

Opinion **Indian economy**

## Trading democracy for prosperity is a false choice for Indians

Modi's government is popular despite the lived economic experience of people, not because of it

**RAGHURAM RAJAN**



Supporters of the ruling Bharatiya Janata party hold cutouts of their leader, Prime Minister Narendra Modi, in Hyderabad last week  
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## Raghuram Rajan YESTERDAY

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Are Indian voters ignoring the growing authoritarianism of Prime Minister Narendra Modi's government because of the economic prosperity it has brought? A close look at the data suggests a different story.

India's economy suffered during the pandemic. Apart from the terrible loss of life, the pandemic decimated small and medium-sized companies, which were already tottering because their cash-based sales were hurt by a prior demonetisation and mismanaged rollout of a goods and services tax. Labour-intensive sectors such as leather and textiles have been disproportionately affected. Of the 23 components of the index of industrial production, 11 labour-intensive sectors were lower in March 2023 than in 2016-17. Worryingly, India's share in the global garments trade has declined by over 20 per cent since 2015, while Bangladesh and Vietnam's are surging.

The consequences show up in growing urban joblessness. The share of agricultural jobs has been on the rise, an aberration for a growing developing country. Of course, some segments are doing well, given overall GDP growth is north of 6 per cent. The government's infrastructure push helps capital-intensive sectors such as steel. The rich and upper middle class have ridden the rise in such sectors and in skilled services exports, as well as in stock and property markets.

A two-paced economy, however, eventually affects the flourishing side. With few new jobs, income growth has been weak for many people. Household indebtedness is rising and consumption of mass goods like motorised two-wheelers is still below pre-pandemic heights. Young people are anxious about their prospects but don't know whom to blame: a recent white paper on the economy doesn't even mention the word "unemployment", while the government-influenced mainstream media trumpets widespread prosperity.

A government that does not acknowledge the central economic problem cannot propose useful solutions. The ruling party's jobs strategy has been to attract manufacturing to India through subsidies. The choices are mystifying. Nearly \$10bn of subsidies are being allocated to chip manufacturing, which will create only a few jobs for the highly skilled in an industry where India has little comparative advantage. Meanwhile, labour-intensive sectors shrink for want of investment.

Why then is the Modi government so popular? It has certainly improved the delivery of benefits such as free food grains (to around 60 per cent of the population). Portrayed as coming directly from the prime minister, such benefits add tremendously to his popularity. So does India's perceived standing in the world, as its growing economy and the need to keep it on the side of industrial democracies attract gushing dignitaries to New Delhi. But most critical is its ability to influence perceptions by touting good economic news and suppressing criticism. The government is popular despite the lived economic experience of people, not because of it.

Will the erosion of democracy, if continued, affect India's growth? Modi followers emphasise the advantages authoritarian countries have. They can ignore niceties such as careful environmental studies in building out infrastructure. They can support manufacturing, acquiring land for industry over the protests of households, and suppressing unions and wage growth. This is the path once followed by China. But India has two problems Beijing did not have when it embarked on its export-led path. First, China got there first, and is competing away the profits in

manufacturing. Second, the industrial world is not ready for another China, eating into what remains of their manufacturing and expanding goods production to the detriment of the climate.

India should build on its strengths, including services exports and democracy. For instance, it already has 300,000 engineers working on chip design for companies across the world. Why not repurpose chip subsidies to improve the quality of its schools, colleges and universities, so it can have more chip designers, and eventually its own Nvidia or Qualcomm?

An Indian path will entail risks and the government will make mistakes. A strong opposition and a free press will help point these out, enabling it to correct course. Stronger democracy will also make India a more trusted destination for foreign investors, and a more reliable provider of data-intensive services. The factors electors need to weigh in the Indian elections are not as straightforward as giving up democracy for prosperity. Indeed, the frightening possibility is that India gives up both.

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