

# Modi Government Plank and Reforms for Institutional Development: An Investigation

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## Abstract

World is moving from socialist to capitalist's mode of economy with an objective of fostering development with unabated pace for which nations are searching alternative approach of development. New institutional economics (NIE) is one such approach that has emerged recently which addresses issues of economic growth from a wide range of perspectives such as political, cultural, legal, behavioral and social. The present-day NDA Government in India, led by Shri Narendra Modi is an epitome of this. This paper is exploratory and attempts an in-depth analysis of how the Modi Government has positioned the Indian economy on the trajectory of institutional development. His government has created both formal and informal institutional framework for creating, regulating, transforming markets and auguring the economy. In fact, Modi government plank for institutional development is aimed at fostering the mission of sowing the seeds of capitalism and India's growth take-off.

**Keywords:** New Institutional Economics • Institutional Political Economy • Neo-liberalism • Douglas North • Modi Government • Institutional Reforms

## Introduction

### Backdrop

It has been a matter of great debate for long about the philosophical dogma required for the development of an economy at a fast pace. The philosophies that have been adopted by the governments so far have been questioned to a great extent as to their role in fostering economic growth without compromising on the pursuit of long term economic prosperity and human development [1]. Development without philosophy ruins the country in the long run and hence, pillars of development should be laid on strong philosophical dogma. Development philosophies, however, varies very significantly in their content and impact and India is also still exploring the best possible development philosophy and ideas. There is a dominant view prevailing world over that emergence of neo-classical economics just opposed to state interventions, provides to some the panacea for development. Neo-liberal economics views that if economy is opened for demand and supply forces, it will augment the pace of national growth. However, a contrary school of thought has also emerged which opined that nations differ with respect to the pace of growth and development despite having adopted the same neo-liberal economic approach. They felt that the laggard economies ignored building of institutions and organizations

that are very vital for development and hence, institutional economics approach emerged to explain this dichotomy of development [2].

## Materials and methods

Institutional economists felt that dearth or abundance of institutions creates difference between the growth trajectories of any two countries. Even in a country itself, growth trajectory may differ in different times and space due to the same reasons. However, Ha-Joon Chang highlighted some important limitations of the institutionalisms' views and substituted that philosophy with his "institutionalist political economy" (IPE) interpretations in which he emphasized that there is a need to adopt alternative approach that incorporates politics and institutions into its analytical core [3]. The death nail to the state driven economic philosophy has led to the emergence of new institutional economics. This, coupled with further refinement in the form of IPE is the most talked, accepted and preferred philosophy amongst economists and leadership, across the globe. The present paper tries to examine the New Institutional Economic views and explores its linkages with the philosophies adopted by the present central government of India headed by Shri Narendra Modi [4].

### The Objectives of the Paper are

To analyze the New Institutional Economic perspective

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To explore & assess the Modi government reform for institutional development

## Plan of Study

The paper is divided into three sections. Section one introduces the theme of the paper. Section second explores the concepts and perspectives pertaining to New Institutional Economics. Section third is an extensive review of Modi Government reforms in the light of New Institutional Economics.

## Concept of Institutional Economics

Today, we are living in a world which is fraught with numerous challenges and the biggest of all is: a world free of poverty. This can be achieved by building and deepening of competitive markets and making them thrive for growth. This argument got incredible importance in neo-liberal economic literature. Neoliberal economists felt that State imbibes imperfect nature and hence, causes 'government failure'. In the State patronage of development, interested group creates immense pressure on the development authorities; crony capitalism and rent seeking becomes an undefined rule and a collusion of politicians, bureaucrats, industrialists and business men emerges that distorts policies and programs. Here, State patronage and intervention in the development process was felt uncalled-for and an alternative theory of neoliberalism emerged in which the role of State was made restricted and role of market, however, invigorated [5].

Neo-liberal economic philosophy, however, has some limitations. Chang argues that market driven economy requires 'free market' defining of which would be a pointless exercise because no market is in the end free and entails market failure as well. For him "Market failure" refers to a situation when the market does not work like what is expected of the ideal market. He equated 'perfectly competitive market' as ideal market of neoliberal framework.<sup>5</sup> So, an alternative approach of development emerged in the form of new institutional economics (NIE). David Harvey, Douglas North, Acemoglu, Johnson & Robinson pioneered this philosophy. David Harvey said that the 'human well-being can best be achieved by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.' (Harvey, 2005:2)<sup>6</sup> Douglas North defined institutions as the 'rules of the game of a society or more formally is the humanly-devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behavior, and self-imposed codes of conduct), and the enforcement characteristics of both'.<sup>7</sup> In the same way 'organizations' are also important factors for development. 'Organizations are the players: groups of individuals bound by a common purpose to achieve objectives. They include political bodies (political parties, the senate, a city council, a regulatory agency); economic bodies (firms, trade unions, family farms, cooperatives); social bodies (churches, clubs, athletic associations); and educational bodies (schools, colleges, vocational training centers.)'.<sup>8</sup>

'Rules include norms of behavior and social conventions as well as legal rules'<sup>9</sup> whereas 'moral and ethical behavioural norms' are often embodied in informal institutions and informal institutions plays very

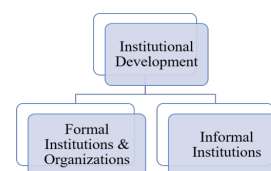
vital role in determining formal institutions and in the operation of markets.<sup>10</sup> Growth-igniting and growth-sustaining institutions further are required for development and operations of market. Institutions should keep on evolving and the right kind of institutions are those that are able to pick up signals about needs and problems (information, feedback, anticipation of future problems) and balance different interests by forging agreements (transparency, voice forums for negotiations) by avoiding stalemates and conflicts and hence, protecting and nurturing them is most important. Because institutions govern behavior, when they are strong they are social assets, when weak they become liabilities.

## Results and discussion

Institutions are essential components of a state because they are directly responsible for creating, developing and stabilizing, legitimizing, transforming and finally regulating market performance. In doing so, they develop a conducive environment for business. Even in the wake of relinquishing market activities of the state, the state still has an important function of regulation that is less provision of market functions and more of regulation. Similar views have been outlined by Mr Arvind Subramaniam on the role of public institutions for promoting and sustaining long-run development.

Chang, however, argued that it is not institutions alone that transform the economy or development structure but it is 'institutionalist political economy' (IPE) which includes politics and institution in its analytical core, plays significant role. For him, IPE is a "political economy" approach because; it puts emphasis on the role of political factors in determining state policy. He emphasized that market too has political nature and hence, just like analysis of state, political economic arguments should be implied on it also. <sup>12</sup>

The above description and conception of NIE and IPE philosophies bolsters the capitalist's economic system that restricts state role in economic development to its minimal. The theories do not rely on market development alone but development of institutions was thought more logical and proper. (Figure-1) The chronology of development in the philosophical dogma hence brings out a more scientific, more convincing and more authentic philosophical plateau that is accepted world-wide now as a panacea for just and fast development.



**Figure 1:** Components of Development according to NIE.

Movement for freedom of India was fought primarily on political pitch; however, it created a platform for conception of economic, social and cultural philosophies as well that India could pursue after getting Independence. A number of leaders were working on the second platform and Shri D.D.Upadhyay and Dr. B.R. Ambedkar were prominent figures amongst them. Development of the economy was paramount for both of them. Both of them came to the conformity with their deep knowledge of the society and researches they made in the area of economics that key and basic industries should be developed by the State itself. The NDA government is enamored by

the thinking of these great philosophers, since its formation. Modi and his team accepted them as philosopher and guide<sup>13</sup> and tried to craft India into their footsteps. However, it is interesting to see that there are deviations from these old philosophies towards a more pragmatic and institutional regime. A closer look at Modi government policies and programs will provide further strength to the statement. It seems that a new approach of economics is in the offing.

## Conclusion

The above discussion of public policy of Modi government reveals that it has selected strategies and made choices between various philosophies and set agenda and formulated, adopted and implemented them.<sup>111</sup> In fact, a new economy is emerging on the debris of old ones with the help of policies, programs and institutions that fosters the development of all sectors, all sections and all spheres of the society with human values.<sup>112</sup> One can argue that if Modi government was enamored by the two greats namely Pt. D.D. Upadhyay and Dr. B.R. Ambedkar then what makes him a student of NIE. The answer lies in the fact that perhaps for Modi, world is changing fast and one cannot stick to one or two philosophies only. Second, people want to telescope their imaginations, aspirations and visions very fast and no leader can survive with slackening effort. Hence, Modi government is adopting public policy that has been floated in the past by Shri D.D. Upadhyay & Dr. Ambedkar on the one hand, however, on the other; his choices have narrowed down more to NIE & IPE and now his government is making no stone unturned to

create a well-structured institutional development in his first term of governance in which a range of institutions, including the markets has been created & strengthened. Government has converted itself as creator & regulator of the institutions. Much water has flown between State Socialism to pure Capitalism and his efforts of institutionalizing the economy are aimed at fostering the mission of sowing the seeds of capitalism and India's growth take-off.

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