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India's Modi and the Market

India's opposition candidate can do more to signal his commitment to fixing the economy.

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Can Narendra Modi revive India's economy? In some ways, this is the central question Indian voters face when the country goes to the polls next summer. Yet as with most anything that concerns the Gujarat chief minister and opposition Bharatiya Janata Party prime ministerial candidate, opinion in the country is sharply divided.

Mr. Modi's supporters say that only he can reverse a slump that has seen GDP growth drop to an estimated 3.2% last year, its lowest since India began liberalizing its economy in 1991. In a much-cited report this month that raised India to "marketweight," Goldman Sachs referred approvingly to Mr. Modi as "an agent of change."

The skeptics put the case rather differently. Mr. Modi may have run Gujarat like clockwork, goes their argument, but you can't really compare administering a relatively homogenous state where he holds a nearly two-thirds legislative majority with managing a fractious coalition in New Delhi. In short, in Gujarat Mr. Modi's word may be law. But can he realistically expect to run an unwieldy national coalition the same way?

Moreover, Mr. Modi's party, the BJP, suffers from a kind of economic schizophrenia. When in power from 1998 to 2004, it ran a boldly reformist government that opened telecom and insurance to private firms, made greater headway privatizing loss-making state-owned enterprises than any government before or since, and legislated fiscal responsibility.

In opposition, however, the BJP has mysteriously transmogrified into the B-team of the ruling Congress Party. BJP leaders have praised an expensive make-work program that promises unproductive jobs to rural workers. The party's main criticism of a profligate food security bill that seeks to provide subsidized food grains to a whopping 800 million people has been to claim that it doesn't go far enough.

And despite its reputation for business-friendliness, the party has backed a land acquisition law that has the potential to gut Indian industrialization by making it excessively complicated for private firms to acquire land. In election mode over the past several months, Mr. Modi has largely dodged these issues. Apparently he fears giving his opponents a chance to paint him as a heartless corporate stooge out of touch with the country's toiling masses.

This failure to fight the good fight on principle disappoints free market purists who expect Mr. Modi to spout Friedrich Hayek and mimic Margaret Thatcher. They tend to forget that the Gujarat chief minister is trying to be elected prime minister of a country steeped in socialist dogma, not president of a libertarian debating society.

Against this backdrop, Mr. Modi's economic record is hardly shabby. After he took over the reins of Gujarat in late 2001, the state averaged double-digit growth for a decade, no small feat for what was already one of India's more prosperous states. Gujarat also boasts among the lowest unemployment rates for any industrialized state. The Cato Institute ranks the state India's most business-friendly. And in September, a Nielsen poll of 100 CEOs found a whopping three-fourths wanted Mr. Modi to lead India.

In terms of messaging too, Mr. Modi stands out from his peers. He has popularized the slogan "maximum governance, minimum government," and has flatly declared that the government has no business being in business. To an American or an Englishman, steeped in cultures with a long history of free markets, this may seem like small beer. In India, these statements border on the revolutionary.

Finally, it's a question of whose judgment you trust. Are business owners better judges than pundits on who is best for the Indian economy? You can't simply dismiss the argument that Mr. Modi won't be able to do for India what he did for Gujarat. But the business community, both domestic and foreign, is betting that he'll find a way to translate a firm grasp on economic administration onto a bigger stage.

Nonetheless, candidate Modi can do more to quiet the skeptics. A policy speech that squarely attacks the costly entitlement-heavy policies of the past nine years would be more than welcome. A clear indication that Mr. Modi would pick a market liberal as finance minister, rather than someone from his party's traditionalist wing, would also help.

To be sure, at this point nobody can predict whether Mr. Modi will become prime minister, much less which policies he might follow, with certainty. But even a casual observer can see that Gujarat's standout economic performance is at the heart of Mr. Modi's partly successful effort to distance himself from anti-Muslim riots that took place on his watch in 2002. On balance the chief minister's record and public pronouncements suggest that, when it comes to economic administration, it's not unreasonable to keep our expectations of him high.

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