

# How To Be A Winner

*Bihar's done well on the growth front, now it must further speed up development*

**Sudipto Mundle**

**H**ow is Bihar doing? The answer to that question can be very different, depending on the lens through which you address it. If you look at the pace of change in any conventional indicator of development, today's Bihar is one of the best performing states in the country. Its rate of growth of per capita state domestic product, 8.5% since 2004-05, is only a shade lower than that of the fastest growing states, Maharashtra and Tamil Nadu.

The 16 percentage point increase in Bihar's literacy rate over the same period, 20 percentage points in the case of women, is the highest in the country. Infant mortality has also been declining rapidly in recent years, faster than in a majority of the states.

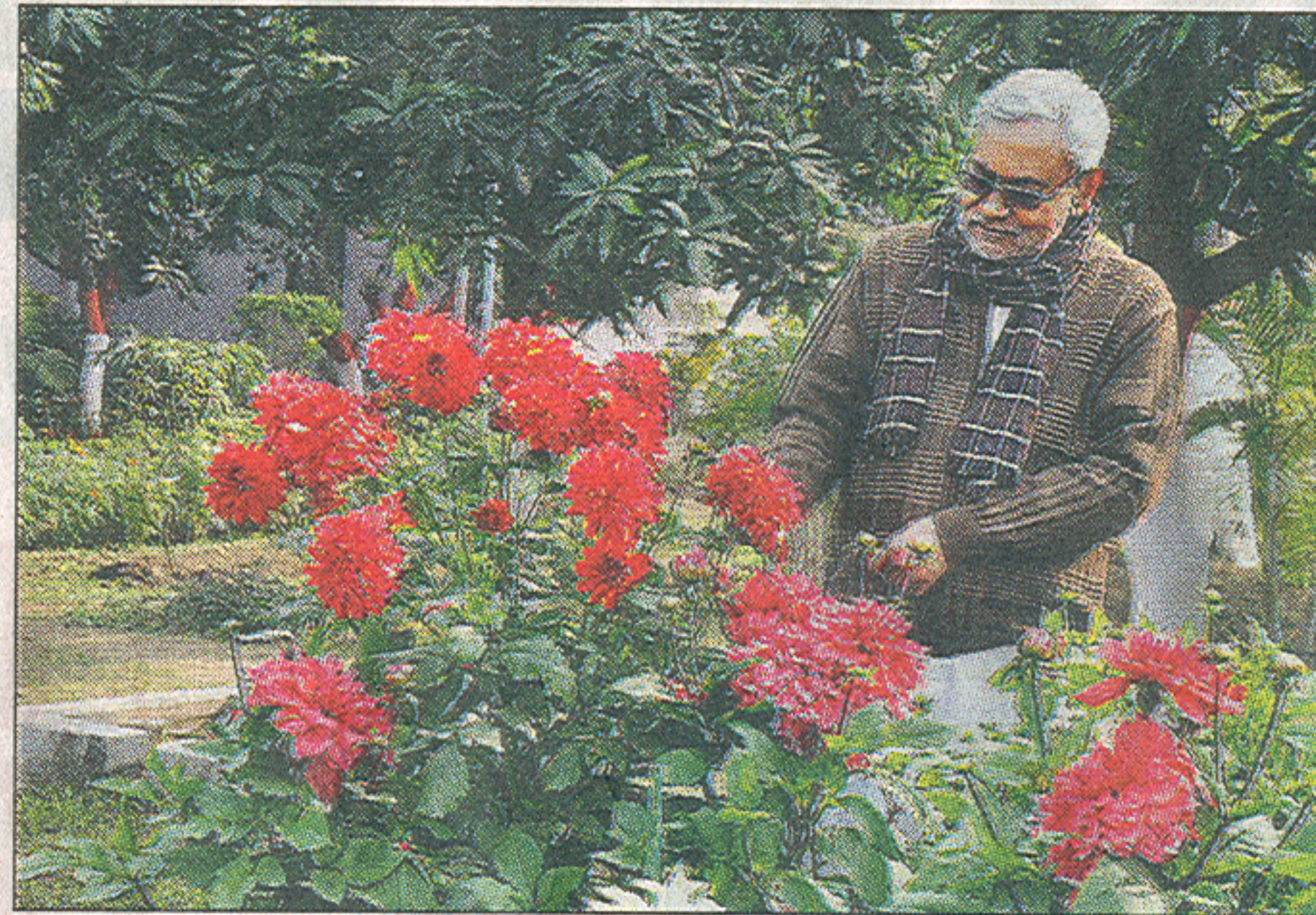
Switch your lens to the level of human development, and the picture is depressingly different. Bihar is still at or near the bottom among all Indian states. It has the highest proportion of poor people among all states at 56%. Its per capita income is well below half the national average. It has the lowest literacy rate among all states, and its infant mortality rate is higher than the national average. In other words, despite its excellent recent performance, Bihar remains one of the poorest and least developed states in India. This apparent paradox is explained by Bihar's unfortunate legacy of neglected development over decades.

What accounts for the dramatic turnaround in Bihar's recent

performance? A piece of ancient wisdom handed down to us from Kautilya's Arthashastra, and from Adam Smith in the western tradition, is that societies only prosper in a secure and peaceful environment. This became the first priority of the Nitish Kumar government. By strengthening the police force, restoring law and order in an anarchic state, curbing corruption, and providing good governance, it laid the foundation for rapid economic development. The other key driver is Bihar's fiscal consolidation, the creation of fiscal space for a larger share of development spending—infrastructure, education and health in particular.

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These improvements notwithstanding, it will take many years to overcome Bihar's huge development backlog. Even at the present pace of high growth, it will take Bihar around 30 years to catch up with the average standard of living in the country! Clearly, this won't do for the young women and men of Bihar, who are proud of the state's recent turnaround and now have high aspirations. Though Nitish



Nitish Kumar: Tending a state yet to fully flower

and his government have done well so far, they will have to do even better to live up to those aspirations. But is that feasible? Can Bihar's pace of development be further accelerated?

In answering that question, it is important to recognise that, like all the poorer states of India, Bihar is heavily dependent on central transfers for its expenditure. In a federal polity where the power to tax is concentrated in the central government, while spending responsibilities are primarily assigned to states, central revenue transfers have a key role in compensating the poorer states for their weaker fiscal capacity. This would ensure that all citizens subject to the same federal tax regime also enjoy the same level of public services.

Unfortunately, transfer awards by successive Finance Commissions and the Planning Commis-

sion have failed to ensure such equalisation, and Bihar has been one of the main victims. Govinda Rao of NIPFP has estimated that Bihar suffers an annual shortfall of over Rs 25,000 crore at 2009-10 prices on this account. A special package to at least partly compensate Bihar for this shortfall has to be the first pillar of any strategy to further accelerating the pace of the state's development.

The second pillar of Bihar's development acceleration strategy is mobilisation of its own revenue resources, if only to reduce its dependence on uncertain central assistance beyond that which is mandatory. There has been some slippage in Bihar's own tax revenue mobilisation in recent years, and the high buoyancy of state taxes like sales tax and state excise suggests greater mobilisation is eminently

feasible. It will require a stronger tax effort and better IT-enabled tax administration in the state.

Finally, regardless of the level of government revenue, Bihar's high growth will in the main depend on private investment, as is the case at the national level. In competing with other states for such private investment, Bihar has to build on its comparative advantage, and mitigate its comparative disadvantage.

Ironically, Bihar's low per capita income is also potentially its greatest strength. If properly educated and given the required skills, the availability of Bihar's huge workforce at relatively low cost compared to other states gives it an almost unbeatable comparative advantage. Investment in human resource development, an important goal in itself, should be one of Bihar's major spending priorities. It would also promote a labour-intensive, inclusive structure of growth.

Similarly, Bihar's major comparative disadvantage vis-a-vis other states is its poor infrastructure, especially poor supply of power. Despite recent improvements, this infrastructure deficit remains a major disadvantage that Bihar has to mitigate. Focussing public expenditure on infrastructure, education and health should be the third pillar of Bihar's development strategy. It is comforting that these are indeed the spending priorities that the Bihar government is pursuing.

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