John R. Schmidt

Has India Peaked?

Has India peaked? This may seem like a strange question given the strong economic growth the country has experienced since it liberalized its economy in 1991. Together with China, India is widely regarded as the greatest global economic success story of the past quarter century, with growth rates typically ranging between 5 and 10 percent.[1] Although its growth rate has declined recently to less than 5 percent due in part to the global economic downturn, the landslide victory of the strongly pro-business BJP (for Bharatiya Janata Party, or Indian People's Party) in the spring 2014 elections has convinced many that it will begin trending up again in the near future.

Compared to China and other successful late-developing countries such as South Korea and Taiwan, however, the Indian economic miracle has been almost completely anomalous. China and others have built their success on rapid industrialization, taking advantage of relatively cheap labor to build factories that make things that rich Westerners want to buy. This labor-intensive growth has provided gainful employment for over a hundred million people in China alone, and spawned a massive service economy, employing tens of millions more, to cater to their needs. As a direct result, the great majority of the populations of these countries have been lifted out of poverty. South Korea and Taiwan have become developed economies, while China has blossomed into a global economic powerhouse that may soon be second to none.

India, by contrast, has taken a different route. The information technology (IT) sector has almost completely led Indian growth, epitomized by software

John R. Schmidt is an adjunct professor at the Elliott School of International Affairs at The George Washington University, where he teaches graduate and undergraduate courses on South Asia. He served in senior positions at the State Department and National Security Council during a 30-year career in the U.S. Foreign Service, specializing in NATO and Balkan affairs in addition to South Asia. He is the author of *The Unraveling: Pakistan in the Age of Jihad*, an analytical history of Pakistan's involvement with radical Islam.

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developers and computer call centers that employ relatively few individuals. Although the IT sector has spawned a large service economy of its own to cater to the needs of these fortunate few, the great majority of the rural population—and their urban slum-dwelling counterparts—remain enmeshed in poverty, relatively untouched by the largesse. The primary reason for this state of affairs is the existence of restrictive labor laws that prevent Indian companies from laying off or firing workers in response to changing market conditions. This has discouraged Indian entrepreneurs and potential foreign investors from funneling their money into the development of large-scale labor-intensive industries.

The Indian economic miracle, led by its IT sector, has been almost completely anomalous.

Unless these laws can somehow be done away with, it is difficult to see how India will ever succeed in lifting the majority of its population out of poverty. Yet, for reasons having to do with both history and ideology, there is no groundswell of support in India for changing these laws. As we shall see, the opposition to doing so is spearheaded by those who should be most sympathetic to the plight of the poor. This includes the traditional political left as well as the lower-caste political parties that have sprung up in the Hindi belt over the past three decades and who purport to represent the interests of the traditional "have-nots" of Indian society.

Due to the increasing fragmentation of the Indian political system since the mid-1980s, reflected in the emergence of these lower-caste parties in tandem with small regional parties organized along ethno-linguistic lines, these forces have enjoyed an effective veto over labor law reform. The two major national parties, Congress and the BJP, were unable to command a majority of the Indian electorate in their own right, and were forced to rely on coalition support from these smaller parties, whose political modus operandi is to hold national politics hostage to their parochial self-interests. This not only cast a cloud over prospects for bettering the lot of the Indian poor, but raised questions about how governable India was likely to be in the future, particularly if the centrifugal forces that gave rise to these parties continued to intensify.

Restrictive labor laws prevent Indian companies from laying off or firing workers.

The stunning BJP victory in the spring 2014 elections—in which it did even better than expected and captured an absolute majority of seats in the Lok Sabha, or the lower house of the Indian Parliament—has dramatically undercut this trend and opened up a whole new universe of possibilities. True to its pro-business pedigree, the

BJP championed labor law reform during its previous stint in power (1998–2004) but abandoned it in the face of strong left-wing and lower-caste party opposition. Although the issue played no role in the recent electoral campaign, the key question now is whether Modi will decide to take advantage of his unassailable majority in the Lok Sabha to resurrect it. His decision will determine whether the overwhelming majority of his countrymen who were bypassed by the Indian economic miracle will be able to share in the fruits of its renewal or will remain, for the foreseeable future, on the outside looking in.

The Hindu Rate of Growth

For the first 40 years of its existence, India was an economic basket case. Jawaharlal Nehru, the first leader of the new nation, was a great admirer of Soviet-style central planning, believing that capitalist economies were inherently exploitative with a rapacious few becoming wealthy at the expense of ordinary people. Having risen to maturity under British colonial masters, he was bound and determined to have India go it alone, free from dependence on foreigners. For Nehru, this meant constructing an economy based on import substitution, where the emphasis would be on producing domestically as many goods and services as possible. He discouraged foreign investment for the same reason. Business activities and entrepreneurship were tightly regulated by what became known as the "License Raj"—an intricate system of permissions and other assorted red tape required to open up businesses in India. And although the Indian government did not guarantee its citizens jobs, the Industrial Disputes Act (IDA) of 1947 made it almost impossible for employers to fire anyone who actually succeeded in landing a job.

The result was a monumentally inefficient economy that produced decades of painfully slow economic growth, averaging approximately 3.5 percent a year, which came to be known derisively as the "Hindu rate of growth." Given the strong hold of Third World socialism on the Indian imagination, this situation might have persisted indefinitely. But there was a fatal flaw in trying to organize an economy such as India's around import substitution: India, ironically, remained highly dependent on imports. In addition to food, which was frequently in short supply, it was forced to import raw materials such as petroleum to fuel what economic activity did exist. But because economic policy was single-mindedly geared toward producing for the domestic rather than the export market, India had great difficulty in earning the foreign exchange it needed to pay for its imports. This forced it to borrow money, which over time drove it ever more deeply into debt.

Despite some modest liberalization during the 1980s, which briefly drove up growth rates,[2] this unhappy state of affairs finally culminated in the shock of 1991, when shortages stemming from the Gulf War caused petroleum prices to skyrocket. India simply did not have the foreign exchange reserves it needed to pay the higher prices, while at the same time continuing to service its massive and ever growing debt.[3]

India's "Economic Miracle"

Faced with imminent default, the Congress government in power at the time felt obliged to seek an emergency loan from the IMF. As part of the *quid pro quo*, India agreed to liberalize its economy by opening up the country to foreign investment and doing away with the most onerous requirements of the License Raj. The impact was both sudden and substantial. The economy began to pick up, and within three years was expanding at a rate of over 6 percent annually, eventually reaching more than 9 percent by the middle of the last decade, where it has remained until recently. India began to be mentioned in the same breath with China as one of the world's two most successful late-developing economies and, by some accounts, a budding future superpower. But there was a big difference.

In a country of 1.2 billion people, comparable in population size to China, India has less than 10 million people working in labor-intensive manufacturing industries.[4] The number of Chinese working in such enterprises, by contrast, is more than 100 million.[5] Indian economic growth in the wake of the 1991 liberalization was led not by manufacturing, but almost exclusively by growth in the information technology (IT) sector. Freed from the shackles of the License Raj, Western computer manufacturers and software developers began investing heavily in the Indian computer software industry. They took advantage of a large pool of highly-skilled English-speaking software engineers, whose services could be obtained for only a tiny fraction of the salaries commanded by their Western counterparts. They were available in substantial numbers due to what is arguably the only positive economic innovation that Nehru ever implemented: the creation of the five original Indian Institutes of Technology (IIT), which began turning out skilled engineers during the 1950s.[6] Many of them were underemployed during the long decades of the Hindu rate of growth and ended up going abroad to market their skills (more than 25 thousand emigrated to the United States alone).[7] But the IIT graduates who remained behind were ready and waiting when the economy finally did open up in 1991.

We are not talking about a lot of people, however. The number of Indians working in the IT sector has never exceeded one million.[8] Nonetheless, as was also the case in China, their efforts have produced a ripple effect within the

Indian economy as a whole, with retail and other service enterprises emerging to cater to the needs of this IT nouveau riche. This has succeeded in lifting tens of millions of people out of poverty. According to the Asian Development Bank (ADB), an estimated 25 percent of the Indian population now enjoys middle-class status.[9]

But this performance needs to be put into perspective. Eighty percent of those Indians deemed by the ADB to belong to the middle class fall into its lowest income bracket, earning only between $2 and $4 a day. This is not very far above the $1.25 a day that the World Bank uses as its benchmark for determining who is living in poverty. According to this criterion, almost a third of the Indian population (32.7 percent) can currently be considered poor. World Bank statistics reveal that an additional 36.1 percent only earn between $1.25 and $2 a day. This means that 68.8 percent of the Indian population, or approximately 800 million people, survive on less than $2 a day. Adding in the ADB middle-class statistics cited above reveals that more than one billion Indians, or over 90 percent of the population, continue to live on less than $4 a day.

More than one billion Indians (over 90 percent of the population) still live on less than $4 a day.

Contrast this with China, where only 11.8 percent of the population (compared to 32.7 in India) earns less than $1.25 a day, only 27.2 percent (compared to 68.8%) earn under $2 a day, and 58 percent (compared to over 90%) earn less than $4 a day. Although China is hardly a developed economy, it is far better off than India. This is also reflected in their respective per capita GNP levels. Chinese per capita GNP currently stands at just over $6,000. The Indian level, by comparison, is a relatively meager $1,489, only a little over two hundred dollars a year higher than that of Pakistan, its economic basket-case neighbor to the west.[10] The bottom line here is that, although India has enjoyed significant growth since it liberalized its economy in 1991, and has no doubt lifted tens of millions of Indians out of poverty, it has not come close to matching the Chinese achievement. This should not be surprising given that the efforts of less than one million skilled IT workers have driven Indian growth, rather than the more than 100 million factory workers who have propelled China up the economic ladder.

Restrictive Labor Laws

So, why is it that India has followed this IT-driven growth pattern rather than follow in the footsteps of China, and virtually every developed economy on the planet, in pursuing labor-intensive growth? After all, India has a population roughly equivalent in size to that of China and, therefore, possesses an enormous pool of potential factory workers whose services could be obtained for what, in global terms, would amount to a pittance. The primary reason is the existence of restrictive labor laws that make it virtually impossible for employers to lay off, or fire, workers in response to changing market conditions. These laws were untouched by the reforms of 1991.

Under the Industrial Disputes Act (IDA) of 1947, as amended in 1982, it is illegal for any industrial enterprise with more than 100 workers to lay off, or fire, any employee without getting permission from the government. Because of the constraints built into the Act, which are heavily weighted in favor of worker rights, the government bureaucracy that administers it rarely grants such permission.[11] The literature is full of horror stories about employers who ended up having to spend years and considerable resources just to get rid of a single bad employee.[12] As a result, any businessman considering starting up a large-scale industrial enterprise in India, or expanding an existing one beyond 100 employees, must be prepared to treat labor as a sunk cost.

Not surprisingly, most potential investors in the manufacturing sector are unprepared to go down this road. Those that do, or who already employ more than 100 workers, try to get by with workarounds. One of the most common is the use of contract labor, which is exempt from the IDA. Contract employees are hired on a temporary basis, generally paid less, and can be laid off when their services are no longer required. Their availability, however, is itself constrained by legislation. In practice, contract workers can only be hired to supplement an existing full-time, fully protected industrial workforce, and even then, individual Indian states have the ability to ban them from certain sectors altogether. Where contract labor is employed, it frequently becomes a source of friction between full-time employees, who enjoy full IDA protection, and their less fortunate colleagues. It is a workaround for businesses in a tight spot, not a panacea.[13]

Another common workaround is automation, replacing live workers with machines to the maximum extent possible. This is how the giant Tata Group steel mill in Jamshedpur succeeded in reducing its workforce from 85,000 in 1991 to 44,000 in 2005.[14] This kind of workaround is, in fact, symptomatic of the overall capital-intensive approach to economic development that has dominated the Indian economy since 1991. The IT sector has driven the Indian economic miracle not simply because Nehru did something right in establishing the Indian Institutes of Technology, but because of its relatively small size and capital-intensive nature.

Opposition to Labor Law Reform

Although restrictive labor laws explain why the IT sector has driven Indian economic growth since 1991, it does not explain why India continues to maintain such outdated legislation. After all, while the Indian economic miracle may have lifted tens of millions of Indian people into the middle class, it has left more than a billion of them on the outside looking in, living on less than $4 a day, with more than two-thirds on less than $2. Surely, the people of India would be immeasurably better off today if 100 million more of them had been able to find jobs in the manufacturing sector, as in China.

A large part of the reason goes back to the socialist roots of the state. We have already seen how deeply the Soviet model influenced Nehru, with its emphasis on central planning and import substitution. But unlike the Soviets, he was unwilling to fully nationalize the means of production, and therefore was not in a position to guarantee Indian workers a job. Instead, the IDA succeeded in guaranteeing that those workers lucky enough to find jobs could look forward to keeping them for the rest of their working lives, no matter what.

This socialist strain in the Indian approach toward business and labor, however, has been slow in dying. Although many of the worst aspects of the License Raj were swept aside during the balance of payments crisis of 1991, nothing of similar magnitude has occurred with respect to the restrictive provisions of the IDA. One obvious reason for this is that, ironically, the substantial IT-led growth that has taken place since 1991 has tended to dampen any sense of urgency that might have developed in favor of labor law reform.

Many Indians, particularly from the upper castes, also have a romanticized attraction to “village India”, which would disappear in the face of massive industrialization. This includes the small-scale “mom-and-pop” manufacturing and retail establishments that are its economic cornerstones. Gandhi, of course, was the most famous champion of village India. He wanted to retain the village as the centerpiece of Indian social, economic, and political life in the apparent belief that it was somehow ennobling for people to live on less than $2 a day.[15] Even today, there is strong sentiment in India against buying up village land to make way for industrial enterprises.[16]

Some economists have even argued that labor law restrictions are not responsible for the failure to move in the direction of labor-intensive industrialization. They say the real culprit is the admittedly deplorable state of infrastructure in India, particularly in the energy and transportation sectors.[17] Indians still have vivid memories of the July 30-31 power blackouts in 2012, the largest in world history, which affected half of the Indian population. And anyone who has driven on Indian roads can testify to the chronic difficulty in transporting goods of any kind to market. But these are the kinds of problems that affect all developing economies. The way things work in the real world is that industrialization and infrastructure improvements typically go hand-in-hand. If anything, the failure of India to move toward labor-intensive growth has retarded efforts to improve the country's infrastructure by once again removing the sense of urgency.

Other economists have pointed to business confidence surveys, which rarely cite restrictions on laying off or firing workers as a problem. In response, Jagdish Bhagwati and Arind Panagariya have pointed out that most of the businessmen surveyed operate in either the service sector or capital-intensive enterprises, where labor law restrictions are not a major problem. Once again, this is more a consequence of the fact that India has failed to pursue labor-intensive growth than evidence that labor laws have not played a major role.[18] At the end of the day, in order to believe all these skeptics, you have to be willing to believe it is simply an amazing coincidence that India has the most restrictive labor laws on the planet and also happens to be the only late-developing country that has failed to pursue labor-intensive growth.

Not surprisingly, the strongest opposition to reforming India's labor laws comes from the political left, dominated by the trade union movement, and the Left Front, a grouping of political parties led by the Communist Party of India-Marxist or CPI(M). These parties oppose any effort to water down the job security guarantees contained in the IDA, even though they currently protect fewer than 10 million industrial workers.[19] They would, presumably, be happy to see these ranks grow to the levels seen in China, but not through capitalist expansion, which they regard as inherently exploitative. The solution favored by the CPI(M) would be to nationalize the means of production, which is what Nehru failed to do. The fact that this led to less than desirable outcomes in places like the Soviet Union appears not to deter them.

Although the CPI(M) is a force to reckon with in states like West Bengal and Kerala, it has no hope of dominating the national political stage. The Left Front held only 24 seats in the outgoing 543-seat Lok Sabha and has only 10 in the new one. On the other hand, it did manage to win 60 seats in the 2004 elections. This gave it real influence over policy, since the plurality achieved by the victorious Congress-led coalition was so narrow, it felt the need to rely on Left Front support for much of its term in office. Needless to say, there was little prospect of significant labor law reform during this period.

But the traditional political left is not the only force in Indian politics opposed to labor law reform. Over the past two decades, a series of so-called lower-caste parties have sprung up in India, primarily in the massive Hindi belt in the north, an area that also happens to be the poorest and most backward part of the country. These parties are inherently socialist in political orientation and ostensibly represent the interests of the historically most underprivileged groups in Indian society. Uttar Pradesh, by far the most populous Indian state, is dominated by two such parties, the BSP (which claims to speak for the Dalit or untouchable community) and the rival Samajwadi party (whose constituency is drawn from the so-called Other Backward Classes, an amalgam of lower-caste and Muslim groups). Politics in Bihar, the poorest and third-most-populous Indian state, has also been dominated by two primarily lower-caste parties—the Janata Dal (United) and its main rival, the Rashtriya Janata Dal. Together, these four parties held down 68 seats in the previous Lok Sabha. At one time or another, the Congress-led government that was elected in 2009 had to rely on support from at least three of them to maintain its majority in parliament.[20]

This affected prospects for labor law reform because these parties see their primary task as obtaining patronage for their supporters in the form of government jobs, which can be delivered through political patronage.[21] When it comes time to form national coalition governments, these parties typically offer support to one of the two national parties, Congress or the BJP, in return for promises that their members will obtain special access to such jobs. When the parties are in power at the state level, as the Samajwadi and Janata Dal (United) parties currently are, they can offer this patronage more directly. The jobs on offer may be low-paying, but they typically require little effort on the part of those who fill them.

In his highly perceptive book on modern India, *In Spite of the Gods*, Edward Luce gives an example of where this can lead. He notes that the highway department in Uttar Pradesh employs one worker for every mile-and-a-half of road, one of the highest ratios in the world, yet it has one of the most poorly maintained road systems in India.[22] Even more importantly, thanks to the restrictions on laying off and firing workers enshrined in Indian labor laws, such jobs are secure for life. Since their ability to obtain them for their supporters is their primary selling point, these lower-caste parties oppose labor law reform even though their fellow caste members would undoubtedly be the primary beneficiaries.

Up until the 2014 elections, this Left Front and lower-caste party opposition to labor law reform has proved dispositive. During their respective periods in office, neither Congress nor the BJP have been willing to risk their hold on power by making labor law reform a major issue. Although former prime minister Manmohan Singh periodically spoke out in favor of reform, as a patronage-based party with both socialist and Gandhian roots, Congress has always felt more comfortable relying on subsidies and make-work social welfare schemes (such as offering to pay struggling farmers to dig ditches) to address the plight of India's poor. The BJP, by contrast, has long marketed itself as the party of business, and the Vajpayee government in power from 1998 to 2004 came out in favor of labor law reform. But given its own dependence at the time on lower-caste party support to maintain its parliamentary majority, it did not try to push the issue forward. Even during the 2014 election campaign, the party declined to stick its head above the parapet on the issue. It barely rated a mention in the BJP's election manifesto, which pledged only to "bring together all stakeholders to review our Labour laws which are outdated, complicated and even contradictory."[23]

The basic problem that both Congress and the BJP have faced in contemplating labor law reform is that neither party has been able to command a majority in the Lok Sabha on their own. Prior to this year, the last party to do so was Congress, which overwhelmingly won the 1984 elections held in the wake of the assassination of Indira Gandhi. The years that followed saw the balance of power at the national level pass from their hands into those of much smaller regional parties, some of whom, as we have seen, are organized around lower-caste identities and located primarily in the Hindi belt. Other regional parties scattered across the country are ethno-linguistic in composition and associated with the majority population in particular states, particularly in the south. Together with the Left Front, these regional parties actually commanded a majority of the electorate during the 2004 and 2009 Lok Sabha elections.

Since 1991, neither Congress nor the BJP has had a majority in the Lok Sabha…until now.

Now, thanks to the 2014 Lok Sabha elections, all this has changed. The BJP emerged from the election with an absolute majority, capturing 282 out of the 543 seats on offer. The defeated Congress party, on the other hand, only managed to win 44 seats, by far its lowest total ever. Although the BJP had been expected to win, no one foresaw the magnitude of the victory, which at least for now appears to have reversed the long-running fragmentation of Indian politics. There is also no sugar-coating the fact that 2014 represented a decisive rejection of Congress by Indian voters. During its most recent five-year term in office, it had suffered through one embarrassing political corruption scandal after another, while its tenure coincided with the recent downturn in the Indian economy. The party increasingly emerged in popular imagination as a rudderless ship totally lacking in dynamism. This was mirrored by the performance of Rahul Gandhi, the heir to the Nehru–Gandhi political dynasty, who spearheaded the Congress election campaign while demonstrating little appetite, and even less aptitude, for the political arena.

The BJP, meanwhile, was led by the controversial but charismatic Narendra Modi, whose personal dynamism and "can do" political optimism contrasted sharply with that of his feckless younger rival. Well aware that he was regarded as an extremist in a party whose own Hindu nationalist ancestors borrowed heavily from Italian fascism, he tacked vigorously toward the political center during the election campaign and promised to represent the interests of all Indians, Hindu and Muslim alike. He also confined himself to economic generalities, promising to foster job growth by investing in badly needed infrastructure improvements and encouraging foreign investment.

In one of its few concrete commitments, however, the party manifesto reaffirmed the BJP pledge to roll back or at least modify a decision taken by the defeated Congress government to permit foreign multi-brand retailers such as Walmart to penetrate the Indian market.[24] This commitment was aimed at protecting the small-scale "mom and pop" shopkeepers who currently dominate the retail market in India and who are a mainstay of the village India romanticized by so many of the upper-caste Hindus, who constitute the hard core of BJP support.

Has India Peaked?

So to return to the question: has India peaked? The answer is that it all depends. Over the next five years, it depends more specifically on what the new BJP government will decide to do. Although India is currently suffering from the effects of the global economic recession, a World Bank report from last year asserted that "given favorable demographics, rising educational attainments, and high rates of capital accumulation" Indian growth could once again exceed 8 percent a year.[25] But the key question here is whether any future growth in the Indian economy will provide jobs and promote increased living standards for the one billion Indians who are still living on less than $4 a day.

An *Economist* piece that came out about the same time as the World Bank report indicated that 2005 to 2010 saw no net increase in jobs in India.[26] Yet this was during a period when the economy was growing at an annual rate of 9 percent. Once the global recession has run its course, the IT sector may well lead the country through another upsurge in economic growth. But what good will it be if it only serves to make the "haves" of Indian society that much richer, while leaving more than two-thirds of the Indian people living on under $2 a day? And even here there are reasons for concern. With domestic IT wages rising and increasing competition from countries such as the Philippines, the Indian IT sector has already lost 10 percent of its global market share during the past 5 years.[27]

Unable or unwilling to pursue labor law reform, the defeated Congress government tried to lessen the burden of poverty by establishing the National Rural Employment Guarantee Act (NREGA). First passed in 2005, this is a program involving make-work activities which guarantees 100 hours of paid employment a year to rural families who volunteer for the program. But it has not caught on in states such as Uttar Pradesh where it could do the most good, and has been highly susceptible to corruption, as local administrators have proven highly adapt at skimming money off the top.[28] Last year, the government followed up with the National Food Security Bill, aimed at providing subsidized food grains to two-thirds of the Indian population,[29] a percentage which coincides with the percentage of the population living under $2 a day. This program is also highly susceptible to corruption, and like the NREGA constitutes a substantial drain on the public exchequer. Both programs represented a tacit admission by the Congress government that the Indian economic miracle had not improved the lives of the great mass of rural and urban poor. They were attempts to ameliorate the impact of poverty, not lift people out of it.

It is an open question how much longer this situation can persist. Much of eastern India, extending from Bihar in the north to Andhra Pradesh in the south, has already fallen victim to an ongoing Maoist insurgency known as the Naxalite rebellion, whose cadres, recruited from the disaffected rural poor, are estimated to involve up to 20,000 armed fighters and an additional 50,000 supporters.[30] It is more of a nuisance now than an imminent threat to the state, although Manmohan Singh once referred to it as the "biggest internal security challenge" India has ever faced.[31] There are no signs yet that the Naxalite movement may be evolving into something much larger and more threatening, but the possibility cannot be excluded if the rich continue to get richer without the benefits of economic growth filtering down to the people who really need it.

It is against this backdrop that the new BJP government has taken office. Given its absolute majority in the Lok Sabha, it is in an unprecedented position to enact fundamental change. More specifically, it is the first government since the economy was liberalized in 1991 in a realistic position to pursue serious labor law reform. This is not to say there would not be opposition. The trades unions will strike and the Left Front and lower-caste parties will howl, but for the first time in a quarter century, these forces lack the strength in the Lok Sabha to prevent it from happening.

Even though the new government has signaled that it intends to honor its election manifesto pledge to begin discussing labor law reform with Indian stakeholders,[32] it is of course possible, and some would say likely, that Narendra Modi will decide not to go down this road. Even though he has the votes, he and his senior BJP colleagues may decide labor reform would generate too much opposition within the body politic. Whatever the Congress party might think about the merits of the issue, it would be almost certain to jump on the opposition bandwagon in an effort to get back in the political game. Resistance may also exist within the BJP itself due to the perceived impact that labor law reform would have on traditional village India. As a result, the BJP may decide to stick to the much more modest framework laid out in its election manifesto, investing in infrastructure, further easing restrictions on foreign investment (except in the multi-brand retail sector), and promoting tourism. This is the line he appeared to take in his meeting with prominent business CEO's in New York on September 30 during his official visit to the United States.[33] While this may help stimulate the economy in the short run and may even create new jobs for some, it is hard to see how it could make a significant dent in the proportion of Indians living on less than $4 a day, much less the many hundreds of millions who continue to eke out a living on far less.

Since the massive BJP victory in the 2014 elections may well prove to be an aberration in the long-term fragmentation of Indian politics, the current government could represent the last best chance that India will ever have to enact labor law reform and pursue labor-intensive growth. If it fails to seize the moment, then India very well could have already peaked. It could perhaps even lose ground over time, if its share of the global IT sector continues to decline. India would be left a two-tier economic state, consisting of a relatively small privileged English-educated elite, presiding over a great mass of rural and urban poor.

If India fails to seize the moment, it very well could have already peaked.

On the other hand, if India does succeed in doing away with its restrictive labor laws while taking appropriate steps to upgrade its energy and transportation infrastructure, then the sky is probably the limit. Given its reservoir of hundreds of millions of untapped or underproductive workers, whose labor can be purchased for what in global terms is next to nothing, it should be able to supplant China as the most dynamic late developing economy in the world, with growth rates to match.

On the other hand, India could supplant China as the most dynamic economy in the world.

Are you listening, Prime Minister Modi?

Notes

1. See "GDP per capita growth (annual %)," World Bank, http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG. Although there were occasional dips in the growth rate the overall trend has been upward until recently.

2. For a discussion of reforms during the 1980s, see Arvind Panagariya, "India in the 1980s and 1990s: A Triumph of Reforms," IMF Working Paper, March 1, 2004, http://www.imf.org/external/pubs/cat/longres.aspx?sk=17129.0.
3. For an example of reporting at the time, see Bernard Weinraub, "Economic Crisis Forcing Once Self-Reliant India to Seek Aid, *The New York Times*, June 29, 1991. Available online at http://www.nytimes.com/1991/06/29/world/economic-crisis-forcing-once-self-reliant-india-to-seek-aid.html [JS: Done website address?]
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5. "The Next China," *The Economist*, July 29, 2010, http://www.economist.com/node/16693397.
6. Luce, *op. cit.*, p. 31.
7. Thomas Friedman, *The World is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus and Giroux, 2006), pp. 104–105.
8. Luce, *Op. cit.*, p. 48.
9. Sambuddha Mitra Mustafi, "India's Middle Class: Growth Engine or Loose Wheel?" *The New York Times*, May 13, 2013, http://india.blogs.nytimes.com/2013/05/13/indias-middle-class-growth-engine-or-loose-wheel/.
10. "GDP per capita (current US$)," World Bank, http://data.worldbank.org/indicator/NY.GDP.PCAP.CD.
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