

# Delegation and Decentralization: Reform Ideas for Bihar's Economic Transformation

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## Abstract

This article proposes reform ideas for Bihar using advances in economics research on the role of institutions in economic development. Institutions—the formal and informal rules of the ‘game’ of how people interact in society—are fundamental determinants of economic activity and entrepreneurship. Historical institutions of caste-based feudalism in Bihar have been regarded as depressing entrepreneurship and encouraging lawlessness and corruption. New survey data-based evidence shows the potential of two reforms to bring about Bihar’s institutional and economic transformation: greater delegation of public policy implementation in bureaucracies and greater decentralization of public policy selection to local governments. Greater delegation means giving autonomy and discretion to agents in bureaucracies, and promoting professional norms for service delivery rather than hierarchical monitoring and disciplining to achieve performance. Greater decentralization means that more policy choices—such as on the composition of public expenditures, tariffs and fees for public infrastructure—are made by local leaders who gain the power to make these choices by winning more local elections. Communication within bureaucracies and through local media about the performance of public policies is part of these institutional reforms. Taken together, these can reduce the influence of patronage politics and enable the selection of leaders who pursue policies in the broad public interest. In turn, these institutional changes can spur greater economic activity and entrepreneurship, including all social groups in growth and prosperity.

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**Keywords**

Politicians, bureaucrats, local government, health services

**Introduction**

Recent advances in economics research on institutions as the fundamental determinants of economic activity and entrepreneurship yield reform ideas for places like Bihar. This article distils these ideas from a review of the literature and applies them to Bihar using new survey evidence on the current context in the state.

Why are some countries of the world so much richer than others? What explains lagging regions, or the persistence of underdevelopment in some areas within countries (such as in a state like Bihar within India)? The answer to these big questions, by and large, with some lingering debate, is ‘institutions’—the formal and informal rules of the game played in economies and societies (Rodrik et al., 2004; Sachs, 2003 and Glaeser et al., 2004 as counter-points; Helpman (2009); MacLeod, 2013, reviewing Acemoglu and Robinson, 2012; Besley and Persson, 2011 and Diamond, 2012). Yet, we understand little, empirically, about what precisely are these institutions and how do reform leaders in countries go about establishing them.

Indeed, some have cited India as an example of a country that experienced an economic transformation starting in the 1980s but without any major reforms of formal institutions. Rodrik and Subramanian (2004) argue that rather than formal institutional reforms, it was an attitudinal shift among top political leaders in India towards market-driven growth that brought about a business-friendly policy environment and put India on a path of growth. However, even after market reforms, there remains substantial disparity within India, across its states. Bihar, in particular, is India’s poorest state with a per capita net state domestic product (NSDP) which is a third of the national average (Sinha, 2020). Relative stagnation in Bihar and lack of convergence with other states in the process of economic growth have been explained by many observers, ultimately, as a consequence of its historical institutions of caste-based feudalism (Bandyopadhyay, 2009; Ghosh & Gupta, 2009; Gupta, 1981, 2002; Kishore, 2004).

Bihar is a state which has the historical institutions identified in research as impediments to economic productivity and growth. Banerjee and Iyer (2005) find that colonial land revenue institutions of the 1800s have persistent effects on agricultural productivity in Indian districts, long after those colonial institutions have been abolished. Similarly, Iyer (2010) finds that colonial-era governance structures have persistent effects on the provision of public goods and services in post-colonial times. Banerjee and Iyer attribute this persistence to antagonistic politics between ‘peasants’ and elites which result in lower provision of public goods (investments in human capital and public infrastructure) needed to enhance productivity. All of Bihar was governed directly by the British and through feudal land institutions during the colonial era, which these authors find correlated with

lower public good provision and agricultural productivity (respectively), decades after independence and land reforms. If this mechanism is indeed at work, then reform leaders should be able to undo the burden of history simply through the process of increasing public investments in lagging regions. Indeed, Banerjee and Somanathan (2007) find evidence of convergence across districts in India in public investments, consistent with post-colonial policies designed to equalize access to schools, health centres and roads.

However, increasing public investments do not automatically translate into the accumulation of physical and human capital that are the proximate inputs to the process of economic growth (Filmer et al., 2000; Rajkumar & Swaroop, 2008; World Bank, 2004). A body of micro-empirical research focused on India has been finding widespread evidence of poor performance among the frontline health and education service providers who would need to deliver the services to build the human capital that is crucial for economic growth (Glaeser et al., 2004). For example, surveys found that absenteeism rates among public health service providers are staggeringly high (Chaudhury et al., 2006). Furthermore, surveys of health service providers such as doctors have found that doctors systematically underperform in the public sector compared to in their own private practice (Das et al., 2016). Other qualitative research suggests that the problem of poor performance is likely to derive from weak incentives because bribery and corruption are the norm in human resource management in the public health sector (La Forgia et al., 2015). Research suggests that powerful leaders at upper levels of the government hierarchy, who wield formal power over the humble workers on the frontlines of the state, can nevertheless be thwarted in their attempts to exact accountability and performance from them. Banerjee et al. (2008) and Dhaliwal and Hanna (2014) provide evidence that reformers who tried to use new technology to monitor frontline health workers ultimately failed to implement or sustain these reforms.

This article focuses on examining how institutions explain poor performance of public policies and thence derives implications for institutional reform. It, thus, directly addresses how institutions matter for building the human and physical capital, and pursuing the public policies that are the proximate inputs for economic growth (Glaeser et al., 2004). At the same time, the focus on public sector institutions can address another emerging consensus in economics research on how *informal* institutions—the beliefs, norms and expectations about how others are behaving—shape economic activity (for review, see Alesina & Giuliano, 2015; Algan & Cahuc, 2014). Trust, for example, has been identified in recent research as measurably important for economic growth, consistent with the insights of the founders of modern economic thought (Algan & Cahuc, 2010, 2014). For example, Kenneth Arrow (1972) wrote: ‘Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.’ Intuitively, in the absence of informal rules of trusting and trustworthy behaviour in economic interactions, individuals will not engage fully in the potential economic activities that yield gains from mutual exchange. That is, markets for economic growth will be missing or incomplete in the absence of institutions that foster trust.

Public sector institutions can play both a direct and an indirect role in building, or, conversely, eroding trust. Examining the different ways in which the public sector can shape informal institutions such as trust is at the cutting edge of research (Algan & Cahuc, 2014). For example, one strand of research has found that political institutions, such as the experience with democracy or broad-based participation in selecting leaders and public policies, or its absence, can be significant sources of trust or lack thereof (Tabellini, 2008). Another strand of research, which uses laboratory experiments, has found that when people observe corruption among public officials, such as in the police, their generalized trust declines (Rothstein, 2011). Algan and Cahuc (2014, p. 46) summarize the intuition as: 'If public officials, who are expected to represent the law, are corrupt, people infer that most other people cannot be trusted neither.' The lack of generalized trust inhibits private economic activity, or markets, from flourishing.

The following sections present a framework for examining how the functioning of formal institutions of politics shapes the performance of government agencies, and in turn, the informal institutions of trust, or lack thereof, in the economy and society. The article provides some new empirical evidence from Bihar, focusing on the public health sector to illustrate and substantiate this framework and distil ideas for institutional reforms.

## **A Framework from Economic Theory of Principal–Agent Relationships**

Economic theory lends a logical framework to examine how public institutions function as 'principal–agent relationships' in complex organizations, where one type of actor, the agent, takes actions on behalf of another, the principal. Public policies are pursued within the following principal–agent relationships illustrated in Figure 1: (i) between citizens and political leaders, (ii) between political leaders and public officials who lead government agencies and (iii) between public officials and frontline providers (World Bank, 2016). This figure also shows how popular development initiatives of citizen engagement and so-called social accountability, encouraged by external partners to monitor frontline providers and participate in service delivery (Grandvoinet et al., 2015), fit into this framework.

While other complex organizations, such as corporate firms, share the problem of motivating agents to perform multiple tasks that are difficult to monitor, agents in the public sector have more unique roles of serving the public interest. Public health tasks, for example, like disease surveillance, testing, enforcing compliance with public health regulations, have precisely these characteristics of serving the public good. Furthermore, frontline health workers serve the children and women whose families' capacity is limited by budget and credit constraints, in addition to any behavioural constraints imposed by poverty, lack of education and social discrimination. Apart from the 'public good' nature of tasks that health workers are required to undertake, the structure of principal–agent relationships in the public sector is also quite different from those in other complex organizations outside

government. Namely, the presence of multiple principals with potentially conflicting interests, such as citizens belonging to different socio-economic groups with different preferences and attitudes to the public sector, local politicians, medical officers, district and state bureaucrats and state politicians. This is a particular feature of public sector organizations, or government bureaucracies, that is examined in economic principal–agent theory (see Dixit, 2002, for a summary).

Two insights emerge from the literature about how to structure principal–agent relationships in government bureaucracies when tasks are multiple and complex, and involve serving the public interest<sup>1</sup>: (i) Reduced role of high-powered incentives and greater role for recruiting intrinsically motivated agents; (ii) Reduced role for top-down hierarchical monitoring and greater role for autonomy and peer-to-peer professional norms.

In practice, bureaucracies across the world tend to use flat and above-market wages, presumably to attract public service motivated and talented workers (Finan et al., 2017). In many striking cases, these arrangements also ‘work’. For example, the success of one of the highest performing education systems in the world, the Finnish public education system, has been attributed to the meritocratic recruitment of highly trained teachers, imbued with strong professional norms, and autonomy in their classrooms (World Bank, 2018). Incentives are also strong in that teacher salaries are high to be able to attract highly competent individuals into the profession, and teachers can be let go by school administrators (who also exercise autonomy in how they manage schools). But incentives are not ‘high powered’ in that salary structures are flat rather than consisting of bonus components contingent on test scores of students. The Republic of Korea’s high-performing education system shares with Finland these characteristics of the management of public-school teachers (World Bank, 2018).<sup>2</sup> Greater autonomy in public agencies is also found to be robustly associated with better outcomes in the delivery of public investment projects in developing countries (Rasul & Rogger, 2018).<sup>3</sup>

Developed and developing countries each face the inherent challenge of managing principal–agent relationships—recruiting or selecting the appropriate agents for the job and providing sufficient incentives and motivation for performance. The crucial difference between developed and developing countries that comes out in the literature is that state personnel in the former tend to have stronger professional norms and basic incentives (for example, to show up to work) compared to state personnel in poor countries (World Bank, 2004, 2018). But developed countries too suffered from weak institutions at some point in their history, and made a deliberate effort to reform institutions for economic growth and well-being.

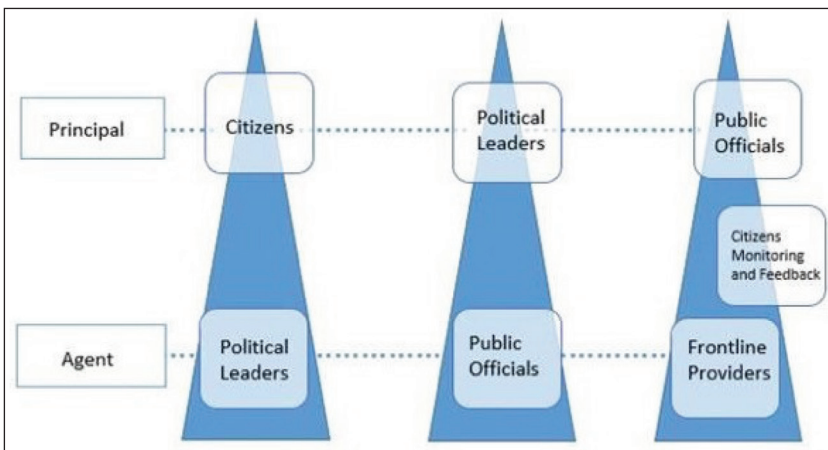
Politics and bureaucracy in the United States in the 19th century, and in the United Kingdom at the time of the Industrial Revolution, looked very similar to conditions in many developing countries today. Bense (2004) writes that for many men (women did not have the right to vote) at that time in the United States, ‘the act of voting was a social transaction in which they handed in a party ticket in return for a shot of whiskey, a pair of boots, or a small amount of money’ (p. ix). Politics was dominated by vote buying; corruption was rife; state bureaucracies and city halls were captured by political leaders and their party machines (Fukuyama, 2018). As population densities of cities increased at different times in

the histories of the two countries, there was need for institutions that would enable investments in public roads and sanitation. Both countries embarked upon a series of institutional reforms to address the problem of lack of urban public goods which was stifling the potential of economic growth. Philosophers like Jeremy Bentham tackled the question of how to design political institutions which would incentivize political leaders to serve the public good. Political reforms in England extended the franchise so that broad-based political competition would motivate politicians to provide more public goods, rather than narrow patronage (Lizzeri & Persico, 2004). Bureaucratic reforms in the United States reduced political interference in government agencies during the so-called Progressive Era and established professional norms (Glaeser & Goldin, 2006; Rauch, 1994).

These institutional reforms in the history of the United Kingdom and the United States can be summarized as (i) strengthening ‘political’ engagement of citizens, for political rather than ‘social’ accountability and (ii) reducing political interference and strengthening professional norms within bureaucracies.

Interpreted in the framework of principal–agent relationships in Figure 1, political institutional reforms in the United Kingdom strengthened the incentives of political leaders in the first principal–agent relationship. Bureaucratic reforms in the United States enabled professional norms in the functioning of the second two principal–agent relationships. No successful public sector or bureaucracy in the developed world appears to have relied on citizen engagement and social accountability, of the kind being practised and evaluated in development policy in current times, to address the problem of state institutions. Furthermore, the importance of state institutions and bureaucracies in enabling market-led growth has been highlighted by the experience of another region of the world: East Asia and China (Ang, 2016).

There are two important lessons that emerge by interpreting the varied experience across the United Kingdom, the United States, and, most recently, East Asia and China, within the framework of Figure 1. One, authoritarianism as a way



**Figure 1.** Principal–Agent Relationships of Government

**Source:** World Bank (2016).



of building institutions is the ‘wrong’ lesson to draw for replication in other countries; and two, the right lesson to draw is about the importance of norms in the public sector as the crux of institutions. Recent advancements in economic research support the argument that norms are shaped over time, and can account for persistent effects of historical political institutions. This re-enforces the first conclusion that countries without a history of successful autocracy are unlikely to replicate the East Asian path to building institutions through authoritarian diktat.

On the first point, a large body of research comparing economic performance across countries with more and less democratic institutions suggests that, on average, democracies enjoy better outcomes (Acemoglu et al., 2019; World Bank, 2016). Yet, clear examples can be pointed to where autocracies outperform democracies (Besley & Kudamatsu, 2008; World Bank, 2016). Research examining these differences suggests that the key question that applies to both autocracies and democracies is whether leaders are selected and sanctioned on the basis of performance in delivering public goods (Khemani, 2019; World Bank, 2016). The argument here is not that greater political contestation per se would result in strengthening incentives and norms in government agencies, but rather it is the quality of that contestation which matters—whether contestation revolves around extracting private benefits or providing more public goods. In fact, growing evidence drawing upon variation within democratic countries suggests that sometimes politicians respond to greater electoral competition by choosing strategies such as vote buying that come at the expense of broader public goods needed for development (Cruz et al., 2018; Khemani, 2015).

Why are some settings, within both autocracies and democracies, successful in selecting and sanctioning leaders on the basis of competence and performance in providing public goods, and others disastrous at it? The answer emerging from a growing literature on the persistent effects of history is that some places develop norms of cooperation, or trust, over time while others do not. For example, a body of research probing regional differences in the quality of government and economic development within Italy ultimately attributes better performance in the centre north to stronger norms of cooperation; these differences in norms are in turn attributed to earlier experience with democracy, dating back to the 12th century (Alesina & Giuliano, 2015; Guiso et al., 2006; Putnam et al., 1993). The inclusiveness of political institutions in ‘free cities’—a formal institution in the 12th century—triggered a set of cultural traits (civic and cooperative behaviour) whose effects persist today (runs the argument in this literature). Regions that were not free cities in the 12th century but that currently have institutions of local political engagement are argued to suffer from ‘uncivic’ voting, which allows corruption by political leaders to go unpunished (Nannicini et al., 2013). The earlier experience with democratic institutions, and greater accumulation of such experience over time, is thus credited as the underlying source of differences within Italy today.

The literature on the persistent effects of historical institutions, long after the formal institutions have disappeared and been replaced by others, is useful in supporting the argument that norms matter. Shifting norms need not involve large changes in the constitutions of countries, such as introducing elections into authoritarian regimes, or vice versa, removing elections or changing electoral rules in democracies. The growing evidence of significant variation in economic outcomes

within countries, across places sharing the same constitution, shows how the 'functioning' of political contestation is what matters.

The easy part of politics is the strengthening of incentives of political leaders to devise strategies to defeat opponents and gain and remain in office. The difficult part is to change political norms of thousands of ordinary citizens, and of mid-level bureaucrats, and frontline providers, so that winning strategies move away from things such as vote buying and exploiting ideological divisions, among voters, to pursuing broader public goods. Prevalent political norms explain why, despite intense electoral competition, and powerful leaders who emerge from it to speak the language of reforms, these leaders find it hard to get frontline service providers, such as teachers and community health workers to deliver (e.g. Banerjee et al., 2008; Dhaliwal & Hanna, 2014). Effective reform in this context is not just the passage of a new law or act. The reform that matters in this context is in the minds of the thousands of human personnel that run state bureaucracies and implement public policies. In turn, these reforms in the public sector can, potentially, foster generalized trust in society for markets to work for economic growth. These, in a nutshell and in plain language, are the ideas emerging from the cutting edge of economic research for further scrutiny and exploration.

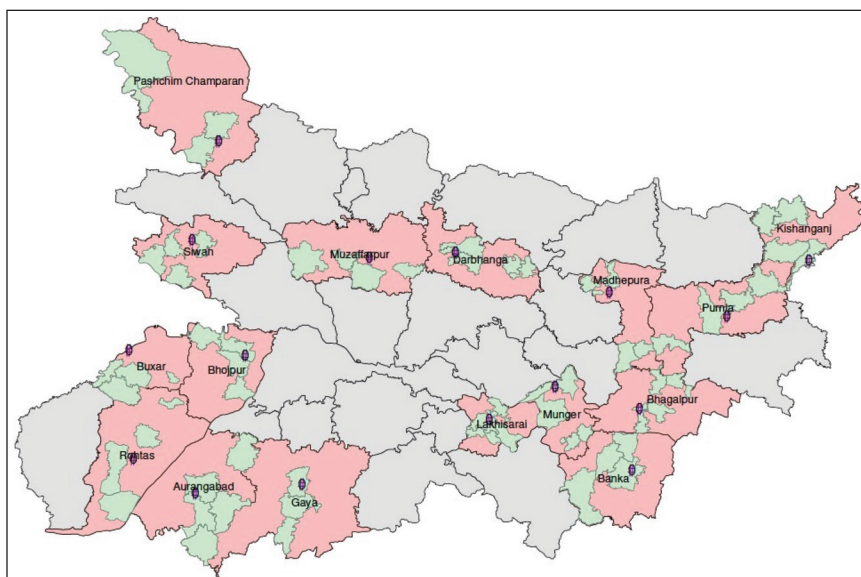
Communication, in this framework, is the necessary complement to bring about change in norms for both political and bureaucratic institutions to function effectively, because shifting norms requires updating beliefs about how others are behaving. In each of available economic theories of how changes in norms come about, information and communication that shift expectations about how others are behaving is the necessary element. In some models, the information is communicated through the types of leaders that are selected (Acemoglu & Jackson, 2015). In others, information is gathered and shared over time among citizens through the experience of political participation (Bidner & Francois, 2013). In any problem where norms support a less than desirable outcome, shifting to a new norm requires information sharing and communication among the actors to update their beliefs about how others are behaving. The role of political leaders and processes of political participation as the channels for sharing information that shifts norms in public sector agencies is also consistent with classic work on norms for collective action (Ostrom, 2000).

The following section describe how this logical framework was applied to gather original survey data in Bihar, focusing on the public health sector. These data provide evidence of how formal institutions are currently functioning.

## **Description of the Survey in Bihar**

The survey was undertaken in the state of Bihar in India between November 2018 and March 2019.<sup>4</sup> Data were collected across different layers of government jurisdictions within the state—districts, blocks and village governments, known as Gram Panchayats (GPs)—and across different types of respondents—politicians, bureaucrats or public officials, frontline service providers—who share interdependent relationships while undertaking their tasks of delivering public health and nutrition services. In the first phase, data were gathered from





**Figure 2.** Map of Bihar

**Source:** Khemani et al. (2020).

**Note:** Sample districts are coloured in red and sampled blocks, within sampled districts, coloured in green. For references to colour, please see the online version.

village-level respondents—GP politicians, frontline health and nutrition workers (Accredited Social Health Activists (ASHAs), Aanganwadi Workers (AWWs), and Auxiliary Nurse Midwives (ANMs) at health sub-centres), citizens and leaders of women’s self-help groups (SHGs), an important social institution in this context. In the second phase, the survey was implemented to block- and district-level respondents. Details of the survey can be found in Khemani et al. (2020).

The survey was undertaken across 16 districts, with three to four blocks selected within each district, and four GPs within each block. This yields a sample of respondents drawn from 16 districts, 64 blocks from within those districts, and 254 GPs from within those blocks. The sampled districts and blocks are shown in Figure 2.

## Evidence on the Functioning of Bureaucracies

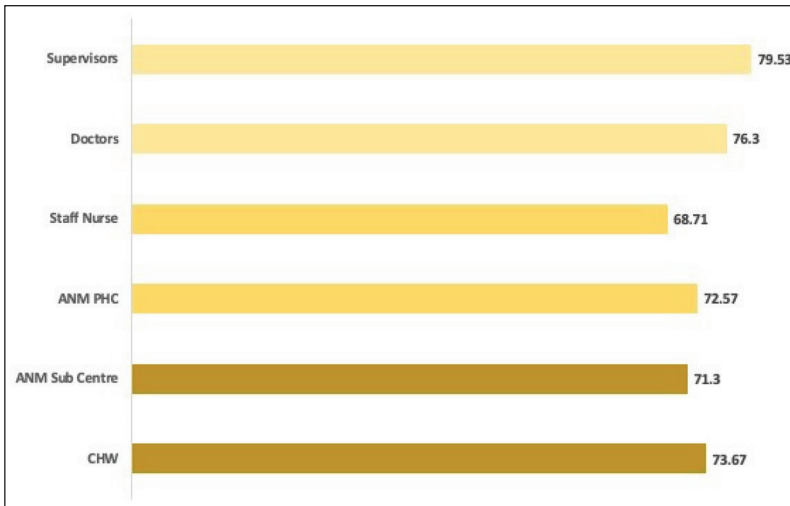
The pattern of survey responses across different cadres of health workers and their supervisors suggests that public sector institutions are stuck in an equilibrium of low expectations, low trust and low performance. Across the board, health workers express a sense of professional inefficacy, that no matter how hard they try, the system will not allow health outcomes to improve. Health workers think they are not recognized and empowered to perform; those who have any management power or authority think that health workers need to be scolded and handled

strongly to get them to perform. This equilibrium stands in stark contrast to the recommendations that emerge from the logic of economic theory about how to organize institutions that are tasked with delivering services with ‘public good’ characteristics.

Lack of professional agency or efficacy is particularly demonstrated in responses to the following question: ‘Irrespective of my efforts, the system will not allow health outcomes to improve’. Figure 3 shows that across health cadres, from the village level up to doctors in public hospitals and health supervisors, more than 70 percent agree with this statement. Lack of professional authority or discretion is evident in Figure 4, showing high rates of respondents across health cadres agreeing with the statement that ‘In my work, I have to take permission for every little thing.’

Health supervisors answer other pertinent questions in ways that suggest systemic problems: 44 percent say that good workers get transferred because others feel threatened by them; 80 percent say that irrespective of their efforts, the system will not allow people’s health to improve; 67 percent say they have to get permission for every little thing. Health supervisors’ responses to these three questions related to professional efficacy are, thus, similar to the responses of health workers across the cadres, from the GP level up.

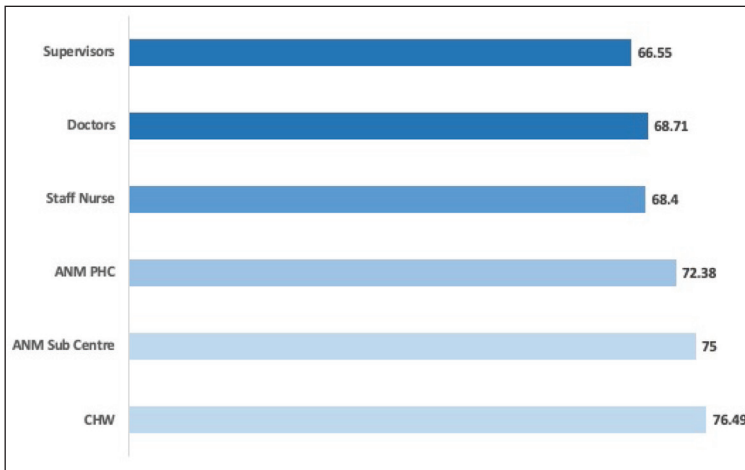
Figure 5 shows that high rates of respondents across health cadres report that meetings with their supervisors involve ‘scoldings’ and discussion of bad performance. Among the lowest tier of workers, the ASHAs and AWWs, more than 77 percent report that meetings with supervisors involve scoldings. These numbers are even higher for the ANMs, more than 90 percent of whom report that meetings consist of scoldings. Figure 6 shows supervisor responses consistent with disciplining being the primary theme of organizational meetings.



**Figure 3.** Share Who Agree with: Irrespective of My Efforts, the System Will Not Allow People’s Health Outcomes to Improve

**Source:** Khemani et al. (2020).

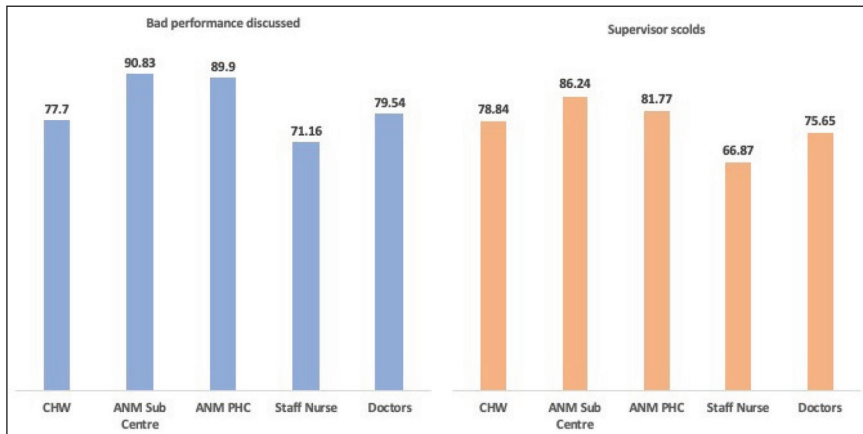
**Note:** This figure reports the share of health workers, in each group, that fully agree or somewhat agree that irrespective of their efforts the system will not allow people’s health outcomes to improve.



**Figure 4.** Share Who Agree with: In My Work, I Have to Take Permission for Every Little Thing

**Source:** Khemani et al. (2020).

**Note:** This figure reports the share of health workers, in each group, that fully agree or somewhat agree that in their line of work they have to take permission for every little thing.

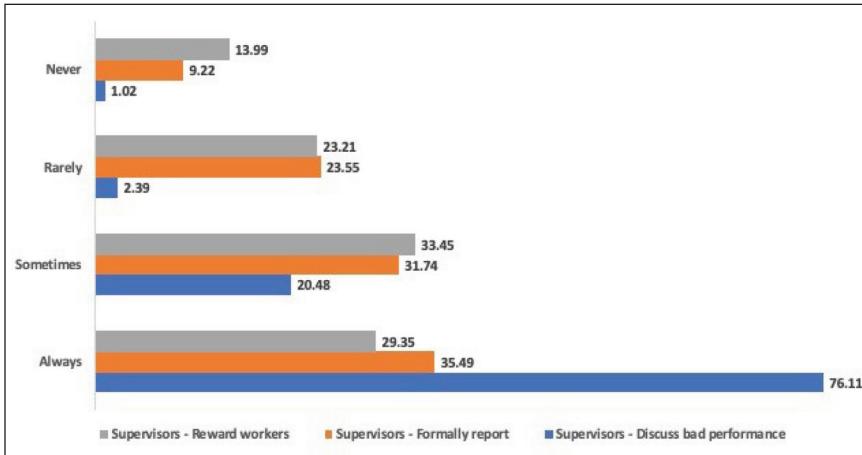


**Figure 5.** Share of Health Staff Saying Management Meetings Discuss Bad Performance and Involve Scoldings

**Source:** Khemani et al. (2020).

**Note:** This figure reports the share of health staff, in each survey, stating always or sometimes bad performance is discussed (left) or supervisors scold workers (right).

The dominance of concerns with poor performance at management meetings would be consistent with the research evidence of high absenteeism and low performance among public health workers in India (discussed and cited in the introduction). The problem of absenteeism, in particular, is something the survey teams encountered when attempting to interview the ANMs who are supposed to be located at the village-level health sub-centres. Among the 254 targeted GPs, 226



**Figure 6.** Supervisor Reports Consistent with Dominance of Discussing Bad Performance in Meetings

**Source:** Khemani et al. (2020).

**Note:** This figure reports the distribution of supervisors' responses about how often workers are rewarded (grey bars), how often they are formally reported (orange bars) and how often bad performance is discussed (blue bars). For references to colour, please see the online version.

health sub-centres were found, and out of these, 145 sub-centres (or 64 percent) were closed. The survey teams were able to interview ANMs at the 81 open sub-centres and located 28 others, resulting in an available sample of 109 ANMs, less than half of the expected number. The problem of lack of availability of ANMs at the health sub-centres is corroborated in responses by citizens and local politicians. When asked whether the ANM is usually available at the health sub-centre, 73 percent of both citizens and GP politicians responded 'sometimes', 'rarely' or 'never'. Our survey thus confirms what was widely reported during our fieldwork in Bihar—that village-level health sub-centres are often dysfunctional, and ANMs are not usually available.

## Evidence on the Potential of Local Political Institutions to Bring about Change

Patterns in the data suggest that citizen demand for public goods such as public health can be a force for institutional change, similar to how such change was triggered in the history of the United Kingdom and the United States.

One, there is little evidence of 'populist' demands from citizens, such as for cash, or subsidies, without regard for the opportunity cost of public spending on health. A clear majority of citizens respond that any additional public spending for their area be allocated to health and nutrition services for their children rather than to cash transfers, job creation programmes, or roads (Table 1).<sup>5</sup> On a simple question about price subsidies—whether governments should provide electricity for free—as many

**Table I.** Preferences for Public Spending on Health vs Jobs, Cash or Roads

	(1) Health over jobs	(2) Health over Cash	(3) Health over Roads
<i>Indicators for different respondents (omitted category: citizens)</i>			
SHG	-0.047** [0.022]	-0.036** [0.017]	0.007 [0.018]
Contender for Mukhiya	0.049*** [0.018]	0.022* [0.013]	0.022 [0.016]
Ward member	0.034** [0.018]	-0.010 [0.014]	0.019 [0.016]
Mukhiya	0.048* [0.028]	0.034* [0.020]	-0.005 [0.028]
Panchayat Samiti	-0.090** [0.045]	-0.016 [0.031]	0.117*** [0.024]
Zilla Parishad	0.083 [0.068]	0.105*** [0.010]	0.138*** [0.037]
MLA/MP	-0.364*** [0.073]	-0.110* [0.060]	-0.037 [0.060]
Community health workers	0.101*** [0.016]	0.049*** [0.012]	0.050*** [0.014]
ANM sub-centre	0.063 [0.042]	0.023 [0.030]	-0.012 [0.039]
ANM PHC	0.071*** [0.022]	0.016 [0.016]	0.117*** [0.015]
Staff nurse	0.051* [0.027]	0.047*** [0.017]	0.105*** [0.017]
Doctors	0.045* [0.024]	0.066*** [0.014]	0.105*** [0.019]
Supervisors	-0.085*** [0.029]	-0.006 [0.020]	0.096*** [0.019]
<i>Media access</i>			
Watch TV daily	0.014 [0.010]	0.034*** [0.007]	0.065*** [0.009]
Receive newspaper daily	0.045*** [0.013]	0.009 [0.010]	0.001 [0.011]
Read newspaper daily	0.011 [0.014]	0.013 [0.010]	-0.016 [0.012]
Rely on newspaper for news	0.020* [0.011]	0.007 [0.008]	0.034*** [0.009]
<i>Social indicators</i>			
Male	0.058*** [0.013]	0.005 [0.010]	-0.022* [0.011]
Married	0.026 [0.020]	-0.017 [0.014]	-0.008 [0.017]
Age	-0.000 [0.000]	-0.000 [0.000]	0.000 [0.000]
Muslim	-0.009 [0.016]	-0.057*** [0.014]	-0.070*** [0.015]
Constant	0.648*** [0.025]	0.878*** [0.018]	0.794*** [0.023]
Observations	9,247	9,247	9,247
R-squared	0.023	0.018	0.032

**Source:** Khemani et al. (2020).

**Note:** Ordinary Least Squares (OLS) estimates to compare the policy preferences (health vs other uses of public spending) of different respondents to the preferences of citizens, who are the omitted category. Robust standard errors are given in brackets (\*  $P < 0.1$ , \*\*  $P < 0.05$ , \*\*\*  $P < 0.01$ ).

as 25 percent of respondents answered no, without any qualification, while 34 percent qualified that subsidies could be targeted to poor people. These responses from the average citizen respondent stand in contrast to the responses from those who were identified in the data as leaders of the village SHG—only 17 percent of SHG leaders answered no, and 52 percent answered with an unqualified yes, compared to only 40 percent of citizens saying yes (Table 2).<sup>6</sup> This pattern of citizen responses is even more striking when compared with how the higher income and educated respondents, such as doctors, in our sample answered this question. Among doctors, for example, 57 percent answered with an unqualified yes, that governments should provide free electricity, with only 6 percent saying no.

Two, citizens have political aspirations. When asked whether they would consider running for political office, as many as 31 percent of respondents answer ‘definitely’. Even when we restrict the sample to only the third for which the respondent is a woman, as many as 21 percent respond ‘definitely’, compared to only 5 percent among those women who are frontline public health workers. The average female respondent is only slightly less likely than SHG leaders to report interest in running for office (26 percent of SHG leaders answer ‘definitely’). This reported interest in running for office in our survey is consistent with the large numbers of candidates actually observed in GP elections in Bihar, with more than 10 on average contesting the Mukhiya position. Other states, such as Andhra Pradesh, in contrast, have two to three candidates contesting on average (Afridi and Iverson, 2014).

Of course, the motives behind these aspirations to run for political office are unclear. On the one hand, these high rates of reported interest in running for office could be because holding local political office is lucrative, presenting opportunities to extract rents from state-funded public programme. Even without overtly corrupt motives, standing for local elections may be one way to get an income earning position, in an economic environment where jobs are scarce. On the other hand, these responses suggest a highly contestable local political market, with low barriers to entry, which may enable public service motivated individuals to become local leaders. State government policy-makers may be able to leverage this local political contestability to address problems of implementation and delivery.<sup>7</sup>

Among those citizens who have already identified themselves as political contenders—the incumbent village politicians and those who contested for the Mukhiya (village head) position in the previous election—the data show that these village politicians are distinct from other village-level respondents (citizens, ANMs, ASHAs, AWWs, SHGs members) in having higher measures of public service motivation and integrity. Figures 7 and 8 show the cumulative distribution function (CDF) of survey-based measures of public service motivation and integrity for different categories of village-level respondents. The figures show that village politicians are distributed at higher measures of public service motivation and integrity, compared to the distribution of other village-level respondents. This could be because politicians tend to answer the questions related to these characteristics less sincerely, and hence these measures may not be capturing real differences in public service motivation or integrity among local politicians.

We do find some evidence, however, that the public service motivation measure among local politicians tends to be positively correlated with health service delivery

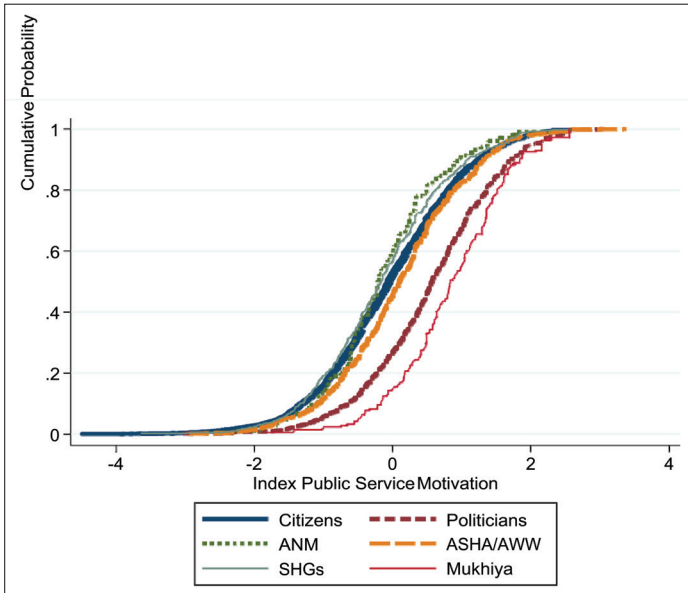


**Table 2.** Respondents Not Demanding Free Electricity and Loan Waivers

	(1) No Free Electricity	(2) No Farming Loan Waivers
<i>Indicators for different respondents (omitted category: citizens)</i>		
SHG	-0.036*	-0.036**
Contender for Mukhiya	0.108***	-0.001
Ward Member	0.058**	-0.025
Mukhiya	0.115***	-0.016
Panchayat Samiti	-0.235***	0.261***
Zilla Parishad	-0.182***	0.172**
MLA/MP	-0.320***	0.087
Community health workers	-0.002	-0.037**
ANM sub-centre	0.103*	0.038
ANM PHC	-0.072***	0.253***
Staff nurse	-0.080***	0.254***
Doctors	-0.297***	0.056**
Supervisors	-0.260***	0.058**
<i>Media access</i>		
Watch TV daily	0.088***	0.006
Receive newspaper daily	0.004	0.010
Read newspaper daily	0.031*	-0.024*
Rely on newspaper for news	0.007	-0.008
<i>Social indicators</i>		
Male	0.073***	0.024*
Married	-0.014	-0.014
Age	0.000	0.001**
Muslim	-0.047***	-0.030***
Constant	0.194***	0.089***
Observations	9,247	9,247
R-squared	0.043	0.042

**Source:** Khemani et al. (2020).

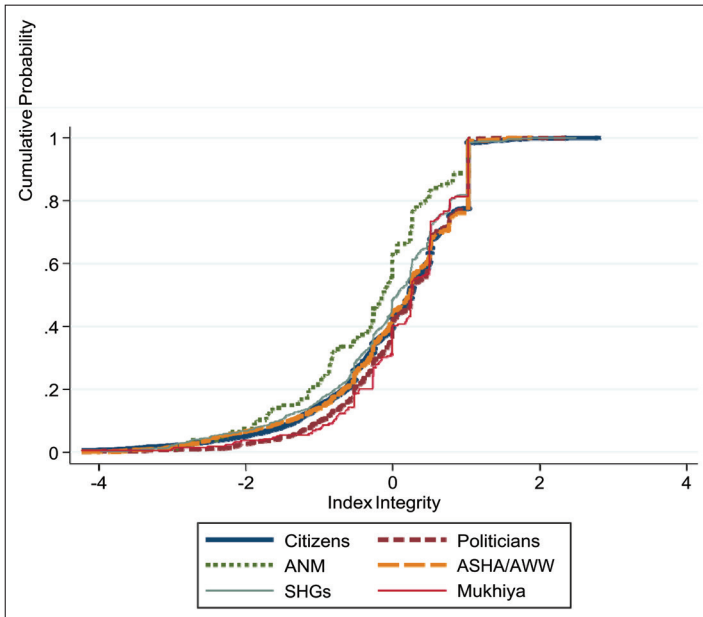
**Note:** OLS estimates to compare the demand for free electricity and loan waivers among different survey respondents to demand among citizens, who are the omitted category. Robust standard errors are given in brackets (\*  $P < 0.1$ , \*\*  $P < 0.05$ , \*\*\*  $P < 0.01$ ).



**Figure 7.** Distribution of Public Service Motivation Across Village Respondents

**Source:** Khemani et al. (2020).

**Note:** This figure reports the CDF of the index of public service motivation for each respondents' category.



**Figure 8.** Distribution of Integrity Across Village Respondents

**Source:** Khemani et al. (2020).

**Note:** This figure reports the CDF of the index of integrity for each respondents' category.

**Table 3. Services Received from Community Health Workers**

	(1)	(2)	(3)
	IFA Received	Mother Received Supp Food	Never Received Post-natal Care (PNC)
<i>Selection traits: GP (village) politicians</i>			
Average Public Service Motivation (PSM) index—GP level	0.251***	0.097*	-0.089*
Average personality index—GP level	-0.155*	0.010	0.114**
Average integrity index—GP level	-0.051	-0.010	0.054
Average entrepreneurship index—GP level	0.121*	0.039	-0.122***
<i>Selection traits: Community health workers (CHW)</i>			
Average PSM index—GP level	-0.137**	0.077	0.008
Average personality index—GP level	0.026	-0.011	0.026
Average integrity index—GP level	-0.110*	-0.095**	0.030
Average entrepreneurship index—GP level	0.110*	-0.001	-0.012
Average efficacy index—GP level	0.074	0.046	0.025
<i>Selection traits: SHG leaders</i>			
Average PSM index—GP level	-0.029	-0.020	0.046*
Average personality index—GP level	0.055	0.038	-0.021
Average integrity index—GP level	0.044	0.016	0.004
Average entrepreneurship index—GP level	-0.032	0.069*	0.037
<i>Political competition</i>			
Working on health issues can help re-election	-0.494**	0.213	0.250**
Would vote for candidate who bribes	-0.013	0.119*	0.015
<i>Socioeconomic indicators</i>			
Have ration card	0.072	-0.014	-0.006
Asset index (ICW)	-0.026	0.010	-0.014
SC/ST	0.267**	0.125	-0.086

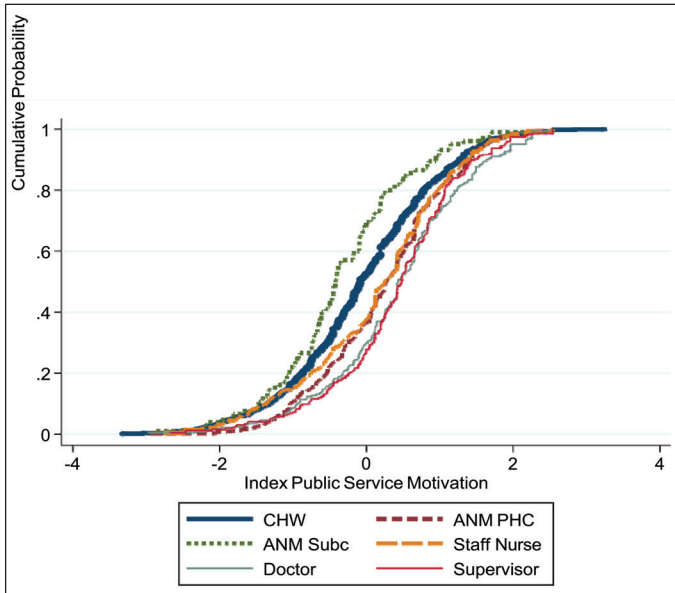
(Table 3 continued)

(Table 3 continued)

	(1)	(2)	(3)
	IFA Received	Mother Received Supp Food	Never Received Post-natal Care (PNC)
OBC	0.118 [0.095]	0.093 [0.075]	-0.052 [0.050]
Muslim	-0.257** [0.105]	-0.061 [0.081]	0.077 [0.062]
Below primary	0.019 [0.117]	0.128 [0.083]	0.040 [0.063]
Below secondary	0.066 [0.089]	0.021 [0.071]	0.003 [0.043]
Above secondary	-0.020 [0.093]	-0.067 [0.070]	-0.029 [0.046]
Above high	-0.156 [0.119]	-0.087 [0.098]	-0.015 [0.053]
No. of adults	0.010 [0.016]	0.014 [0.011]	-0.004 [0.008]
No. of kids	-0.044*** [0.016]	-0.019 [0.012]	-0.003 [0.010]
Landless	-0.064 [0.087]	0.053 [0.077]	-0.072 [0.052]
Small holder	-0.253*** [0.092]	0.043 [0.084]	-0.036 [0.054]
Low expenditure	-0.145 [0.096]	-0.072 [0.088]	-0.081 [0.055]
Medium expenditure	-0.002 [0.076]	-0.006 [0.062]	-0.068* [0.039]
Constant	0.758*** [0.184]	0.404*** [0.145]	0.465*** [0.116]
Observations	674	705	707
R-squared	0.172	0.120	0.113

**Source:** Khemani et al. (2020).

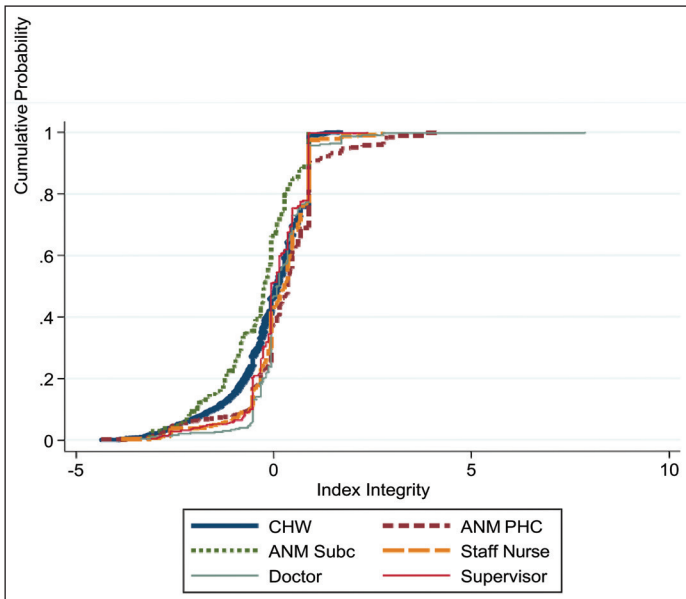
**Note:** OLS regressions estimating predictors of women reporting that they received iron and folic acid, supplementary food during their pregnancy, and never receiving post-natal care from community health workers. All specifications include district fixed effects. Robust standard errors are given in brackets ( $^{*}P<0.1$ ,  $^{**}P<0.05$ ,  $^{***}P<0.01$ ).



**Figure 9.** Distribution of Public Service Motivation Across Health Worker Cadres

**Source:** Khemani et al. (2020).

**Note:** This figure reports the CDF of the index of public service motivation for each respondents' category.



**Figure 10.** Distribution of Integrity Across Health Worker Cadres

**Source:** Khemani et al. (2020).

**Note:** This figure reports the CDF of the index of integrity for each respondents' category.

reported by citizens—that is, citizens are more likely to receive maternal and child health services in villages where the average politician is measured as having higher public service motivation. Table 3 shows that women are more likely to receive iron and folic acid, and food supplements during pregnancy in villages where local politicians are measured as having higher public service motivation. The last column of Table 3 shows that women are less likely to report never receiving postnatal care in villages where politicians are measured as having public service motivation.<sup>8</sup> It is also interesting to note that the village ANMs—the cadre for whom there is evidence of poor performance—score the lowest on these survey-based measures of public service motivation and integrity (Figures 9 and 10), suggesting that these measures meaningfully capture proclivity to real behaviour.

## Conclusion

Can the right cocktail of economic policies be the miracle medicine to jump-start economic growth? This question has been the choice pursuit of economists engaged in advising governments. In this view, institutions are all very well, but the best way to get them is to get growth going. Market liberalization reforms became the policy mantra after the collapse of the Soviet experiment. However, even as the essence of markets, gains from trade and economic exchange among private individuals, became established, the policy cocktail that works to get these ‘animal spirits’ going has been elusive (Hausmann et al., 2008). Furthermore, markets are under threat once more—this time from populist political movements in those very countries where markets had been established in the first place as engines of growth (Tett, 2019). Even when markets are engines of growth, they need institutions to flourish. The pernicious by-products which markets either generate or cannot address—inequality, persistent poverty, depletion of natural resources, pollution and climactic change—are the emergent problems which have reinvigorated the need for appropriate public institutions.

Institutional reforms may be needed for economic transformation of places like Bihar, rather than just a search for the right cocktail of economic policies. The logic of economic theory, and the evidence of the functioning of bureaucratic and political institutions in Bihar, are used in this article to offer the following ideas for the direction of institutional reforms, akin to the now established ideas for liberalization as the direction of economic reforms.

- **Greater delegation to bureaucracies for policy implementation:** Management reforms can be pursued with the objective of replacing top-down hierarchical monitoring with peer-to-peer monitoring and professional norms, as suggested by economic theory of principal–agent relationships in public sector organizations.
- **Greater decentralization to locally elected leaders for policy selection:** Lower barriers to entry into political contestation at village- or municipal- or community-level government can enable better quality leaders to be selected into office, who pursue more public goods than private rent-seeking.



Economic theory suggests that such leaders can play an important role in shifting norms in the public sector. Survey evidence from Bihar suggests that local political leaders may be able to build political support for economic reforms that have been difficult to implement. That is, local politics can be a source of the institutional change needed for the success of liberal economic policies.

- **Complementary communication interventions:** For each of the above institutional reforms of greater delegation and decentralization to succeed, complementary communication interventions are needed to nurture the platforms of political contestation and of peer-to-peer pressure for professionalism in bureaucracies.

Detailed evidence from the surveys in Bihar is provided by Khemani et al. (2020) to concretize each of the ideas listed above: what would management reforms look like; what role would local political leaders play; what media can be used for the communication campaigns. This evidence and the open questions emerging from recent advances in economics highlight a productive agenda for policy-relevant research in Bihar and India. The hope in writing this article is to inform the research agenda, and better equip reform leaders, in or out of government, as incumbents or political challengers, to use ideas to bring about Bihar's economic transformation.

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### **Notes**

1. Following are some of the pioneering contributions: Tirole (1994), Dewatripont et al. (1999), Francois (2000), Dixit (2002), Besley and Ghatak (2005), Acemoglu et al. (2008), Alesina and Tabellini (2007, 2008).
2. Even though the Korean and Finnish systems diverge in their pedagogical approach, they are strikingly similar when it comes to management of teachers in public education

- bureaucracies.
3. Peer-to-peer monitoring and social interaction also matters in private firms (Ashraf & Bandiera, 2018, provide a review). For example, Kandel and Lazear (1992) showed how differences in the observed management policies of American versus Japanese firms can be interpreted in economic theory as arising from differential degrees of teamwork norms and social pressure among peers.
  4. Data were collected in two phases—one at the village level and one above the village at blocks and districts.
  5. <https://www.brookings.edu/blog/future-development/2019/04/08/what-do-poor-people-think-about-direct-cash-transfers/>
  6. The SHG responses are similar to the responses of women in the sample, suggesting that the difference may be entirely due to gender. That is, we do not find that those women who belong to SHGs are less likely to demand free electricity.
  7. Further evidence of low barriers to entry for local political leadership comes from politicians' responses to questions about their family political history. As many as 35 percent of incumbent Mukhiyas, 80 percent of Mukhiya contenders and 62 percent of Ward members report that no one in their family has ever held political office. The majority of these politicians, including those who come from non-political families, report that they would definitely run again for office.
  8. Khemani et al. (2020) emphasize that not all the survey measures of access to maternal and child health services are significantly correlated with politicians' public service motivation. The purpose here is not to argue that the surveys have identified a variable—namely, politicians' public service motivation—as a key predictor of access to health services, but rather to furnish as much evidence as possible on the 'potential' of local political contestation for institutional reforms.

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