overall returns to capital.

In this section we have sketched out an analytical framework for something that many Indians come to understand instinctively. It is variously called the bureaucrat-legislator-criminal nexus, the builder-contractor-politician nexus, and so on. The crucial additional dimension that has been added, however, is the voter. The voter continues to re-elect the politician who implements the sub-standard equilibrium.

The traditional middle class explanation for this voter behaviour is that it is the product of irrationality, the lack of education of a large portion of Indian voters, or the appeal of identity politics. However, these are all incomplete explanations. If the benefits to breaking away from this system for voters were seen as large and accessible enough, they would have broken away from it. In the absence of a discursive change, this coalition has to be assumed to be stable and rational. The purpose of this paper is thus to identify the possible coalition and discursive change that would cause sufficient instability in the system for a new, pro-change coalition to be created.

### Modernising the state – possible change coalitions

The election of India's current prime minister, Narendra Modi of the right-wing Bharatiya Janata Party (BJP) in 2014, was accompanied by tremendous optimism. Many Indians saw Modi as a figure capable of rising above the existing networks of patronage and control, and thus as someone who would have an incentive to oversee economic reform and to modernise the Indian state.

That hope has been somewhat belied; but

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it is important to examine the structure of Modi's winning coalition and the campaign narrative in order to understand where those hopes came from, and whether there are tweaks that can be implemented to either of these two in order to actually implement the economic reforms and modernisation that people had hoped for under Modi.

The crucial fact about Modi's election in 2014 is that he created an electoral coalition more powerful than any seen in India for three decades. Not since 1984 had a single party won a majority in India's lower, directly-elected house of Parliament. This meant that his government would be more insulated from the demands of alliance partners than its predecessors. Such demands had frequently held back reforms in the past, and sustained control and corruption.

It is easy to see why it would be in the interest of smaller parties to prevent such change. The political benefits of overall economic reform – an increase in productivity and jobs – would accrue with the dominant partner in the ruling alliance. Meanwhile, the costs – loss of control and patronage – would be borne by the smaller parties whose ministries and government positions would lose the ability to license owners of capital and hand-out public sector jobs directly. Thus, the possibility of a government that was not beholden to smaller parties was a major cause for hope after Modi's election.

The nature of his sweeping win had other hopeful components. It created a winning coalition that appeared distinct from, and in opposition to the old status quo-preserving blocking coalition outlined above.

For one, it was generally believed – a conclusion supported by post-election polls – that Modi's sweep of north Indian states was because he was the overwhelming choice of younger Indian voters – in other words, those for whom the creation of jobs would likely be a major

priority. This is the 'job seekers' component of the status quo coalition, and it was hoped that Modi's win indicated that this component of the coalition had defected to the other side.

In addition, Modi's own rhetoric during the campaign had given rise to additional hope. He ran on his record as Chief Minister of the western Indian state of Gujarat, known as a largely business-friendly state. He spoke of the need to improve the honesty and transparency of the administration, make the state more efficient, and even occasionally dropped the Thatcherite mantra that "government has no business to be in business".

The traditional support base of the BJP was another source of hope. The petty urban and semi-urban Indian bourgeoisie has always been the backbone of the Indian right, in particular the Hindu nationalist right. Whatever their opinions on social issues, this social class – small shopkeepers and owners of micro and small-scale enterprises – has not been sympathetic to government control of the economy.

To this component, Modi added another: the aspirational urban middle class, including the professional classes. This group seemed to believe in modernising the state and broadening the scope of market forces in the economy. It appeared that they had flocked to Modi because he promised to be a moderniser. A coalition built around the anti-state petty bourgeoisie, the pro-modernisation urban middle class, and job-seeking youth appeared to hold out great promise for reform.

Finally, the Prime Minister's early choices in terms of the policy thrust of his government once he was in office were also promising. In his first major speech since his election, on 15 August 2014 (India's independence day), he chose to stress the need to increase the size of India's manufacturing sector. The slogan he unveiled – "Make in India" – quickly became

the basis of a campaign to increase the ease of doing business in India.

However, these early promises of reform have not produced results. In fact, the policy trajectory of Modi's government has not been as pro-market as expected, and his policy choices have been more timid than expected from a government with the first majority in recent Indian history.

The privatisation of the moribund and debt-ridden state-owned financial sector has, for example, been ruled out. Labour and land reform has also been put on the back burner. The push to increase the size of India's manufacturing sector has become less about empowering entrepreneurs and more about protecting them from trade. This is an out-dated approach in an age of global supply chains, where the only hope for Indian manufacturing is to embed itself in value creation chains that have hitherto excluded it. World demand may not be exploding at the moment, but that is not a reason to focus entirely on the domestic Indian market as a source of demand – it is simply not large enough to create employment for one million new workers a month.

What are the reasons behind what appeared to be a winning coalition for big change, actually being a coalition for minor change at best? What can, and should be changed?

One major misunderstanding perhaps, was the nature of what Modi's young job-seeking voters were demanding. It was assumed that when they demanded jobs from a politician, they were demanding job-creating policies. But that may not have been the case. In fact, if it was just a louder repetition of this group's existing demands – as shown in Part 2 – then the Modi government's acts are more understandable. It is entirely possible that when Modi's young north Indian voters demanded jobs, they wanted an expansion of patronage-based jobs, especially in the public sector.

Recent events seem to emphasise this impression. In Modi's home state of Gujarat, for example, a powerful ethnic group known as the Patidars (more commonly known as the 'Patels') launched a sustained agitation in 2015 for preference in government jobs. This group had been one of the pillars of Modi's support base when he was Chief Minister; they were not agitating for a more important manufacturing sector, or a more modern, open economy, but for more patronage.

Such agitations for government preference were replicated across the country by other similarly placed ethnic groups. In Rajasthan, the Jats – another previously agrarian, relatively well-off group – demanded government benefits. In Andhra Pradesh in the south, it was the Kapus, who occupied the same place in the socio-political structure as the Patidars in Gujarat. A number of such movements are ongoing. Any skilled politician would look at this phenomenon and infer that the job-seeking component of the status quo coalition had not in fact defected.

It is also possible that the motivations of the other components of Modi's winning coalition were misunderstood. The Hindu nationalist-leaning petty bourgeoisie may be unsympathetic to the state, but it is possible that they care more about social issues than economic issues. Reducing the scope of secular values in New Delhi's social policy may thus have been the reason they voted for Modi, not for economic reform.

Finally, the pro-modernisation Indian middle class may have cared about reform issues, but other issues may have been equally important. For example, a strong and activist foreign policy – vis-à-vis Pakistan in particular – may be as desirable for them. It seems likely that their conception of a modern Indian state is one that stands up to its neighbours and is respected on the world stage, as much as one that has better regulation and less sympathy for dirigisme in the economy.

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If the motivations of the Modi coalition are re-examined in this light, then his government's actions when they came to power become completely explicable and politically justifiable. The government has maintained the scope of the state in the economy, promising a more efficient delivery of state jobs and benefits; it has a louder and more aggressive approach to foreign policy; and it has created the space for a more overtly Hindu nationalist social policy, for example on such things as eating beef. Reforms to the ease of doing business have become an exercise in making government more personalised, rather than in drastically reducing the scope of the Licence Raj. It is thus possible that the nature of the Modi mandate was widely misunderstood, except by Modi himself.

The question then becomes: what is the alteration to this coalition, or the discursive change to the narrative, that would bring pro-development, transformative economic reform back to the top of the agenda?

#### **Narratives for change – a new modernisation partnership**

The winning socio-political coalition in India has failed to deliver transformational economic reform because its common priorities can be met in a different way through the Modi government's existing, statist policy programme. In addition, crucial components of the coalition – such as job seekers – may not have been convinced of the personal returns to them of a transformation of the Indian economy.

The way forward is, however, not to abandon this existing, successful coalition, but to alter its composition and the political rhetoric employed, so as to change India's national priorities. This can be done through three alterations: first, by expanding the base of the coalition; second, by narrowing its focus; and third, by creating a change in the discourse that alters the policy rhetoric.

Expanding the base of the coalition is crucial.

It is worth noting that the ruling party has already determined that this will be necessary. Two successive years of drought has meant that incomes have come under pressure across rural India. The BJP had already maximised its vote share in its existing coalition in North India; to deal with the inevitable attrition of this vote in coming elections, it has recognised that it must add a significant proportion of the rural, agriculture-dependent poor to its voter base. The Prime Minister himself has promised that he will ensure that agriculture becomes remunerative – that, in fact, it will provide a 50 percent return on investment to farmers.

Meanwhile, the opposition parties have created a powerful rhetorical narrative forcing the BJP on the back foot in terms of rural affairs. The Vice President of the opposition Congress party (i.e. the Indian National Congress), Rahul Gandhi, declared that India was living under a "suit-boot" government – a government for those in suits and shoes, rather than the average Indian.

It is clear that the next general election will be fought over the votes of those without suits or shoes. The coalition for change must be broadened therefore, to include Indians who have no access to the urban economy. This may appear difficult, as it is often assumed that it is the urban economy that is most immediately affected by productivity-enhancing and pro-employment reform.

However, the benefits to expanding the current socio-political ruling coalition are considerable – and not just because it is essential in order to create a political force that could win future elections. Most importantly, if the expansion is carried out in a suitable manner, it could disrupt the current coalition's policy consensus, and thus open the door to transformative economic programme becoming ascendant in the policy narrative.

Narrowing the focus of the coalition: This may appear to contradict the earlier attempt to

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broaden the coalition's base. But in fact, it is a necessary corollary. The narrowing that is needed is to refocus politics on creating a 'demonstration coalition', which will combine economic transformation with political salience.

What would this imply? Concretely, it would need the creation of a pathway to prosperity for geographically identified elements of the broader coalition.

Consider the following example: Modi's BJP controls several prosperous western Indian states. It is also dependent on the votes of job seekers and rural and semi-urban young people in the less prosperous north and east. Policy efforts should be focused on enabling some of the young people in the north and east to discover employment and entrepreneurship opportunities in the western states. Government programmes that focus on enabling them to move to the western states, that put them in touch with opportunities for employment and wealth creation elsewhere, would be a radical departure from past policies and would significantly disrupt the existing narrative.

Importantly, it would reveal to the job-seeking component of India's population that there could indeed be benefits to gaining skills. As explained in Part 1, these benefits have largely appeared ephemeral so far. Once they are made concrete, and once examples of prosperity as a result of personal investment in skill creation are made available, then the power of the gatekeepers of education will decline, and job seekers themselves will seek other pathways to skills and ladders to prosperity.

The creation of a ladder to prosperity that unites this subset of the larger population is what we can call a demonstration coalition. It would require economic reform that allows for controlled and managed urbanisation, the creation of enclaves of manufacturing with liberalised laws and affordable housing. These could then serve as incubators for economic prosperity, as well as advertisements for

the benefits of reform.

The rhetoric surrounding Modi's ability to transform Gujarat, crucial to his election in 2014, could be easily adapted to showcase the benefits of this demonstration coalition. Indeed, Indian politics being supremely adaptable, once the demonstration coalition comes into being, the opposition would also try to own or emulate it, in the same way that most opposition leaders now emphasise their decision-making capabilities and efficiency in the manner that Modi pioneered.

It would not only demonstrate the economic efficiency of reform, but also demonstrate to components of the coalition that they would benefit from it, as well as demonstrate to the entire political class that it is worth adopting as a platform. A temporary narrowing of the broad coalition to a demonstration coalition, incorporating elements of rural poor not currently in the winning coalition would thus change incentives all-round.

Finally, changing the rhetoric of the coalition is just as important. The current discourse on the modernisation of the Indian state is clearly amenable to capture by statist, anti-reform, and hyper-nationalist interests. Pride and self-respect, as narrowly defined by the BJP and its Hindu nationalist rhetoric, can substitute easily for genuine modernisation. Thus, the rhetoric on modernisation needs to be refined, in keeping with the needs of reform and the need to expand the winning coalition.

In particular, the jobs rhetoric has proven to be as dangerous in India as it has elsewhere in the world. In the Western world, the jobs rhetoric portends a turn away from globalisation to nativism and xenophobia. In India, the jobs rhetoric has pushed forward various claimants to state patronage. The jobs rhetoric needs to be transformed into opportunity rhetoric.

This is in fact, closer to what many young Indians actually desire. Many members of

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Government programmes that focus on enabling them to move to the western states, that put them in touch with opportunities for employment and wealth creation elsewhere, would be a radical departure from past policies and would significantly disrupt the existing narrative.

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Many members of historically disadvantaged portions of the Indian population are more likely to trust a market system that dissolves caste prejudice than a government-driven patronage system that perpetuates systems of caste domination.

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historically disadvantaged portions of the Indian population are more likely to trust a market system that dissolves caste prejudice than a government-driven patronage system that perpetuates systems of caste domination. Many young Indians will be open to the idea that jobs or benefits that come through intercession with the government or politicians are inimical to their quest for pride and self-respect. Equality of access to jobs and entrepreneurship, and equality of opportunity, cannot be guaranteed by upper caste-influenced government machinery. It can, however, be produced by market forces.

Urbanisation rhetoric must be added to this rhetorical focus on opportunity. Across the political sphere, villages are still seen as the custodians of the Indian spirit. Since Mohandas Gandhi, India has been supposed to live in its villages. Thus, the preservation of the village economy and the rural way of life has always been a political priority across parties. Even the Modi government's modernisation rhetoric specifies an increase in the infrastructure available to villages while still preserving their spirit.

This rhetoric must be replaced with a discourse that understands that the new India lives in towns and cities. Young people in rural India do not dream of staying in their villages forever; they wish to move to the shining centres of opportunity that they see on satellite television and on their mobile phones. In this, they are no different from any other population in a developing economy throughout history. India cannot hold back urbanisation; it can only manage it. But the discursive and sentimental preference for villages has held back this management process.

Yet, the rewards of introducing an explicit tribute to urbanisation to the rhetoric are considerable. It will receive the support of existing interest groups in the winning coalition. The petty bourgeoisie are concentrated in semi-urban areas and have few attachments

to rural India. In fact, the Hindu nationalist parent organisation of Modi's BJP, the Rashtriya Swayamsevak Sangh, is an almost entirely urban organisation. The pro-modernisation middle class, meanwhile, turned against its previous political champion, the Congress party, precisely because it saw the Congress as over-committed to supporting rural areas instead of towns. Finally, job seekers are already convinced that there are no jobs where they are, and are willing to be part of a process of urbanisation that provides sustainable employment opportunities.

A town-focused rhetoric will also allow for the creation of the demonstration coalition – it will identify the members of the rural poor willing to be part of the town-building process. These individuals will then serve to amplify the message of urbanisation and of opportunity in their home communities, much as migrant workers in Gujarat helped spread the message of Modi's governance to their families back home in Uttar Pradesh and Bihar prior to the 2014 general election.

This dual change in rhetorical focus would thus alter the common priorities of the existing winning coalition, and expand its base in a manner that would make transformational reform possible.

### Conclusion

How likely are these changes? How possible is the creation of a coalition for development-focused reform, and is it plausible that a rhetorical transition, which reverses the discourse that has ruled Indian politics for decades, can occur? The most relevant fact is that India is going through a demographic transition. India's one million new job seekers a month will transform Indian politics one way or another – they already did so when they elected Modi with an unprecedented majority. The hope is that coalitions and discourses, which harness the energy of this change in the direction that India needs, can be consciously created.

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India cannot hold back urbanisation; it can only manage it. But the discursive and sentimental preference for villages has held back this management process.

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<sup>1</sup> The term 'Licence Raj' was meant to recall and echo Britain's occupation of India, which was known as the 'British Raj'. The term gained popularity because the extractive state set up under the Licence Raj was in some ways, very colonial.

## About the Author

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