

# Why Does the Indian State Both Fail and Succeed?

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**T**he most striking fact about the Indian state is how varied its performance has been, spanning the spectrum from woefully inadequate to surprisingly impressive.

On one side, Lant Pritchett (2009) memorably characterized India as a “flailing state.” He wrote: “Measures of the administrative capacity of the [Indian] state on basics like attendance, performance, and corruption reveal a potentially ‘flailing state’ whose brilliantly formulated policies are disconnected from realities on the ground.” India’s state performs poorly in basic public services such as providing primary education, public health, water, sanitation, and environmental quality. While it is politically effective in managing one of the world’s largest armed forces, it is less effective in managing public service bureaucracies. The research literature on India has many discussions of programs that fail to deliver meaningful outcomes, or that are victims of weak implementation and rent-seeking behavior of politicians and bureaucrats, or that are vitiated by discrimination against certain social groups (Niehaus and Sukhtankar 2013; Fisman, Schulz, and Vig 2014; Sheahan et al. 2018; Lehne, Shapiro, and Vanden Eynde 2018). For a comprehensive review of research on corruption in India, see Sukhtankar and Vaishnav (2015).

But on the other side, the Indian state has a strong record in successfully managing complex tasks and on a massive scale. It has repeatedly conducted elections for hundreds of millions of voters—nearly 900 million in the 2019 general elections—without national disputes. In this decade, it has scaled up large programs

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such as Aadhaar, the world's largest biometric ID program (which crossed one billion people enrolled within seven years of its launch). Most recently, it has implemented the integrated Goods and Services Tax (GST), one of the most ambitious tax reforms anywhere in recent times. India ranks low on its ability to enforce contracts, but its homicide rate has dropped markedly from 5.1 in 1990 to 3.2 (per 100,000) in 2016 (UNODC 2019).

The first section of this paper elaborates on the performance of the Indian state, highlighting the key paradox of its effectiveness on some difficult functions amidst its woeful inadequacies on others. It argues that the Indian state has delivered better in certain situations and settings: specifically, on macroeconomic rather than microeconomic outcomes; where delivery is episodic with inbuilt exit, rather than where delivery and accountability are quotidian and more reliant on state capacity at local levels; and on those goods and services where societal norms and values concerning hierarchy and status matter less, rather than in settings where these norms and values—such as caste and patriarchy—are resilient.

The second section proposes several explanations of these patterns of failure and success: understaffing of local governments, consequences of India's precocious democracy, and the persistence of social cleavages in India by caste, gender, and religion. A third section discusses two explanations for the poor performance of India's government that are often mentioned, but seem unlikely on further exploration: the claims that India's state sector is bloated in size and submerged in patronage. The conclusion offers some brief thoughts about some changing patterns of India's state capacity, which has seen notable improvements in its erstwhile weakness at the micro level even as its macro performance has become more worrisome.

## Heterogeneous Performance

There is a vast literature on defining the role of the state and its effectiveness (for a recent overview, see Bardhan 2016). One strand has emphasized the role of the state in protecting property rights and in imposing constraints on itself so that the state does not become an instrument of expropriation. In the context of development, another strand has focused on the importance of an effective state for meeting development goals and reducing poverty (in this journal, Page and Pande 2018). Here, we focus more on the positive role of the state delivering essential services such as economic stability, health, education, regulation, and so on.<sup>1</sup>

<sup>1</sup>Rodrik and Subramanian (2003) provide a functional definition of the roles of the state in relation to markets: *market-creating*, which is providing rule of law and protection of property rights and ensuring sanctity of contract; *market-stabilizing and correcting*, which involves sound central banking and robust regulatory agencies; *market-legitimizing*, which involves tax and redistributive policies and affirmative action, providing voice and facilitating political participation; *market-complementing*, which is provision of public goods such as infrastructure and human capital; and *market-undermining*, through excessive interference in the form of state ownership on means of production and command and control policies.

Table 1

**Changing Level and Structure of Tax-GDP Ratios in India**

Year	Central taxes			State's tax revenues			Total	Direct taxes/ total taxes (%)
	Direct	Indirect	Total	Direct	Indirect	Total		
1950–1951	1.23	2.20	3.43	0.99	1.61	2.60	6.03	36.8
1965–1966	1.62	4.56	6.19	0.92	3.02	3.94	10.13	25.1
1989–1990	1.21	6.44	7.65	1.01	6.81	7.83	15.48	14.3
2016–2017	3.46	3.54	7.00	2.26	8.56	10.82	17.82	32.1

Source: Ministry of Finance (2018, table 1.8).

Note: "State's tax revenues" include the share of central taxes that are devolved to states.

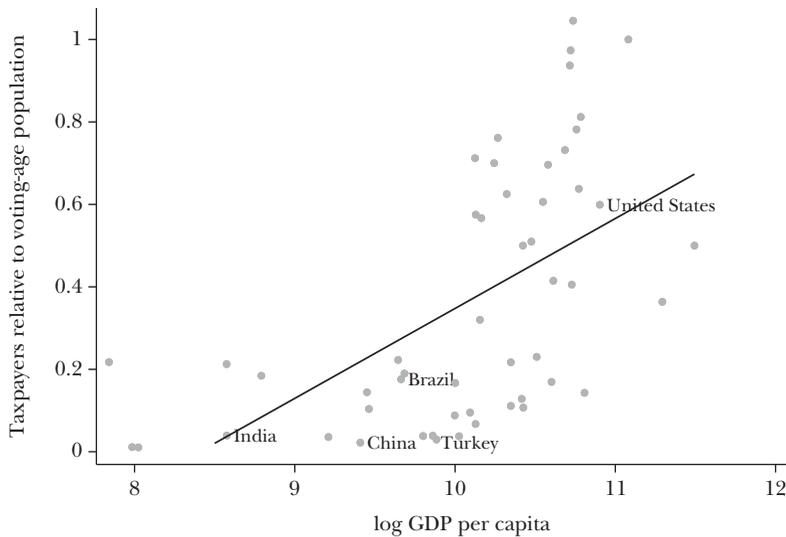
**Fiscal Outcomes**

At the heart of state-building is a fiscal story: just as a sovereign has monopoly over legitimate violence, it seeks to have a monopoly on legitimate expropriation of resources from the public in the form of taxes. This is especially the case for revenues from direct taxes (as distinct from indirect taxes) or revenues from natural resources or foreign aid (Brautigam, Fjeldstad, and Moore 2008; Besley and Persson 2013). Explanations of poor governance and limited service provisions are intrinsically linked to a state's limited ability to tax citizens: when few citizens pay taxes, they are less likely to feel a sense of ownership of the state, to demand services and accountability, or to punish corrupt practices (Persson and Rothstein 2015).

Pre-Independence British India was a strong state if measured by military capacity and a monopoly in the exercise of violence, but a weak state when measured by revenues (and concomitant expenditures on public goods). Government revenue as a proportion of national income was 2 percent in 1871 and only marginally higher at 3–5 percent in 1920–1930, compared to 19 percent in Britain and 29 percent in Japan in the interwar years (Roy 2011). On a per capita basis, between 1920 and 1930, British colonies in the Federated Malay States spent on average more than ten times the money spent in British India, that of Ceylon spent more than three times, other colonies such as the Philippines and the Dutch East Indies spent more than double, and French Indochina spent 40–50 percent more (Roy 1996).

India's weak fiscal inheritance improved after Independence in 1947, but only to a limited extent, with the tax-to-GDP ratio climbing from 6 percent in 1950–1951 to almost 18 percent in 2016–2017, as illustrated in Table 1. India's strategy of seeking to industrialize through import substitution from the 1950s into the 1980s led it to rely increasingly on indirect taxes (excise and trade taxes). As a result, direct taxes as a ratio of total taxes fell from 36 percent in 1950–1951 to just 14 percent in 1989–1990. Since then, the ratio climbed to 36 percent in 2007–2008 before declining to 32 percent in 2016–2017, lower than after Independence. Indeed, India's reliance on indirect taxes is likely to increase further now that the Goods and Services Tax has come into effect.

Figure 1A

**Taxpayers Relative to Population**

Source: Centre for Tax Policy and Administration (2011).

Note: The sample has 52 countries. The OECD dataset, which is the basis of this graph, has 77 countries. Of these, two countries do not have Polity IV data, and of the remainder, only 53 countries have data on the number of taxpayers and one country does not have data on GDP, leaving a final sample of 52.

Fiscal capacity generally improves with economic development. India's overall tax effort (measured as the number of income taxpayers) appears consistent with its level of development (as measured by per capita GDP), as shown in Figure 1A.<sup>2</sup> The results are similar if tax effort is measured simply as the tax/GDP ratio.

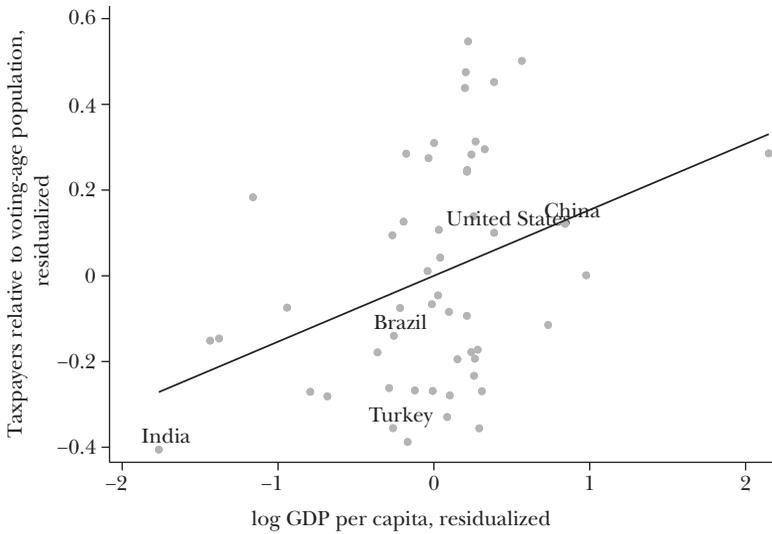
However, India is a democracy, and democracies typically tax and spend more than nondemocracies, likely because of the redistributive pressures they face. Acemoglu and Robinson (2000) argue that the extension of the franchise can be viewed as a credible precommitment to redistribution. Figure 1A shows the relationship between the ratio of the number of taxpayers to the population in a country and the log of per capita GDP. The solid line is simply the line of best fit. Figure 1B depicts the same relationship but controlling the level of democracy as measured by the average Polity IV score.<sup>3</sup> From this perspective, India is

<sup>2</sup>The discussion here draws upon India's *Economic Survey 2015–16* (Ministry of Finance 2016), where the tax-income-democracy relationship was first highlighted.

<sup>3</sup>To demonstrate this multivariate relationship on a figure, I appeal to the Frisch-Waugh theorem. I get the residuals from two regressions: (1) of the taxpayers to population ratio on Polity IV score and (2) of the log GDP per capita on Polity IV score. The figure plots the residuals from (1) on the residuals of (2). The Frisch-Waugh theorem guarantees that the slope of the regression line is the same as from a multivariate regression of taxpayers to population ratio on log GDP per capita and Polity IV score. The axes, therefore, plot the residualized values. I am grateful to Shoumitro Chatterjee for this analysis.

Figure 1B

**Taxpayers/Population Controlling for Democracy Score**



Source: Centre for Tax Policy and Administration (2011).

Note: The sample has 52 countries. The OECD dataset, which is the basis of this graph, has 77 countries. Of these, two countries do not have Polity IV data, and of the remainder, only 53 countries have data on the number of taxpayers and one country does not have data on GDP, leaving a final sample of 52.

a negative outlier. It has the lowest per capita GDP of countries that have been consistently democratic over the last half-century. In addition, India’s tax effort—here measured by the number of taxpayers to per capita GDP—is substantially below what one might expect for democracies. (The result is similar if tax effort is measured by the tax/GDP ratio.) That is, India does not undercollect taxes because it is relatively low income; rather, it undercollects taxes, despite being a democracy. The patterns shown for taxes and taxpayers hold for expenditures as well.

India also displays striking differences in fiscal capacity across tiers of government. India is an outlier in that its subnational governments (many of which have larger populations than most countries) generate a very low share of their total revenues from direct taxes: about 6 percent compared to 19 percent in Brazil in 2016 and 44 percent in Germany (Ministry of Finance 2018). The reliance of India’s rural local governments on its own resources is just 6 percent (compared to 40 percent for third-tier governments in Brazil and Germany), and they raise a meager 4 percent of their overall resources as direct taxes (compared with about 19 and 26 percent in Brazil and Germany, respectively). As a result, central and state governments in India spend on average 15–20 times more per capita than do local governments (Ministry of Finance 2018).

### **Macroeconomic Outcomes**

India's record on delivering economic growth for the last four decades has been noteworthy in its duration, stability, and relatively high rate (as discussed in the article by Lamba and Subramanian in this symposium). The state adopted market-undermining policies in the first three decades after Independence in 1947, but corrected course beginning around 1980, and especially after 1991, to deliver an uncommon dynamism relative to its own past, as well as compared with other developing countries.

India's record on macroeconomic stability is evident in lower inflation, lower levels of external debt, and more conservative monetary policies than comparator countries. Its fiscal policy has, however, been less prudent: its average levels of fiscal deficits have been quite high even compared to other emerging market countries (according to IMF data), although overall debt levels are much more prudent. Joshi and Little (1994) show that prior to 1991, India's macroeconomic policies were the most "conservative" (amongst 17 countries studied) with respect to inflation, monetary policy, and external debt. India's inflation did ratchet up in the mid-2000s, reaching 10–11 percent by 2008, and remained elevated at double digits for several years. However, inflation in India has since then fallen sharply to 3–5 percent in 2018–2019. India's exchange rate management has also been prudent, moving from fixed to flexible exchange rates over time and avoiding bouts of overvaluation that have elsewhere led to currency crises. As per one summary measure of macroeconomic performance in developing countries, India has not been under an IMF program in the quarter-century since 1995. In addition, as of November 1, 2019, India's foreign exchange reserves exceeded \$440 billion, the sixth highest of any country in the world.

India's fairly good inflation record owes much to the political aversion to inflation institutionalized by democracy. The very large number of poor people directly experience the negative impact of inflation, in part, because they lack access to financial instruments to protect themselves against inflation and also have high rates of electoral turnout. Thus, despite the absence of conventional statutory independence for India's central bank (the Reserve Bank of India), democratic politics has helped anchor and rein in inflationary expectations.

### **Microeconomic Outcomes Relating to Key Services**

India has experienced considerable improvements in socioeconomic indicators in the seven-odd decades since Independence. Table 2 presents changes in some basic indicators. Table 3 focuses on the time period since the onset of India's economic liberalization in the early 1990s.

One potential question about these gains is whether some of the improvements mask poor quality. For example, a household might have access to electricity or drinking water, but this does not say anything about the quality of the service. This point has some validity, but on the other hand, there is little to indicate that quality was terrific earlier and quantitative expansion has largely come at the expense of quality.

*Table 2*  
**Some Socioeconomic Indicators in India**

	~1950	2016
Literacy (% of population)	18 <sup>a</sup>	76 <sup>d</sup>
Life expectancy (years)	32 <sup>a</sup>	68.7 <sup>c</sup>
Maternal mortality (per 100,000)	1,321 <sup>b</sup>	130 <sup>c</sup>
Real GDP per capita (in 2011 US dollars) <sup>c</sup>	824	6,125

*Source:* <sup>a</sup>India Census Commissioner (1951); <sup>b</sup>estimates are for 1957–60 (Radkar 2012, 120, table 1); <sup>c</sup>Bolt et al. (2018); <sup>d</sup>extrapolated from National Sample Survey Office (2015), which estimated literacy for age five and above at 76 percent; <sup>e</sup>CBHI (2019).

*Table 3*  
**Post-liberalization Changes in Social Outcomes**

Indicator	1998–1999 (NFHS-2)	2005–2006 (NFHS-3)	2015–2016 (NFHS-4)
Households with electricity (%)	60.1	67.9	88.2
Households with an improved drinking-water source (%)	77.9 <sup>a</sup>	87.9	89.9
Infant mortality (deaths/1,000 live births)	68	57	41
Female literacy (%)	41.8	55.1	68.4
Women with ten or more years of schooling (%)	14.3	22.3	35.7
Sex ratio at birth (number of females per 1,000 males for children born in the last five years)	926 <sup>b</sup>	914	919
Homicide rate (per 100,000) <sup>c</sup>	4.6	3.9	3.2

*Source:* National Family Health Surveys (various rounds); <sup>a</sup>refers to drinking water supply from piped water and hand pumps; <sup>b</sup>0–6 years; <sup>c</sup>UNODC (2019).

A pattern that emerges here is that India’s progress is generally better in areas where the state can deliver the service by planning, coordination, and financing, such as electrification or road connectivity. In 2015, 88 percent of India’s population had access to electricity, a substantially higher percentage than the 66 percent that would be expected based on a simple cross-country correlation between electrification and GDP per capita. However, where behavioral changes on “sticky” social norms and preferences are required, India’s progress has been slower. For example, 39 percent of India’s population practiced open defecation in 2015, also a substantially higher percentage than the 14 percent that would be expected based on a simple correlation between this practice and GDP per capita.<sup>4</sup> When it comes to issues related to women and children’s welfare, some of them shown in Table 3, the Indian state has been less effective. India’s adverse sex ratio reflects society’s

<sup>4</sup>For figures illustrating these cross-country correlations with access to electricity and open defecation, see the online Appendix available with this paper at the *Journal of Economic Perspectives* website.

strong son preferences, and despite legal proscriptions, there have been meager improvements.

### **Episodic versus Ongoing Delivery of Key Functions**

The Indian state performs better in activities that are episodic in delivery and accountability and where, therefore, exit is automatic once the activity is complete. Consider three constitutional and statutory bodies charged with crucial functions. India's elections are organized by the Election Commission of India, which normally has a bureaucracy of a few hundred people. During national elections, it has supervisory authority over all parts of the bureaucracy be it national, state, or local—several million officials, a ten-thousand-fold increase—but only for the period of time between when the election schedule is announced and election results declared (usually a couple of months) (Quraishi 2019). Another body, the Delimitation Commission, is set up periodically to reallocate parliamentary and state assembly constituencies based on the last census and is wound up once it submits its report to parliament.<sup>5</sup> Each of its reports has been adopted unanimously by an otherwise fractious parliament, allowing India to avoid the gerrymandering partisanship that has afflicted, for instance, many US states. India's fiscal federalism—the sharing of taxes both vertically and horizontally—is strongly guided by the Finance Commission, which is set up every five years and then wound up after making recommendations, which again have been largely accepted by the national and state governments of the day.

The better performance of the Indian state in time-bound activities with automatic exit is not just with regard to statutory bodies. Earlier in 2019, the Indian state's organization of the Kumbha Mela—the “world's largest human gathering” now recognized by UNESCO as “an intangible cultural heritage of humanity”—involved the construction of a temporary city (at Prayagraj) spread across 2,500 hectares. Around 220 million people attended the 50-day festival with more than 10 million participating on the final day, all without any serious mishaps.<sup>6</sup>

Public health services in India leave much to be desired. Yet India achieved a remarkable public health milestone when it completed a full five years as a “polio-free nation” on January 13, 2016. Even into the 1980s, tens of thousands of children were contracting polio each year. As late as 2009, India reported 741 polio cases, more than any other country in the world. It faced daunting challenges in eradicating polio: high population density and birth rate, poor sanitation, widespread diarrhea, inaccessible terrain, and the reluctance of a section of the population to accept the polio vaccine. The sheer scale of the effort, requiring 172 million children to be vaccinated twice each year, all within a day or two, with the assistance of about 2.5 million volunteers and 150,000 vaccine administration

<sup>5</sup>Under Article 82 of the Constitution, the Parliament by law enacts a Delimitation Act after every census.

<sup>6</sup>For comparison, the much richer Saudi state organizes the Hajj religious pilgrimage for about 2.4 million people spread over five to six days.

supervisors, required substantial state capacity in logistics and coordination.<sup>7</sup> Again, the Indian state performed well in a “mission mode” activity that was highly temporally concentrated.

The Indian census is another example. It has been held on time every decade. When the 2011 census was conducted, 2.7 million officials visited households in 7,935 towns and 600,000 villages at a cost of less than \$0.50 per person. As with the earlier examples, the activity is conducted by the same public employees who don't seem to perform well on their otherwise normal day-to-day duties (indeed, the census results take quite a while to be processed), but do better on an episodic time-bound activity with automatic exit as soon as the activity ends.

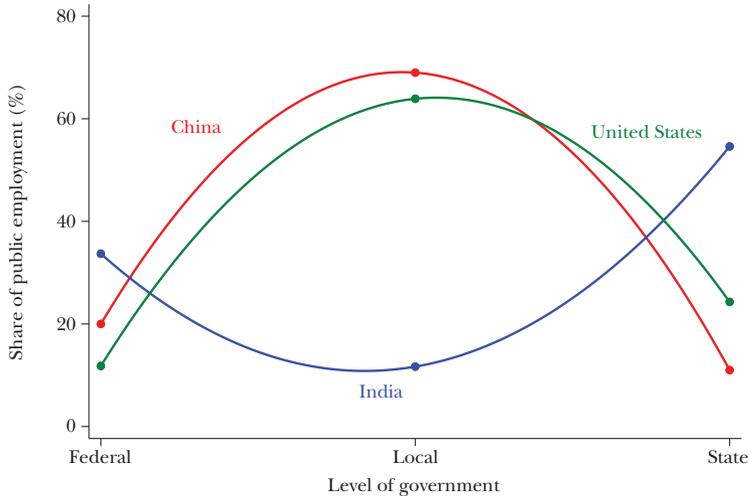
When it comes to ongoing regulatory agencies, however, the performance of India's state is more mixed. Primary financial regulators like the Reserve Bank of India and the Securities and Exchange Board of India were generally regarded as having performed well, at least until recently. However, India's current deep financial crisis rooted in high nonperforming assets of Indian banks raises serious questions about the former. The record of the electricity regulator is more modest, environmental regulation has not been successful, and the telecommunications regulator began well but has now come under a cloud for seemingly favoring a particular firm (Kapur and Khosla 2019). Regulation at the central level is also generally better than by counterparts at the subnational level.

Since the onset of economic liberalization, the role of the Indian state in the country's economy has shifted from direct production to regulation. However, the resulting profusion of regulators has led to increased fragmentation of the state apparatus and further slowed decision-making. For example, much needed reforms in agricultural marketing have been stymied because implementation has to be done by each state separately, since agriculture is a “state subject” in the Indian Constitution. Indeed, if “economic liberalization was meant to roll back the state, the rise of the regulatory state is a testament to the fact that, far from rolling back, the state has simply rolled over” (Kapur and Khosla 2019, 5).

This regulatory turn has furthered the “judicialization” of the Indian state, since all disputes end up in that branch (Mehta 2007). India's judiciary has emerged as a critical feature of state capacity; this is in addition to its traditional role of being a referee institution that protects rights and checks the other branches of government. In response to the weakened inability and legitimacy of the executive and legislature and other regulatory bodies to take actions, the judiciary has stepped into the vacuum by appropriating roles that typically are not within its jurisdiction. Some examples of economic issues that are decided in part by the judiciary include allocation of public assets, standard-setting for environmental quality, regulating utilities, and driving the bankruptcy process. Even where decisions have to be made by other regulatory institutions, they are

<sup>7</sup>See Polio Global Eradication Initiative (2016).

Figure 2

**Structure of Employment across Three Tiers of Government: China, India, and the United States**

Source: India: Ministry of Finance (2012, 2018); China: Ang (2012); United States: US Census Bureau.  
 Note: The data are for 2011–2012 for India, 1998 for China, and 2012–2013 for the United States.

routinely “punted up” to India’s Supreme Court, which until recently at least has been consistently ranked as one of the two most trusted public institutions (along with the army) (CSDS 2015).

## Possible Explanations

What explains India’s pattern of heterogenous state delivery? In this section, we consider several possible explanations; in the following section, we rule out two conventional but implausible explanations.

### Explanation 1: Inadequate Local Government Resources

There is a striking contrast in the structure of public employment in India at different levels of government compared to other large federal states, like the United States and China, which is illustrated in Figure 2.

In the United States, two-thirds of government employees work for local governments. In the case of China, from 1954 to 1998, “central-level public employment averaged 16 percent of the total, provincial level 17 percent, city level 22 percent, county level 34 percent and townships 10 percent. On average, 66 percent of public employment [was] at the subprovincial levels, with county governments having the largest share” (Ang 2012, 693). From 1980–1998, central-level staff in China grew from 12 percent to 20 percent, while the share of provincial governments declined

from 18 percent in 1979 to 11 percent in 1998, reflecting in part a steady devolution of responsibilities from provincial to subprovincial administrations (Ang 2012).

In contrast, in India during the period from 1980 to 2012, the share of the central government declined from 21.1 to 14.3 percent, that of local governments from 13.8 to 12.0 percent, while the share of subnational government increased from 36.3 to 40.8 percent.<sup>8</sup> Thus, the share of local government employees in total employment in the United States or China is five times that of India.

Local government expenditure is similarly skewed. Local government expenditure is 3 percent of the total government expenditure in India, compared with 27 percent in the United States and 51 percent in China (Ren 2015). Given that basic public goods—from primary health to education, from water to sanitation, from policing to (urban) planning—are supplied (or should be supplied) by local governments, poor delivery of many basic services in India could relate to the lack of resources (both financial and human) at the lowest level of government.

We lack a good understanding of how the vertical distribution of public employees across levels of government in large federal states might shape state effectiveness, or for that matter, how the horizontal distribution of personnel across ministries in government affects state performance. No matter how carefully development programs are designed by national bureaucracies, ultimately their performance on the ground hinges on how effectively they are implemented by local bureaucracy at the front line (Pritchett 2009). Bureaucratic resource constraints affect performance by forcing local officials to multitask excessively, and this inability to specialize has an adverse impact on the performance of development programs (Dasgupta and Kapur 2019).

### **Explanation 2: Precocious Democracy**

India's democratic persistence has defied theorizing about democracy. One well-regarded study on the relationship between democracy and development found that India was a major outlier given its low level of income and literacy and high levels of ethnic and religious conflict: "India was predicted a dictatorship during the entire period ... the odds against democracy in India were extremely high" (Przeworski et al. 2000). In particular, when India's constitution guaranteed universal franchise for men and women in 1950, real GDP per capita in India was lower than what Western democracies like the United Kingdom, United States, Sweden, or the Netherlands had a century or more before (when of course universal franchise was unknown). India adopted the universal franchise when literacy was barely 18 percent and life expectancy was just 32 years.

In addition, national-level democracy and the universal franchise in India arrived all at once in 1950. The expansion of the franchise in most nations of the

<sup>8</sup>The balance of public employment is under "quasi-government," which includes state-owned enterprises, sundry authorities, boards, regulators, etc. The data are from the annual Economic Surveys of the Government of India for the years 2017–2018, 2011–2012, 2001–2002, 1995–1996, 1984–1985, 1974–1975, and 1972–1973.

West was much more gradual, from male property holders to all men to women and later (in some cases) to members of marginalized communities. In countries of East Asia, there was a clear sequencing with universal franchise following a protracted process of economic development and state-building. Most Latin American countries experienced periodic reversals in democracy even as their economies grew. In both Western democracies and East Asia, universal franchise came after the state had laid the foundations of public goods in education and health, and the structures of the welfare state were built gradually on these foundations.

Might the weaknesses of India's state record be the outcome of a precocious democracy, arriving much sooner than one might expect based on comparative experience? We suggest that the distinctiveness of Indian democracy is responsible for the heterogeneity of its government performance in three distinct ways.

First, precocious democracy tends to militate against the provision of public goods in favor of redistribution. Countries that experienced economic development prior to the transition to democracy also tend to adopt democratic institutions that constrain the confiscatory power of the ruling elite. However, when countries pursue democracy prior to economic development, the democratic institutions adopted enhance the redistributive powers of the state.

For related reasons, precocious democracy contributes to weak public good provision. We suggested earlier that being a "premature" democracy appears to have reduced India's ability to raise revenues compared with other democracies, further undermining its fiscal ability to finance public goods. By not providing public goods before shifting to redistribution, the Indian state weakened the legitimacy and trust to create a virtuous circle that could strengthen the social contract between citizens and the state. This has led to "exit" (in the sense of Hirschman 1970): India's middle class, feeling that it has not received enough from the state by way of public goods, exits in favor of private provision and is also reluctant to pay taxes. This further undermines the state's legitimacy and capacity (reflected in the low level of taxpayers in India). In an Indian twist to these pathologies, exit and lack of trust and weak fiscal ability are particularly acute at lower levels of government, which have the primary responsibility for delivering key services such as health, education, water, and sanitation. There is a general unwillingness on the part of lower levels of government to raise revenues and local taxes (such as those on property)—a problem of being closer to the people. This creates a vicious cycle of weak delivery leading to exit, undermined legitimacy, fewer resources, back to weak delivery.

Redistributive pressures can also explain variance in regulatory effectiveness. The electricity sector is a clear example where politicians press to keep charges for farmers and households low and attempt to cross-subsidize by charging higher for commercial and industrial units, creating severe distortions in the sector.

Second, a precocious democracy with electoral mobilization along social cleavages favors creation of narrow club goods. A central puzzle concerning the poor provision of basic public services in India is seemingly weak demand in an otherwise flourishing electoral democracy. If politicians respond to voters, then why have

voters not demanded basic public services such as education, health, water, and sanitation? On this point, explanations seek recourse to the implications of India's social heterogeneity, especially in a ranked society (Banerjee, Iyer, and Somanathan 2005). Politicians persist in relying on targeted transfer programs and subsidies. Poor farmers might prefer targeted transfers rather than public services such as education because farmers often have high discount rates (Keefer and Khemani 2004). Alternatively, politicians might provide "private" public goods such as housing or other material inducements that target particular individuals and small groups of people as opposed to the provision of public goods through institutional means. This behavior is partly due to social cleavages and partly to a lack of credibility of political promises to provide broad public goods (as opposed to private transfers and subsidies). Electoral competition therefore revolves around distributing public resources as "club goods"—goods with excludability characteristics—rather than providing public goods to a broad base. Again, those in the middle and upper classes will often choose to exit from the system, preferring market solutions rather than poor quality and unreliable public services, further reducing pressures to change the system.

A third way in which precocious democracy can weaken state capacity is that an imperfect democracy with noncredible politicians will tend to emphasize the provision of goods that are visible and can be provided quickly, like infrastructure, over long-term investments, like human capital or environmental quality. This pattern relates to the signaling problem facing noncredible politicians in an electoral democracy and the politics of visibility (Mani and Mukand 2007). There is a bias towards tackling famines over addressing malnutrition (Dreze and Sen 1989) because the former are more visible. There is also a bias towards public goods where quantity is more salient than quality (Hirschman 1967). While this pattern may hold in many democracies, Indian democracy might be particularly susceptible because of lower levels of literacy and social cleavages where the politics of visibility and "signaling" to specific groups becomes more salient.

### **Explanation 3: The Persistence of Social Hierarchies and Cleavages**

The architect of the Indian Constitution, B. R. Ambedkar, was born into an "untouchable" caste. Ambedkar worried that "democracy in India is only a top-dressing on an Indian soil which is essentially undemocratic."<sup>9</sup> Caste, he argued, "is a notion, it is a state of the mind," and therefore it cannot be eradicated through constitutional measures alone. This "state of mind" has been embedded in India's tenacious social institutions. These constitute what one could call "societal failures" and make state failure more likely in areas where public policy and programs have to address issues intimately connected with caste or gender issues.

The framers of India's constitution sought to construct an institutional form "that could counteract the tenacity of local cultural forms," and for this reason, they

<sup>9</sup>See Constituent Assembly Debates (1948).

sought to concentrate authority at the center (Khosla, forthcoming). To distance power from local actors meant (they believed) that power could be exercised progressively, since the boundary between the state and society became porous as political authority traveled downward. With hindsight, we now know that many of these egalitarian hopes were misplaced. Policies—often largely progressive in intent—were made by national elites who were more insulated from society. Implementation, however, was often subverted by local elites in what was an extremely hierarchical society—and over seven decades has gradually become only somewhat less so.

While the Indian Constitution banned caste discrimination, it continues to be a social and political reality. Historically, the critical mechanism for replicating caste distinctions across generations is endogamy, with people marrying within their caste. Ambedkar (1936) had argued, “Where society is already well-knit by other ties, marriage is an ordinary incident of life. But where society is cut asunder, marriage as a binding force becomes a matter of urgent necessity. The real remedy for breaking Caste is intermarriage. Nothing else will serve as the solvent of Caste.” But to what degree can a democratic state interfere in marriage choices?

Societal failures are also manifest in the reality of gender discrimination in India. The World Economic Forum’s 2018 Gender Gap Index places India at 108 out of 149 countries. Its rank on health and survival was 147 and in educational attainment 142. Its female labor force participation rate fell from 42.7 percent in 2004–2005 to 23.3 percent in 2017–2018, one of the lowest in the world outside the Arab world.

To take another example, a recent flagship program (the Pradhan Mantri Ujjwala Yojana) has provided gas connections to poor households to facilitate women moving away from highly polluting and time-consuming solid fuels. Launched in May 2016, the scheme had provided cooking gas connections to 80 million poor households by late 2019. But many women continue to cook using solid fuels, even when a gas stove is available, despite the adverse health effects of solid-fuel use. While the cost of refilling a gas cylinder is an important consideration, beliefs and attitudes seem to matter, too. A recent survey found that over 85 percent of respondents saw solid fuel as a better option for taste and the health of family members eating the food (Gupta et al. 2019). In Indian households, the health of young women, who do most of the cooking, is less valued than that of other household members, who do most of the eating. A democratic state can ensure that households have healthier cooking fuel options, but it can only do so much to address what happens *within* the household—at least in the short term.

The scholarship on India that takes societal factors into account has focused more on how social heterogeneity can affect electoral incentives in a way which makes collective action more difficult (Bardhan 1986) and reduces incentives to invest in state capacity (Besley and Persson 2011). Several empirical studies have documented that India’s social diversity has hindered development outcomes and, in particular, the provision of public goods (Banerjee, Iyer, and Somanathan 2005; Balasubramaniam, Chatterjee, and Mustard 2014).

If universal franchise results in the state representing the interests of the median voter (for example, as in Alesina and Rodrik 1994), the very success of India's electoral democracy means that the Indian state is also likely to reflect societal preferences on issues such as caste and gender. This explains why the Indian state is relatively better at providing "hard" goods such as roads or electrification rather than providing sanitation because dealing with human waste was seen as "polluting" and restricted to the lowest castes. Similarly, the state is better at raising food grain production (four-fold over the past half-century) than improving malnutrition outcomes, which are affected by intrahousehold distribution. It is better at building schools and giving bicycles to improve girls' enrollment than at improving educational outcomes, because what happens within the classroom is affected by caste and gender norms. India's state is even less effective in improving worrisome sex ratios, low (and declining) female labor force participation, or generalized societal violence against women—all of which are rooted to varying degrees in social norms. In these cases, state failures reflect societal failures.

## Two Conventional but Unpersuasive Explanations

### Unpersuasive Explanation 1: Bloated Size of the Indian State

A conventional caricature about the Indian state is that its inefficiencies arise because it is too big, with overstuffed and lethargic bureaucracies doing little and seeking to extract rents. But if anything, the Indian state is relatively small in comparative context when measured by the number of personnel.<sup>10</sup>

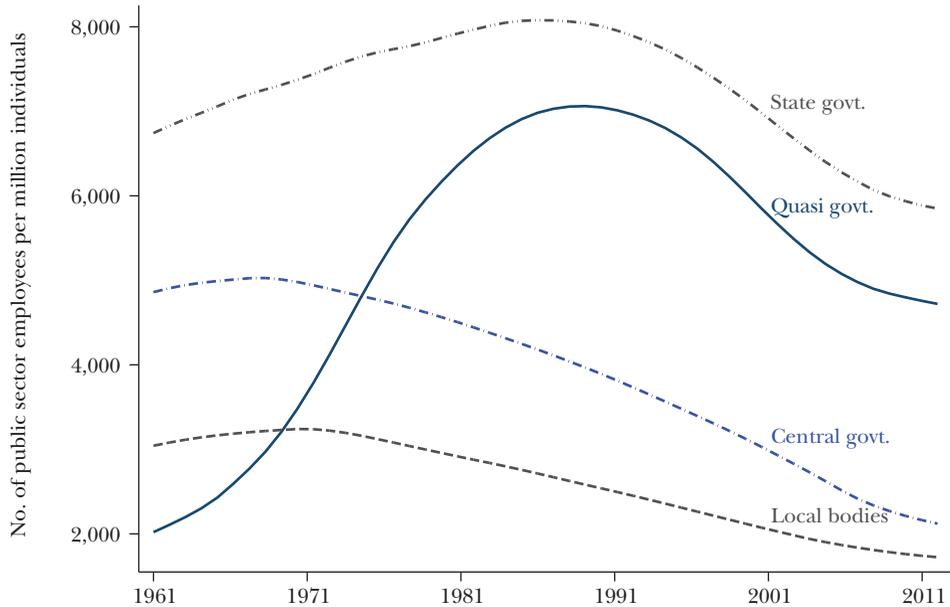
In the early 1990s, the global average of government employment as a percent of population was 4.7 percent. In countries of Asia, it was 2.6 percent. In India, it was 2 percent (Schiavo-Campo, De Tommaso, and Mukherjee 1997). Core elements of the Indian state—police, judges, and tax bureaucracy—are among the smallest of the G-20 countries. Indeed, while the absolute size of government employment peaked in the mid-1990s, in relative terms, the decline in size of central and local governments began much earlier, as shown in Figure 3.

These numbers in fact overstate the size of India's federal government. A noteworthy aspect of the deployment of personnel in India's central government is that of its 3.24 million personnel (excluding military) in 2014, the Indian Railways and Posts alone employed 1.32 million. The Indian Railways constitute a very large fraction of central government employment; it accounted for 57 percent of total federal government employment in 1957, while its share was still 40 percent in 2014. In addition, nonmilitary security personnel (in the Ministry of Home Affairs and civilians

<sup>10</sup>Of course, it is possible that even though the number of public employees might be fewer, their emoluments could still be relatively large, resulting in a large share of government revenues being cannibalized by the state to feed its own employees. While salaries of public employees have been increasing at a faster pace relative to per capita income, expenses for compensation of public employees as the share of total government expenditures for India are relatively low in comparative terms.

Figure 3

**Public Employment in India by Different Levels of Government**  
(per million population)



Source: Ministry of Finance (1973, 1975, 1985, 1996, 2012, 2018).

in the Defence Ministry) account for another 1.38 million personnel (as of January 1, 2014). Indeed, the most significant increase in the number of workers at the federal government level has been in the Ministry of Home Affairs from 325,000 in 1984 to 972,000 in 2014, due to the large expansion of central paramilitary forces.

At most, only 13 percent of federal employees in India—whose overall numbers are not large to begin with—are employed in core development-related departments. The number of personnel working in the secretariats of all ministries/departments of the central government was less than 30,000 in 2014.

A comparison between the size of the civilian workforce of the federal government in India with that of the United States is instructive. Remember, India has a large number of public enterprises and public sector banks that are under the central government. Even so, the size of the Indian federal government is half the size of its US counterpart when normalized by population: specifically, the US federal government had 8.07 civilian employees per 1,000 US population in 2014, down from 10.4 in 1995, while India's central government had 4.51 civilian employees per 1,000 population, down from 8.47 in 1995.<sup>11</sup>

<sup>11</sup> These estimates are based on various sources: US Office of Personnel Management (1940–2014), US Postal Service (2014), Government of India (2015), Ministry of Heavy Industries and Public Enterprises (2018), Reserve Bank of India (2018), and World Bank National Accounts data.

A second feature of the Indian state is the steady decline in public employment despite rapid growth. Higher income countries tend to have larger government expenditures as a share of GDP, and countries with higher per capita incomes tend to have larger state sector employment, especially in public services such as law and order and social services such as health care. However, in India, the total number of public employees at all levels of government rose from about 16,000 per million population in the early 1960s to a peak of around 19,000 per million population in 1986. However, since then, public employment has fallen at all levels of government, dropping to about 14,000 per million population by 2012, despite steady and strong increases in per capita income.

### **Unpersuasive Explanation 2: Patronage State**

Another conventional explanation for poor performance is that the Indian state is a “patronage state,” at least as regards recruitment into the public sector. However, recruitment to government jobs in India has become strongly rule based, largely (and increasingly) through exams. More than four-fifths of those who join India’s federal civil service today are recruited through exams (and the rest through public advertisements and interviews conducted by an autonomous constitutional body, the Union Public Service Commission) at the federal level and equivalent bodies at the state level. When a new government takes power in the United States or Mexico, there is a substantial hiatus as new political appointees are selected for hundreds of senior-level positions. In India’s case, there is a shuffling within the bureaucracy, but little lateral entry with very few new outside appointments.<sup>12</sup>

From the 1960s through the 1990s, about three-fifths of India’s senior federal bureaucracy were recruited through exams. More than 2.9 million people took the federal civil service recruitment exam in 2015–2016, and 5,659 were recommended for appointment—roughly one of every 500. Of those taking the exam, the share recommended for appointment has fallen over time: back in 1950–1951, one out of ten test-takers was recommended.<sup>13</sup>

Recruitment at the subnational and local levels is more prone to bribes and patronage. But even here, recruitment in state public services is almost entirely exam based, conducted (depending on the cadre and the state) by State Public Service Commissions, Staff Selection Commissions, Professional Examination Boards, and the Uniformed Services Recruitment Board (for the police and fire services). There

<sup>12</sup>In order to bolster the generalist cadres of the civil services, the federal government recruited “domain experts” (those with demonstrated sectoral experience) in key policy positions (Joint Secretary) for the first time in April 2019 after much contentious debate. The recruitment was done by India’s Union Public Service Commission, and the total number recruited was just nine.

<sup>13</sup>India’s government is selective in recruitment in other ways as well. For example, the share of applicants accepted into the key training school for military officers in India (the National Defense Academy) is more than 200 times smaller than its US counterpart (West Point). The data for India are averaged over 2014–2016 and for the United States over 2017–2018. The sources for this comparison are the UPSC Annual Reports, 2014–2016, for India and the West Point Admissions Class Profile, Princeton Review for the United States.

are undoubted shenanigans (such as leaking of exam papers). Selections are often halted and sometimes overturned by the courts, and as a result, instead of over-staffing many positions are unfilled.<sup>14</sup>

The hypothesis of patronage recruitment as the principal explanation for India's poor state performance is also undermined by the large numbers of vacancies across all branches of the Indian state. About one-fifth of all positions in the central government are vacant; as well, one-third of all High Court judges and one-fifth of Supreme Court judges have been vacant at any given time this decade. About one-third of faculty positions in the elite Indian Institutes of Technology (which come under the federal government) are vacant. At the state level, about one-quarter of positions of district judges and police are vacant.

There are many possible reasons for the high number of vacancies in government jobs: lack of funding; certain judicial interventions might freeze government hiring; or for certain jobs, there are just not enough suitable candidates because of limited supply (as in the case of faculty vacancies for the elite Indian Institutes of Technology). High vacancies in certain areas could also be the result of more-or-less deliberate (in)actions by politicians. For instance, high vacancies among the police and judiciary ensures that law and order is weak. This not only ensures that politicians' shenanigans are unchecked, but that citizens have to seek out politicians to resolve disputes rather than the machinery of the state, making them more beholden to politicians.

However, for the most part, such factors cannot explain high vacancies across the gamut of the state machinery, such as the armed forces or agriculture officers. Between 2006 to 2014, average annual recruitment to India's central government was just above 100,000 annually, while the labor force was increasing by about 9 million each year.<sup>15</sup> These vacancies have persisted despite the obvious political imperatives to stack the state with partisan supporters, along with acute joblessness as a salient political issue. For the most part, the potential supply of government workers seems overwhelming relative to demand.<sup>16</sup> In a study of the Office of the Block Development Office (BDO), the key local-level administrative office serving about a quarter of a million people in rural India, Dasgupta and Kapur (2019) find that on average 48 percent of officially sanctioned full-time employee posts were vacant. If all of these sanctioned but vacant positions were filled, they find that the performance of one of the flagship government programs, the National Rural Employment Guarantee Act (NREGA), would increase employment delivery by approximately 10 percent.

<sup>14</sup>It is possible that those opting for public service may have a higher propensity for corruption, which may undermine the positive selectivity on ability (Hanna and Wang 2017).

<sup>15</sup>The data are from Annex 3, p. 45 in the *Report of the Seventh Central Pay Commission* (GOI 2015).

<sup>16</sup>In early 2019, a nationwide call for recruitment for menial positions in the Indian railways—porters, welders, and track maintainers—attracted 19 million applications for 63,000 posts. In 2018, 93,000 applicants vied for 62 peon jobs in the Uttar Pradesh police. Nearly 200,000 competed for 1,137 constable positions in the Mumbai police.

There are of course well-known examples of patronage in India. Absenteeism in certain types of jobs such as teachers and medical workers (Muralidharan et al. 2017) and an increase in “contract workers” (such as school teachers) is linked to rent seeking and political alignments, reducing state effectiveness. Another weakness that allows for the “patronage state” to flourish is the prevalence of a “transfer Raj,” where officials in rent-rich posts are transferred at will depending on their ability to pay upwards in the food chain. Numerous studies have shown the negative consequences of transfers on the effectiveness of the bureaucracy in India ranging from irrigation (Wade 1982), teachers (Ramachandran et al. 2018), health workers (Purohit, Martineau, and Sheikh 2016), the elite civil service (Iyer and Mani 2012), and police (Das and Sabharwal 2017). There are cases where senior bureaucrats are offered high-profile post-retirement positions as regulators, and the performance of regulators appointed in this way has a checkered record.

But overall, the reality is that a significant part of the Indian state is served by a closed well-paid professional bureaucracy, recruited meritocratically through highly competitive formal examinations, with career stability and secure tenure, strong ties among the members of the bureaucracy, special laws for public employment (as opposed to standard labor laws), and internal promotion. These criteria would suggest that the core bureaucracy in India meets most of the conditions of a Weberian bureaucracy, in contrast with patronage states where political and personal criteria largely determine bureaucratic recruitment and careers (Rauch and Evans 2000; Dahlström, Lapuente, and Teorell 2012). Yet its performance has been wanting.

### **Some Concluding Thoughts**

Between 1994 and 2019, India added 418 million people to its population. It added more people during these 25 years than its total population at Independence (361 million in the 1951 census), more people than the entire population of the United States—in one-third the US land mass. Yet the weak state in India, using democratic means, managed to enact a set of economic reforms in the early 1990s and to conduct economic policy since then in ways that laid the groundwork for sustained and robust economic growth in the last quarter-century.

The literature on the role of the state often yearns for a “Goldilocks” state: not too weak to be unable to formulate and implement policy in the larger public interest, but not too strong lest its “grabbing hand” undermine private property rights, markets, and contracts. This requires building a competent bureaucracy together with external checks and balances, including constitutional constraints on executive power, separation of powers, electoral rules, independent judiciary, free media, and various other factors.

However, as this paper has argued, India ostensibly has many of these institutional features, and yet state performance has left much to be desired. The Indian state has performed better in activities which are episodic, where the good or

service is a narrow club good and where a small technocratic bureaucracy suffices. It does less well where rents and social cleavages overlap. It does least well on issues that require behavioral changes at the micro level. The reasons, we argue, lie in the understaffing of local government, the precocious democracy of India and its anomalous sequencing of universal franchise, and India's "societal failures" manifest in caste and gender discrimination.

India's experience highlights a shortcoming in studies of state capacity; an emphasis on the "institution" aspect often ignores the "organizational" aspects of the state—and even that literature has for the most part focused on a narrow set of civil service management structures focusing primarily on incentive and monitoring (for an overview, see Finan, Olken, and Pande 2017). But there is often only limited analysis regarding how state performance is affected by public personnel management practices, such as the role of intrinsic motivation; pay structures (rather than levels); promotions; transfers; the composition of teams and physical conditions within which local bureaucracies work; and the distribution of bureaucracy across different functional lines as well as across different tiers of local, state, and federal government.

Perhaps the most intriguing trend with regard to the Indian state and the evolution of state capacity is an improvement at the level of micro and frontline implementation. However, there are growing questions about state capacity at the macro policymaking level.

The frontline implementation capacity of the Indian state is improving markedly and is manifest in its ability to scale up programs rapidly to reach tens and even hundreds of millions of people. In this decade, India's state has successfully opened bank accounts for over 350 million people, delivered gas connections to more than 80 million households, built around 100 million toilets reaching 600 million people, and has begun implementing direct cash transfer schemes that are reaching tens of millions of farmers. While each of these programs has exaggerated numbers and challenges of quality, timeliness, and exclusion, there is little doubt that the Indian state is now developing the capacity to transform inputs into outputs. Of course, transforming these outputs into outcomes is yet another step. Building toilets is not the same as usage, let alone sanitation writ large and better health outcomes. But it's a start.

Some of the "front-end" weaknesses of the Indian state are being attenuated by harnessing technology to implement programs on scale. The creation of a finance-biometric-communications platform Aadhaar, encompassing the entire population, and the development of Unified Payments Interface as the platform for digital payments are examples in this regard. Together with sharp improvements in connectivity, from rural roads to electrification and digital access, the platforms for improving the delivery of public programs, as well as for markets to function better, are strengthening.

But while technology has sharply reduced the transaction costs of obtaining a host of government documents, such as a passport or driver's license or to pay utility bills, it does not by itself get water into a house or sewerage out of it or treat it before discharge. For all of these, India will need a more effective state, one that

is better resourced especially at the local level and whose accountability is more “downward” directed towards citizens, rather than “upward” directed towards the state-level bureaucracy and politicians.

In contrast to the improvements at the micro level, the macro policy capabilities of the Indian state are raising concerns. Since India’s Independence, observers have admired the state’s capabilities embedded in its elite bureaucracy and its ability to formulate policy, while lamenting the severe weaknesses of its front-line functionaries to implement programs. A strong head and weak body, as it were, resulted in better macro performance and contrasted with the Indian state’s mediocre implementation record on the ground.

Today, these patterns seem to be reversing. Even as the delivery of India’s public programs has been improving, economic growth is stalling, if not declining (as discussed in the article by Lamba and Subramanian in this symposium). The autonomy of the core institutions of the Indian state and democracy—from the Supreme Court to the Election Commission, from the Reserve Bank of India to its statistical institutions—appears to be under growing political pressures. The lament about the Indian state as “weak” is becoming less true, but the same strong state that can ensure more effective poverty programs can also limit civil liberties and be less permissive for democracy. Sometimes one should be careful what one asks for—one might actually get it.

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