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In India, Election Season Is Never Over

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The Bharatiya Janata Party’s (BJP) historic victory in the spring 2014 Lok Sabha¹ election was a tremendous accomplishment—yet it still leaves the party with impartial control, at best. Weakness in the Rajya Sabha,² where the BJP only holds 43 out of 243 seats, may limit the party’s ability to enact legislative reforms. And the fact that the BJP only controls 5 of India’s 29 states will also blunt the impact of any policy measures adopted at the center. In order to enact a true economic transformation, the BJP will either need the support of a wide range of unaligned parties—which would be a historical abnormality—or to consolidate its power at the state level by winning upcoming state elections. With the BJP’s powerful show of force across India in the Lok Sabha election, winning state elections appears to be a viable path.

Between now and the end of 2016, 10 states will hold elections. The BJP is not the incumbent in any of these states. However, in the recent Lok Sabha elections, the BJP and National Democratic Alliance (NDA) allies won at least 50 percent of the seats in six of these states. So the BJP appears poised to do well in these state elections if they can maintain momentum. But “momentum” will mean different things to different people.

States with Elections in the Next Three Years

| State | Party in Power | Expiration | BJP Seats in 2014 Lok Sabha |
|-------------|---------------------|------------|-----------------------------|
| Haryana | Congress | 10/27/14 | 7 of 10 |
| Maharashtra | Congress | 12/7/14 | 23 of 48 |
| Jharkhand | JMM- Congress | 1/3/15 | 12 of 14 |
| J&K | J&K Nat’l Conf. | 1/19/15 | 3 of 6 |
| Bihar | Janata Dal (United) | 11/29/15 | 22 of 40 |
| Tamil Nadu | AIADMK | 5/22/16 | 1 of 39 |
| West Bengal | Trinamool | 5/29/16 | 2 of 42 |
| Kerala | Congress | 5/31/16 | 0 of 30 |
| Puducherry | AINRC | 6/2/16 | 0 of 1 |
| Assam | Congress | 6/5/16 | 7 of 14 |

The Changing Face of “Reform”

The most widely accepted reasons for the BJP’s electoral victory are that the nation wanted stronger economic growth, increased transparency and accountability, and a firmer hand in governance. Having experienced growth rates hovering around 10 percent in the recent past, the 4.5 percent growth rate of the last two years felt like a recession.

Over the last 20 years, successive governments have managed to stimulate growth primarily by opening new sectors to competition. Some prime examples include

¹ The Lok Sabha, or House of the People, is the lower house of the Indian Parliament.

² The Rajya Sabha, or Council of States, is the upper house of the Indian Parliament.

automobiles, banking, telecommunications, airlines, and insurance—sectors that saw a dominant government-owned player in the recent past and now enjoy strong competition among private and public companies. While there have been sporadic attempts at deeper institutional reform, the results of these reforms tended to fall well below expectations.

Today there are fewer sectors left where the government can provide a quick bump to economic growth through traditional liberalization. The next reforms will have to go much deeper and alter economic fundamentals. These include reducing subsidies, relaxing labor laws, streamlining land acquisition, establishing a national goods and services tax (GST), expanding the income tax base, charging higher tariffs to more people for municipal services like power and water, and reducing incentives to industry to “stay small.”

Each of these “fundamental reforms,” with the exception of GST, is likely to cause varying amounts of immediate pain to voters. With a five-year term in office and a clear majority in the Lok Sabha, the BJP is in a position to make many of these changes—preferably quickly so that the immediate painful impact of the reforms translates into broad economic gains by the 2019 election. However, the BJP’s strength in Parliament is not mirrored at the state level, where the party only controls five states—eight if you include coalition allies (Telangana Rashtra Samithi [TRS] in Telangana, Akali Dal in Punjab, and Telugu Desam Party [TDP] in Andhra Pradesh).

A focus on tough reforms from Delhi may create some internal challenges for Prime Minister Narendra Modi. State and other national leaders will press for a more cautious reform program in order to increase the party’s odds of winning upcoming state elections. Among these 10 states, two in particular stand out: Maharashtra and Bihar. These two states have a combined population of 216 million people and 35 seats in the Rajya Sabha, of which the BJP currently holds just five.

Looking further ahead, the party may have a bit of breathing room in 2016. While five states are holding elections that year, the BJP is only relevant in one—Assam. Still, Assam has its own type of importance, possibly giving the BJP its first foothold in the northeast—that too in a state that holds 70 percent of the total population of the northeast. Assam has seven seats in the Rajya Sabha, none of which are held by the BJP.

The Importance of Winning State Elections

Winning state elections will play a critical role in the government’s ability to carry out further reforms. States have direct and indirect power over many of the issues the Modi government would like to tackle. There are three ways that winning state elections can augment the government’s reform program:

- **Last mile of reform:** It can be difficult to enact any last-mile reforms such as power distribution without controlling state governments. So Prime Minister Modi will have a very difficult time enacting fundamental reforms across India unless he can assert control over a greater number of states. This can be done either by winning state elections and directly controlling the levers of power at this level, or through
- **Rajya Sabha elections:** State governments elect members of the Rajya Sabha. The BJP currently holds only about 18 percent of seats in the Rajya Sabha, and most of the seats that will open over the next two years are in Uttar Pradesh, Karnataka,

Jammu & Kashmir, and Kerala—states where the BJP is relatively weak in the current state legislatures. The BJP may actually decrease its number of seats in the Rajya Sabha between now and the end of 2015. Winning state elections will allow the BJP to elect more representatives in the Rajya Sabha, strengthening the party's hand in Parliament.

- **Presidential election:** India's president is elected through an indirect process, with members of Parliament and state legislatures casting votes based loosely on the number of people they represent. The Congress Party holds 11 states compared to 5 for the BJP, and Congress also has a much larger representation in the Rajya Sabha, as noted earlier. While the president of India is largely considered a ceremonial position, the president holds important powers such as forming and dissolving Parliament and signing legislation approved by Parliament.

For the BJP to truly consolidate its power, winning state elections is critical.

The Road Ahead

While the Modi government has only been in power for two months, we already see signals that it plans to pursue tough reforms. While many analysts wanted to see more aggressive reforms in the budget itself, many of the fundamental reforms covered earlier would not be a part of the budget under any circumstances. The notion that the budget is the place for reform is misplaced and unnecessarily served to disenchant the business community to some extent.

Looking outside the budget, the government has already condensed the number of ministers, reduced subsidies for passenger and cargo traffic on Indian railways, extended the term of industrial licenses, and enacted a much smaller-than-average increase in the minimum support price for monsoon crops. In addition, Finance Minister Arun Jaitley has started consultations with state finance ministers on both the GST amendments and changes to India's onerous Land Acquisition Act.

If the Modi government can continue down this reform path, and at the same time consolidate its Lok Sabha gains by winning crucial state elections later this year, it will be an important affirmation that voters are finally ready to make the painful choice of forgoing near-term gains in exchange for longer-term prosperity. But the prime minister will face a rising chorus of voices from within his own party establishment to pursue reforms more cautiously—which may prove a bigger challenge than the opposition he will face from other political parties.

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