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## Bihar

How the Poorest,  
Worst-Governed State  
Attained Double-Digit Growth  
and Became a Role Model

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## Introduction

Bihar has long been India's poorest, most backward state, riddled with misgovernance, caste wars, gangsterism, Maoism and hopelessness. Its institutional weaknesses have made it a figure of fun. There was an old joke that when British India was being partitioned in 1947 (to create the two independent states of India and Pakistan), Indian Prime Minister Nehru told his Pakistani counterpart that he could have the disputed state of Kashmir provided he took Bihar and Uttar Pradesh too. These two states, with a combined population today of over 300 million, were seen as a terrible drag on the rest of India, having some of the lowest growth rates and social indicators among Indian states.

Yet Bihar has undergone a veritable revolution since a new dynamic Chief Minister, Nitish Kumar, came to power in 2005 (and was re-elected in 2010 with a landslide majority). If we look at data available for the last six years from 2006-07 to 2011-12, Bihar averaged GDP growth rate of a whopping 10.87 per cent. This was the highest among major states (some mini-states fared even better), and well above the national average of 8.29 per cent.<sup>1</sup> So Bihar, which was historically a drag on the rest of India, has started pulling up the rest of India. This merits international attention because Bihar has a population of 100 million, more than that of all except a handful of countries. Unlike some other developmental successes, Bihar's is not a boutique success: it is success on a grand scale. However, despite this sharp improvement, consumption (measured by per capita monthly rural spending) remains close to the lowest among all states, an indicator of how far behind Bihar has long been, and continues to be (Table 2.1).

Fast growth has driven down the headcount poverty ratio in Bihar, which used to be India's poorest state. The ratio was as high as 56 per cent in 2004-05 (which was a serious drought year), and has crashed to just 33.74 per cent in 2011-12. This is a very dramatic decline. So, although its consumption levels remain among the lowest, Bihar has ceased to be India's poorest state—five other states now have a higher poverty headcount ratio (although three of these are tiny mini-states and so not strictly comparable). The all-India poverty ratio also declined sharply in the same period from 37 per cent to 22 per cent, but this decline was not as fast as in Bihar. The all-India performance as well as Bihar's performance

**Table 2.1**

**Consumption and Poverty in Major Indian States**

	Rural Monthly Per Capita Consumption (₹)	Poverty Headcount Ratio (%)
Andhra Pradesh	1,563	9.20
Assam	1,057	31.98
Bihar	970	33.74
Chhattisgarh	904	39.93
Gujarat	1,430	16.63
Haryana	1,801	11.16
Jammu & Kashmir	1,602	10.35
Jharkhand	919	36.96
Karnataka	1,395	20.91
Madhya Pradesh	1,024	31.65
Maharashtra	1,446	17.35
Odisha	905	32.59
Punjab	2,137	8.26
Rajasthan	1,446	14.71
Tamil Nadu	1,570	11.28
Uttar Pradesh	1,072	29.43
West Bengal	1,179	19.98

Source: Press Note on Poverty Estimates 2011-12, Planning Commission.

showed that, contrary to much leftist theorising, faster growth is indeed a major force in reducing poverty.

Many of the state's social indicators have improved dramatically too. This helps falsify the supposed trade-off between growth and equity. The plain fact is that growth is vital for improving not only incomes but government revenues required for providing public goods (essential infrastructure and social services). Of course, fast growth also requires good governance, to ensure that the new revenues are utilised well. In the decade 2001-2011, Bihar's literacy rate improved 16.8 percentage points and female literacy by a whopping 20 per cent. The state historically had a very high infant mortality rate, but in 2011, Bihar's caught up with the national average at 44 infant deaths per thousand births. Polio, a scourge of the ages, was finally eradicated in Bihar and Uttar Pradesh in 2011 (it had been eradicated in other states much earlier).<sup>2</sup>

Bihar continues to have the least family planning and hence the highest population growth rate (2.1 per cent per year) among major states. But with labour scarcity growing and wages rising fast in India, what used to be condemned as a 'population explosion' is now being hailed as a 'demographic dividend.' Low wages and fast population growth, which historically kept Bihar poor, now promise to give the state a competitive edge and drive fast growth for decades to come.

Development economics is full of fancy theories on how to make developing countries grow fast. In the bad old days of Bihar, many of these theories could be used to explain the state's dismal performance. But its new dynamism after 2005 was based on two main pillars—a crackdown on gangsters and massive road building. One consequence was that the total number of registered vehicles in the state quadrupled from just 80,000 in 2005-06 to 3,19,000 by 2019-10.<sup>3</sup> The taming of crime hugely improved the investment climate, and fast road-building (plus India's broader telecom revolution) suddenly provided economic opportunities in villages that earlier had no infrastructure and hence no opportunities. However, just these two factors, public safety plus roads, would not have produced double-digit GDP growth in Bihar without major all-India reforms since 1991 that helped accelerate growth in all states. The more advanced coastal states were the first to take advantage of new opportunities created by economic liberalisation, but in the last decade, the backward BIMAROU states (acronym for Bihar, Madhya Pradesh, Rajasthan, Odisha and Uttar Pradesh) have begun to do the same. Bihar is the best example among BIMAROU states, thanks in no small measure to the dynamism and the improvement in economic freedom Nitish Kumar has brought in as Chief Minister from 2005 onwards.

In the year 2000, Jharkhand was carved out of the original Bihar state. Jharkhand was a thinly-populated, highly-forested tribal belt. In India, tribal areas are often viewed as backward. Yet the partition gave Jharkhand

almost all the coal and minerals of the original state, and four major industrial cities and steel mills at Jamshedpur, Ranchi, Bokaro and Sindri. Bihar was left with an overwhelmingly agrarian area, which had a very high population density and tiny land holdings. However, Jharkhand was left with major disadvantages too. It was predominantly a tribal area with dense forest and limited infrastructure, and this offsets to some extent the advantages of mineral deposits and a few industrial cities. But this cannot explain why Jharkhand has even lower per capita expenditure and a higher poverty headcount ratio than Bihar (see Table 2.1). A significant reason for this is massive misgovernance in Jharkhand, and the lack of a dynamic leader like Nitish Kumar. This is reflected in a decline in economic freedom scores in Jharkhand, in contrast to a substantial increase in freedom scores in Bihar.

After partition, Bihar's share of industry in net state domestic product (NSDP) crashed from 22.5 per cent to a calamitously low 4.6 per cent, while that of Jharkhand went up to 37 per cent. The royalties and tax base from minerals and the big industrial cities all went to Jharkhand, leaving Bihar in desperate fiscal straits. Besides, almost all of the original composite state's coal and power stations went to Jharkhand. Bihar has by far the lowest per capita consumption of power (122 kWh) among Indian states, less than one-tenth that of Gujarat, Chhattisgarh or Himachal Pradesh, one reason for its tiny industrial base. New power plants are finally coming up in the state, and hopefully will help correct the current lopsided pattern of development. Be that as it may, Bihar has been an eye-opener in demonstrating how even lopsided development can achieve huge increases in GDP and reductions in poverty in a poor, backward state without electricity.<sup>4</sup>

Annual EFSI reports have long shown a link between economic freedom and fast GDP growth. But Bihar may in some respects look an outlier. Its economic freedom scores continue to be the lowest among states, yet it has been a growth champion. This paradox is examined in greater detail at the end of this chapter. One explanation is that while Bihar's scores remain dismal, they nevertheless show an improvement of almost a quarter since 2005, much faster than the national average. Second, when the state shrinks to the point where it cannot provide physical security or basic infrastructure, it means anarchy and gangster rule. To the extent that gangsters are linked with a corrupt political class, what earlier looked small government in spending terms was actually a huge political footprint that undercuts the rule of law. In such circumstances, the restoration of safety and basic infrastructure produced spectacular growth, even though other indicators of economic freedom did not show dramatic change. A third explanation is that the state enjoyed a huge increase in transfers from the central government in the last decade, thanks in part to the revenue bonanza New Delhi reaped from fast growth catalysed by economic liberalisation.

### The Political Economy of Change: From Lalu Yadav to Nitish Kumar

Bihar was historically the seat of many major Indian empires. Its fertile soil and ample rainfall created ideal conditions for agriculture, but also led to explosive population growth and the reduction of farms to ever-tinier sizes. Land ownership under colonial British rule was dominated by *zamindars*, huge landowners belonging to the upper castes. The backward castes and Dalits (once called untouchables) were powerless tenants or quasi-serfs, often on the verge of starvation. Land reform after Indian independence in 1947 aimed to distribute land to lower castes and improve the security of tenants, but was mostly sabotaged by the upper castes (Brahmins, Rajputs and Bhumihars). These upper castes accounted for less than one-third of the population but dominated politics and everything else by virtue of superior wealth and education. The police stations were effectively in the pocket of landowning castes, so rural Bihar remained a feudal zone where the elite could do almost anything to the lower castes (including assault and rape) with almost complete impunity. Unsurprisingly, it became fertile ground for Maoist groups from the 1960s onwards. South Bihar, which has now become the new state of Jharkhand, had thick forests and few roads, and so offered safe sanctuary for Maoists, most of who moved to this region. Fewer Maoists remained in the rump state of Bihar after partition, and their influence has gone down a lot in the last decade, but they are still a force to reckon with.<sup>5</sup>

The clout of the backward Hindu castes rose steadily after Indian independence. In Bihar, from 1970s onwards, these backward castes became the main force of a political new party, the Janata Dal. In 1990, led by Lalu Yadav (belonging to the Yadav or cowherd caste), the party was elected to power. It stayed in power for the next 15 years (it is now called the Rashtriya Janata Dal or RJD). Lalu Yadav formed a strong alliance with the Muslims of the state, showering them with patronage and providing them security from militant Hindus. His Yadav-Muslim combination helped him win election after election. However, backward castes other than the Yadavs found themselves getting politically marginalised and left out of the vast patronage network of Lalu Yadav. These groups broke away under the leadership of Nitish Kumar to form the Janata Dal United (JDU).

Lalu Yadav saw his role as that of providing the lower castes with dignity and power, and putting the upper castes in their place. Yadav's aim was not to end the gross misgovernance and misuse of power by earlier upper-caste governments. Rather, he aimed to misuse the same power to promote his own caste and religious allies, and become as wealthy and as much above the law as upper-caste leaders had been in the past. Crime had long been rampant in this anarchic state, but earlier upper-caste gangs dominated. Most famous was the Ranbir Sena, a motley collection of private militias of upper-caste landowners, which periodically battled low-caste villages organised by the Maoists. Yadav gave protection to his own favoured

gangsters, and created his own patronage network that extorted money with impunity.

He did not believe in economic development, which he saw as a ploy long used by upper castes to perpetrate unequal access to power and funds, and to keep other castes down. India's federal structure provided for the sharing of substantial revenues by New Delhi with the states, but Yadav contemptuously returned vast unspent sums, partly because he had no interest in raising matching state funds. The state's road network collapsed. When asked why he did not build more roads, he is reputed to have said "Whose cars will run on such roads, and whose cows will be hit and killed by the cars?" This was the language of caste war, clear and succinct, pitting the upper-caste car owner against the low-caste cattle owner. His language stressed not economic development but caste vengeance, backward-caste control of the levers of power, and a fair share of the spoils of misgovernance once monopolised by the upper castes. This approach had mass appeal for the lower castes, who felt they had now been empowered. Their sense of improved dignity was immediate, and so for some time, it did not matter electorally that this approach kept Bihar poor and lacking in infrastructure.

Governance failure under Yadav was not inevitable because of a combination of high poverty, a low revenue base and step-motherly treatment by New Delhi, as alleged by some analysts. One important study argues that Bihar had "state incapacity by design."<sup>6</sup> Yadav deliberately refused to fill vacant government posts or approve development budgets because the bureaucracy was dominated by the upper castes, and depriving them of budgets and staff strength was seen by Yadav as a way of increasing the political power of his backward-caste politicians, and putting the upper castes in their place. He deliberately humiliated several upper-caste officials in public, to drive home the point. Rather than let the people get services from an empowered bureaucracy, he wanted to create the impression that any government services were favours from the backward-caste government, so that sundry vote banks would be beholden to him alone and not to any abstract entity called the efficient state. Traditionally-oppressed groups, that had obtained very few benefits of development under decades of upper-caste rule, were happy to coalesce behind Yadav and his approach. Matthew and Moore write, "Such was the scale of poverty among this core electoral coalition that Yadav had limited prospects of maintaining its cohesion through the normal processes of promising 'development'... He preferred using networks of personal patronage to distribute material resources to supporters. More important, that 'development' strategy would have involved a high dependence on the government apparatus, that was dominated by people from a number of historically-dominant upper castes."<sup>7</sup>

Yadav's approach proved popular with his favoured vote banks, and was successful electorally for quite some time. He won state elections in 1990, 1995, 2000 and fell only marginally short of power in the election of 2005, which produced a hung state assembly in which no group could form a government. But within a few months, to break the deadlock, a second state election was held, and this time Nitish Kumar and his allies won a clear majority. He and Yadav had been colleagues for decades in the fight against upper-caste domination, so they had much common ground. But Nitish Kumar saw clearly that caste war alone could not make Bihar prosperous, and could not even be an election-winning approach once the novelty of backward-caste rule wore off. He saw that ordinary folk were sick and tired of gangster rule and lack of electricity, roads and jobs. An engineer himself, he saw the need to revive the state's infrastructure. At the same time, as a clever Bihar politician, he saw the need to use caste-based appointments and programmes to woo a wide variety of groups, not backward castes alone. It helped greatly that his main political ally, the Bhartiya Janta Party (BJP), was an upper-caste party, and one also interested in economic development.

Nitish Kumar did not aim for a miracle economy. He merely aimed to woo voters by doing what little he could in very unpromising conditions. During his 2005 election campaign, he declared that his first, second and third priority were all improved governance and physical safety for the common man.<sup>8</sup> He had no idea this would spur record economic growth, and was happily surprised when the state's GDP growth soared to 11 per cent per year. He was somewhat amused to find that while he himself was merely trying to get re-elected, he had unwittingly produced an economic model that was attracting world-wide attention. His successful re-election with a landslide majority in 2010 convinced him that Bihar's voters had evolved well beyond the Yadav model of caste war to promote dignity for the backward castes. Kumar saw the election result as vindication of his focus on improved governance and economic development. He incorporated this in his future vision, for the state as well as his own political future.<sup>9</sup>

### **A New Path to Miracle Economic Growth**

Between 1992 and 2002, under Lalu Yadav, state GDP grew at an average of just 3.8 per cent per year. Then after Nitish Kumar came to power, the state's growth rate more than doubled to 9.34 per cent per year between 2005-06 and 2011-12 (see Table 2.2). However, the first of these years witnessed a major drought that reduced state GDP growth to almost zero. If we leave out this year, we find Bihar's growth rate in the next six years averaged 10.8 per cent per year.<sup>10</sup>

To some extent, this reflected the acceleration of growth across all Indian states. As the country participated in the global economic boom of the times, all-India growth averaged a record 8.46 per cent, up from around



**Table 2.2**  
**State GDP Growth (%) at Constant (2004-05) Prices**

States/UT	Per cent Growth of Gross Domestic Product at Constant (2004-05) Prices							Average
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
Andhra Pradesh	9.57	11.18	12.02	6.88	4.53	9.66	7.82	8.81
Arunachal Pradesh	2.75	5.25	12.06	8.73	9.86	1.25	10.84	7.25
Assam	3.4	4.65	4.82	5.72	9	7.89	6.47	5.99
Bihar	0.17	15.69	5.72	12.16	7.09	11.29	13.26	9.34
Chhattisgarh	3.23	18.6	8.61	8.39	3.42	9.75	8.14	8.59
Goa	7.54	10.02	5.54	10.02	10.2	10.15	9.39	8.98
Gujarat	14.95	8.39	11	6.78	11.25	10	8.53	10.13
Haryana	9.2	11.22	8.45	8.17	11.72	8.84	7.92	9.36
Himachal Pradesh	8.43	9.09	8.55	7.42	8.09	8.74	7.44	8.25
Jammu & Kashmir	5.78	5.95	6.4	6.46	4.51	5.96	6.22	5.90
Jharkhand	-3.2	2.38	20.52	-1.75	10.14	8.67	8.92	6.53
Karnataka	10.51	9.98	12.6	7.11	1.29	9.66	5.5	8.09
Kerala	10.09	7.9	8.77	5.56	9.17	8.06	9.51	8.44
Madhya Pradesh	5.31	9.23	4.69	12.47	9.88	7.13	11.81	8.65
Maharashtra	13.35	13.53	11.26	2.58	9.17	11.34	8.54	9.97
Manipur	6.35	2	5.96	6.56	6.89	5.07	6.71	5.65
Meghalaya	7.91	7.74	4.51	12.94	6.55	8.72	6.31	7.81
Mizoram	6.97	4.78	10.98	13.34	12.38	7.25	10.09	9.40
Nagaland	10.22	7.8	7.31	6.34	6.9	5.46	5.09	7.02
Odisha	5.68	12.85	10.94	7.75	4.55	7.5	4.92	7.74
Punjab	5.9	10.18	9.05	5.85	6.29	6.53	5.94	7.11
Rajasthan	6.68	11.67	5.14	9.09	6.7	15.28	6.11	8.67
Sikkim	9.78	6.02	7.61	16.39	73.61	8.13	8.17	18.53
Tamil Nadu	13.93	15.21	6.13	4.89	10.36	9.83	7.37	9.68
Tripura	5.82	8.28	7.7	9.44	10.65	8.2	8.67	8.39
Uttar Pradesh	6.51	8.07	7.32	6.99	6.58	7.81	6.86	7.16
Uttarakhand	14.34	13.59	18.12	12.65	18.13	9.94	5.28	13.15
West Bengal	6.29	7.79	7.76	4.9	8.03	9.22	6.58	7.22
Andaman & Nicobar Island	5.18	18.04	10.13	14.32	13.2	8.2	6.14	10.74
Chandigarh	10.69	14.68	7.28	8.1	9.96	8.23	7.11	9.44
Delhi	10.05	12.39	11.19	12.92	10.94	10.92	11.34	11.39
Puducherry	24.92	3.69	8.59	8.66	15.72	10.06	2.4	10.58
All-India GDP (2004-05 base)	9.48	9.57	9.32	6.72	8.59	9.32	6.21	8.46

Source: Central Statistical Organisation, India (website) (as of March 2013).

6 per cent in the preceding decade. But, strikingly, Bihar now grew much faster than the national average. For decades, it had grown more slowly.

Table 2.2 shows that Bihar is not alone among historically backward states in accelerating in the last decade. India has long had a group of backward states with the acronym BIMAROU. These states account for almost half of India's population, but used to be far behind the national average in income, governance, social indicators and growth. Many lacked the financial resources—or governance quality—to provide minimal levels of infrastructure, education and health. When New Delhi liberalised the Indian economy in the 1990s, the advanced states (most of which were coastal) immediately took advantage of the new opportunities of reform and globalisation, but these BIMAROU states failed to accelerate. This led to the theory that economic reform was bad for the backward states and would mean widening disparities that caused social chaos. Yet in the 2000s, the notion that economic reform was bad for the poor, land-locked states was soon disproved. A new bunch of dynamic chief ministers emerged in some of the BIMAROU states, and soon showed that the most backward states were capable of very fast growth in the new milieu. The best-governed BIMAROU states began growing faster than the national average, though the less well-governed ones did not. Bihar did better than any of the big backward states. Note that Uttarakhand, a small hill state hived off from backward Uttar Pradesh in 2000, grew at an average of no less than 13.15 per cent per year (see Table 2.2). In sum, a rising tide in the 2000s lifted all boats in backward states, but some rose much more than others thanks to dynamic new chief ministers like Nitish Kumar.

In the year 2000, three of the BIMAROU states (Bihar, Uttar Pradesh and Madhya Pradesh) were split to create the new states of Jharkhand, Uttarakhand and Chhattisgarh respectively. Bihar was worst hit by the splits. All the mineral-rich areas and industrial towns of the original state went to Jharkhand, leaving the rump Bihar state overwhelmingly agricultural and poor. As noted in the introduction, the share of industry in Bihar's NSDP crashed from 22.5 per cent to a calamitously low 4.6 per cent, while that of Jharkhand went up to 37 per cent. By 2004-05 when Nitish Kumar came to power, Bihar's share of industry had edged up to 6 per cent. But no less than 90 per cent of the population lived in rural areas (against the national average of 70 per cent), and the proportion of the population dependent on agriculture for work was 81 per cent in Bihar, almost double the national average. Deprived of royalties and taxes from minerals and the big industrial cities (all of which went to Jharkhand), Bihar found itself in a desperate financial situation.

Yet after Nitish Kumar assumed office in 2005, growth took off. Agriculture grew strongly, but the economy grew even faster, so agriculture's share fell from 32 per cent in 2004-05 to 18 per cent in 2011-12. This is typically a sign of strong economic evolution. The share of industry remained at around 6

per cent, but that of services shot up from 62 per cent to 77 per cent. This was a very lopsided sort of development, clearly unsustainable in the long run. Far more industrialisation was needed, but was hamstrung by the fact that all the coal and most of the power stations in the composite state went to Jharkhand. Bihar's 100 million people were left with a net power availability of barely 1,500 MW. Even this supply was often not available because of a moribund, bankrupt power transmission network. Attracting private power suppliers was difficult for two reasons. First, no entrepreneur wanted to invest until it became clear that Lalu Yadav was not going to return to power. Second, India has run into a severe coal shortage, with existing power plants rendered idle for want of fuel. Until coal production goes up significantly—and this will probably require the de-nationalisation of coal mines—private investment in power will be limited.<sup>11</sup>

Yet industrial growth has been significant in Bihar even in these terrible conditions (see Table 2.3). Much new industry has been based on expensive power from diesel generating sets, and this is not sustainable beyond a point.

**Table 2.3**

**Bihar: Sectoral Growth (1999-2000 Prices)**

Sector	Annual Growth 2000-2010 (%)	Annual Growth 2005-2010 (%)
Agriculture	-0.20	3.60
Industry	2.00	6.00
Services	8.40	11.90

Source: Mukherji and Mukherji (2013), citing the Central Statistical Organisation.

All investment, building and consumer purchases had been severely curtailed by what was called 'jungle raj'—meaning rule of the jungle—in the state under Lalu Yadav. It was said that if you applied to a dealer to buy a car, or to a municipality for building a house, than you would by the evening get a protection money note, threatening kidnapping or worse. Naturally, nobody wanted to buy cars, build houses or start industries. In any case, as the roads deteriorated and virtually disappeared in district after district and the power shortage worsened, there was little sense in attempting industrial investment. Public investment also slumped because Lalu Yadav was not interested in economic development and preferred to focus on caste politics. Unsurprisingly, GDP growth and industrial growth were close to the worst among the states.

The fiscal crunch caused by the partition of the state was used by Yadav as an excuse to keep vacancies remaining unfilled in all government services, not just in education and health but also police, judges and everything else. This further weakened the capacity of a state already crippled by lack of funds. Yet weakening the bureaucracy was, as observed earlier, also a

deliberate ploy by Yadav to reduce the power of a bureaucracy dominated by the upper castes. Gangsters linked to Yadav proliferated and prospered, while Maoists proliferated in backward districts.

In 2005, Nitish Kumar did not come to power on a platform of accelerating GDP or industry or electricity output. He stressed above all the need for good governance to check gangsters and Maoism, and bring back some semblance of public safety and functioning public services. In a state long viewed as ungovernable, Kumar showed that a determined chief minister could galvanise the bureaucracy, police and judiciary to start governing again. The level of effort that Kumar demanded required senior officers to work late every night and even on weekends. This created a work ethic unthinkable in the Yadav era.<sup>12</sup>

Kumar called together the top police, judicial and administrative officials, earlier a demoralised and unmotivated lot. He got them to work together on a crash programme for delivering speedy trials and convictions. Earlier, mafia dons proudly exhibited a veritable arsenal of weapons when they travelled with their entourages. Committing murders and kidnappings was seen not as a path to jail but a path to proving your clout and hence becoming a political force. Sociologist Max Weber once said that the state is the only entity that can use force with legal impunity. But when the law itself is moribund, those who can use guns with impunity become, in effect, the state. That's what happened in Bihar.

This was the malaise that Kumar and his team decide to tackle. One strategy was to try criminals not for their worst crimes—this entailed long trials for years, during which witnesses could usually be threatened to keep silent—but for violating the Arms Act, something which could easily be proved and so ensure a conviction within weeks. Later the Bihar Special Courts Act in 2009 legalised fast-track processes for criminal cases. Many strong vested interests sought to sabotage this, but Kumar's determination won the day. Since 2005, around 80,000 gangsters and top criminals have been convicted and jailed. This has produced a sea change in safety. No longer does any gangster boast of his arsenal of weapons. No longer do top gangsters become ministers (as dons like Taslimuddin, Shahbuddin and Papu Yadav did earlier). Even mafia dons with links to the ruling party (like Munna Shukla) have been convicted. Gun-power has ceased to be a route to the legislature, and instead become a route to jail.

Apart from quashing gangsters, Kumar boasts that he has focused on promoting female rights and ensured greater participation for them in all walks of life, including politics. He has given women a 50 per cent quota in local-level *panchayat* elections and a 35 per cent quota in police recruitment. So, some might be impressed by the fact that Bihar, at 14.05 per cent, has by far the highest proportion of female members of the State Legislative Assembly among Indian states (see Table 2.4). But does this

really represent elevated female power in this notoriously quasi-feudal state? The picture changes when we also take a look at the proportion of legislators facing criminal charges. Here too Bihar comes out on top, with 35.12 per cent.

What's the connection between the two sets of data? The sad answer is that, as more and more legislators are convicted, they are barred by law from contesting elections. So, they put up their wives as candidates at elections, assuring voters that they (the male dons) will continue to be in charge. The wives duly get elected in areas where the dons have most influence. What looks like high status of women in the legislature is actually a reflection of high criminality among male legislators. The most famous example of such a husband-wife combination is that of Lalu Yadav and his wife Rabri Devi: he made her not just a legislator but chief minister after he himself had to resign after being charged in a scam related to the mass diversion of funds meant for supplying fodder and ruled through her.

**Table 2.4**

**More Legislators Jailed, More of their Wives become Legislators**

States/UTs	% of MLA's with Serious Criminal Charges	Percentage of Female MLA's
Haryana	2.22	10.00
Rajasthan	4.02	14.07
Punjab	4.27	5.98
Assam	7.14	11.11
Kerala	8.57	5.00
Andhra Pradesh	9.45	10.18
Gujarat	9.89	8.80
Chhattisgarh	12.22	12.22
Madhya Pradesh	12.67	9.05
Tamil Nadu	15.81	7.26
Karnataka	17.85	1.30
Uttar Pradesh	18.48	5.82
Maharashtra	19.51	3.83
Odisha	21.09	4.76
West Bengal	25.51	11.56
Jharkhand	32.10	2.47
Bihar	35.12	14.05

Source: Poonam Gupta, National Institute of Public Finance and Policy (NIPFP), comment on "The Quality of Governance: How Have Indian States Performed?", by Sudipto Mundle, Pinaki Chakraborty, Samik Chowdhury, Satadru Sikdar, Presented at NIPFP/Columbia University Seminar, New Delhi, August 7-8, 2012.

Note that this is now a trend in all parties, not just Yadav's party. A feature in the magazine *India Today* says that almost half the 118 elected legislators of Kumar's party face criminal charges. As many as 23 of them face murder charges and 35 attempted murder. In many other cases, Kumar's legislators are wives of politician barred from contesting or in some cases, persuaded by Kumar not to contest. "So, in effect, power in Bihar remains largely vested in Nitish Kumar's loyal dons, directly or indirectly", says the magazine. This criticism is excessive. Kumar does not give these dons free rein to murder and loot, rather, he has reined in their earlier illegal power and given them more modest but legal power. He sees the induction of selected gangsters and their wives as a way of improving governance: this avoids the worst criminality, gives a chance to selected gangsters to reform and is a form of *realpolitik*, living with the reality that dons still command considerable influence and votes. However, this drives home the lesson that while governance may indeed have improved in Bihar, it has a long way to go.<sup>13</sup>

Kumar introduced an e-governance programme called "Jankari" enabling people to file a right-to-information request online or over the phone. This has activated a right-to-information law that had earlier lain moribund. This quickly introduced a degree of transparency in government decision-making that improved public confidence, and checked some of the most flagrant abuses of power (though by no means all).<sup>14</sup>

Kumar has sought to use development as a way to tame Maoism. Bihar lost most of its jungles (and Maoists) to Jharkhand on being partitioned in 2000. Its remaining Maoists have not been jungle-based guerillas (as in Jharkhand) but activists in settled agricultural areas, where they pose as champions of agricultural labourers against exploitative feudal landowners who ignore all laws. In past decades, Maoists frequently organised strikes at harvest time, when labour is most needed. In retaliation, private armies of the landowning castes—broadly called the Ranbir Sena—often attacked low-caste villages, raping and killing. The Ranbir Sena leaders often evolved into urban dons too. The Maoists in turn attacked upper caste villages, and sometimes over-ran police stations to snatch away modern weapons. The moribund state was a helpless spectator to this caste-cum-class warfare.

Some other states tried to check the Maoist threat through paramilitary forces (as in Andhra Pradesh) or by creating local militia (as in Chhattisgarh). Nitish Kumar chose another path—economic development plus restoration of public order by jailing the worst gangsters. The return of safety, fast expansion of the road network and rapid spread of cell phones all created new economic opportunities, so economic growth galloped upward. Agriculture boomed too and rural wages shot up in response to higher productivity plus a new employment guarantee scheme from New Delhi. The old labour surplus that led to much outmigration from the state was replaced by a labour shortage, not just in richer states but even

in Bihar. Wages in many places rose above the legal minimum wage. This eroded the Maoist claim to be the only saviours of the poor: economic development now did more for the poor than Maoist guns. Rural caste battles died down, and the labour shortage actually induced a rapid spread of combine-harvesters.<sup>15</sup>

Rising wages were buttressed by the revival of education. More than 200,000 teachers were hired by Nitish Kumar through an innovative decentralised reform, to revive moribund schools, and this helped literacy soar by almost 17 per cent in 2001-11, the fastest among all states. The number of patients treated per primary health centre rose from an average of just 39 per month to 4,000 per month. Government teachers had long been notorious for high absenteeism, despite high pay. So, Kumar decided to let the new teachers be hired by *panchayats* (local governments) at low, market-related wages. This facilitated a huge expansion of schooling at low cost, but the quality of teachers was also low (many lacked the minimum qualifications). Kumar seeks to upgrade their skills through teacher training. The low-paid local teachers are now agitating to become official state-level teachers, unionised and highly paid. But Kumar plans to hire no more state-level teachers at all, allowing this highly paid cadre to disappear through attrition. The only remaining teachers will be hired by local governments, which in theory are free to discipline or fire them if they fail to teach. This will be a revolutionary reform that shrinks the role of the state government. It may be extended to other government services, like health services.

In the last seven years, the additional 200,000 extra teachers have been supplemented by 100,000 additional classrooms. Upper primary schools have doubled in number from 11,000 in 2004-05 to 25,000 in 2010-11. This greatly helped increase school enrolment. Private schools have also expanded rapidly—the return of economic growth has raised parental aspirations and induced them to shift their children from free government schools to fee-charging private schools (often unlicensed and unrecognised by state authorities) on a large scale. One study suggests that 65 per cent of children in Patna, the state capital, are in private schools. The study looked in Patna for private schools located within a 1-km radius of existing government schools and found a minimum of 9 and maximum of 63 such private schools.<sup>16</sup>

Children in unrecognised schools cannot appear for official school-leaving exams. Yet, the study showed that the majority of parents knew this and did not care. One reason was double enrolment: kids were enrolled in government schools but actually studying in private unaided schools. This was illegal, but enabled them to appear for exams, after greasing some palms. Once again, government failure was partly assuaged by a nominally illegal but socially sanctioned market solution.<sup>17</sup>

For the age-group 6-14 years, the proportion of children out of school declined from 12.8 per cent in 2006 to 3 per cent in 2011. Of the age group 11-14 for girls, the decline was truly dramatic: from 17.6 per cent (second highest among all states) to just 4.3 per cent in 2011 (below the all-India average). The government's elementary school spending doubled, from ₹ 5,600 crore (\$933.3 million) in 2006-07 to over ₹ 11,000 crore (\$ 1833.3 million) in 2010-11. However, student absenteeism continues to be a serious problem: attendance in government primary and upper primary schools has ranged from 50 per cent to 59 per cent. Inclusive of private schools, which have a better record, attendance is still only 62 per cent. Educational outcomes remain poor: children in class 6 cannot read tracts that a class 3 student should be able to master. "The low hanging fruit has been picked. But now the serious and more difficult and less visible changes are needed." That is, basic literacy has improved greatly, but the unfinished agenda is huge.<sup>18</sup>

Nand Kishore Singh, Member of Parliament from Kumar's party, has this to say about a free-bicycle scheme to encourage school-going: "The bicycle project that the Chief Minister introduced, to give every girl student a bicycle to be able to commute to the school, has led to greater girl child enrollment and girl child retention in the state's schools. Later on, the scheme was extended to include boys also who were in need of help." A study subsequently (following the World Bank's field studies) revealed that 97.2 per cent of the money the students received had resulted in the actual purchase of the bicycle. Supplying uniforms to all schools with a particular colour and giving them the money to buy uniforms also helped. The result of all these measures is that the dropout ratio has declined dramatically. On primary health, Amartya Sen had noted, "the improvements the state made in immunisation, child nutrition and all other characteristics inherent in the Millennium Development Goals (MDGs)."<sup>19</sup> However, this success story faces some challenges, too. The first challenge is, can the growth rate of 12 per cent be maintained for the next 20 years? Because even at this rate of growth, it will take Bihar another two decades to catch up with national averages in per capita income, consumption of electricity, number of higher education centres, etc."<sup>20</sup>

### How Bihar Tamed Maoists

The boom in GDP and revival of government services had a major impact in Maoist areas of Bihar, which were typically the most backward ones with the least infrastructure. The mass jailing of gangsters led, unwittingly but surely, to the debilitation and fragmentation of the Ranbir Sena, the upper-caste militia, many of whose leaders went to jail. Semi-feudal rural rule at gunpoint became more difficult. Meanwhile Kumar began strengthening the *panchayat* (local government system), which Lalu Yadav had kept ineffective. Kumar saw the empowerment of *panchayats* as a means to combat the power of upper castes (who till then had dominated



all elections and indeed all village life) and to give, for the first time, some local-level power to the lower castes and to women. The central law on *panchayati raj* called for one-third of seats to be reserved for women, but Kumar increased this to 50 per cent. The backward castes constituted a majority of the population, and so got elected in droves at the local level. To be sure, local powers and budgets of *panchayats* were very limited. Yet having backward castes and women in positions of any power at all constituted a social revolution in rural Bihar. For centuries, the upper castes had been able to use police complicity and gun power to ignore all laws and rule as feudal lords. The position of women was pathetic in such a semi-feudal society—many were not even allowed to go out of the house or get educated. But once *panchayat* reservations came in, the old feudal ‘glass ceilings’ for lower castes and women were broken. They ruled in villages that had throughout history been dominated by upper-caste males. This change in the social status of the lower castes and women improved their ability to become entrepreneurial and deal commercially with the upper castes without fear.

This new social revolution converted some (though by no means all) once-rebellious villagers under Maoist influence into a class of aspirers. Maoists once claimed to be the only avenue of hope for the victims of rural feudalism. Nitish Kumar was now able to provide a rival avenue of hope, through social change and economic development. Many villagers who earlier were with the Maoists now became police informers against the Maoists. This helped the police to clear out some Maoist pockets. Maoism in Bihar is by no means dead, but has been tamed.<sup>21</sup>

Table 2.5

## Maoism in Bihar

	2001-2005	2006-2010
Violent incidents	1,309	514
Armed encounters	141	115
Civilians killed	760	214
Security forces killed	75	102
Maoists killed	76	70
Maoists arrested	1437	2250
Arms recovered	771	701
Explosives recovered	168 kg	80,771 kg
Land mines recovered	19	431
Cash recovered (₹)	70,820	5.66 million

Source: Bihar police records, 2013.

Table 2.5 compares the last five years of the Yadav era (2001-2005) with the first five years of Kumar (2006-2010). It shows that the number of violent incidents fell from 1,309 to 514, civilian deaths from 760 to 214 and armed

encounters from 141 to 115. The number of security forces killed rose from 75 to 102, of Maoists killed fell from 76 to 70, but of Maoists arrested shot up from 1,437 to 2,250. Arms recovered changed only a bit from 771 to 701, but explosives recovered shot up from 168 kg to 80,771 kg, landmines/can bombs recovered improved from 19 to 431, and levy money recovered rose from ₹ 70,820 (\$1171.33) to ₹ 5.66 million (\$94,333.33).<sup>22</sup>

This represents substantial but not spectacular success. Maoism is in retreat, but is far from vanquished. The important lesson from Bihar is that massive use of force, the favoured approach in some other states, is not necessary and may be counter-productive. Kumar has sought to focus on economic development rather than raids on Maoist camps, and has achieved more success in taming Maoism than other badly affected states like Chhattisgarh and Jharkhand.

### **The Fiscal Boom and Central Transfers**

All Bihar politicians have long complained of ‘step-motherly treatment’ by New Delhi, and say they have never been given a fair share of Central funds from New Delhi. It is indeed true that Bihar has among the lowest rates of per capita government spending. But New Delhi cannot arbitrarily decide how much to give which state. It has discretion over the allocation of what are called Centrally Sponsored Schemes (CSSs), and these go disproportionately to New Delhi’s favourites. But the vast majority of New Delhi’s revenues are distributed on the basis of periodic reports of a constitutionally mandated Finance Commission. This decides periodically what share of central tax revenues should go to each state, taking into account various demographic, economic and social indicators, and meeting the needs of states that are especially poor or backward. A separate Gadgil formula decides how the annual plan funds (which come mainly from Central government borrowings) should be distributed among the states, again taking into account factors like population, income levels and other indicators. Nitish Kumar and some economists have argued that these formulae are defective and do not provide enough for the most backward states. But other economists worry that rewarding backwardness and lack of local revenue will provide a perverse incentive to state governments to perpetuate backwardness and fail to raise local tax revenue.

Plan spending, financed mainly by central transfers, has risen 15-fold in Bihar in the eight years since the end of Lalu Yadav’s rule. This is not consistent with Kumar’s complaint of ‘step-motherly’ treatment by New Delhi. Rather, it looks as though the state has recovered from self-inflicted wounds arising from the decision of voters to repeatedly vote Yadav to office for 15 years.

Plan spending is mainly on basic infrastructure—roads and bridges, dams and canals, power generation and distribution, education and health. In many countries, the government spends too much, and the EFSI would

view that as lack of economic freedom. But if the state fails to provide even basic infrastructure, by itself or through partnerships with the private sector, this makes it impossible for private enterprise to flourish, and this lack of public goods militates against economic freedom. Although per capita plan spending in Bihar is almost the lowest among states, this has to be blamed substantially on the state's own politicians, of whom Yadav is only one example. State politicians have historically failed to raise local tax revenue, failed to fulfil conditions for getting funds from CSSs and have failed to provide matching local funds that would enable them to tap central plan allocations. Through most of its history, Bihar has failed to spend as much as its annual plan called for. The shortfalls became truly massive under Lalu Yadav. In 2004-05, Yadav's last year in power, Bihar's plan spending was only ₹ 2,000 crore (\$333.3 million). By 2012-13, under Nitish Kumar, it had skyrocketed to almost ₹ 30,000 crore (\$5000 million). Yet per capita Plan spending remains the lowest among all states, and is roughly half the national average. This shows how far behind the state had been left in the Lalu Yadav era.<sup>23</sup> The recent fiscal bonanza owed much to the boom in all-India GDP growth, which helped raise central tax revenue at the rate of 25-30 per cent per year, a shower of wealth that was shared with the states under the Finance Commission formula. But fast growth within Bihar also raised the state's own revenue at the rate of almost 30-40 per cent per year.<sup>24</sup>

Although government spending has risen fast in Bihar, GDP has grown even faster. Hence, the state's economic freedom score in relation to 'size of government' has improved from 0.38 in our 2005 report to 0.52 in this report. Its ranking among states has improved from 16<sup>th</sup> to 14<sup>th</sup> position on this count. Bigger government spending has not become 'big government' in relation to the size of the economy. This is consistent with the state's improvement in overall economic freedom.

Policy changes in New Delhi have helped Bihar unwittingly. When the United Progressive Alliance (UPA) came to power in New Delhi in 2004-2013, it decided to focus on rural infrastructure through a series of schemes collectively called Bharat Nirman. These included stepped up schemes for rural roads, rural electrification, rural health, urban development and agricultural development. This proved a major blessing for backward states like Bihar. Besides, two major arterial national highways that were launched in the year 2000—the East-West highway (from Assam to Rajasthan) and the Golden Quadrilateral (linking the four major metropolitan cities of Delhi, Mumbai, Chennai and Kolkata)—were completed during Kumar's tenure. Both these passed through Bihar and provided top-class connectivity with neighbouring states at New Delhi's expense. Over and above this came the telecom revolution that swept across India in the late 1990s and provided cheap cell phone calls (just two cents per minute) even in remote rural areas without electricity. Telecom towers ran on diesel, and cell phones themselves could be charged using

automotive batteries. So, the cell phone revolution spread even to the most backward areas lacking electricity (like most of Bihar). Infrastructure arrived in the state with a big bang.

This fiscal bonanza enabled Kumar to provide unprecedented funds for his many top priorities. These included his spree of building roads and bridges; filling up vacancies in government services across all sectors, but especially in the police, health and education; and creating a new specialised police cadre to take on the Maoists, hiring ex-army soldiers and training them in counter-insurgency techniques.

### The Construction Boom

In the Lalu Yadav era, road construction shrank to tiny proportions. This reflected the government's cash crunch, plus Yadav's belief that roads did not win elections and benefited mainly upper caste car-owners. In the five years from 2001-02 to 2005-06, a total of only 294.39 km of roads were constructed. The nadir was reached in 2005-06 when a pathetic 10.85 km were built/improved (see Table 2.6).

**Table 2.6**

**Completed Road Length  
in Bihar (km)**

2001-02	101.54
2002-03	91.00
2003-04	23.00
2004-05	68.00
2005-06	10.85
<b>Sub-Total</b>	<b>294.39</b>
2006-07	983.00
2007-08	1,913.00
2008-09	3,106.26
2009-10	3,473.88
2010-11	2,890.36
2011-12	2,028.84
2012-13	1,428.64
2013-14	1,179.19
<b>Sub-Total</b>	<b>17,003.17</b>

Source: Road Construction Department, Government of Bihar, Patna.

Nitish Kumar came with a clear vision of giving top priority to roads and bridges. He knew that, because of the lack of electricity, large scale investment in industry was not possible. But construction and road building required little electricity, and so these sectors could go full steam ahead. He began to utilise the central funds that Yadav had rejected contemptuously, and road construction grew in leaps and bounds— starting with 983 km in 2006-07, rising rapidly to a peak of 3,473 km in 2009-10, before slowing down. In the eight years from 2006-07 to 2012-13, no less than 17,003 km of roads were constructed. This transformed communications in the state. Villages got linked to towns and cities, and commerce boomed.

In Bihar, rivers can be several kilometers wide in the monsoon. So, it is not enough to build roads: bridge building is equally important. Private contractors in Bihar in the Lalu Yadav era were largely part of the mafia, and therefore not reliable builders of infrastructure. Kumar chose a government officer, Pratay Amrit, to turn around the moribund government corporation in charge of bridge building (Bihar Rajya Pul Nirman Nigam; BRPNN). BRPNN was bankrupt and demoralised when Amrit took over. But, blessed with backing from the Chief Minister and ample funds, "Amrit led BRPNN from the brink of bankruptcy and mainframe obscurity back to the forefront of the construction business... The BRPNN, which had completed just 314 bridges in the previous 30 years, successfully executed 336 bridges in just three years."<sup>25</sup>

Private home construction, suppressed by the fear of the mafia in the Yadav era, also skyrocketed. The combination of concentrated state and private

spending on construction meant that this sector grew at an astonishing 47 per cent per year for the first five years of Kumar's rule. This was a major driver of the Bihar economic miracle.

### The Electricity Crisis

Bihar has by far the lowest per capita consumption (122 kWh) of power among Indian states, less than one-tenth that of Gujarat, Chhattisgarh or Himachal Pradesh (see Table 2.7). No less than 40 per cent of all the state's power is consumed in Patna, the state capital, leaving very little for the rest of the state.<sup>26</sup> Only 3.1 million households out of 18.9 million have electric connections—a mere one-sixth of the total. The national average is much higher at 67.3 per cent.

Lack of power is typically a huge impediment to industrialisation. But industries in Bihar (many small, many in food processing) took off with the economic boom in the last decade, using diesel gensets to generate power. This was expensive power, costing up to ₹ 17 per kWh, against ₹ 4-5 per kWh for grid power. This was viable only for industries in which power was not an important input. Such industries included beer breweries; major breweries have been set up by Cobra Beer and Molson-Coors. Food processing was the most common industry, drawing on the state's substantial agricultural production. But for broader industrialisation, Bihar will have to increase its power generation hugely.<sup>27</sup>

Transmission losses (which include theft of electricity) are a whopping 45 per cent of power generated. No wonder the state electricity board loses money heavily. Theft is often aided by corrupt officials, and the rot runs deep. The majority of villages are not even connected to the state grid.

A striking feature of Bihar is that 98 per cent of its electricity is imported from other states, mainly Jharkhand, a consequence of the state's partition in 2000. After doing nothing to augment power capacity for almost a decade, Bihar has made a start with the 1,980 MW thermal station at Nabinagar in a joint venture with the National Thermal Power Corporation (NTPC), and this will more than double the state's supply. The first unit of 660 MW should be ready by the end of 2013. Another unit of 3,300 MW of capacity is coming up at Barh, doubling state

**Table 2.7**

**State-wise Per Capita Electricity Consumption, 2009-10**

States/UTs	Per Capita Consumption of Electricity (kWh)
Haryana	1222.21
Himachal Pradesh	1379.99
Jammu & Kashmir	952.02
Punjab	1526.86
Rajasthan	736.20
Uttar Pradesh	348.37
Uttarakhand	1112.29
Gujarat	1615.24
Madhya Pradesh	602.07
Chhattisgarh	1546.94
Maharashtra	1028.22
Andhra Pradesh	966.99
Karnataka	903.24
Kerala	525.25
Tamil Nadu	1131.58
Lakshadweep	
Bihar	122.11
Jharkhand	880.43
Odisha	874.26
West Bengal	550.16
Assam	204.80
Total (All India)	778.71

Source: Press release, Ministry of Power, August 12, 2011.

capacity yet again. Two power purchasing agreements have been signed with private vendors for a total of 1,010 MW, but progress on these is not certain. The new capacities coming up will transform the ability of the state to industrialise and to spread rural electrification.<sup>28</sup>

### Bihar's Economic Freedom Indicators have Improved Significantly

Bihar has grown fast and its governance indicators have improved in the last decade. Yet the improvement is not dramatic and looks grossly insufficient. Bihar remains last among the 20 states that this report assesses every year for economic freedom. The state scores exceptionally badly in legal structure and security (see Table 2.8).

Our report looks at three areas of economic freedom. Area 1 relates to the size of government and efficiency. In this regard, Bihar's score has improved from 0.38 in 2005 to 0.52 in 2013, a significant improvement. Its ranking among states has also improved from 16<sup>th</sup> to 14<sup>th</sup> position. The top state in this regard, Gujarat, improved its score from 0.56 to 0.69, an increase of 0.13, which is actually less than Bihar's increase of 0.14. Madhya Pradesh, another backward state, suffered marginal erosion in its score from 0.39 to 0.38. So, in this particular area, Bihar did pretty well. Its overall position may be low, but it certainly registered improvement.

Area 3 relates to regulation of business and labour. Here Bihar has improved its score from 0.26 in 2005 to 0.30 in 2013. But its rank among states slipped from 15<sup>th</sup> to 16<sup>th</sup> position, meaning other states improved faster than Bihar. Gujarat's score in Area 3 skyrocketed from 0.47 to 0.87, and its rank remained 1<sup>st</sup>. Madhya Pradesh's score actually deteriorated, from 0.46 to 0.39. However, its rank is still a respectable 8<sup>th</sup>, well above Bihar's 15<sup>th</sup>. In sum, in regard to regulation of business and labour, Bihar under Kumar has improved somewhat, but not impressively.

Where has Bihar done really badly? Surprisingly, it is in Area 2, relating to legal structure and security. In 2005, Bihar was by far the worst in the country in this area, with a pathetic score of 0.12. Astonishingly, our data show no improvement whatsoever in 2013—the state remains last with

**Table 2.8**

**Selected States: Economic Freedom Scores for Area 1 (Size of Govt), Area 2 (Legal Structure and Security) and Area 3 (Regulation of Labour and Business)**

	Area 1, 2005	Area 1, 2013	Area 2, 2005	Area 2, 2013	Area 3, 2005	Area 3, 2013
Bihar score (rank)	0.38 (16)	0.52 (14)	0.12 (20)	0.12 (20)	0.26 (16)	0.30 (15)
Gujarat score (rank)	0.56 (2)	0.69 (2)	0.35 (12)	0.39 (7)	0.47 (1)	0.87 (1)
Madhya Pradesh score (rank)	0.39 (14)	0.38 (20)	0.63 (2)	0.62 (1)	0.46 (3)	0.39 (8)

Source: EFSI 2013, main report.

an unchanged score of 0.12. Indeed, Madhya Pradesh, another backward state that historically has also suffered from dacoits (criminal gangs) in the Chambal Valley, has done fabulously well compared with Bihar. Madhya Pradesh's score was a high at 0.63 in 2005 and is only marginally lower at 0.62 in 2013. It currently comes first among all states in this regard. If a backward, dacoit-infested state like Madhya Pradesh can produce such good scores, why has Bihar lagged far behind in last position? Bihar Chief Minister Kumar's main claim to political and economic success has been his success in jailing mafia dons and gangster-politicians, improving security and thus improving the investment climate. Why does this not show up at all in our measures of legal structure and security?

Let us take a more detailed look at the different elements that go into Area 2. These are: (a) ratio of property recovered to property stolen; (b) inverse of judicial vacancies to judicial posts; (c) inverse of economic offences to total offences; (d) ratio of police investigations completed by year-end; (e) ratio of court cases completed by year-end; and (f) inverse of proportion of violent crime to total crime during the year.

The data is given in Table 2.9. Note that in some cases, the data gives the inverse of a ratio and in other cases the ratio itself. This is because, for ease of review and assessment, we want to always show higher scores as being an improvement. Obviously a higher proportion of stolen property recovered is an improvement. But a higher proportion of violent crime is not an improvement, and so in that element of security we measure the inverse.

**Table 2.9**

**EFSI Scores on Elements of Legal Structure and Security**

	Bihar		All India	
	2005	2013	2005	2013
Property recovered to property stolen	0.15	0.16	0.26	0.21
Inverse of judicial vacancies/posts	5.77	4.18	6.06	6.52
Inverse of economic/total offences	29.3	24.3	27.3	21.8
Share of police investigations completed	0.62	0.66	0.78	0.74
Share of court cases completed	0.108	0.089	0.150	0.140
Inverse of violent crime to total crime	3.8	5.2	8.73	9.12

Source: EFSI 2013, main report.

The data shows that in regard to recovering stolen property, Bihar has hardly improved at all between 2005 and 2013, with its score edging up from 0.15 to 0.16. At this level, it is some distance from the national average of 0.21. Besides, what the table does not show is that the national average was as high as 0.31 in 2011, driving home again Bihar's deficiencies. While top gangsters may have been jailed in Bihar, more mundane police tasks like detecting crime and recovering property have not improved.

Data on judicial vacancies are discouraging. Bihar's score has declined from 5.77 to 4.18, even as the national average has improved from 6.06 to 6.52. Nitish Kumar has not focused enough on filling judicial vacancies. He has surely been right in paying the most attention to getting the police-judicial system to put the worst mafia dons in jail. Yet, this does not excuse his neglect of mass justice for more humdrum crimes faced by the population.

Again, the ratio of economic cases to total cases has fallen. This means the share of criminal cases has actually risen. This does not necessarily reflect a worsening crime situation. In Lalu Yadav's time, the police simply did not record crimes reported by the public, and the Chief Minister acquiesced. By contrast, Kumar has told police stations to record all complaints. While compliance with this directive is limited, the rising share of crimes reflects more accurate reporting, rather than a worsening situation. It is worth noting that the all-India situation also shows a deteriorating trend. Indeed, Bihar's ratios in both 2005 and 2013 were better than the national average. Does this mean Bihar had much less crime? No, it means Bihar has always recorded far fewer crimes.

The proportion of police investigations completed in the same year has improved in Bihar from 0.62 in 2005 to 0.66 in 2013. The all-India average is significantly better, at 0.78 in 2005 and 0.74 in 2013.

The proportion of court cases completed within the same year shows Bihar in a dismal light. The proportion used to be a low at 0.108 in 2005 and has worsened to 0.089 in 2013. While the courts may have quickly jailed many top gangsters, they remain pathetically tardy in other cases. This in part reflects the high number of unfilled judicial posts. The national average has gone from 0.15 in 2005 to 0.14 in 2013, which may not look like a very good proportion of case completions, but it is well above Bihar's rate.

Finally, the share of violent crime in total crime is falling. This is true of Bihar and of the whole country. However, Bihar's rate continues to be almost double the national average. Things are getting better but remain terrible by national standards.

### **Crime and Punishment: A Comprehensive Look at Bihar**

Why are the police in India so notorious for refusing to record crimes, especially petty or non-violent crimes? In part, this reflects an effort by the police to hide their own inadequacy. In part, it reflects the police practice of refusing to register cases unless the complainant pays a bribe. In some states like Bihar, it also reflects unwritten understandings to do nothing in the case of complaints against gangs known to have important political connections.

The legal structure and security measures considered by our report (Area 2) look at only a few selected crime indicators. We need a much broader look



to capture the full essence of the changes that Nitish Kumar has brought about in the state. This is shown in Table 2.10.

**Table 2.10**  
**Bihar Crime Statistics, 2001-2012**

	2001	2004	2012
Murder	3,619	3,861	3,198
Dacoity	1,293	1,297	556
Robbery	2,175	2,909	1,381
Burglary	3,036	3,191	3,629
Theft	9,489	11,518	16,292
Kidnapping	1,689	2,566	4,211
Kidnapping+ransom	385	411	57
Rape	746	1,063	934
Bank dacoity	22	30	11
All crimes	95,942	115,216	147,633

Source: Bihar Police website: <http://biharpolice.bih.nic.in/>

The overall picture shown by Table 2.10 may dismay the casual observer. Total cognisable crimes rose from 95,942 in 2001 to 147,633 in 2012. The naïve may think this shows that crime has worsened under Kumar. In fact, it shows that reportage of crime has improved. Actual crime has probably fallen: that is strongly suggested by a more detailed examination of the data.

The police find it extremely difficult to suppress murder reports, and so murders can be assumed to be pretty accurately reported throughout the period shown in the table, from 2001 to 2012. The murder rate went up from 3,619 in 2001 to a peak of 3,861 in 2004 (under Yadav) and has come down in the Kumar era to 3,198 in 2012. The improvement is significant, but not exactly spectacular. The fact is that many murders relate to quarrels within families or villages, and such killings are not affected by a change of chief ministers. More significant is the reduction in other types of murder—by the mafia, private militia, and Maoists. Unfortunately the website of the Bihar Police gives no such breakdown of murders.

A good indicator of changing security conditions relates to dacoity, which means armed attack by a gang of five or more persons. Its incidence has fallen from 1,293 in 2001 to 556 in 2013, a big improvement. Bank dacoity is down from 22 to 11 cases. Robbery (by less than five persons) is down substantially from 2,175 in 2001 to 1,381 in 2012. Remember that improved reportage means that the actual fall in all three cases must be far greater than the reported fall.

However, reported burglaries are up from 3,036 to 3,629, and reported theft is up from 9,489 cases to 16,292. This almost certainly reflects better reportage.

Reported rapes have increased from 746 to 934. This is one crime that the police are particularly reluctant to record, and one that victims are reluctant to report too (more so in Yadav's time, when some of the perpetrators were seen to have political protection). The rise in numbers of rapes probably reflects better reportage, rather than worsening crime. Women claim they feel much safer in the Kumar era and can be seen roaming in Patna's markets till late evening. By contrast, markets virtually shut down by 6 pm in the Yadav era.

Kidnapping was a big issue in Yadav's time. Readers may be surprised to learn from Table 2.10 that total kidnappings have more than doubled, from 1,689 in 2001 to 4,211 in 2013. How does this square with improved security under Kumar? Answer is: in Bihar (as also in many other Indian states), when a young couple elopes, the girl's parents typically report it to the police as kidnapping by the young man concerned. The sharply increased numbers probably represent more accurate reportage of elopements, not an epidemic of elopements or kidnappings.

The really serious kidnappings are those accompanied by ransom demands. These are typically aimed at the richest families, and in the Yadav era, these struck terror among investors, who stopped investing. The number of kidnappings with ransom demands rose from 385 to a peak of 411 in 2004 and is now down to just 57 in 2012. This is a big improvement. Three things stand out. First, it is not necessary for kidnappings to go into thousands to have a terrible impact on the investment climate: a few hundred are enough if the gangsters are seen to have political protection. Second, data on actual kidnappings for ransom are misleadingly small, since they cloak the far higher number of demands for protection money which people chose to pay to avoid kidnapping. There are no data on this, but the problem was huge in the Yadav era. Third, despite much improvement under Kumar, the menace has clearly not ended.

The bottom line is that the quality of governance remains poor in Bihar, and the crime and punishment scene leaves much to be desired. There is indeed much improvement, but it is from terrible to bad. This is to a fair extent reflected in our own EFSI indicators, which show some improvement in Bihar but nothing spectacular.

## Conclusion

Our economic freedom index is correlated with growth of state GDP, but not very strongly. The main reason is that Bihar is an exception that weakens the all-India correlation. This state has consistently been rock

bottom among states in its overall score for economic freedom, yet it has been among the fastest growing states between 2005 and 2013.

In the preceding section, we took a closer look at the different elements of the economic freedom index for Bihar. We compared that with the performance of the best state, Gujarat. We also compared Bihar's performance with that of Madhya Pradesh, which is another of the historically poor and backward states. The comparison showed that Bihar had very weak economic freedom indicators in relation to not just prosperous Gujarat but even poor Madhya Pradesh. Yet Bihar's growth has been almost as fast as Gujarat's, and markedly faster than that of Madhya Pradesh.

Clearly, our EFSI indicators are unable to capture some key elements of economic reality and dynamism in Bihar. Bare crime data do not reveal the improvement: improved accuracy of reportage of crimes can produce very misleading data that cloak reality. The real increase in security is far greater than the bare data suggest. When anarchy and gangster rule end and a semblance of security returns, this can spark a huge improvement in investment and consumer purchases, producing rapid economic growth. This effect was evident in Peru after the quashing of the Shining Path guerillas, and was also evident in the northern districts of Andhra Pradesh after the quelling of Maoism there. This effect is especially notable when the restoration of security coincides with economic reforms that improve economic freedom, something that happened in both Peru and India. Fast growth created by the end of anarchy may not be sustained after some time in Bihar. But in Kumar's nine years rule, it has sufficed to facilitate double-digit GDP growth. Our economic freedom indicators have not been able to capture the quality of this security breakthrough.

Second, under Kumar, annual plan investment in the state has shot up 15-fold. This has been used fairly well (despite continuing corruption and waste) in basic infrastructure, education and health. It has been absolutely key in helping spark Bihar's fast growth, by greatly improved productivity. Note that even after such a big increase, per capita indicators of all sorts (including plan investment) in Bihar remain among the lowest in all states. The huge rise in the state's plan spending reflected three factors. The first was much higher utilisation of funds that were earlier available but not availed of by Lalu Yadav, taking advantage of a low base effect. The second was the economic boom in India between 2004 and 2011, which hugely increased central government revenues and the share of these going to the states. The third was the bonanza in Bihar's own revenue: double-digit growth produced annual growth of 30-40 per cent in state revenue.

However, the state's GDP has risen even faster than government spending, so the state's freedom score in respect of 'size of government' has improved substantially, from 0.38 in our 2005 report to 0.52 in this report.

This suggests that spending so far has, by and large, been productive, stimulating enterprise in the overall economy. The danger remains that if government spending continues rising at this pace, it could go into wasteful and inefficient projects and programmes.

The factors aiding Bihar's dizzy growth are slowing down. The low base of the Yadav era has gone. India's GDP growth, which was as high as 9.2 per cent in 2010-11, fell to 6.5 per cent in 2011-12, 5.0 per cent in 2012-13, and may fall again this year. This has slowed central revenues and will slow the growth of Bihar's revenues too. This may be partially offset by a change in formula for plan investment in different states: Bihar is likely to be a gainer from the re-defined formula for backward states. Yet, the recent tearaway pace of growth of transfers from New Delhi will slow down.

India suffers from structural problems that have slowed GDP growth in ways that will not easily be reversed. New laws have ushered in new rules and regulations relating to the environment, tribal areas, forests, mines and land acquisition, and these have led to long delays and a slump in productivity. This will inevitably affect all states. Bihar believes it may be less affected than other states: being one of the least globalised states, it has the least to lose from India's recent decline. But without stronger economic reforms in both New Delhi and Patna, Bihar's days of double-digit growth may be over.

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