

Developing Trends

Oxus Research & Investments

Vol. 3, No. 6&7

August 31, 1999

India Elections'99 – Voting With The Economy

It pays to know about the election results before they happen. Which is why market players go to great lengths to derive information about who is going to win, and what policies such winners are likely to follow. At Oxus, and with our flagship newsletter, *Developing Trends*, we have consistently believed in the adage “to know politics is to profit from the market”. Hence, this Special Issue on the forthcoming national (Lok Sabha or LS) elections in India.

While opinions matter, an analytically based opinion may be even better. The present election is being fought by two major alliances – the incumbent Bharatiya Janata party (BJP) alliance now termed the National Democratic Alliance or NDA, versus the 114 year old Congress party led alliance. The Prime Ministerial candidate of the BJP is the present PM, Mr. Atal Bihari Vajpayee, while the Congress party is led by the widow of a former PM, Mr. Rajiv Gandhi.

The clash is more between competing personalities than between competing ideologies. However, there is an ideological component – the Congress party believes that it is always preferable to be ruled by a member of the Nehru-Gandhi family. In this regard, there is the somewhat pathetic sight of Sonia Gandhi being accompanied by her two children on her campaign trip with no Congress leader anywhere in sight! Where have all the leaders gone...

The fact that it is a personality battle is actually good news for the markets. As Oxus has consistently been arguing for the last year, India has moved into the *policy certainty* phase while *political uncertainty* still remains. Both the major groups – BJP+ and Congress+ - believe in economic reforms; indeed, the only

uncertainty is about who will push reforms faster. But political uncertainty is still present – or is it ?

According to Oxus, there is little political uncertainty left. The BJP+ should easily exceed the required 272 seats to rule, and it is unlikely that this alliance will get less than 300 seats. On what basis is this forecast being made, and with such conviction! On no other basis than the finding that the Great Indian Voter will vote with her pocketbook i.e. she will vote on the basis on how much better she feels her economic welfare has gone up since the last time the politicians confronted her with a choice. The last time she voted was in Nov. 98, when inflation was at 17 percent and GDP growth was 6.3 percent. Today inflation has declined to 6 percent and GDP is higher at (approximately) 7.5 percent. She is feeling much better and is therefore expected to vote for the ruling party, BJP+.

The major variable behind the Congress resurgence in state elections last year, and its decline this year, is inflation. The model projected a 13.5 percent swing for the Congress in Nov. 1998, and an equal decline this year. It seems, therefore, that the Congress won the battle last year, but in payback time, is slated to lose the war.

The above is not conjecture – actually, it is based on a model of voting behaviour whose results are as robust as they are surprising. Economic factors alone can explain over 70 percent of the variation in Congress's share of the votes since 1977. This is an incredibly high amount of explanation, especially for an economy like India. But let us not claim we have found evidence that suggests that the Indian political animal acts on her economic instincts. You judge for yourself.

It Was Always The Economy, Stupid

Choices: The forthcoming Lok Sabha elections in India will be determined by: (1) caste factors (just ask Laloo Yadav); (2) personalities, dynasties, and foreign status of same (just ask the BJP); (3) nuclear explosions and victory at Kargil (ask the BJP again); (4) political stability (Congress); (5) the inherited advantage from being from the Nehru-Gandhi family (Congress again); (6) corruption in the BJP (Congress again). What about the economy? The conventional wisdom (CW) is that “the economy does not figure in our political rhetoric”. So what is your choice ?

If you choose any answer above, you are likely to have chosen wrongly. At least according to an economic determinants of voting model. Such models have been *de-riguer* in the West, at least since the pioneering work of economist Ray Fair in the mid-seventies. Poll economics is today a full fledged industry, replete with articles in academic journals and pop magazines. The reason for the popularity of this research is as much associated with its contrarian nature as with its outstanding success in predicting elections in the US and England. Contrarian because CW deems other issues *other* than the economy as more relevant for determining electoral success and failure.

Determinants of Voting – Caste, etc :In India, the “economic determinants” of voting view is held in contempt; which is why such research is not even in its infancy. How can one possibly explain the votes gained by a party in local and national elections on the basis of what happened to GDP growth and overall inflation? The best explanators of votes are the backroom strategies pertaining to caste, national origin, funny alliances, and personalities. Or whether one has won the most recent war, exploded a nuclear bomb to avoid future wars but (successfully) entered into a war only nine months hence, etc. Delivery of economic progress to the people – no way! Or so the experts, and the politicians, tell us. They are the ones who

fight elections – they must know better (just like the Babus who want to control the economy know better).

It is of at least academic interest to see if some explanation for votes is provided by economic performance. Most recent history suggests that hardly, if ever, have elections been fought on economic performance. A perusal of newspapers at the time of the present election campaign suggests that the victory in Kargil is *the* reason why the incumbent, the Bharatiya Janata Party (BJP) will win. Some others suggest that it is the ex-foreigner status of Sonia Gandhi (leader of the main opposition party, the Congress) which is the key variable for the demise of the Congress and for victory to the BJP. In state elections, personalities seem to matter the most – “Politics in Bihar has very little to do with what is happening at the Centre. Here, the campaign is either pro-Laloo or anti-Laloo” is the statement of a leader of the Samata party in Bihar. (Laloo Yadav is the former Chief Minister whose wife, in Indian nepotism-dynasty style, now rules Bihar).

The favorite of the Congress party, which, for historical reasons cannot quite campaign on an anti-corruption slogan, is “stability” at the Centre. A few facts are used by Congress to buttress their stability slogan. First, and an interesting fact, is that *every* Congress government over the last fifty years has lasted the full five years of its tenure. Second, *no* non-Congress government has ever lasted the full five years. Third, come October, India will have its fifth government in the last three years. Clearly, the historical relationship suggested by the Congress campaign is for a perfect fit. (Anticipating the results, the first lesson of econometrics is that a perfect equation means that the specification is most likely wrong !).

Some Economic Determination of votes: The various campaign themes alluded to above and the “perfect fit” stability statistics would suggest that economic determinants are

far from the minds of the politicians. Surprisingly, this is not so. Traces of economic determinism are pervading the speeches of the politicians, and even of the Congress party, which shockingly refused to take credit for instigating far reaching economic reforms in its electoral campaigns of 1996 and 1998. Desperately seeking reelection and seemingly fearing economic determinism, the Congress stated on Aug.26 that “BJP economics led to price rise....The BJP boasts of foodgrain production touching 202.5 million tonnes in 1998-99. Logic demands that more production should mean lower prices. But the truth is the exact opposite” (Congress spokesperson, Kapil Sibal). The issue is not of false (Congress) economics that Mr. Sibal is using. Perhaps the

spokesperson should find out the difference between absolute price decline and relative price decline. Nevertheless, the interesting fact is that economic performance is assumed to affect votes. The Communist Party of India, (as is to be expected) does one better than the Congress in its ignorance of economics. Also wanting to play the economy card, it desperately states that “the economy is on the verge of collapse due to the suicidal policies of the BJP; Major indicators are showing a downward trend”. And which major indicator is a bad – the inflation rate! In striking contrast to the other opposition party, the Congress, the Communists maintain that a lower inflation rate is bad economic performance!

Table 1 : How has the Economy performed?

Qtr	GDP Growth	CPI Inflation	% Change in Exchange Rate	WPI Inflation	Food Price Inflation
77Q1	8.2	6.3	1.1	10.3	13.2
77Q2	8.2	9.3	2.8	10.4	13.2
78Q1	6.6	4	7.1	0.8	-0.6
79Q2	-4.8	5	3	8.4	8.5
80Q1	6.5	12.1	1.3	23.7	10.2
80Q2	6.5	12	3.9	21.1	13.7
82Q2	3.8	7.1	-10.8	0.8	3.5
83Q1	7.4	9	-7.6	4.5	6.5
84Q2	3.7	8.5	-10.2	7.9	8.2
84Q4	3.7	5.8	-18.2	6.8	5.5
85Q1	5.5	4.6	-18.5	5.4	3.7
85Q3	5.5	5.2	-2.3	5.2	1.1
87Q1	4.8	8.4	-6.1	5.2	5.6
87Q2	4.8	8	-2.2	5.9	7.1
89Q1	6.6	7.5	-17.9	4.1	6.3
89Q4	6.6	4.3	-13.7	7.7	4
90Q1	5.7	6	-11	8.2	5.1
91Q2	0.4	12.4	-19.2	11.8	15.4
92Q1	5.4	13.4	-35.6	13.5	17.1
93Q4	4.8	8.2	-20.7	8.7	9.1
94Q4	7.6	9.9	0	9.9	10.9
95Q1	7.3	9.8	-0.1	11.5	14.7
96Q2	6.8	9.3	-11.2	4.9	6.5
98Q1	1.5	8.6	-9.6	5.3	4.7
98Q4	6.3	17.8	-11.6	7.4	15.4
99Q3*	7.5	6	-2	2	0

Source: O[x]us Research Database

Note:

1. Annual GDP growth rates have been taken for respective election quarters till 1996 due to the non-availability of Quarterly data.. Quarterly Estimates for GDP growth rates have been taken thereafter.
2. Primary Articles Inflation has been taken as a proxy for Food Price Inflation.
3. All the above variables are average values for the respective quarters.
4. * indicates that the values for 99Q3 are estimated.

While it is mildly plausible that economic determinism may have become relevant in the reform nineties, surely such factors were not relevant before. The only way of testing this hypothesis is by testing it. This is done as follows.

One party has fought all the elections : First, what are we attempting to explain? Unlike the US, where there are only two parties, in India there are several parties and multiple alliances. Fortunately (for analysts), there is one party in India that has fought virtually every election – the Congress. So the variable being explained is the swing towards (or against) Congress in all the elections held since 1977. (The reason elections before 1977 are not considered is because the structure of elections was different in the earlier era i.e. one party (Congress) rule).

Data on vote shares: Voting percentage data for both assembly (state) and Lok Sabha (national) elections are used. The attempt is to obtain a “representative” Congress vote for each quarter (3 month period) since 1977. If state and national elections are held simultaneously, then the state data are ignored on the grounds that the national vote is more representative. When only state elections are held, a simple arithmetic average of the voting percentage of the different states is used. (See Table 2 for details).

Data on incumbency: The importance of crediting (or blaming) a government for economic performance is predicated on knowledge of “who is in charge”. For national elections, the ruling party is easily identified as the incumbent. For state elections, different parties may be incumbent; in this instance, a simple average of

incumbency is used. For example, in last November’s four state elections, the Congress was the incumbent party in two states – Madhya Pradesh and Mizoram. Consequently, the incumbency factor was deemed to be 0.5. Analogously, going into the national September 1999 elections, the BJP is the incumbent party, so the incumbency factor for the Congress is zero i.e. it is not the incumbent party. (Note, that as mentioned above, data pertaining to state elections (incumbency status, the vote share received etc.) for September 1999 are ignored because the more representative national data are available).

Swing: If the data are now ordered by election, then changes in the Congress vote from election to election represent the “swing” – a critical variable in election analysis. The swing in votes indicates the change in preference for the Congress. For an economic determinism model, this swing from one election to the next is related to *change* in the performance of the economy. Three variables are used to capture how happy the voters are with economic management – the change in GDP growth, the change in the inflation rate (as measured by the CPI) and the change in the rate of devaluation of the rupee. (Before the change is applied, all economic variables are first constructed as year-on-year (y-o-y) percentage changes). The null hypothesis is that if the *growth* rate of the economy goes up, the voters feel happier, and give increased votes to the *incumbent* party. Ditto if the inflation rate goes down (and contrary to the claims of the Indian Communist parties). Devaluation can go either way.

Table 2 : Indian Elections – 1977 to 1999

Qtr	Election Type	# of States with Elections	Congress Incumbency In State	Incumbency Dummy	Vote % in State Elec.	Vote % in National Elec.	Representative Congress Vote	Actual Swing	Predicted Swing
77Q1	State & National	1	0	1	34.5	34.5	34.5	.	.
77Q2	State	11	0.7	1	30.5	.	30.5	-4	-5.2
78Q1	State	3	1	1	33.9	.	33.9	3.4	2.3
79Q2	State	1	0	0	23.9	.	23.9	-10	-9.5
80Q1	State & National	1	0	0	31.9	42.7	42.7	18.8	17
80Q2	State	9	0	0	41.9	.	41.9	-0.8	-1.4
82Q2	State	4	0.5*	0	35.5	.	35.5	-6.3	-5.9
83Q1	State	3	0.7	1	40.5	.	40.5	5	2.1
84Q2	State	1	0	0	40.5	.	40.5	0	-4.2
84Q4	State & National	1	0	1	33.5	48.1	48.1	7.6	5
85Q1	State	10	0.8	1	45.8	.	45.8	-2.3	3.9
85Q3	State	1	0	0	45.2	.	45.2	-0.6	-2.8
87Q1	State	3	0.2	0	38	.	38	-7.2	2.5
87Q2	State	1	1	1	29.2	.	29.2	-8.8	-1.4
89Q1	State	2	0	0	36.1	.	36.1	6.9	2.8
89Q4	State & National	4	0.2	1	39.2	39.5	39.5	3.4	2.2
90Q1	State	7	1	1	32.4	.	32.4	-7.1	-5.4
91Q2	State & National	5	0	0	33	36.5	36.5	4.1	2.4
92Q1	State	1	0	0	43.8	.	43.8	7.3	7.4
93Q4	State	6	0.3	0	35	.	35	-8.8	-9.1
94Q4	State	2	1	1	30.5	.	30.5	-4.6	-4.1
95Q1	State	4	0.5*	0	29.8	.	29.8	-0.7	-1.1
96Q2	National	.	0.6	1	.	28.1	28.1	-1.7	2
98Q1	National	.	.	0	.	25.8	25.8	-2.3	-6.7
98Q4	State	4	0.5*	0	40.7	.	40.7	14.9	13.5
99Q3	State & National	.	.	0	-13.5

Source: O[x]us Research Database

Notes:

1. Representative vote for the Congress is the vote percentage it got in the Lok Sabha in a year when there were both National & State elections and is the average vote share of State elections when there were only State elections.
2. Congress incumbency in State elections is the fraction of the number of states in which Congress is the incumbent party. Incumbency dummy(ID) shows whether the Congress is incumbent or not. In a Lok Sabha year, ID is 1 if Congress is the ruling party in Parliament. In State elections, ID=1 if Congress incumbency in states is >0.5 i.e., if the Congress is incumbent in more than half the number of states going to polls.
3. Assam has been dropped from the analysis because of virtual non-presence of the Congress since 1977; for Tamil Nadu and Kerala, the vote share of the Congress has been adjusted for alliances.
4. * values for Congress incumbency in states indicate that the party was incumbent in exactly half the number of states that went to polls. For example, in 82Q2, of the four states (Haryana, Himachal Pradesh, Kerala and West Bengal), it was incumbent in 2 (Himachal Pradesh and Kerala). In 95Q1, Gujarat, Maharashtra, Bihar and Orissa went to polls. The Congress was incumbent in Gujarat and Maharashtra. In 98Q4, again 4 states had elections, Delhi, Madhya Pradesh, Mizoram and Rajasthan. Of these, Congress was incumbent in 2, viz, Madhya Pradesh and Mizoram.

Estimation of Voting Equation :

In equation form, the the model is as follows:

Δ votes for Congress = Swing for Congress:

$$= a + b_1 * \Delta \text{growth} * \text{incd} + b_2 * \Delta \text{inflation} * \text{incd} + b_3 * \Delta \text{exchrates} * \text{incd} \dots$$

.....(1)

where:

D – symbol to represent change

Swing – represents the change in the share of the vote of the Congress from one election to the next.

Δgrowth – represents the change in the year-on-year GDP growth rate from one election to the next.

Δinflation – represents the change in the year-on-year inflation rate from one election to the next; inflation is measured by the CPI.

Δexchrates – represents the change in the year-on-year depreciation of the rupee from one election to the next.

Incumbency – represents whether the Congress party is incumbent; for LS elections this is either 0 or 1; for state elections, if the Congress is incumbent in more than half of the states, it is considered incumbent. (On three occasions – 1982Q2, 1995Q1, and 1999Q4) the Congress share of the states in which it was incumbent was exactly half. It is to some extent arbitrary whether 0.5 should be allocated to an incumbency factor of zero or one. Both options were tried, and the former yielded consistently better results.

The above equation is extremely parsimonious in terms of the economic variables. Only three variables are used – GDP growth, inflation and exchange rate depreciation. Further, the estimation is in terms of changes in these variables i.e. a second order effect. *A priori*, one would not expect much from such a “noisy” set of variables – the change in vote share a

function of the acceleration in GDP growth, inflation and depreciation – how can such a model possibly explain much for the 24 different sets of elections held in India since 1977? (Table 1 shows the number of states going for state elections in the different quarters).

Table 3a : Economic Model of Election

	Constant Term	GDP Growth	Inflation	Exchange Rate
Congress : Incumbent	-0.8 (-0.9)	1.7 (1.7)	-1.3 (-2.3)	-0.3 (-1.6)
Congress : Not Incumbent	-0.8 (-0.9)	0.9 (4.0)	1.0 (3.5)	-0.2 (-1.4)

Note:

1. Adjusted R^2 for this model is **0.69**; t - statistics are given in parenthesis
2. On Incumbency, see notes in Table 2

Table 3b : How has the Model fared?

National	
Total no. of elections	6
No. of elections right	5
No. of elections wrong	1
Median Error	-1.8
State	
Total no. of elections	18
No. of elections right	15
No. of elections wrong	3
Median Error	-0.4
All Elections	
Total no. of elections	24
No. of elections right	20
Highest Error	9.6 for 87Q1 State elections
Lowest Error	0.1 for 92Q1 State elections
Median Error	-0.8

Notes:

1. State elections are considered for non-National election quarters. When there is both National and State elections, then it is treated as a National election.
2. 3 states had State elections in 87Q1 – Kerala, West Bengal and Mizoram. In 92Q1, it was only one state, Punjab.
3. Predictions are “right” if the model correctly forecasts the direction of swing.
4. The errors reported here are absolute values, i.e., the magnitudes of the errors are considered, not their direction.

The results for the regression equation are reported in Table 3a. Apart from a large explanatory power, the coefficients all have the “right” sign and the “right” magnitudes. For example, increases in GDP growth rate help the incumbent party more than the non-incumbent party, by almost a 2:1 margin. Increases in inflation hurt the incumbent party by a considerable amount – each percentage increase in CPI means a decline of 1.3 percent in the aggregate vote share. Devaluation seems to help increase the vote share of the incumbent party, though the magnitude of the coefficient is small. Since, historically, the Indian rupee has been overvalued, this result suggests that the voters have rewarded politicians who had the good sense to change the exchange rate to a competitive, market level, rather than the

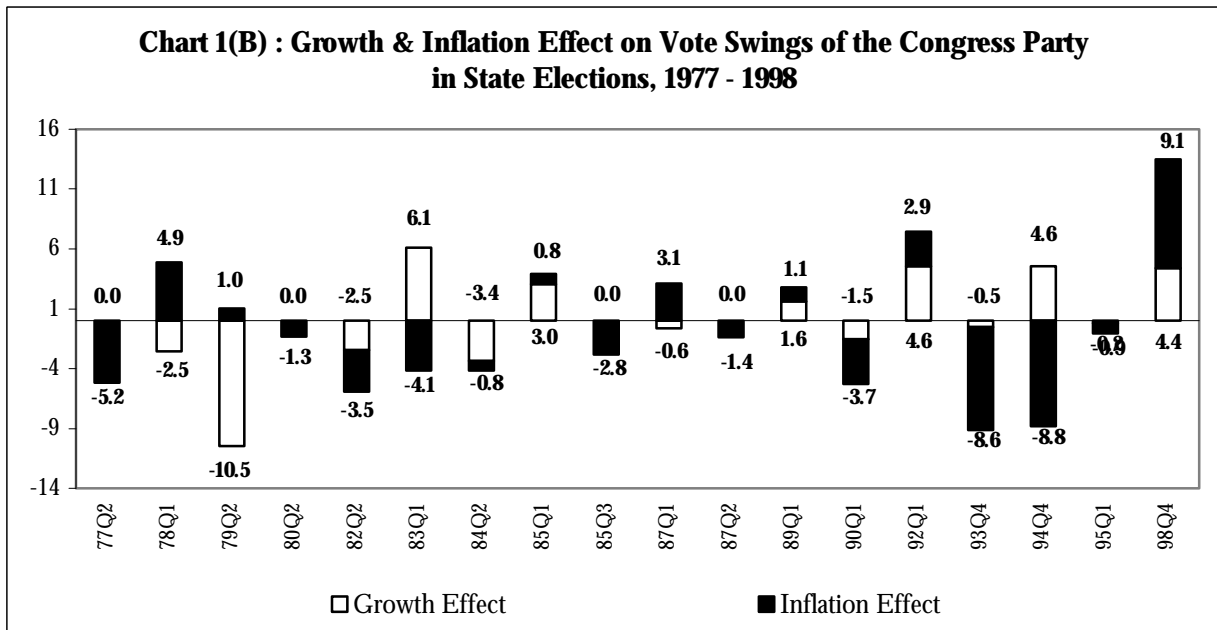
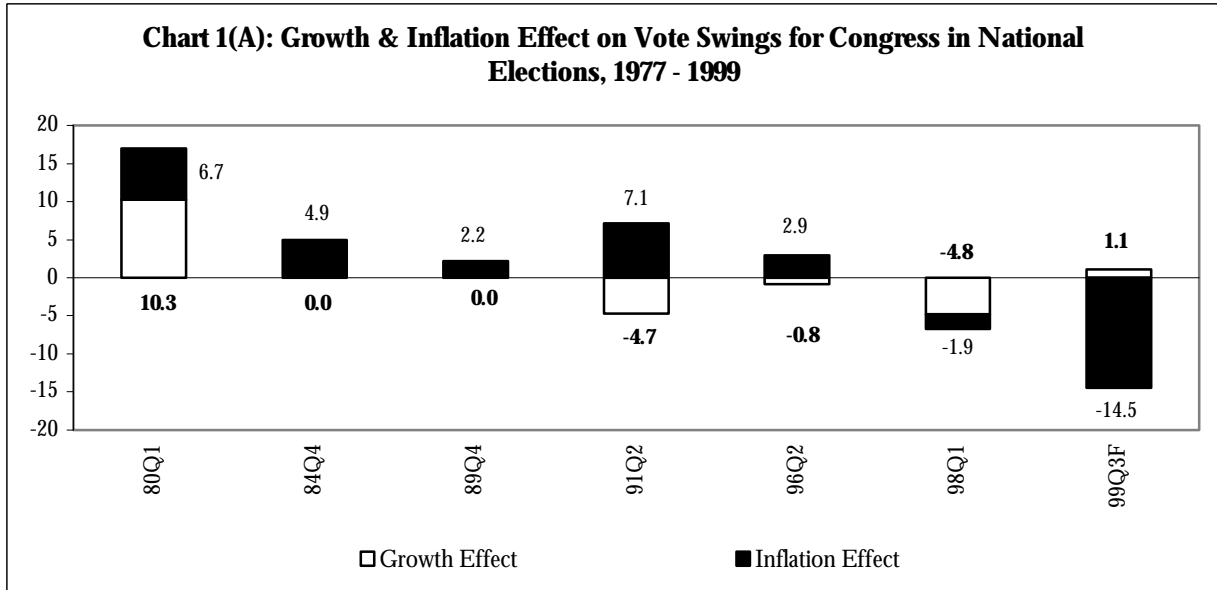
controlled, uncompetitive level. Though it would be reading too much into the regression, a clear implication of the result is that voters do not like a controlled exchange rate, and certainly not so when such a rate is an overvalued one.

On explanations by different variables:

The graphs below show the composition of the growth and inflation effect for the different elections.. Note how accurate the model predicts Mrs. Indira Gandhi’s “surprise” comeback in 1980 – the growth effect is 10.3, and inflation 6.7. The actual vote increase for the Congress – 18.8 percent. Even the 1984 assassination election is well predicted – 5 % swing compared to an actual 7.6 percent. The 1989 and 1991 LS elections are also well forecast. Nor is the model

“weak” in predicting state elections. See table 3b for the shocking details; the median error The charts below show for each election the contribution of growth and inflation to the overall swing. The CPI effect is generally larger than the growth effect for both state and national elections. Except in the recession

in predicting the swing for Congress in 24 sets of elections is only -0.8 percent. year of 1979 (second quarter). In that year, the growth component contributed -10.5, and inflation 1 percent for a net swing effect of -9.5 percent. The actual swing for the Congress in that election - -9.5 percent.



Notes:

1. Assam has been dropped from the analysis because of virtual non-presence of the Congress since 1977; for Tamil Nadu and Kerala, the vote share of the Congress has been adjusted for alliances.
2. Annual GDP growth rates have been taken for respective election quarters till 1996 due to the non-availability of Quarterly data.. Quarterly Estimates for GDP growth rates have been taken thereafter.
3. The inflation effect as shown above takes into account the combined effect of inflation and exchange rate.

4. *The total effect of the economic variables on the vote swing would be given by the sum of Growth and Inflation Effect.*

The surprising result is that elections in India are explained to a very large extent by just three economic variables. (Table 3a). Indeed, the results are “shocking” in several respects

Some major results:

- A very large fraction (69 %) of the change in the vote share is explained by a regression which contains results of both state and national elections.
- The incumbency effect is strong but strongly counter to the conventional wisdom (CW). CW (and all its subscribers including experts in print and TV) has it that parties that are incumbent tend to lose “market share” because of their incumbency. The results of the model show the CW to be only half right if not completely wrong. Yes, incumbency has a strong effect but it depends whether the economy has improved or not. If improvement is present, then incumbency helps; if the economy has deteriorated, then incumbency hurts.
- Economic variables are dominant, and in a non-surprise, inflation affects votes to a greater degree than economic growth. However, what is surprising is the explanation of diverse set of elections held over the last twenty-three years. Nor, as can be seen from the graphs on the next page, is this a “fluke”, or one-time result.
- The traditional determinants of voting – caste, personalities, the charisma of the Nehru-Gandhi family etc. are shown to be non-events, or insignificant factors. That is not to deny that they matter in *some* elections; rather it is to assert that their effect on aggregate voting behavior is marginal.
- Further, it should be emphasized that what one is trying to explain is

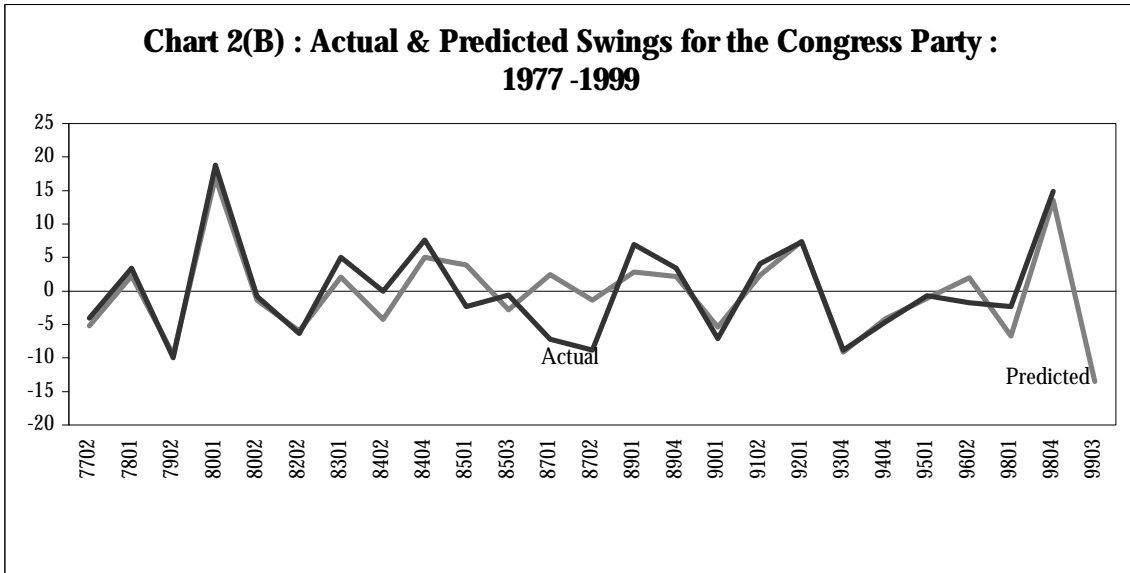
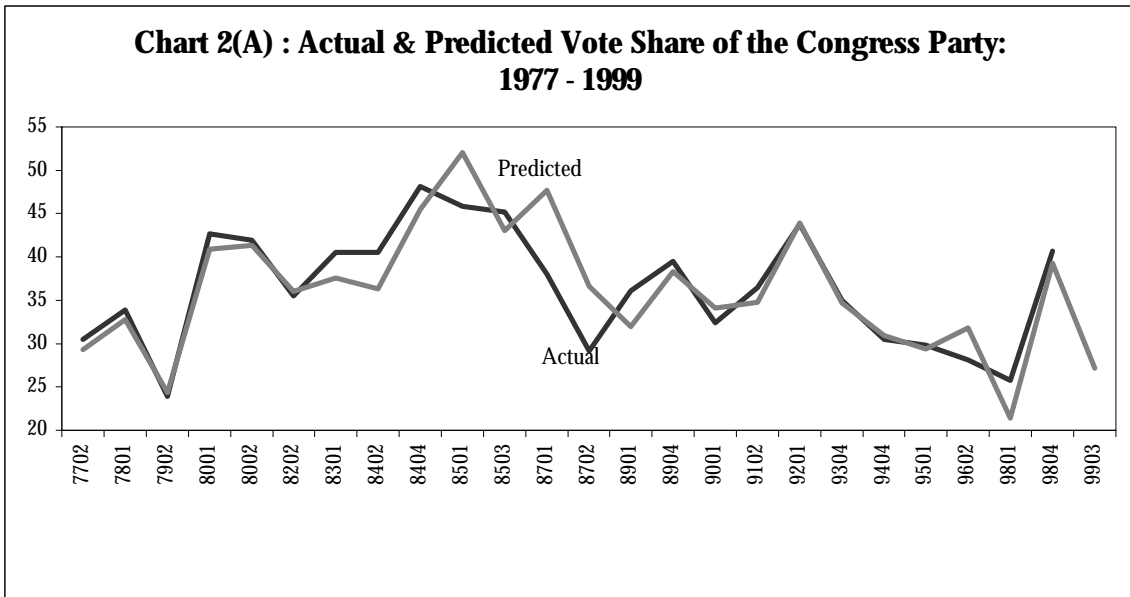
the *change* in voting behavior. If a SC/ST voter continually votes for the Congress, knowledge of his voting behavior is not relevant in explaining swings, though it is obviously relevant in explaining the *level* of the vote.

Implications for Election '99: The BJP is the incumbent party and Congress is non-incumbent. Since y-o-y inflation has declined by close to 12 percent since Nov. 1998, (from 17 percent to 5 percent), the Congress vote share is expected to decline by (1.0×-12) or minus 12 percent. Regarding GDP growth, it is likely that growth in 99Q3 is around 7.5 percent. At the time of the last election (Q4, 1998), GDP growth was 6.3 percent (Table 1). Thus, the GDP growth effect means an increase in the Congress vote share of 1.2 percent. (Note that if Congress had been the incumbent party, this increase in vote share due to higher GDP growth would have been a higher (1.7×1.2) or 2.04 percent. The drop in the inflation rate is likely to mean a decline in the Congress vote share of $(1.44 \times (-12)) = -17.3$ percent). The net effect, including rupee depreciation and the constant term means that the Congress vote is predicted to decline by 13.5 percent, or 27.2 percent.

While this is a large decline from the Nov. 1998 state election, it actually represents an increase of 1.4 % from the vote share gained by the Congress in the last national elections held in Feb. 1998 when it obtained 25.8 percent of the votes.

Each percent of rupee devaluation adds 0.3 percent to the incumbent party, and a somewhat smaller 0.2 percent to Congress

when it is non-incumbent. So much for the view that devaluation is always a vote loser.



Notes:

1. Assam has been dropped from the analysis because of virtual non-presence of the Congress since 1977; for Tamil Nadu and Kerala, the vote share of the Congress has been adjusted for alliances.

Table 4: Predicted Swings in National and State Elections

	Qtr	Cong. Vote Share (%)	Actual Swing	Predicted Swing	Comments
National					
	7701	34.5	.	.	
	8001	42.7	18.8	17	The original “onion inflation” regression which allowed Mrs. Gandhi to make a surprise comeback.
	8404	48.1	7.6	5	Mrs. Gandhi assassinated, yet still predicted
	8904	39.5	3.4	2.2	So-called Bofors election, but the economic model still produced an accurate forecast.
	9102	36.5	4.1	2.4	
	9602	28.1	-1.7	2	
	9801	25.8	-2.3	-6.7	Neither the Congress or BJP incumbent.
	9903	.	.	-13.5	First out of sample forecast.
State					
	7702	30.5	-4	-5.2	
	7801	33.9	3.4	2.3	
	7902	23.9	-10	-9.5	
	8002	41.9	-0.8	-1.4	
	8202	35.5	-6.3	-5.9	
	8301	40.5	5	2.1	
	8402	40.5	0	-4.2	
	8501	45.8	-2.3	3.9	
	8503	45.2	-0.6	-2.8	
	8701	38	-7.2	2.5	
	8702	29.2	-8.8	-1.4	
	8901	36.1	6.9	2.8	
	9001	32.4	-7.1	-5.4	
	9201	43.8	7.3	7.4	
	9304	35	-8.8	-9.1	“Surprise” loss for Congress but predicted.
	9404	30.5	-4.6	-4.1	
	9501	29.8	-0.7	-1.1	
	9804	40.7	14.9	13.5	The second onion election, and predicted equally well.

Source: O[x]us Research Database

Note: The “swing”, both actual and predicted, is from the previous elections. For example, the swing of 7.6% for the quarter 8404 is obtained as the difference in Congress vote share from the state elections in 8402 (40.5%) to the National elections of 8404 (48.1%) i.e., 7.6%.

From Votes to Seats: As is well known, a projection from vote share to seats is a difficult task for multi-party elections. In two party elections, as in the US, there is a relatively straightforward relationship between share of votes and share of seats. In multi-party elections, as in India, the relationship is highly non-linear. Models analogous to equation (1) were estimated for seat shares rather than vote shares; the estimation was not as spectacularly successful, and the mean prediction for Congress's seat share was close to 20 percent. If the vote model is used to project seats, then the mean prediction of the Congress share of the seats in the next election is 21.4 percent, which implies 116 seats. (The parliament consists of 543 seats).

This seat projection is for the Congress party alone, since that is what the model is about.

Can the model be used for making a forecast for the votes and seats of the BJP alliance? Strictly speaking, no. Again, the multi-party framework of India makes this difficult since a decline for one party does not imply an increase for the other. However, the 1998 LS data can be used to make an "educated" guess about BJP alliance's fortunes. The BJP has added three major parties to its alliance – the DMK in Tamil Nadu, the TDP in Andhra Pradesh, and a large fraction of the Janata Dal in Karnataka and Bihar. These three parties together polled almost 7.5 percent of the votes in the 1998 Lok Sabha election. If one adds half of the swing against Congress to the BJP alliance, then a projected figure for the BJP + vote in 1999 is about 42 percent. In terms of seats, the projection is 330 seats.

Table 5: Predicted State-wise Performance of the Congress

State	Total Seats	Seats Won BJP-1998	Seats Won Congress-1998	Predicted change in Seats for Congress-1999	Predicted Seats for Congress-1999
Andhra Pradesh	42	4	22	-9	13
Assam	14	1	10	-3	7
Bihar	54	20	5	-3	2
Delhi	7	6	1	1	2
Gujarat	26	19	7	2	9
Haryana	10	1	3	0	3
Himachal Pradesh	4	3	1	0	1
Jammu & Kashmir	6	2	1	0	1
Karnataka	28	13	9	2	11
Kerala	20	0	8	2	10
Madhya Pradesh	40	30	10	6	16
Maharashtra	48	4	33	-21	12
Punjab	13	3	0	5	5
Orissa	21	7	5	0	5
Rajasthan	25	5	18	-10	8
Tamil Nadu	39	3	0	0	0
Uttar Pradesh	85	57	0	6	6
West Bengal	42	1	1	0	1
Others	19	3	7	-3	4
Total	543	182	141	-25	116

Source: O{x}Jus Research Database

Notes:

1. Others include Union Territories, Arunachal Pradesh, Goa, Manipur, Mizoram, Nagaland, Meghalaya, Sikkim and Tripura

Table 5 reports on the projected seats for Congress for the different states in India. This is not a model prediction; rather, it is a subjective prediction with some basis in a model. For example, it incorporates alliances into the analysis; in particular, both in Andhra Pradesh and in Maharashtra, Congress is expected to get considerably less seats than in 1998 because of the alliance between the local party, TDP, and BJP in Andhra, and the split in the Congress party (Pawar faction) in Maharashtra. Note that “traditional” incumbency analysis is not used given the above model result that parties can indeed gain from incumbency, depending on the state of the economy.

Implications, Implications:

There are several implications that follow from the above model.

1. Most likely, CW is going to change when the results pour in. The BJP is expected to do very well, in spite of it being the incumbent party. And the Congress expected to do badly despite it being the non-incumbent party. But if experts now conclude that the effect of incumbency has been reversed, that would be equally erroneous. The correct implication, at least as suggested by the model, is that the effect of incumbency is dictated by economic performance.
2. Non-economic factors (caste, religion, personalities, foreigner status, dynasties, the Nehru-Gandhi name etc.) all play a relatively minor role in explaining the swings in the fortunes of the Congress party. This is not to suggest that non-economic

factors are not important; but it is to indicate that their importance has been vastly exaggerated. Further, such factors might be important in individual constituencies, but there is precious little evidence that such factors play any kind of role at the national level. Certainly, not so in 7 national and 17 state elections (comprising of 73 states) in twenty-two years.

3. It has conventionally assumed by politicians that reforms do not bring about votes and that exchange rate depreciation hurts the ruling party. No evidence for this assumption is obtained; indeed, there is weak evidence that depreciation (presumably through its effect on growth and competition) helps in gaining votes.
4. There are implications for some individual constituencies of this “global” model. If economic factors matter, then Dr. Manmohan Singh, the initiator of major economic reforms in India, should win his South Delhi constituency by a handsome margin.

The above is not an opinion poll forecast, but rather more in the nature of an academic exercise. However, by the “discovery” that this model has also worked well in the past – including last November’s election when there was a 14.9 percent swing towards the Congress and the model had forecast a 13.5 percent swing - one can infer the following “fact” for this years, and future election campaigns – it is always the economy, stupid!

Developing Trends

Developing Trends is a monthly newsletter published by O[x]us Research and Investments (ORI). Fund managers and investment banks, both in India and around the world, are its clients.

The most recent four issues of **Developing Trends** had the following recommendations:

Developing Trends Vol3., Nos.4&5, dated May 21, 1999:

- On the **global economy** : “ The Asian crisis has been much shallower than the other crisis considered....Asia is like the Mexico of 1994 in its V-shaped recovery...the world economy would grow at a robust 2.7% pace in 1999, rather than the below 2% growth forecast by the critics.”

Developing Trends Vol3., Nos.2&3, dated April 7, 1999:

- **DT** recommended the following **currency market** trades: “Developing Trends now believes that dollar/yen should range between 116 and 130 and therefore at present levels (\$/yen at 120) one should be a buyer of dollars. The Euro, one should wait and only go long if it closes above 1.095. The Brazilian Real – fair value close to 1.55.”
- On India’s **economy and politics**: “The good news is in the fact that the Indian economy, and policy making, is maturing – and there is unanimity in economic views between the BJP and the Congress...India is going to increasingly look like Italy – with or without Sonia Gandhi as Prime Minister...the markets will learn to ignore the politicians, and concentrate on economic fundamentals.”

Developing Trends Vol.3, No.1, dated Feb. 24, 1999:

- On Indian **economic reforms**: “What are the prospects for the BJP to implement even half of the reforms outlined above? Quite high – if only because the BJP today, due to its own mistakes, finds itself with its back to the wall – and economic reform is the only bullet left. A **necessary** condition for the BJP to survive politically is for it to implement economic reforms.”

Developing Trends Vol.2, No.10, dated Dec 28,1998:

- On global economy : “The mean estimate for world growth is projected to be 2.8%, with about a 25% chance that it will top 3%”
- **DT** recommended the following “Oxus disagrees with the conventional view that the Asian economies will exhibit an L shaped recovery...In other words, 1999 should be a recovery year with East Asian economies averaging a non-trivial positive growth rate.Based on the above view East Asian stockmarkets should continue to rally in 1999.”

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