

Modi 3.0 – Continuing the Economic Slide

Readers must be aware that I represent the far-right economic ideology of Austrian Economics and its equivalent political theme of Libertarianism. So technically, I should be closer to the “supposed” BJP ideology of Conservatism and much further away from the Congress liberal ideology. Let's leave that aside for a moment and look only at hard data at this juncture.

	2004	2014	2023	Change 2004 - 2014	Change 2014 - 2023
Per Capita GDP (US \$)	624	1560	2485	CAGR - 9.60%	CAGR - 5.31%
Debt to GDP	83.40%	67.10%	83.80%	- 16.30%	+ 16.70%
Global Comm Index (in \$)	73.85	167.8	175.1	127.2%	4.35%
Top 1% Wealth Share	25%	30%	39%	5%	9%

Source: World Bank, World Economics, St. Louis Fed, Income and Wealth Inequality in India 1922-2023.

The above table is 9 years under the current BJP Government, for which data is available, and the previous 10 years under the Congress Government. The data is clear and there can be no two interpretations about this. Some salient features that need to be pointed out are as follows:

1. The CAGR of the per capita GDP under the current BJP-led Government was just 55% of what the Congress government had managed.
2. The debt-to-GDP was substantially reduced during the Congress tenure. The BJP has managed only to increase the debt-to-GDP back to the 80%+ levels even while growth in per capita GDP has nearly halved.
3. The wealth inequality has also substantially worsened under the BJP tenure. It had worsened during the Congress rule albeit at a much slower rate.

But the most damaging aspect of the current tenure is the one that is least discussed in the media. The BJP had the fortune of having a benign global environment of stable commodity prices. Under the Congress-ruled period of 2004 to 2014, the Global Commodity Index had increased by more than 125% while it was practically flat under the BJP-ruled period.

Not to forget that the BJP had an absolute majority during its tenure while the Congress always had to work with a minority Government. If the BJP had to deal with COVID, Congress had to deal with a much bigger crisis i.e. the GFC of 2008. Both these crises happened almost right during the middle of the quoted periods.

Notwithstanding what I have written above, the BJP's economic footprints have largely followed that of the Congress with some minor modifications. From my point of view, both the Congress and the BJP operate within the same economic framework with some optical differentiation to appeal to their voter base.

What's not working for BJP?

The Modi 3.0 Government is at a genuine decision point. It can continue with what has not worked for 10 years or make a radical shift towards liberating the economy from the clutches of the political class and the bureaucracy. In all the Indian budgets over the decades, we have had only one budget that stands out i.e. the 1991 budget. That was the only budget where India made a decisive shift towards a market economy. Every other budget has been a case of two steps forward and one step back.

For sure, this advice is not going to come from the current economic dispensation or even the supposedly independent supporters of the current regime. At least their public statements do not seem to provide any indication of this. It is certainly not going to come from the IMF and WB economists – whether influenced by their Keynes/Samuelson leanings or they have a vested interest in keeping developing economies as such, the rationale doesn't matter. I suspect it's the former, but as said, it doesn't matter either way.

Modi has completed 10 years as Prime Minister and is on track to complete another term and this will make him the second longest-serving PM with 15 years just behind Nehru who had a tenure of 16+ years. Would he prefer history to compare him to a P.V.Narasimha Rao (PVN for short) or to a Nehru in terms of the economic progress made? If the Hindu rate of Per Capita GDP growth in the table above is an indicator, Modi has miles to go before he can catch up with PVN in terms of the economic impact.

As an aside, PVN was the most deserving Bharat Ratna ever given in my opinion. It is easy to dish out economic advice (as I have done 😊); but the political will to see it through to completion in a coalition set-up indeed takes tremendous courage and a deep conviction that PVN had in markets. For sure, the advice did not come from his economic team or even from his then-finance minister Manmohan Singh. Salvation truly lies within. In fact, the bureaucrats were hardly in agreement with the proposed 1991 plans.

PAST SHOULD NOT BE PROLOGUE

The world is just months away from a repeat of the GFC. As I have written in my book "[RIP USD: 1971-202X ...and the Way Forward](#)", what lies ahead would make the GFC look like the proverbial Sunday school picnic.

What should Modi do when the above crisis sets in? For one, what the Congress did after 2008 was exactly the wrong thing to do. We escaped the consequences because of the benign commodity environment mentioned in the table above. What the US Fed did back then (and the RBI dutifully copied) was merely to postpone the day of reckoning while making the underlying structural fundamentals worse. Consequently, we have much bigger malinvestments and a far bigger bubble to handle today. If ZIRP and QE were indeed the correct solutions to GFC 2008, the US would not be dealing with simultaneous bubbles in stocks, bonds, and housing today.

As one can understand from reading the book, this moment was foreseeable at the very least from the moment the US Fed embarked upon a rate hiking cycle starting in 2022. But the rate hiking cycle should also have been foreseeable. For sure, the US could not have continued on ZIRP *ad infinitum*.

This begs the question, does the current economic team understand what lies ahead? There seems to be no indication of that – or at the very least, the extent of the crisis ahead. But if they do, then allowing such expansionary budgets for the last few years would be an inexplicable act.

We are set for the economic crisis of our lifetimes with a team at the helm that has delivered subpar Per Capita GDP growth for nearly a decade under conditions of a very favorable economic and political environment. Not that the comparison is made against a team that could be termed as good. What will this current team do when faced with a CAT 5 economic tsunami that is just around the corner?

The second generation of reforms is much more than complex than the changes initiated in 1991 under PVN. It's time Modi realizes that the road to **Vikshit Bharat** can only be through the tenets of limited government and sound money. That would mean balancing the budgets at the level of the central government, deregulating with a chainsaw (to be fair, Modi has made reasonable progress on this front), decentralizing economic layouts, and holding money supply constant.

Can Modi summon the courage to do what PVN did in 1991?

About the Author

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