The Gujarat Model of Development

What would it do to the Indian Economy?
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Vol. 49, Issue No. 11, 15 Mar, 2014

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Narendra Modi’s famed model of economic growth will only exacerbate the disasters wrought by the neoliberal economics of UPA. Far from championing him, industries and the middle class should take note of how his policies will eventually harm their own economic interests in the long run.

The cornerstone of Narendra Modi’s and the Bharatiya Janata Party’s campaign for the 2014 Lok Sabha elections is that the United Progressive Alliance (UPA) has ruined the Indian economy and the BJP led by Modi will make it boom. These claims have been reinforced by corporate adulation for Modi in his 'Vibrant Gujarat' summits (Times News Network: 2013) and surveys showing that almost 75% of top corporate CEOs want him to be the PM (NDTV Profit: 2013). How valid are these claims?

The UPA’s performance

The economic reforms initiated by the Congress government in the 1990s raised the Gross Domestic Product growth rate from an average of around 3.5% per annum since independence to more than 9% between 2005-06 and 2007-08 (Planning Commission: 2011), before dropping to 6.7% in 2008-2009 as a result of the global financial crisis (Government of India: 2010). Global competition forced manufacturers of products like electrical and electronic goods to improve the quality and reduce the price of their products. Computers, internet access and mobile phones became much more widely available.

However, neoliberal policies that were part of the changes had serious negative consequences. Privatisation was in many cases accompanied by massive corruption (e.g. the Commonwealth Games and 2G scams), as politicians and bureaucrats received kickbacks from the corporates they favoured. In other cases, even if there were no kickbacks, lack of adequate regulation allowed corporates to make windfall profits, while public sector banks offered them generous loans without exercising due diligence.

The campaign by industrialists for the abolition of protective labour laws reached a crescendo during the National Democratic Alliance (NDA) regime. It stopped when the UPA
came to power, but the anti-labour atmosphere had already influenced state labour departments and even the judiciary to such a degree that workers struggling for their rights were seldom successful.

The result of these trends was a huge increase in inequality. At the top, a few capitalists became dollar billionaires, joining the global rich. Just below them, 10-15% of the population became a prosperous middle class. But for the vast majority there was no improvement. Between the top and the bottom there was an unbridgeable gulf.

**The Pitfalls of Neoliberalism - India and the World**

These developments were not peculiar to India. A wave of neoliberalism was sweeping through the world. What does this mean? The only interest of most capitalists is to maximise their profits regardless of the damage they do to the economy. If reducing wages below subsistence and destroying the environment boosts profits, so be it; if gambling with worthless derivatives promises trillions, then go for it. If privatisation of public utilities like electricity and water offers huge profits to a few, then that is the way to go, even if it reduces the profits of many others and imposes an intolerable burden on non-corporate users.

But normally the state, even if it supports capitalism, takes a broader view. It may regulate the banking sector so that it is not threatened with collapse if risky investments go wrong. It may nationalise railways and public utilities so as to reduce costs for all capitalists. It may even invest in health and education in the interests of a better labour force.

The peculiarity of a neoliberal regime is that the state takes the standpoint of individual capitalists and allows them to do what they want rather than protecting the system as a whole. The corruption unleashed by this regime in countries like the United States has been phenomenal. Mortgage providers ramped up the housing market to astronomical levels by offering large mortgages to buyers who would never be able to pay them back.

Investment banks then “bundled toxic mortgages into complex financial instruments, got credit rating agencies to rate them as AAA securities, and sold them to investors, magnifying and spreading risk throughout the financial system, and all too often betting against the instruments they sold...”

The outcome was the global financial crisis of 2008, resulting in millions of homes, jobs and pensions lost on one side, and gigantic fortunes for the privileged few on the other side. Years later, some of these banks were penalised, but their CEOs were not (Usborne: 2013). Credit rating agencies too came under fire for giving triple-A ratings to junk; Standard & Poor’s even faced a civil suit (Alessi: 2013). Yet they too remained in operation.

**Is India’s Economic Management the best?**
This background is important in understanding what has been happening in the Indian economy. The global crisis hit all countries across the world. India, because its economy was not fully neoliberalised, did better than most. Its relatively well-regulated banking sector survived, though not unscathed: generous loans given to corporates like Kingfisher Airlines without proper scrutiny of their ability to repay piled up on the balance-sheets of the banks as non-performing assets (Mishra: 2013).

This has justifiably been seen as collusion between bank managements and corporates to rob the public of over 3 lakh crores over the past two years (Banerjee: 2013). The Finance Ministry and Reserve Bank acknowledged the scale of the problem in November 2013, and pledged to take steps to deal with it (Press Trust of India: 2013b). Recession and austerity in developed countries hit exports from India, which in turn hit employment, reducing wage expenditure and demand.

Paradoxically National Rural Employment Guarantee Act (NREGA), which had been initiated before the crisis, acted as a stimulus package, creating employment, helping to raise agricultural wages and prevented the collapse of rural spending power. But the middle class, who had been doing so well before the crisis, saw their future and the future of their children threatened.

The net result in India has been a slow-down in economic growth and high rates of inflation, which are causes for concern but not nearly as catastrophic as the slow-down in developed countries. According to Shankar Sharma, a director at one of India’s leading investment brokers, First Global, “India’s current economic management is inarguably the best that we have... In the last nine years, India has grown at about seven and a half percent compounded. But more importantly, in this ten years, debt to GDP has come down from 91 percent to 67 percent” (Tapper: 2013).

APCO Worldwide agrees with this assessment of the UPA’s economic performance: “India today is a trillion-dollar market with an enviable rate of GDP growth. India's economy is fueled by the combination of a large services sector, a strong and diversified manufacturing base and a significant agricultural sector that continues to provide a framework for the growth of the domestic economy. The country's resilience in weathering the recent global downturn and financial crisis has made governments, policy-makers, economists, corporate houses and fund managers believe that India can play a significant role in the recovery of the global economy in the months and years ahead”.

This is a very different picture from the constant BJP blitzkrieg blaring the allegation that the UPA has made a mess of India’s economy. Given that APCO is the public relations firm hired by the state government of Gujarat from 2009 to 2013 at a reported cost of $ 25,000 a month to promote Modi’s Vibrant Gujarat (Prabhakar: 2012), it can hardly be accused of pro-Congress bias. Moreover, while rampant corruption during the UPA regime is undeniable, it also enacted the Right to Information (RTI) Act, which played a considerable
role in exposing corruption. If the BJP’s anti-UPA propaganda is economical with the truth, what about its pro-Gujarat propaganda?

**Corruption, Poverty and Pollution in Vibrant Gujarat**

The average GDP growth rate in Gujarat over the past ten years has been above the national average, but in line with the growth rates of comparable large states like Maharashtra, Tamil Nadu and Delhi. Gujarat’s growth has been achieved at the cost of handing over complete control over the economy to corporates, and wholesale privatisation: ‘Key sectors – traditionally held to be the preserve of the state – such as ports, roads, rail and power have been handed over to corporate capital.

This has meant, inevitably, that "...the government has abdicated all decision making powers, as well as functional and financial control over such projects. Nowhere else in the country has this abdication of responsibility been so total, nowhere else has the state given over the economy so entirely to the corporates and private investors”. Infrastructure and access to water and electricity favour industry over agriculture and individual consumers. Employment growth in manufacturing and services turned negative in the last five years, and even prior to that was concentrated in the informal sector (Nigam: 2013).

The Modi administration’s largesse to corporates can be judged by two examples. One is the staggering subsidies offered to Tata for its Nano plant and other projects. Against an investment of 2900 crores, Tata received a loan of 9570 crores at 0.1% interest, to be paid back on a monthly basis after 20 years, in addition to land at much below market rates, with stamp duty, registration charges and electricity paid for by the state. Tax breaks mean that the people of Gujarat will not be getting any of this money back in the near future (Financial Express Bureau: 2013).

All the rules were bent to provide Adani with a power supply contract costing the state of Gujarat an excess Rs 23,625 crores over 25 years (Kumar: 2013), and other companies, including Reliance Industries and Essar Steel, were extended similar favours (Press Trust of India: 2013a). So when these companies praise Modi to the skies, support his candidature for PM, use the media they own to promote Modi and silence criticism of him (Vij: 2014), and put their aircraft at his disposal (Sinha: 2014), this is merely quid pro quo.

**RTI activists - Bane of the Gujarat government?**

Any objective definition of ‘corruption’ would include such activities. The scale of corruption in Gujarat is stupendous, and those who campaign against it have not fared well. With only 5% of India’s population, 22% of the murders and 20% of the assaults of RTI activists in recent years have occurred in Gujarat, which has only two RTI Commissioners compared to eight in Maharashtra and nine in Tamil Nadu (Pandey: 2013). The post of Lokayukta (corruption watchdog) was not filled for ten years since 2003. When the Governor and Chief Justice of the High Court selected Justice R. A. Mehta for the post in 2011, as they were
empowered to do according to the Gujarat Lokayukta Act, Modi fought tooth and nail against the appointment, reportedly spending Rs 45 crores to challenge it all the way up to the Supreme Court. Even after the Supreme Court had upheld the appointment, the state government refused to cooperate with Mehta, leading him to decline the position (Langa: 2013).

Subsequently the state government amended the Lokayukta Act to make it a toothless body under the control of the very government whose corruption it was supposed to monitor (Bavadam: 2013)! Apparently Modi learned a lesson from the fate of his friend Yedyurappa, former BJP Chief Minister of Karnataka, who was forced to resign due to corruption charges against him initiated by the Karnataka Lokayukta (Choudhury: 2011), and resolved never to give any Lokayukta the opportunity to do the same to him.

Gujarat’s marginalised voices - How do they fare?

The ordinary people of Gujarat have paid a heavy price for its economic growth. Gujarat has one of the highest poverty levels of all the Indian states. Huge swathes of land allocated to corporates have displaced lakhs of farmers, fishermen, pastoralists, agricultural workers, Dalits and Adivasis. During Modi’s tenure, 16,000 workers, farmers and farm labourers had committed suicide due to economic distress by 2011 (Mishra: 2011). Gujarat has the highest prevalence of hunger and lowest human development indices among states with comparable per capita income, its implementation of NREGA is the worst among large states, and Muslims, “in particular, fare poorly on parameters of poverty, hunger, education and vulnerability on security issues” (Shariff: 2011).

Refuting Modi’s claim that the high level of malnutrition in Gujarat is a consequence of vegetarianism and figure-consciousness, an eminent scholar has pointed out that the real reasons are extremely low wage rates, malfunctioning of nutrition schemes, lack of potable water supplies, and lack of sanitation: the state ranks 10th in the use of toilets, with more than 65% of households defecating in the open, with resulting high levels of jaundice, diarrhoea, malaria and other diseases (Hirway: 2012). Uncontrolled pollution has destroyed the livelihoods of farmers and fishermen, and subjected the local populations to skin diseases, asthma, TB, cancer and death (Gahilote: 2014).

Contrary to the myth that Gujarat is a powerhouse attracting large FDI inflows, in 2012-13 its share in FDI was a meagre 2.38%, ranked 6th, compared to Maharashtra’s 39.4% (Khanna: 2013). Most damning of all, for a state that purports to provide a template for the whole country’s economy, is the Modi government’s “lack of financial discipline. The Gujarat growth pattern relies on indebtedness. The state’s debt increased from Rs 45,301 crore in 2002 to Rs. 1,38,978 crore in 2013... In terms of per capita indebtedness, the situation is even more worrying, given the size of the state: each Gujarati carries a debt of Rs 23,163 if the population is taken to be 60 million” (Jaffrelot: 2013).
Gujarat - A model of unregulated neoliberalism

The Gujarat economic model is a more extreme version of neoliberalism than the version practised by the UPA, which retains elements of regulation and social welfare. This is clearly the reason why the majority of CEOs want him to be the PM. It bothers them that the policy of endless credit from public sector banks has come under scrutiny by the UPA, and billionaires like Sahara boss Subrata Roy can be arrested for robbing small investors of Rs 20,000 crores (Agencies: 2014b). They look forward to a Modi regime where they can continue to loot the public unhindered by regulations, where small concessions to working people like NREGA and the Food Security Act can be shelved, and the NDA’s old programme of scrapping protective labour legislation can finally be realised. Importers of gold and other luxury consumption goods can’t wait to have a PM who is clueless about technicalities like current account deficits and fiscal deficits and would allow the whole country to become as indebted as Gujarat is today (Press Trust of India: 2013c).

It is also instructive that the very same ratings agencies and investment banks indicted for making trillions by bringing down the US economy and causing a global crisis have been busy downgrading the UPA economy (Mail Today Bureaux: 2012) and batting for Modi (Moneycharts: 2013). All these firms, Indian and international, would be least bothered if the Indian economy were to crash; they would have parked their profits elsewhere by then.

Modi’s policies are exactly the same as those which destroyed the economy of the US, the richest country in the world, resulting in the global crisis: wholesale privatisation and deregulation, extreme disparities in wealth, and unsustainable indebtedness. And they would have the same results in India, such as massive job losses, and worse. The US dollar has maintained much of its value because it is a global reserve currency, and other countries buy it in order to maintain their currency reserves.

The Indian rupee is not a global reserve currency, and there is nothing to stop it from plummeting due to the rising deficits, leading to runaway inflation many times worse than India has ever experienced. Ironically, it is the same sections of the middle class who look to Modi as their saviour who would be hardest hit, because they have so much more to lose than the poor, who would also be hit.

BJP’s tryst with finance ministry - A brief history

Perhaps Modi would leave the economy to be handled by others in the BJP, but who is competent to do it? Yashwant Sinha, the finance minister during the NDA regime, does not exactly inspire confidence. “In 1990, Sinha was finance minister in the government of Chandrashekhar, when the bottom fell out of the Indian economy. The government’s policy response then was to ship all the gold in the Reserve Bank of India’s vaults off to the Bank of England as collateral for a loan... In 1998, by a peculiar coincidence, Sinha was again
finance minister, this time in the BJP-led NDA coalition government... In March 2001, soon after Sinha presented his Budget, India experienced one of its worst market crashes: about $32 billion worth of market capitalisation was wiped out that month... In the NDA era, a little less than $4 billion entered India each year on average. Under the UPA, this number stands at a little less than $25 billion, more than six times the NDA average" (Barman: 2013).

According to investment broker Shankar Sharma, “The BJP is the only mainstream political party that has no economist. And the BJP rule between 1999 and 2004 had the worst nominal GDP growth in the last 30 years in India, the worst by far. They ran the country into a huge debt trap. India’s debt to GDP ratio went from about 78 percent in 1999 to 91 percent by 2004. So again, whatever GDP growth the BJP delivered in those five years, the growth was with very high debt”.

At a time of downturn and global crisis, putting India’s economy in the hands of a party that has no competent economist is tantamount to economic suicide. In accordance with their-frog-in-the-well perspective, Modi and the BJP never mention the global crisis or inquire into its causes. Anyone who takes the trouble to do so would realise that the ‘medicine’ they prescribe for the economy, which is suffering from slow poisoning by neoliberalism, is a lethal dose of the same poison.

Do the Left parties and the Aam Aadmi Party offer viable alternatives?

The Left parties failed to deliver a better model of development during more than thirty years in power in West Bengal, culminating in the Nandigram and Singur violence (Banerjee: 2008). The Paschim Banga Khet Mazoor Samity had been demanding a rural employment guarantee scheme for decades, but the Left Front government refused even to consider it until National Rural Employment Guarantee Act was enacted by the UPA.

The lack of an alternative was demonstrated most starkly over the issue of Foreign Direct Investment (FDI) in multibrand retail, where they formed a united front with the NDA to oppose it (Kapoor: 2013) rather than thinking of anything more principled and imaginative like forming consumer cooperatives which draw in street vendors. The failure of the Left parties to offer any economic alternative is particularly disappointing because they do have a critique of neoliberalism, and can at least be counted on to oppose the wholesale privatisation and deregulation of the economy or attempts to scrap protective labour legislation and welfare schemes.

AAP has a one-point economic programme: eliminating corruption. Their Jan Lokpal Bill, through which they hope to achieve this, sees all corruption as emanating from the state, and affecting only corporates that have a relationship with the state: a view entirely compatible with neoliberal World Bank anti-corruption programmes (Ghose: 2011). Its economic model is neoliberalism purged of corruption and “crony capitalism”. This comes through in their recent speeches. Privatisation is good, because “Government has no
business doing business, it only has to govern. Business should all be held by the private sector,” according to Arvind Kejriwal, who made a point of saying that the party disagreed with the economic views of Prashant Bhushan, the left-wing face of AAP (Ghosh: 2014).

AAP objects to industrialists like the Ambanis getting favoured treatment, but former banker Meera Sanyal clarified that they want to create the conditions in which all “hard working entrepreneurial, highly innovative people can feed themselves and their families”, suggesting that the state would help all capitalists equally Venkatesh and Shenoy: 2014). Yogendra Yadav said that “Food subsidies should not be provided,” and that the party stands for “clean politics, pro-business deregulation, non-interference of the state and not to serve the interests of crony capitalists” (Chadha: 2014).

This economic model is as neoliberal as Modi’s and more neoliberal than the UPA model, which still has elements of regulation and social justice. It offers nothing to workers and the poor, and would do nothing to reduce inequality. With their exclusive focus on an extremely narrow definition of corruption, AAP ignores the underlying disease of which it is a symptom - extreme inequality resulting from neoliberalism – and their policies would in fact exacerbate the basic problem.

In theory, their model would be free of ‘crony capitalism’, but whether AAP can actually eliminate corruption is questionable, given that much of the corruption during the UPA regime has been the consequence of pro-business deregulation. Finally, their government’s grant of electricity subsidies to supporters who had not paid their bills but not to non-supporters who had paid their bills (subsequently stayed by the High Court) (Agencies: 2014a) sounds suspiciously like quid pro quo: you vote for us, we give you subsidies.

**Conclusion**

For years the BJP, Modi, the corporates which support him and the media they control have bombarded us relentlessly with propaganda and lies about the mess that the UPA has made of the economy and the shining success of ‘vibrant Gujarat’. In reality, we find that the UPA regime suffers from the same problems as other neoliberal regimes and has done better than most, while Modi’s policies would have catastrophic consequences for the Indian economy.

AAP’s policies would not be much better: they would benefit a wider layer of entrepreneurs - say 3-5% of the population compared with Modi’s 0.1% - but scrapping food subsidies would make the poor poorer, so inequality would be greater than under the UPA. The UPA and Left parties seem to be the best of a bad lot so far as economic policy is concerned.

Does this mean that there is no better alternative to current policies? Far from it. Perhaps before the next Lok Sabha elections we will have a party opposing sops and subsidies to the rich, loss of lives and livelihoods due to expensive, dangerous and polluting nuclear power plants and weapons, the privatisation of public utilities, education and health care, and
much more.

A party which would stand for reducing inequality through (1) raising wages by protecting the right of all employees, regardless of their place of work or employment status, to unionise and bargain collectively without fear of victimisation; (2) putting in place a comprehensive system of progressive taxation to help fund the provision of education, health care and social security for all; and (3) creating employment through various measures such as (a) shortening statutory working hours to 40 per week and enforcing this measure; (b) expanding NREGA and including new projects such as water harvesting and rural electrification through small renewable energy projects; and (c) supporting the formation of workers’ cooperatives in agriculture, industry and services. Until then, mass movements have to continue fighting for such goals.

Those who think these goals belong to an obsolete left-wing economic model would do well to listen to Christine Lagarde: “Let me be frank: in the past, economists have underestimated the importance of inequality. They have focused on economic growth, on the size of the pie rather than its distribution. Today, we are more keenly aware of the damage done by inequality. Put simply, a severely skewed income distribution harms the pace and sustainability of growth over the longer term. It leads to an economy of exclusion, and a wasteland of discarded potential” (Lagarde: 2014).

These are not the words of a left-winger but of the head of the International Monetary Fund, the financial institution which, along with the World Bank, has done the most to impose neoliberal policies on the world. If she can see the writing on the wall for neoliberalism, it is high time that policy-makers and the public in India followed suit.

References:


