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## State Incapacity by Design: Understanding the Bihar Story

Santhosh Mathew and Mick Moore  
May 2011



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Santhosh Mathew and Mick Moore

## Summary

The Indian state of Bihar has long been a byword for bad governance. It was however governed particularly badly between 1990 and 2005, and has since experienced something of a 'governance miracle'. How can we account for the 1990–2005 deterioration? The answer lies in the interaction of three factors. The first was the type of leadership exercised by Lalu Prasad Yadav, who was Chief Minister throughout most of this period – even when his wife formally occupied the post. The second lies in electoral politics: the need to maintain the enthusiasm and morale of an electoral coalition that Yadav had constructed from a number of poorer and historically oppressed groups. Such was the scale of poverty among this core electoral coalition that Yadav had limited prospects of maintaining its cohesion and allegiance through the normal processes of promising 'development' and using networks of political patronage to distribute material resources to supporters. More important, that strategy would have involved a high level of dependence on the government apparatus, that was dominated by people from a number of historically-dominant upper castes. That is our third factor. Yadav preferred to mobilise his supporters on the basis of continual confrontation with this historically oppressive elite. He kept public sector jobs vacant rather than appoint qualified people – who were mainly from the upper cases. He tried to micro-manage the state apparatus from the Chief Minister's office. He denuded the public service of staff. He was then unable to use it to deliver 'development'. We show that, among other things, the Bihar state government sacrificed large potential fiscal transfers from the Government of India designed for anti-poverty programmes because it was unable to complete the relevant bureaucratic procedures. Yadav knowingly undermined the capacity of the state apparatus. There are parallels in many other parts of the world. Low state capacity is often a political choice.

**Keywords:** India; Bihar; politics; capacity building; state capacity; governance.

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# 1 Introduction

For several decades, and until very recently, Bihar was a by-word within India for economic and political backwardness.<sup>1</sup> Biharis have long been known to other Indians mainly as very poor migrants competing for menial labouring work in cities and in prosperous agricultural areas like the Punjab. Bihar headed the list of so-called BIMARU states (**B**ihar, **M**adhya Pradesh, **R**ajasthan, **U**ttar Pradesh). In Hindi, *bimaru* means 'being sick'. The Bimaru states were infamous for poverty, illiteracy, malnutrition and low rates of economic growth. Bihar was special among Bimaru states for its notoriously poor standards of governance: widespread insecurity and inter-caste violence; corruption; kidnapping for ransom; abuse of power; coercion at the polls; caste-based electoral politics; and apparently highly conflictual and dysfunctional political competition (Long 2004; Singh 2005). This was especially the case in the period between 1990 and 2005.

Bihar... has become a byword for the worst of India: of widespread and inescapable poverty; of corrupt politicians indistinguishable from the mafia dons they patronise; of a caste-ridden social order that has retained the worst feudal cruelties; of terrorist attacks by groups of Naxalite Maoists; of chronic misrule that has allowed infrastructure to crumble, the education and health systems to collapse, and law and order to evaporate... Much of the blame for Bihar's poor performance is laid at the door of Laloo Prasad Yadav, who was the state's chief minister from 1990 to 1997. Jailed for his alleged involvement in a huge corruption scandal, he rules through his wife, Rabri Devi. (Long 2004)

There is objective evidence that, relative to the other Indian states, government capacity did indeed decline in Bihar under the rule of Lalu Prasad Yadav.<sup>2, 3</sup>

Fortunately, the Bimaru label is losing notoriety. The high rates of economic growth experienced in other parts of India have spread to some of the Bimaru states, including Bihar. Similarly, Bihar lost its reputation as an exemplar of bad governance. Indeed, the pendulum has swung to the opposite extreme. After Lalu Prasad Yadav lost the 2005 state elections to an opposition coalition led by Nitish Kumar, Bihar became almost the poster child for governance reforms. The new government began to do a large number of sensible things. Political and economic confidence increased. The state economy began to perform well. People began to talk of the 'Bihar miracle'.

Although Nitish Kumar's coalition won a landslide victory in the November 2010 state elections, talk of a 'miracle' is almost certainly overblown. Bihar remains afflicted by deep material, social and political problems. We can anticipate a difficult transition to the levels of prosperity, state effectiveness and constructive electoral competition routinely found in much

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1 In 2000, the southern part of Bihar state, housing about a fifth of the population, was separated to become the new state of Jharkhand. This does not significantly affect the story here. When we refer to 'Bihar' before 2000, we refer to the undivided state. After 2000, we mean the smaller unit of that name.

2 It is generally accepted that 'Lalu' is the more appropriate transliteration of Yadav's first name. We use 'Laloo' only when quoting from original sources.

3 Indian states have some autonomy to raise some of their own revenues. One useful measure of government capacity is the amount of revenue that a government actually raises relative to the revenue it is predicted to raise once one takes into account some key features of the structure of the economy from which it can raise taxes. Public finance economists routinely take public finance data relating to a set of comparable governments, and, using regression analysis, classify them according to how good they are at raising revenue, relative to one another. In their standard jargon, those who raise more revenue are said to be making a high *tax effort*. Economists at the Reserve Bank of India conducted this exercise for the governments of India's 15 largest states for the financial years 1993–4 to 2002–3. On average over that period, only two other state governments made a lower tax effort than Bihar. It is however the trend that is especially interesting. Recall that Lalu Prasad Yadav came to power in 1990. In 1993–4, the Bihar state government was ranked near the middle: number 9 out of 15. By 2002–3, when Lalu Prasad Yadav had been in power for over a decade, it was number 15 (Reserve Bank of India 2005: 18–19.)

of South India. The rather abrupt change in the style and quality of governance in Bihar in 2005 does however provide a good opportunity to look back at the political system in the state in the previous two decades, and to begin to explain why governance was so bad. There are many components to that story. We can both acknowledge and then largely discount what was until recently the most popular single explanation among scholarly specialists: the deep, malign burden of historical forms of rule. Bihar lies at the heart of a region of India once dominated by *zamindari* land revenue systems. *Zamindars* were both landlords and in many respects territorial rulers. They were empowered to collect land revenue – the main source of state income in pre-colonial and early colonial India – and obliged to hand over pre-set amounts to the state. Beyond that, they were given wide discretion over how much revenue they extracted from their subject populations and how they ruled them. Other land tenure systems provided greater property rights to cultivators and more protection against arbitrary rule. It is not very surprising that, comparing Indian districts today, scholars have found that those that were historically most subject to *zamindari* rule are economically the least developed today.<sup>4</sup> It is however a far cry from that finding to the depressing conclusion that Bihar is the doomed victim of its *zamindari* history – or indeed any other kind of deep history. While the associations that scholars have found between the land tenure history of India's districts and their contemporary prosperity are statistically significant, their explanatory values are extremely low. Land tenure history 'explains' very little of the contemporary variations in prosperity. Further, deep history cannot begin to explain either why (a) standards of governance in Bihar took a distinct turn for the worse in the 1990s, and then changed for the better in 2005; or (b) even during that period, a few public services that were of strategic political significance were protected and privileged (Section 8). To understand why governance mostly was particularly bad in Bihar between 1990 and 2005, we are likely to learn a great deal by looking at what was happening in the state's politics at that point. We have no doubt that there are deep historical roots to contemporary political and economic problems in Bihar (and adjacent states).<sup>5</sup> But we are seeking to explain significant recent changes in governance. For that purpose, recent history matters most.

Governance was particularly bad in Bihar in the 1990s and until 2005 because that was what the dominant political group in the state wanted – or, at least, because that was the price they willingly and knowingly paid in order to achieve their broader objective of keeping their core electoral base continually mobilised so that they could continue to win elections. The state's politics, professions, education systems, police service and public bureaucracy had historically been dominated by members of a number of dominant castes that collectively accounted for a rather small proportion of the population.<sup>6</sup> The political group that dominated in the state between 1990 and 2005, led by Lalu Prasad Yadav, maintained power through a strong electoral alliance of a group of 'middling' castes, above all Lalu Prasad's own Yadav agriculturalist caste and other, less numerous so-called Backward Castes; the Muslim population; and, slightly less solidly, the numerically important Scheduled Caste (or Dalit) community. This alliance never comprised a majority of voters.<sup>7</sup> However, it was a strategic

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4 See Banerjee and Iyer (2005). *Zamindari* systems constituted a relatively indirect form of rule compared to the *ryotwari* systems, under which land revenue was paid directly to people occupying bureaucratic office by small landowners. For the general argument that more indirect forms of colonial rule have blighted the development prospects of the areas in which they were practiced, see Lange (2009).

5 For an especially insightful analysis of contemporary manifestations of this malign historical legacy, see Corbridge, Williams, Srivastava and Véron (2005).

6 They include in particular Kayashas, Rajputs, Brahmins and Bhumihaar Brahmins. 'The key levels of the bureaucracy and the police have long been controlled by people from upper caste backgrounds in Bihar and this control served to reinforce the domination of upper caste landlords in the countryside. In 2002, for example, out of a total of 244 Bihar cadre officers of the elite Indian Administrative Service, 135 were from upper caste groups, while only seven officers came from the three largest backward caste groups (based on my approximate data)' Witsoe (2007). See also Clements (2005).

7 Robin (2009) provides abundant data on the caste and community composition of the Bihar Legislative Assembly since 1952. The caste and community affiliations of Bihar's population were last enumerated in the 1931 census. At that point, the Upper Castes accounted for 14 per cent of the total; the Yadavs for 12 per cent and other Backward Castes for a



bloc that, well-managed, for a long time dominated electoral politics in the state. Lalu Prasad Yadav was Chief Minister from 1990 to 1997, when he resigned in the face of escalating corruption charges. With two very brief interruptions due to suspension of the state government and the imposition of President's rule from Delhi, his wife, Rabri Devi then served as Chief Minister until the 2005 state elections. The widespread claim that Rabri Devi was simply a surrogate for Lalu Prasad Yadav is virtually unchallenged.

One of the reasons for his extended dominance was that Lalu Prasad Yadav used both rhetoric and policy continuously to maintain a mood of confrontation with the upper caste 'enemy', and so keep his electoral base mobilised. An important component of the strategy of confrontation was to avoid appointing members of upper castes to government jobs. New appointments were instead reserved largely for members of the communities in the dominant electoral coalition. But those groups were historically so deprived that often it was impossible to find members with sufficient educational qualifications to be appointable even to middle ranking public sector jobs. Posts were left vacant, despite the availability of funds to fill them. Vacancies were more common at higher levels of the public service, where there were even fewer plausible candidates from historically excluded groups. The political leadership preferred to leave posts vacant, to send clear signals both to its own supporters ('This government is really serious about humbling the old elite') and to their upper caste opponents ('You are no longer welcome in Bihar'). Equally, intense political oversight of the decisions of public sector professionals, made possible in part by very constraining decision-making procedures, deprived public servants of the autonomy they needed to work effectively, and tied the whole system up in proverbial red tape. The public service was weakened by design. To a significant extent, lack of public sector capacity and insecurity of persons and property were the result not of deep history but of contemporary political strategy.

We begin in Sections 2 to 6 with concrete, quantitative evidence of this deliberate state incapacity: governments led or controlled by Lalu Prasad Yadav significantly under-claimed from the Government of India very large amounts of money that they were entitled to claim to anti-poverty programmes. Even when they claimed the funds, they often under-spent them (Sections 2 and 3). While this under-claiming and under-spending was found to some extent in other Indian states, it was larger in scale in Bihar, and especially anomalous for a very poor state with a political leadership rhetorically committed to advancing the interests of many millions of very poor people (Sections 4 and 5). The government of Bihar under-claimed and under-spent its anti-poverty money because of the ways in which the political leadership chose to exercise power, above all by leaving many public service posts vacant and by allowing senior public servants very little discretion, especially in respect of expenditure issues (Sections 6 and 7). The public servants who were needed to go through (complex) formal claiming, accounting and spending procedures were either not in place, or not given the discretion they needed to get things done in time. The money stayed in Delhi. In the financial year 2006–7, the first full financial year after Lalu Prasad Yadav's coalition lost the 2005 state elections and Nitish Kumar became Chief Minister, the state government began to claim much more of its entitlement from Delhi, and to spend much more. Instead of keeping the capacity of its public service in shackles, the new state government did its best to boost it. It benefited quickly from the consequent spending dividend. In Section 8 we explain in more detail the political strategies that Lalu Prasad Yadav employed to keep his core electoral supporters mobilised, and how the under-manning of the public service and the political micro-management of routine administrative decisions fitted into the wider picture. Finally, in Sections 9 and 10, we locate this example in a wider framework, arguing that it represents one among a wide range of cases of the conscious undermining of

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further 8 per cent; the Extremely Backward Castes – who are still heavily under-represented in politics, for 18 per cent; Scheduled Castes for 16 per cent; Scheduled Tribes for 10 per cent; and Muslims for 14 per cent (67–8).

government institutions from within by small groups of power-holders pursuing narrow, particularistic ends. We suggest that the development studies community has not paid sufficient attention to these sporadic episodes of conscious destruction of political and institutional order from within.

## 2 Centre-State fiscal transfers and centrally-sponsored schemes

India is a federal state in which the federal units – the states and Union Territories – are in matters of public administration, revenues and spending relatively closely controlled by central government. The states depend heavily on central government for revenue. There are statutory and non-statutory fiscal transfers from Centre to states. Statutory transfers are regulated by rules drawn up by the Finance Commission about how central revenues will be shared between Centre and states and among the states (Rao and Singh 2001). There are two non-statutory channels, both overseen by the Planning Commission. The first, called Central Assistance for State Plans, are transfers to help finance the states' annual development plans. It is the second channel – Centrally Sponsored Schemes – that interests us here. Centrally Sponsored Schemes (henceforth CSS) have long been in existence. They were first labelled this way in 1969, and have since expanded in size and number, mainly because they enable the governments in power in Delhi to claim to be directly contributing to anti-poverty activities, even when the state governments are controlled by opposition political parties. For present purposes, there are three significant summary points about CSS.

- First, they are fiscally very important to the governments of the states and Union Territories. In 2006–7, transfers under CSS accounted for an average of 33 per cent of the Plan expenditures of state governments.<sup>8</sup> The figure is generally higher for the governments of the poorer states, who find it more difficult to raise revenue directly.
- Second, as we explain in some detail below, CSS are numerous, diverse and procedurally complex.
- Third, state governments need continuously to invest significant bureaucratic resources in accounting and paperwork if they are to benefit from the revenue potential of CSS. All CSS are conditional application schemes. State governments need to apply for the money, and to show, at least on paper, that they are implementing each scheme according to either the rules laid down by central government, the procedures the state agencies themselves specified in their funding applications, or some combination of the two.

CSS are designed and managed by a range of ministries in the central government. Each has its own rules and operating procedures, which are amended regularly. There were estimated to be 196 different CSS in 2006–7 when we were collecting data – although other sources suggest slightly different totals. The uncertainty derives from the fact that some CSS are not formally labelled this way in the central government's budget. Those not so labelled appear as 'minor' or 'sub-minor' items within the operational programmes of central ministries. Originally, state governments were required to co-fund CSS, typically at a 50 per cent level. By the 1990s, and in response to high fiscal deficits being run by state

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<sup>8</sup> The distinction between 'plan' and 'non-plan' expenditures used in India does not translate easily into standard public finance categories. New types of developmental expenditures are given 'plan' status, but then later may – or may not – be reassigned to the non-plan budget. In Bihar's proposed 2010–2011 budget, 34 per cent of total expenditures are in the 'plan' category.

governments, the average state contribution requirement was down to about 25 per cent. Many schemes started since 2000 require no financial contribution at all from the state governments (Reserve Bank of India 2008). Leaving aside question of levels of co-funding, there are two other important distinctions among CSS relating to financing arrangements that could be used to generate four formal sub-types.

The first major distinction is between (a) schemes in which funding is routed from central government through the budgets of state governments to the operating/spending agencies in the states and (b) those where money is routed directly from central government to the operating/spending agencies, by-passing the budgets of the state governments (Garg 2006). In 2006–7 there were 154 schemes of the first type, collectively accounting for 248 billion (thousand million) rupees of expenditures; and 42 schemes of the second type, collectively accounted for 365 billion rupees (Rao, Gupta and Jena 2007). The second distinction is between (a) schemes for which the inter-state distribution of the aggregate national budget is specified at the start of the year (and over which state governments and operating agencies have some autonomy to declare how they will spend the money) and (b) so-called ‘demand led’ schemes. For the latter, state governments and operating agencies formally have no procedural autonomy: they have to put in bids adhering to standard implementation blueprints drawn up in Delhi. They do however bid, and those states that are most successful in lodging bids and showing they have used the money properly can re-bid in the course of the financial year until the funds are exhausted.

It would however be misleading to say that there are four (or more) types of CSS. For the actual distinctions among them are not always sharp. Even where there are formal inter-state allocations declared at the start of the financial year, normal public sector budgetary processes begin to take effect in the second half of the year: money is in practice re-routed to those states that can make the most effective claims. In the Indian public service as elsewhere, spending officers tend to be evaluated according to their success in spending their budgets; they have an incentive to make the system flexible so that they can shift all their money.<sup>9</sup> State governments can expect to be rewarded financially for putting organisational resources into managing the ways in which they relate to ministries in Delhi in respect of CSS transfers. Conversely, those state governments that do not pay attention to this issue can expect to be out-competed by those that do, and to end up with smaller fiscal transfers than the CSS system formally offers them.

### 3 Underspending

As a poor state, Bihar is very dependent on transfers from the Government of India to finance its Plan spending. For example, of almost 3.5 billion rupees of Plan expenditure in the state in 2004, 2.8 billion came as fiscal transfers from Delhi and the remaining 0.7 billion as a Central Government loan (Government of Bihar 2006). Despite the poverty of the state, the governments led by Lalu Prasad Yadav signally failed to spend the money actually available to them: ‘...Bihar has the country’s lowest utilisation rate for centrally funded programs, and it is estimated that the state forfeited one-fifth of central plan assistance during 1997–2000’ (World Bank 2005). The state’s Annual Plan expenditure was revised downwards in the course of every year between 1992/3 and 2004/5, sometimes radically (see Table 3.1). Between 1997 and 2006, of the 96 billion rupees allocated to Bihar by the Ministry of Rural Development in Delhi, over 22 billion rupees could not be drawn and, of the money received, only 64 per cent could be spent (Government of Bihar 2006). The situation

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<sup>9</sup> Special category states located in the north east of India are treated differently. Funds allocated to them do not lapse at the end of the year, but are carried over into the next financial year.

with the flagship program for primary education – Sarva Shiksha Abhiyan – was similar. Of the 52 billion rupees earmarked for Bihar during the period 2001 to 2007, only 26 billion was spent. Between 2002 and 2006, 40 billion rupees were earmarked for the state under the Rashtriya Sam Vikas Yojana scheme, which could be used to finance a range of investments in physical and social infrastructure in backward areas. The Bihar state government was able to secure only 10 billion and to spend only 62 per cent of that. Over the same period, the state spent only 25 per cent of the money allocated to it under the Prime Minister’s Gram Sadak Yojana rural roads scheme (Government of Bihar 2006). Nayak and Saxena (2006) found that half the 394 projects approved under the Integrated Child Development Scheme were never even initiated. The state government was well aware of the situation. In 2002, its Finance Department reported that, of the financial transfers received from Delhi between 1997 and 2001, 20 per cent remained unspent.

**Table 3.1 Downward revisions to the Bihar State Plan 1992–3 to 2004–5**

Financial year	Approved plan spending (billions of rupees)	Revised plan spending (billions of rupees)	Reduction
1992–93	22.0	11.0	50%
1993–94	23.0	7.5	67%
1994–95	24.0	9.0	63%
1995–96	25.2	9.7	62%
1996–97	21.4	16.5	23%
1997–98	22.7	18.0	21%
1998–99	37.7	18.5	51%
1999–00	36.3	24.7	32%
2000–01	31.6	17.4	45%
2001–02	26.4	16.6	37%
2002–03	29.6	23.1	22%
2003–04	33.2	26.4	20%
2004–05	40.0	30.6	24%

Source: (Government of Bihar 2006)

Was Bihar under Lalu Prasad Yadav special in the degree of under-claiming and under-spending money from Delhi? The authors of the reports summarised in the previous paragraph seem to believe so. But people familiar with the making and implementation of public policy in India have long known that, as a result of the spending pressures and informal organisational practices summarised in Section 2, there are significant differences among the states in their ability to fulfil the procedural requirements for obtaining these financial transfers. Further, many are aware that it is the poorer states that tend to lose out. To the extent that CSS funds formally are earmarked for specific states, larger per capita allocations are made to those with higher proportions of poor people. However, the actual outcomes are different. Richer states are better able to take advantage of formal and

informal budgetary flexibility to claim and spend more than they were initially allocated. They obtain larger CSS transfers per head of population. So is all the under-claiming and under-spending by the Bihar government simply another variant of story of 'the rich getting richer', and unrelated to the governance practices of Lalu Prasad Yadav? We show in the next two sections that this is not the case. Under the leadership of Lalu Prasad Yadav, the government of Bihar under-claimed and under-spent more than the governments of other states at similar income levels. To get to that point, we need to undertake some statistical analysis of variations among Indian states in CSS spending. To do that, we need first to describe where the data came from, and explain the variables used in the statistical analysis.

## 4 Spending comparisons among states

When Mathew began the research reported here, there was no national data base on CSS transfers and expenditures – and therefore, implicitly, very little effective legislative oversight or scrutiny of them. The standard of record keeping at central level is poor. Using both informal and formal channels, Mathew gained access to the information held by the Planning Commission and was able, over several months, and with the cooperation of the staff of the central ministries that funded most CSS, to construct a CSS data base. It comprises information on CSS transfers made by the central government departments responsible for agriculture, rural development, human resource development, welfare and health to state governments over eight financial years (1997–8 to 2004–5). Coverage is incomplete. The data base covers (a) 63 CSS that accounted for about two thirds of all CSS transfers and (b) transfers to the 16 largest states out of a total of 28 states, collectively accounting for 91 per cent of the national population.

We assembled a set of panel data relating to each of these 16 states in each of the eight financial years 1997–8 to 2004–5. Our variables were as follows:

*Dependent variables* (i.e. the variations we wanted to explain):

- *%Expend* – the per cent of total CSS funds received by each state during a financial year that were spent in the state in that year.
- *PerCapCSS Spend* – the total amount of money spent by each state government on CSS in the course of the year, divided by the population of the state.

*Independent variables:*

- *Tax Take* – the per cent of Gross State Domestic Product collected by the state government in taxes.
- *Deficit* – the Gross Fiscal Deficit of the state government as a per cent of Gross State Domestic Product.
- *%Rural Poor* – the per cent of the rural population of the state estimated to live in households below the official poverty line.
- *AgriShare* – the per cent contribution of the agricultural sector to Gross State Domestic Product.
- *Election* – this is a dummy variable, indicating whether or not there was a general election to the state assembly or to the national parliament in the year in question.
- *S (Individual name of state)* – this is a dummy variable for each state, helping to control statistically for omitted variables peculiar to each state that are constant over time.

**Table 4.1 Results of regression analysis**

Model A: Dependent variable = %Expend			
Independent variables	Coefficient	Standard error	Z statistic
% Rural poor	-1.215918	0.5837841	-2.08
Deficit	0.1204033	0.5118171	0.24
Agri Share	-3.646142	5.608139	-0.65
Election	-0.2107104	2.345429	-0.09
Tax Take	4.427266	1.355275	3.27
GSDP	-2.48e-07	3.98e-07	-0.62
Constant	85.54214	21.26019	4.02
R <sup>2</sup> = 0.5631			
Model B: Dependent variable = PerCapCSS Spend			
% Rural poor	-0.0001643	0.0000286	-5.75
Deficit	5.60e-06	0.0000211	0.27
Agri Share	-0.0001386	0.0002723	-0.51
Election	0.0001285	0.0000850	1.51
Tax Take	0.0002043	0.0000511	4.00
GSDP	-3.76e-11	1.56e-11	-2.42
Constant	0.0061157	0.0010245	5.97
R <sup>2</sup> = 0.8486			

We were broadly enquiring whether inter-state variations in the availability and use of CSS funding could be explained statistically by independent variables relating to (a) the fiscal situation of state governments (*Deficit*) (b) the capacity of the state governments to collect taxes (*Tax Take*) or (c) features of the state economy (*%Rural Poor*, and *AgriShare*), while also taking account of possible election spending (*Election*) and omitted variables that differ between states but are constant over time – a dummy variable for each state (*S*). We used the panel data in multivariate regression analysis, with panel corrected standard errors. The main statistical results are in Table 4.1.

We used a Panel Corrected Standard Errors (PCSE) regression model, including dummy variables for each of the 16 states. Since however none of the state dummies showed up as statistically significant, the respective coefficients for the states are not shown in Table 4.1. We looked first, in Regression Model A, at the determinants of *%Expend* – the proportion of total CSS funds received by each state from Delhi during a financial year that were spent in the state in that year. Two independent variables correlated with variations in *%Expend* in a statistically significant way. States in which a higher proportion of CSS receipts were actually spent (*%Expend*) (a) were relatively more successful in raising taxes (*Tax Take*) and (b) had a lower share of their rural households below the poverty line (*%Rural Poor*). These results are consistent with the view that the richer states do better out of discretionary fiscal transfer schemes. Note that there is no significant statistical correlation between *%Expend* and the size of state's fiscal deficits (*Deficit*). Although some observers have suggested that the size of fiscal deficits consistently affect the incentives for states to take advantage of discretionary

financial transfers from Delhi (Nayak, Saxena and Farrington 2002), the lack of a consistent statistical pattern is not surprising. For one can hypothesise two contrary causal mechanisms. State with high deficits might (a) find it hard to co-finance discretionary financial transfers or (b) be highly motivated to take advantage of them – especially if their co-financing contributions could in practice be minimised.

In Regression Model B we looked at the determinants of *PerCapCSS Spend* – the total amount of money spent by each state government on CSS per head of the state population. The results are consistent with those of Model A. CSS expenditures per capita are higher both where there are lower proportions of rural households below the poverty line (*%Rural Poor*) and where state capacity to collect taxes is high (*Tax Take*). Again, *Deficit* is not related in a statistically significant manner.

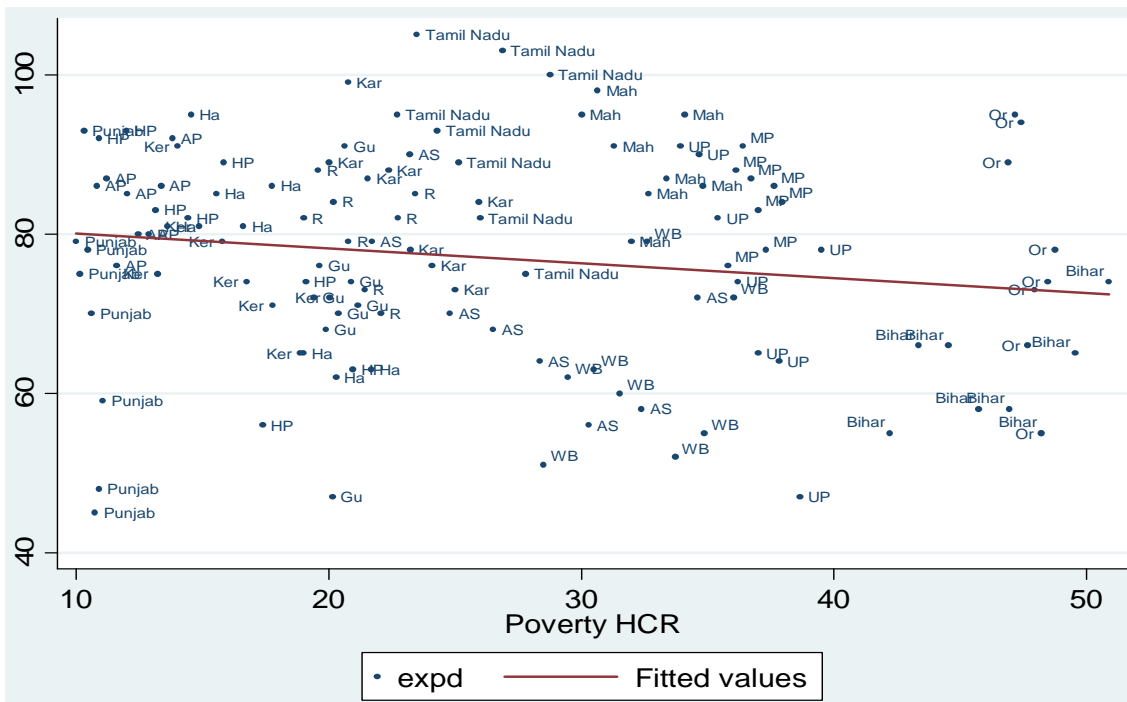
Bihar is a very poor state relative to most others in India. These regression results tell us that poor states tend to spend less on CSS than do richer states. It follows that under-claiming and under-spending CSS resources by the Bihar government under Lalu Prasad Yadav does not itself provide any evidence for our broader claim about intentionally – and unusually – low levels of organisational capacity in the Bihar public service. However, we demonstrate in Section 5 that the level of under-claiming and under-spending of CSS resources was low in Bihar, in a statistical sense, even after we allow for the poverty of the state. We can be sure that this was not driven by the fiscal situation of the state government, which was relatively cash rich (Section 6). The real reasons for under-claiming and under-spending lie in the intentional hobbling of the organisational capacity of the public sector by the political leadership (Section 7).

## 5 Under-spending: Bihar as an outlier

The statistical results reported above lead us to expect that, as a poor state, levels of under-spending for CSS (*%Expend*) will tend to be relatively high in Bihar. But are they in practice higher or lower than one would expect given the state's poverty? The answer is signalled in the graph. The fitted line, derived from Regression Model A, tells us how much under-expenditure we would expect to find given the proportion of each state's rural households that are below the poverty line. The distance between the fitted line and the actual annual observation points indicates the direction and degree of under- or over-spending. The results for three states are especially significant. We have circled them in Graph 1, and spelled out the state names in full.<sup>10</sup> Tamil Nadu is strikingly successful in spending its CSS allocations. This is consistent with its general reputation for relatively effective and enthusiastic public anti-poverty programmes, which seems in turn to be based in large part on a pattern of consistent and close electoral competition between two main political parties, both of them bidding for the support of the average poor voter (Harris 2005). The opposite pattern is found in the Punjab: the state government underspends its CSS allocations to a marked degree. This too is predictable. Incomes are high in the Punjab. The opportunities to exercise political patronage that arise from CSS are of little use to politicians there. The agenda for electoral politics there is shaped more by issues around opportunities for investment, profit and international migration of skilled labour. Bihar too consistently underspends relative to poverty levels. It contrasts strongly with Orissa, which is equally poor, but tends to achieve relatively high expenditure levels on CSS schemes.

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<sup>10</sup> Bihar, Tamil Nadu and Punjab have their names in full. The others have short codes which are As – Assam; AP – Andhra Pradesh; Gu – Gujarat; Ha – Haryana; HP – Himachal Pradesh; Ker – Kerala; Kar – Karnataka; Mah – Maharashtra; MP – Madhya Pradesh; Or – Orissa; R – Rajasthan; UP – Uttar Pradesh; and WB – West Bengal.



## 6 Fiscal comfort

Over the period 1990 to 2005 with which we are concerned, India's state governments typically ran substantial fiscal deficits, to the extent that this was widely considered to be the principal fiscal policy problem in the country. If the Bihar state government had been in this situation, this would be at least a potential explanation for the under-claiming and under-spending of transfers from central government. However, the state government was not running up fiscal deficits. For example, in the period 2003–4 to 2006–7, its average Revenue Balance was 0 (i.e. neither deficit not surplus) and its average Primary Balance was slightly positive (Reserve Bank of India 2008). It had a substantial cash surplus with the Reserve Bank of India (Business Standard Economy Bureau 2006; Patnaik and Sidhartha 2005) and rarely used the 'Ways and Means Advance' and 'Overdraft' facilities available to it from the Reserve Bank of India. Over the four year period 2001–1 to 2004–5, Bihar was among ten states, out of a total of 28 states, that resorted to neither of these financing devices. Apart from Tamil Nadu, it was the only populous state in that group of ten (Accountant General Bihar 2001, 2003; Principal Accountant General (Audit) Bihar 2004).

Previous enquiries into the reasons why the Bihar government has been under-claiming and under-spending central transfers have also concluded that the reasons were not primarily fiscal. The state has been conspicuously under-using even those CSS resources from central government that required no local co-financing (Government of Bihar 2006; Nayak and Saxena 2006). A World Bank team looking at this question concluded that 'In some instances the state appears unable to raise institutional matching loans, and lacks adequate internal financing to meet counterpart financing requirements ... However, this does not appear to be the binding constraint in most programs. These issues go beyond implementation problems affecting central assistance and schemes to deeper questions of basic administration, governance, institutions and capacity building' (World Bank 2005). We turn now to those 'deeper questions', explaining that the political and electoral reasons why the Bihar government was bad at getting public money spent at all.



# 7 The routines of organisational incapacity

Mathew's experience in working for the governments of Bihar and India over 25 years since 1985, supplemented by a series of interviews with public servants and politicians in Bihar in 2005–6, suggests that four sets of organisational practices within the Bihar public service were significantly responsible for its demonstrated low capacity. These practices were not the norm in public administration elsewhere in India, or in Bihar before 1990 or after 2005. The political leadership that imposed them was aware of their consequences, at least in general terms. These practices were: centralisation and multiplicity of layers in decision making; poor recordkeeping and poor supervision resulting in an overload of litigation against the state, mostly from employees and suppliers; mismatch between the rain, flood and budget cycles; and vacancies in state government offices, particularly at the middle and senior levels. Note that some of these practices might be labelled 'bureaucratic' in the perjorative sense of the term (procedure as obstacle to getting things done) while others constitute failure to observe even basic bureaucratic routines of record-keeping. It would therefore be difficult to explain this behaviour in terms of any generic notion of a culture of bureaucratism or bureaucratic obstructionism. Insofar as we observe behaviour that merits any such label, it has to be explained, not explained away through labelling.

## 7.1 Centralisation

In India, any new public spending scheme undergoes departmental scrutiny and has to receive the approval of the minister concerned. In Bihar under Lalu Prasad Yadav, new proposals had additionally to be screened by a committee of civil servants and then sent for the approval of the Chief Minister in his capacity as Planning Minister. If the outlay exceeded the equivalent of about US\$50,000 – a tiny sum for a government responsible for over 80 million people – the proposal then went to the state cabinet for approval, and then to the Finance Department for vetting before a sanction order was issued (Government of Bihar 2006). The court commissioner appointed by the Supreme Court of India in a public interest case on the Integrated Child Development Scheme – a CSS – had this to say on the \$50,000 threshold in Bihar:

There is no such parallel provision in the transaction of business rules neither in the central government nor in any state government. The whole process is time consuming, resulting in delays in release of funds ranging from four to six months. Doing away with this rule in itself will expedite financial releases, giving more time to the field staff to use and then claim second instalments.  
(Nayak and Saxena 2006)

Most central grants to states are released in two or more instalments. The money is routed either to the state government or directly to an authorised operating agency within the state. All money received by the state government is credited to the consolidated fund of the state. There are prescribed procedures for spending money from the consolidated fund. In Bihar under Lalu Prasad Yadav, unlike in other states, the state cabinet had to sanction all expenditures from the consolidated fund of more than 2.5 million rupees (US\$55,000), even for schemes that it had already approved. Consequently actual spending of the first instalment from Delhi could not even begin until well into the financial year. Since 60 per cent of the initial instalment had to be spent before a second instalment could be made, the second instalment often was not even requested or, if requested, arrived too late to be used in the financial year for which it was sanctioned (World Bank 2005). For example, in October 2002, the relevant departmental committee of the state government approved a proposal for the release of the first instalment of funding for the National Old Age Pension Scheme,

another CSS. The Cabinet also had to approve it, but did not do so until January 2003. By the time the state government requested and received the second instalment it was already the 29th March. The financial year ended two days later. The money could not be used.<sup>11</sup>

All engineering work estimated to cost more than about US\$2000 needed vetting by a senior Executive Engineer. Final payments could be made only on his signature. However, the Executive Engineer had the power to approve payments only up to a limit of about US\$10,000. Above that limit, the signature of the Superintending Engineer power was required. The delays stemming from this procedure were all the worse because of the acute shortage of engineers in the state (Government of Bihar 2006).

Excessive centralisation was also evident in the case of transfers and postings of public sector employees. There are 38 districts in (post-2000) Bihar and 534 Development Blocks. All transfers down to the Block level were done at the state headquarters in Patna, under the influence of departmental ministers. This delayed decision-making within the public service, adversely affected discipline and lines of control, and consumed the time and attention of senior officers in the state secretariat. A World Bank team found that:

... the existing civil service rules envisage a merit-based system of recruitment, placement, promotion, sanctions and rewards. However the system operates in an ad hoc, non-transparent and non-meritocratic manner. Problems related to the work environment (including those faced by women employees), infrastructure, and accommodation, local tensions and delayed salaries together affect staff morale. There also appears to be a breakdown of hierarchy and the loss of control by district magistrates, heads of departments and departmental secretaries over subordinate personnel. The district magistrates appear to be frustrated by centralization, absence of support and understanding from their superiors, and inaction on reports of malfeasance and inefficiency at subordinate levels.  
(World Bank 2005)

## 7.2 Record keeping

The routine conduct of government business in India is often parodied for being excessively bureaucratic and overly shaped by an inheritance of colonial concerns to maintain control by high level officials and limit discretion at middle and lower levels of the public service. Whatever the validity of those charges, it is clear that good record-keeping is important. This matters for, among other things, the employment histories of public servants, whose pension claims are dependent on records going back decades. In the period after 1990, the standard of record keeping in the Bihar state government deteriorated noticeably. This particularly affected the public service: one important target against which the ruling coalition continually mobilised its electoral base. Finding records relating to public sector employment, provident fund contributions and insurance accounts became a major challenge. No systemic efforts were made to computerise this information. In 2005 the state government faced over 5,500 contempt applications in the High Court. Over 1500 of these cases related to the non-implementation of orders for the payment of retirement benefits (World Bank 2005). Others involved service matters of government employees, irregularities in obtaining land revenue, non-payment of admitted contractual dues and breach of statutory rights by public utilities (Government of Bihar 2006).

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<sup>11</sup> In Bihar today, individual government departments can, with the approval of the Finance Department, spend any amount on ongoing schemes once the state budget has been approved by the state legislature.

### 7.3 Budget cycle

The Indian financial year begins on the 1<sup>st</sup> of April. The national legislature and the legislatures of most states approve the budget for the financial year before the year actually begins. Although the Bihar Chief Minister generally commanded a majority within the state assembly, in many years the assembly was not asked to approve a full budget until June or July. This was not a last moment contingency, but foreseen and planned: in March the assembly would approve a vote-on-account, which would provide the state government with sufficient funds to operate for a few months until the full budget was presented for approval. This meant that the operating agencies did not know their annual budgets until well into the financial year, and had to submit two sets of paper work, one dealing with vote-on-account funds and the other with the regular budget (Government of Bihar 2006). Public engineering works were sometimes suspended for these reasons alone, exacerbating the problem that, because the state is located on the Gangetic plain and frequently suffers from heavy rains and flooding, works anyway are often interrupted.

### 7.4 Vacancies

The situation in respect of engineers provides a stark example of how understaffing compromised state administrative capacity in Bihar. One reason for an acute shortage of engineers was that the departmental promotion committee would not hold meetings, and when meetings were held, the committee's recommendations would not be approved for implementation. The positions of Engineer-in-Chief in the two principal engineering departments, the Road Construction Department and the Rural Engineering Organisation, both remained vacant for a long period of time, as did all 15 positions as Chief Engineer in the two departments, and 81 out of the 91 Superintendent Engineer positions. Although the problem was less severe at lower levels professional levels, there were still 1305 vacancies among the 6393 positions for Executive, Assistant and Junior Engineers (Government of Bihar 2006). Officers in post were required simultaneously to look after three to four offices. Important documents, like schedule of rates for construction work, would not be updated for years. Consequently, construction work that could not be tendered out to contractors was completed using unrealistic and outdated rates for labour and materials, forcing departmental officers to prepare false vouchers and muster rolls to cover costs.

There has been an acute shortage of technical personnel at all levels in the Road Construction Department and Rural Engineering Organisation. There has not been any significant recruitment at entry levels and promotions have not materialized. The Quality Control Organisation in the Road Construction Department is non-functional for want of equipment, chemicals and personnel. Advance Planning Wing is also non-functional. There has been a total collapse of technical administration. This is a serious constraint not only for implementation of works but also for preparing project proposals for getting more funds from the Central Government or other sources.  
(Government of Bihar 2006)

Block Development Officers and Circle Officers are senior officers in charge of development and land/revenue administration respectively at the sub-district level. They work at the front line of government, touching the lives of citizens on a day to day basis. If a District Magistrate is the government representative at the district level, the Block Development Officers and Circle Officer are the equivalent at lower level. Yet over a third of these positions did not have a full time incumbent (Government of Bihar 2006). The Bihar Administrative Service cadre, from which Development Officers and Circle Officer and other senior officers up to the rank of Additional Secretary are drawn, had 633 vacancies against a sanctioned strength of 2248. The Bihar Public Service Commission, which is responsible for the recruitment to the Bihar Administrative Service and the posting of all class I and II officers, had only three

members and the Chair position was vacant for a critically long period (World Bank 2005). Orderly decision making and the conduct of public affairs was physically impossible, with officers barely managing to deal with crises as they emerged, and non-urgent but important tasks left unattended. The Hindi word '*vyavastha*', which can be translated as 'coping', peppered the conversations of public servants at this time. This situation naturally led administrators to turn a blind eye to a range of unorthodox practices, including forgery, embezzlement and approvals without adequate scrutiny.

The primary education and health sectors also suffered from a large number of vacancies. In the government health service, 90 per cent of doctors posts were vacant, as were 95 per cent of posts for paramedical staff (Government of Bihar 2006). Under the Integrated Child Development Scheme, a Centrally Sponsored Scheme, there were only 4 per cent vacancies for the field level positions of *anganwadi* worker and helper, which required only minimal educational qualifications. By contrast, there were 85 per cent vacancies at the level of Supervisor, and 21 per cent at the senior position of Child Development Officer (Nayak and Saxena 2006). Between 1996 and 2006, only 30,000 new primary school teachers were recruited against the 90,000 that were required. The pupil teacher ratio, which was already 90:1 against the national norm of 40:1, worsened to 122:1 (Government of Bihar 2006). The Government of India was willing to pay the salaries of these missing teachers under a Centrally Sponsored Scheme called Sarva Shiksha Abhiyan ('education for all'), and put increasing pressure on the Government of Bihar to undertake the recruitment. The state government appeared to concede, but exceeded its powers by changing the recruitment rules so that it would be better able to appoint teachers from within its own electoral base. This move was immediately struck down by the courts. The state government simply left the positions vacant.<sup>12</sup>

There is no doubt that scarcity of suitably qualified people played some role in these high vacancy rates. But it was a minor factor. For many years, with the significant exception of police constables, no serious efforts were made to fill vacancies. For example, the results of a promotion exam held in 2003 to select government staff as members of the Bihar Administrative Service were declared only in 2005. Following a petition by some candidates, the High Court intervened and ordered a vigilance enquiry that resulted in the arrest of the Chairman of the Bihar Public Service Commission, another member and seven officials (Balchand 2005). In 2008, following a three year enquiry by the state Vigilance Department, the High Court concluded that the exams were not properly conducted and cancelled the results (Outlook India 2008). There is no scarcity in Bihar of young people qualified for recruitment at high levels into India's elite public services. Bihar has for many years been either the largest or second largest source of new recruits into the All India Services (the Indian Administrative Service, the Indian Police Service and Indian Forest Service) and Central Services like the Indian Foreign Service, the Indian Railway Service, and Indian Revenue Service. The state government preferred not to recruit from these sources. Vacancies in the public service, like the other administrative procedures that exacerbated their malign effects, reflected political choice. We look now in more detail at the logic behind those political choices.

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<sup>12</sup> The first author knew this case from direct personal experience.

## 8 The politics of state incapacity

Dalits and even backward caste people were not allowed to wear good clothes or put on shoes in the villages of Bihar. They could not remain sitting or stand with their heads up before upper caste men or argue with them. Such was the stranglehold of the feudal order in the village that upper caste landlords were supposed to have an undisputed right to over Dalit and backward caste women.  
(Bharti 1990)

Attempts to mobilise the majority of Bihar's population against the small minority of upper castes that dominated the state's politics, professions, education systems, police service and public bureaucracy go back many decades (Robin 2009). They were organised and animated in particular by the social movement and Socialist Party led by Jayprakash Narayan and Ram Manohar Lohia. The fruits, as measured by representation in the state assembly, began to be visible from the 1970s (Table 8.1). In the 1980s, Lalu Prasad Yadav became prominent among a range of politicians who were reflecting, spearheading and shaping this lower caste revolt.<sup>13</sup> The pattern of representation in the state assembly changed markedly. The upper castes lost out – although they remained over-represented relative to their numbers, and recently have clawed back some of their earlier losses. Their losses were mirrored in gains for the so-called Backward Castes, who are dominantly cultivating groups and actually middling in the caste hierarchy. After the 1977 state elections, the upper caste Members of the Legislative Assembly (MLAs) outnumbered Backward Caste members by 50 per cent. At their high point in 1995, the Backward Castes had twice as many MLAs as the upper castes (Table 8.1). The Yadavs are by far the most numerous single caste in the state. They are significantly over-represented in the state legislature. Their share of Backward Caste MLAs increased over time. On the basis of these numbers, one could talk of 'the rise of the Yadavs'.

However, the Yadavs only once, in 1995, accounted for more than a quarter of MLAs – and over a third of the Assembly seats held by Lalu Prasad Yadav's party (Robin 2009: 86). Lalu Prasad Yadav created an electoral coalition, organised first as the Janata Dal and then the Rashtriya Janata Dal Party, around (a) his own Yadav caste; (b) other less numerous – and mainly cultivating – Backward Castes (Kurmis and Koeris and Baniyas); (c) the Muslim community; and (d) the large, lower status Scheduled Caste (Dalit) community. However, his command of Scheduled Caste votes became decreasingly certain as their political leaders began to turn the Scheduled Caste vote into an autonomous electoral force. Lalu Prasad Yadav commanded votes mainly in the middle rungs of the caste hierarchy.<sup>14</sup> Although his core electoral support group did not comprise a majority of the electorate, it was, if effectively managed, well placed to dominate elections and government in a situation in which there were powerful tensions, often spilling over into violence, among a range of groups positioned slightly differently in the caste hierarchy. For present purposes, we can identify four inter-related dimensions of his political and electoral strategy.

<sup>13</sup> Much the same was happening in other parts of what is often called the 'Hindi belt' of northern India, notably in the states of Uttar Pradesh and Madhya Pradesh (Jaffrelot 2009: 6–10).

<sup>14</sup> This electoral positioning was to some degree imposed on Lalu Prasad and his predecessors. The most consistent and coherent electoral competition that they had to face was a 'coalition of extremes' in the shape of a local Congress Party with strong support among both the upper castes and the Scheduled Tribes (Robin 2009: 82–3). Lalu Prasad Yadav never received much support from the Scheduled Tribe population, and was strengthened electorally when, at the division of the state in November 2000, all seats reserved for Scheduled Tribe candidates were relocated to the new state of Jharkand.

**Table 8.1 Percentage distribution of members of the Bihar State Legislative Assembly among main caste and community groups, election years, 1952 and 1977 onwards**

	1952	1977	1980	1985	1990	1995	2000	2005
<b>Upper Castes*</b>	46	41	37	39	35	22	23	30
<b>Backward Castes**</b>	19	28	29	25	34	44	35	35
(of which Yadavs)	(8)	(15)	(14)	(15)	(19)	(26)	(21)	(23)
<b>Muslims</b>	8	8	9	10	6	7	9	10
<b>Scheduled Castes</b>	14	14	15	15	15	15	15	17
<b>Scheduled Tribes</b>	11	9	9	9	9	8	9	–
<b>Others***</b>	2	-	1	2	1	4	9	8
<b>TOTAL</b>	100	100	100	100	100	100	100	100
Ratio of Upper Caste to Backward Caste Members								
	2.4:1	1.5:1	1.3:1	1.6:1	1:1	0.5:1	0.7:1	0.9:1

\* Upper Castes comprise Brahmins, Bhumihars, Bengalis, Rajput and Kayasthas.

\*\* Backward Castes comprise Yadavs, Kurmis, Koeris and Baniyas.

\*\*\* From the 1995 elections onward, there is significant representation of the Extremely Backward Caste category.

Source: Adapted from Robin (2009: 100).

First, he helped solidify his core electoral support by maintaining a mood of continuous rhetorical mobilisation against the upper caste minority. Thakur (2000) quotes from some of Lalu Prasad Yadav's speeches:

These people have oppressed and suffocated you for thousands of years, they have made you labour and they have kept the fruits for themselves.

This government, this power, the state, this is all yours. You have been deprived of your share because those who ruled the state were not bothered about you ... But now your man has captured the establishment... 'Burabal Hatao': wipe out the upper castes.

'Bhurabal' was one of his typical inventions, a crude acronym for the categories that made up the upper castes: Bhumihars, Rajputs, Brahmins and Lalas (Kayasthas).

Second, as we have explained above, Lalu Prasad Yadav gave credibility to his rhetoric by refusing to recruit members of those upper castes into the public service, and by maintaining very close political control over officers already in service. The costs, knowingly incurred, were loss of administrative capacity and, indirectly, sacrifice of fiscal transfers from Delhi.

Third, Lalu Prasad Yadav nevertheless ensured that state capacity was preserved where it was needed to deliver important selective benefits to the core components of his electoral base. One core component of this base – his own Yadav caste – benefited from a highly uneven pattern of cooperative development.<sup>15</sup> When Lalu Prasad Yadav first came to power

<sup>15</sup> While Yadavs and other cultivating castes, Muslims and to a lesser extent Scheduled Castes were the main components of Lalu Prasad Yadav's electoral coalition, the Yadavs were central to the patron-client network. They to a

there was in rural Bihar, as in most of India, a wide range of agricultural cooperatives. These were dominated by the main landowners, the minority upper castes. The new government set about systematically dismantling them, first by suspending cooperative statutes and elections and putting the organisations under the direct control of appointed public servants. However, one section of the cooperative movement not only bucked the trend, but flourished: the dairy cooperatives. Yadavs are a cultivating caste, but 'traditionally' associated with dairying.

Similarly selective practices within the sphere of policing and security were directed at retaining Muslim votes. Muslims in India have for several decades been vulnerable to inter-communal violence (Sengupta 2005; Wilkinson 2002). The Minorities Commission of India calculated that, in communal riots that took place between 1985 and 1987, 60 per cent of the people killed were Muslims and Muslims suffered 73 per cent of reported property damage (Sengupta 2005). Before Lalu Prasad Yadav became its Chief Minister, Bihar experienced many such incidents, including the Bhagalpur riots in October 1989. To preserve his Muslim support, Lalu Prasad Yadav ensured that the situation changed. Bihar became something of a haven against inter-communal riots. In 1992, when the struggle that led to the destruction of the Ayodhya mosque was accompanied by communal riots all over India, Bihar was an island of peace. This reflected a clear political decision:

Lalu Yadav, when asked why Bihar had been so quiet despite its woeful record of past riots, explained how his government had arrested returning militants from Uttar Pradesh (the site of Ayodhya) before they could reach their towns and villages, and how he had threatened all district magistrates and station house officers with the loss of their jobs if they allowed any riots to break out in their town. 'The political will of the state government' he said, 'was clear'.  
(Wilkinson 2006)

It was not that the Bihar police were generally effective. The state remained relatively lawless. The business of kidnapping for ransom thrived. It was inevitably aimed mainly at the higher castes, and was believed to receive high level political support and protection, if not direct sponsorship. The state government did not generally exercise discipline over the police, but retained sufficient control that the service could be used for politically crucial tasks. When the government changed in 2005, the crime rate in the state began to decline substantially, above all the kidnapping rate (Table 8.2).

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large degree controlled public access to the public service; enjoyed special privileges within the public service; and seemed to have a licence to engage in kidnappings for ransom not enjoyed by other groups. '... if you carry a Yadav surname... people will presume that you have got connections and that you can approach political parties. This was the exact opposite 15 to 20 years ago when a Brahmin surname guaranteed a certain stature.' See Bhagat (2004).

**Table 8.2 Bihar's crime record 2001–2009 (September)**

Year	Murder	Dacoity*	Robbery	Kidnapping for ransom	Road robbery
2001	3619	1293	2175	385	1296
2002	3634	1259	2236	396	1323
2003	3652	1203	2425	335	1430
2004	3861	1297	2909	411	1875
2005	3423	1191	2379	251	1310
2006	3225	967	2138	194	1251
2007	2963	646	1729	89	1109
2008	3029	640	1536	66	897
2009 (to September)	2438	505	1253	62	720

\* - Dacoity is an Indian term meaning robbery by groups of armed bandits.

Source: (Government of Bihar 2009)

Finally, Lalu Prasad Yadav strove to alleviate the tension inherent in his political strategy by making only very sparing promises about the material benefits that he would bring to Biharis. The tension was that, by consistently undermining the capacity of the state apparatus under his control, he limited his ability to deliver what would elsewhere in India be considered normal developmental goods. As a Chief Minister in a federal system in which power is weighted toward the central government, Lalu Prasad Yadav had limited capacity to alter the rules of the game. Delhi could at any moment have dismissed him and imposed President's rule on the state; the constraints on that course of action are political rather than legal. Lalu Prasad Yadav was unable to pursue the strategy followed by President Hugo Chavez in Venezuela: to by-pass or dismantle existing state institutions, and to create alternative institutions, often with ambiguous legal status, under much more direct personal and political control (Section 9). His decision to subordinate concerns about the organisational capacity of the state government to his political strategy left him with a problem: he could not for long credibly promise to deliver 'development' on a broad scale to much of the electorate. He finessed this problem in part by promising and delivering only sectional benefits, and in part by departing from the normal practices of Indian electoral politics and not vigorously promising 'development'. For example, if during his many trips to villages he was asked to provide better roads, he would tend to question whether roads were really of much benefit to ordinary villagers, and suggest that the real beneficiaries would be contractors and the wealthy, powerful people who had cars. He typically required a large escort of senior public officials on these visits, and would require them to line up dutifully and humbly on display while he himself was doing his best to behave like a villager. He might gesture at this line-up and ask 'Do you really want a road so that people like this can speed through your village in their big cars?' Lalu Prasad Yadav was not trying to fool most of his voters most of the time. He was offering then tangible benefits: respect (*izzat* – a Hindi term that he employed frequently) and the end of local socio-political tyrannies. But the strategies he used to deliver those benefits limited his ability to deliver 'development' in a more material sense.



**Table 8.3 Plan expenditure of the Government of Bihar, 1997–8 to 2008–9  
(billions of rupees)**

Year	Approved plan expenditure	Actual expenditure	Actual expenditure as a % of plan
1997–98	2.3	1.7	73
1998–99	3.7	2.6	69
1999–00	3.6	2.7	74
2000–01	3.2	1.6	52
2001–02	2.6	1.5	56
2002–03	3.0	2.2	74
2003–04	3.3	2.6	79
2004–05	4.0	3.2	80
2005–06	5.3	4.5	83
2006–07	8.3	8.5	103
2007–08	10.2	9.7	95
2008–09	13.5	12.5	93

Source: Finance Department, Government of Bihar

However, Lalu Prasad Yadav's ability to direct the attention of Bihari voters away from 'development' – and from the numerous corruption cases lodged against him in the courts – was not infinite. Nor was the degree of legislative over-representation of the Yadavs that he spearheaded sustainable in the long term. His competitors, notably Nitish Kumar, saw the potential to mobilise votes from two under-represented groups: the non-Yadav Backward Castes and the numerous Extremely Backward Castes. Nitish Kumar also rallied the upper caste vote and sections of the Scheduled Caste community (Robin 2009: 88–96). He became Chief Minister after the 2005 state elections, and quickly gained a reputation for effectiveness and for making 'development' happen. Most visibly from our perspective, the state government coffers began to benefit from a large increase in fiscal transfers from Delhi (Table 8.3) – despite the fact that Nitish Kumar's party was not a part of the coalition ruling in Delhi, while Lalu Prasad Yadav's Rashtriya Janata Dal was. Lalu Prasad Yadav was Railways Minister in the central government from 2004 to 2009. While he was there he gained a reputation of being a very successful reformer, and for being responsible for a marked improvement in the performance of India's over-loaded and under-funded national railway network. It has been suggested more recently that this reputation was inflated, and not entirely deserved. Whatever the truth of that, it is clear that Lalu Prasad Yadav could be a very effective manager of a large, complex organisation – in large part because he knew how to pick and trust his right hand men. It was not his incompetence that explains why he governed Bihar badly, but the fact that he chose to use his talents in other ways.

## 9 State incapacity by design

The story we have told above revolves around a chance combination of circumstances and an individual who seized the opportunity they provided to rule over Bihar for 15 years. There are probably many people in the world with Lalu Prasad Yadav's ambitions and abilities. But the circumstances that permitted him to come to prominence, and to stay there so long, are unlikely often to recur. However, we do not see this as just an interesting but idiosyncratic story, significant only to those who want to understand the recent history of Bihar. Rather, it is centrally relevant to the ways in which we think about that bundle of activities and concerns variously labelled *state-building*, *capacity development*, *institution building*, or *public sector reform*. First, it is yet another warning about how easy it is to foster pessimism by attributing governance problems in poor countries to deeply embedded historical or cultural factors, when in fact they may have some more immediate, political, and tractable causes.<sup>16</sup> There is no doubt that Bihar has socio-political problems with deep historical roots. However, it was short term political strategy, not deep history, which tipped Bihar into a particularly perverse pattern of governance between 1990 and 2005. Second, we see this story as one of a much larger set of contemporary cases of the conscious undermining of government institutions from within by small groups of power-holders pursuing narrow, particularistic ends. We conclude with some discussion of this under-explored and under-theorised field.

There is an enormous literature on the contemporary obstacles – and set-backs – to the creation of effective public authority in the poorer parts of the world. The literature typically sports labels like *state-building*, *capacity development*, *institution building*, and *public sector reform*. The attention paid to actual state breakdown, and to the problems of recreating effective political order after civil war, has increased greatly over the last two decades, since the end of the Cold War helped trigger a series of major authority failures in places like Afghanistan, the Balkans, the Democratic Republic of Congo, Central Asia, Pakistan, Sierra Leone, Somalia, and Timor Leste. Research into the causes of these authority failures is patchy. The more dramatic cases – internal armed conflicts – have received considerable attention from good researchers. The debates continue, but we know a great deal more about the topic than we did two decades ago (Fearon and Laitin 2003; Munkler 2005; Wimmer, Cederman and Min 2009). By contrast, the causes of the less visible kinds of authority failures – the more routine, everyday declines in the capacities of public agencies and their responsiveness to citizens – have received less, and lower quality, research attention. The dominant mode of explaining the accumulation of these routine failures, and thus the prevalence of poor government in many poorer parts of the world, is that found in the 'Afro-pessimism' literature cited in footnote 16: failure is assumed or asserted to be deeply embedded in national and regional history and culture. There is a strong elective affinity between this kind of explanation and the interpretations (implicitly) preferred by agencies that make a living from directing aid money at such problems. Aid agencies tend implicitly to 'naturalise' poor governance in poor countries. It is there because it is there. It requires no explanation beyond listing sets of symptoms – corruption, low capacity, centralisation, weak property rights, and lack of accountability or popular voice, weak rule of law – that in turn validate intervention programmes. Once the right interventions are made, we can expect cumulative, if uneven and interrupted, progress in building effective public authority.

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<sup>16</sup> We refer in particular to the widespread tendency to try to explain away undoubted governance problems in sub-Saharan Africa by using labels like 'neopatrimonialism'. For an excellent critique of this procedure, see Therkildsen (2005).

This notion that the construction of public authority is mainly a matter of steady progress or stable equilibria is at odds with much of the scholarly literature on the subject. The longer the historical time scale, the more scholars tend to emphasise the ephemeral character of most states or other forms of effective public authority. Most attempts to create durable large scale governance institutions fail. Most institutions that succeed do not endure for long. Most polities are very fragile. Those that survive long enough to be responsible for writing history are rare exceptions (Mann 1993; Scott 2009; Tilly 1992). Ganev (2007: 56), referring to Mann's work on the history of state formation, says:

Mann's principal insight is that organizational dominance of the state is not a static equilibrium occasionally disrupted by foreign invaders or armed revolts of oppressed masses. Rather, it is a necessarily precarious arrangement that may rapidly unravel if and when powerful groups launch an offensive to claim state-accumulated resources.

It follows that, to understand contemporary 'fragile' polities, we need to re-balance the analysis. While continuing to identify the actors and forces that animate the construction of (legitimate, effective) public authority, we need also to look dialectically at the converse processes: more or less continuous incentives and initiatives to deconstruct, weaken or destroy public authority. It matters in particular that we should have a better understanding of how this is done by powerful insiders, i.e. the same people who are often believed to be in need of external assistance for state building. We make a modest start on this in our final section by suggesting a comparative framework into which our Bihar case seems usefully to fit.

## 10 Bihar in comparative context

Let us label this intentional weakening of state capacity by political insiders as IWSCPI. We can begin by saying what IWSCPI is not. First, it is not just the standard phenomenon of 'state capture' – the use of state power to favour particular interests (Hellman, Jones and Kaufmann 2000). The biased use of power is characteristic of all states and indeed all significant political organisations (Moe 2005). The degree of (ab)use of power varies widely, but the phenomenon itself is normal. Second, IWSCPI is not just routine attempts by external agencies – other states, criminals, business interests, etc. – to limit or reduce state power. This again is normal politics, although the intensity and the means vary widely: an armed attack by another state is very different from passive obstructionism by business interests in response to requests for information that would empower the tax authorities. Third, we are excluding the kinds of cases of spontaneous stripping of state assets on which Solnick (1998) writes so well in relation to the final years of the Soviet Union. Even before Mikhail Gorbachev began to introduce *glasnost* and *perestroika*, mechanisms for controlling bureaucrats in Soviet organisations were weak. Once reforms began, bureaucrats began spontaneously to seize the organisational assets they were supposed to be managing. The system suffered the organisational equivalent of a colossal bank run. No coordination was required.

IWSCPI relates rather to practices, to some degree coordinated or planned, that lie at the interface of state capture and state weakening: the intentional use of power by insiders to reduce state capacity in the long term. There are numerous snippets of information about IWSCPI in the contemporary world. The challenge rather is to put them into an analytic order that will be helpful for thinking further about the research and policy implications. We suggest that it is useful to think of IWSCPI as varying along three dimensions:

- The extent to which institutional destruction is balanced by the creation of alternative public authority institutions that are to some degree legitimate, effective and responsive to citizens' needs. For example, although the 'Bolivarian Socialism' of President Hugo Chavez in Venezuela has involved the weakening of many existing state institutions, some of the quasi-formal competitor institutions that the regime has nurtured deliver some public services and contribute to maintaining some political order (see below).
- The extent to which the agents of state weakening occupy positions of power at the centre of the polity, or somewhere nearer the periphery. We are talking only of political insiders, so all are by definition powerful. The difference is, for example, between a network led by the Chief Minister, as in the Bihar case, and a network that is composed largely of outsiders but includes a few senior public servants and politicians (Ganev 2007).
- The extent to which the driving motivations are either (a) rent-taking (making money) (b) political (i.e. increasing the chances that particular interests will remain powerful or that particular policies will or will not be pursued) or, probably the most common scenario, (c) a mixture of both.

We list a few cases from the literature along the last dimension, beginning with those where the motivations seemed dominantly rent-taking, and moving to those where they were dominantly political.

- Politicians in the Philippines, Sabah and Sarawak weakened forestry institutions and changed laws to facilitate illegal logging (Ross 2001).
- Military and police networks with links to political leaders abuse their position to engage in crime (including drugs and arms trafficking, extortion and kidnapping), protect criminals, coerce political opponents of the government, and undermine the legitimacy of the state so protect themselves against constructive political mobilisation. In varying degrees, such practices are widespread. Contemporary Guatemala is a vivid case (International Crisis Group 2010).
- The most detailed enquiry into IWSCPI of which we are aware is Ganev's (2007) book exploring the ways in which networks of people with strong links into the post-Communist state apparatus deliberately weakened or destroyed parts of that apparatus, especially those agencies and personnel that represented repositories of information about the state's economic enterprises, to make it possible for them to steal state assets and hide their crimes. For example, a few well-connected people borrowed large sums of money from state financial agencies that held the money on behalf of 'millions of ordinary depositors who were weak and disorganized' (2007: 88). The money was not repaid in part because it was untraceable: 'Under formal and informal pressure from powerful debtors, entire investigative units in the Ministry of Internal Affairs specializing in financial crimes were dismantled' (2007: 90).
- In the 1980s many governments in sub-Saharan Africa, already relatively weak and authoritarian for a range of historical reasons, and trying to cope with economic decline and falling prices for their commodity exports, were faced with a revenue crisis. They tended to deal with it by trying to protect the incomes of the political elite. Parts of the state were shut down; large populations or regions received little government money at all. The elites used their political power to predate even more on those parts of the economy that did produce a surplus. Both the political and the bureaucratic institutions of public authority were undermined from above, because political elites protected themselves from the effects of economic and revenue decline. Those populations and

regions that were 'externalised' from the state realm often succumbed to conflict (Bates 2008).

- Between 1964 and 1978, Kenya was to a significant degree governed in the interests of the largest ethnic group, the Kikuyu, who dominated the sole legal political party, owned much of the productive land and were prominent in business. Although in a position to exercise enormous personal authority, President Kenyatta permitted a considerable dispersal of power, preserved some professional autonomy for important institutions like the public service, supported local self-help activities, and subjected MPs to electoral competition within the framework of one party rule. These arrangements generally suited to more privileged socio-economic groups. Daniel arap Moi, who succeeded Kenyatta as President in 1978, represented a coalition of poor, geographically marginal ethnic groups. In order to ensure his own position and that of the weak and relatively under-educated groups that he represented, Moi concentrated power into a small number of hands. He took direct control of – and largely re-populated – the higher levels of the public service. Local self-help activities were no longer encouraged, and became 'theatres' for the display of Moi's authority. MPs' positions now depended more on the approval of the President than of the voters. The regime was able to deliver rewards to a core political constituency, including licences for large scale corruption, but the overall capacity of the state and the quality of governance declined markedly (Barkan 1992).
- As we have explained in this paper, the underlying political motivations shaping the governance strategies pursued by Lalu Prasad Yadav as Chief Minister of Bihar (actual or surrogate) were broadly similar to those driving Daniel arap Moi in Kenya: both represented 'outsider' socio-economic groups who were much under-represented in the dominant political, professional and business networks and organisations. They pursued similar governance strategies, involving the centralisation of power and the weakening of established state institutions. The contexts in which each found themselves influenced their individual strategies. In particular, while Moi was President of a sovereign nation, Lalu Prasad Yadav had to operate within a federal system in which the central government exercised a great deal of control over both the fiscal affairs and personnel policies of the states. State governments were obliged to follow central rules in public service recruitment, and had to rely on senior public servants in effect allocated to the state by Delhi. There were tight limits on the extent to which Lalu Prasad Yadav could either re-populate the public service or spend public money at will. Faced also with the need to maintain a state of psychological mobilisation against upper caste dominance, he refrained from using some of the power he did have to appoint public servants and to claim and spend as much money as he could extract from Delhi. While in many ways a populist, he under-exploited what we think of as standard techniques of populist rule: public sector appointments and the irresponsible spending of public money.
- Hugo Chavez, President of Venezuela since 1998, has much in common with Daniel arap Moi and Lalu Prasad Yadav: he is the leader of a political movement representing socially, politically and economically excluded groups; and he has used office to centralise power, to weaken a wide range of political, constitutional and administrative institutions, and to bring his own people into positions of authority. One major difference is that Chavez has a clear long term political project: Bolivarian Socialism. He has accordingly been building up competing political and administrative institutions that are directly under the control of his own supporters. They include the 'misiones' that provide social services; 'communal councils' that are established, with state funding, in competition with elected local governments; and 'Bolivarian Circles' – the

fifth branch of government according to the 1999 constitution – which, along with a range of other more or less formal and more or less armed local groups, receive public funds to ‘protect the revolution’ (Ellner 2005; International Crisis Group 2007; Shifter 2006). These alternative institutions often lack constitutional authorisation, transparency or accountability to anyone except the President. They exist in a legal grey area on the fringes of the formal state. While on balance a destroyer of state institutional capacity, Chavez is also a builder, albeit to unorthodox designs of questionable effectiveness.

- Until 1989, Britain had a system of local property taxation based on records of the ‘rateable value’ of each residential and commercial property. These records had been built up over centuries. Rateable values of individual properties had been modified according to changes in the property itself and in its immediate environment. The system discriminated quite accurately between properties according to their underlying capital and rental values. By that criterion, it was a very fair system. Property taxes were however unpopular with property owners, in a society in which a large fraction of the population lived in rented public housing and were not required to pay the property tax. In 1989, the Prime Minister, Margaret Thatcher, forced through a radical change against the opposition of much of her own political party. The property tax was abolished, and replaced by a flat rate annual per capita ‘Community Charge’. This was inevitably regressive in its impact on income distribution. Vociferous political opposition to the Community Charge helped persuade the ruling party to depose Margaret Thatcher. In 1993, her successor introduced a substitute ‘Council Tax’. This was based on allocating all residential property to one of eight valuation bands. The allocation was done by employing real estate agents to drive up and down streets. The allocations are necessarily arbitrary. Revaluations have proved politically impossible. Because owners of properties in the highest value band pay only three times as much as those in the lowest value band, the system is very regressive. Property taxes remain unpopular and contentious. It would be easiest to establish a property tax system that would raise significant revenues, be progressive in its impact on incomes, and be accepted as legitimate by starting from the records of individual property valuations from before 1989. They were however deliberately destroyed at the time, making it extremely difficult for any future government to create a durable system of raising significant local revenues from taxing property (Orton 2005).

The construction and maintenance of state capacity is a dialectic process, in which powerful insiders compete simultaneously to create institutions and to resist or undermine them. We have little difficulty accepting this framing of the historical construction of states. Most national histories include a narrative of internal resistance to state building and the defeat of powerful barons, landlords, warlords or religious leaders at the hands of more ‘progressive’ and bureaucratic central institutions. However, contemporary failures to maintain state capacity typically are not treated in an equivalent way. Failure of often naturalised: it is there because it is there, or because of a legacy of pathologies like colonial rule and an unnatural degree of socio-linguistic diversity. The examples above suggest that, in addition to these historical and structural factors, we might often usefully look more at agency and at the incentives and opportunities that powerful political insiders may face to weaken state capacity in their own interests.<sup>17</sup>

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<sup>17</sup> Briscoe and Pellecer (2010) frame their analysis of state weakness and failure in contemporary Guatemala along dialectical lines. While criminal and drug networks infiltrate and enfeeble many parts of the state apparatus and the private sector, powerful private sector interests need and support many functioning aspects of the state.

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