



## Chapter 13

# Governance

### 13.1. Introduction

The correlation between governance and economic development hardly needs any emphasis. For instance, a study by Reynolds (1983) established that the most important explanatory variable of development is political organisation and administrative competence of government. Various studies highlight the importance of the relationship between governance and economic development. Good governance is said to have a positive impact on economic growth and development while corruption is said to lead to lower investment and economic growth.

Uttar Pradesh's performance with respect to the various aspects of development lags considerably behind the all-India average. Governance is an important issue, which needs to be examined due to its direct effects on improving the efficiency of investment policies and programmes.

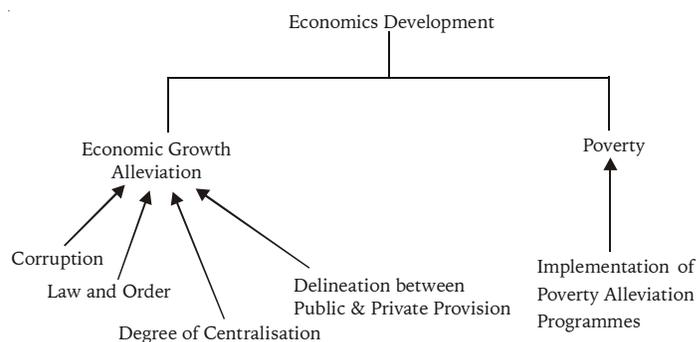
While the broader aspect of governance is dealt with in this chapter, stress is placed on the 'decentralisation strategy' and the 'corruption problem'. First the recent theoretical and policy literature on governance and then some of the important results and relationships between governance and economic development are discussed in Section 13.2. Section 13.3 will give a summary of the performance of Uttar Pradesh on all the fronts mentioned in Section 13.2 as well as the measures that have been taken in this sphere. Section 13.4 will give some policy recommendations. Section 13.5 is the concluding section.

At this juncture, it must be pointed out that all aspects of governance couldn't be dealt with in this chapter. This study is restricted to tackling aspects, which have an impact on economic development.

Economic development (for the purpose of this study) has been seen to consist of progress on two fronts—economic growth and income redistribution. The chapter looks at important facets, which affect economic growth—corruption, crime and law and order, the degree of centralisation in decision making and the relative importance of the public and private sector in terms of direct provision of public goods and services. Progress in income redistribution can be gauged through an evaluation of the poverty alleviation programmes. It must be mentioned here that poverty alleviation is a function of both economic growth and income redistribution.

FIGURE 13.1

A Scheme for Studying the Impact of Governance on Economic Development



### 13.2. Literature Review

#### 13.2.1. Crime Prevention and Economic Activity

The government is important for economic activity since it sets and enforces the basic rules that govern exchange, including both economic rights and those

social and political rights which are prerequisite to the exercising of economic rights (Dethier and Shapiro, 1998). Examples of economic rights are the right to property, the right to work and the right to do business. In order to protect these rights the government must ensure that certain political and social rights are maintained—the right to live with dignity and without fear, the right to equality of opportunity and so on. In maintaining these rights one of the most important functions of the state is the prevention of crime. Therefore, one of the topics of discussion will be the status of incidence of crime and the prevention of crime.

### 13.2.2. *Corruption and Economic Development*

Government is also a formulator of economic policy that determines the environment in which the private sector operates. Therefore, government efficiency is key to economic development. This brings to the fore the issues of political and bureaucratic corruption, political stability and transparency and accountability of the administration. Krueger (1993) hypothesizes that accelerated growth and social welfare improvements have a lot to do with strong leadership and a well functioning bureaucracy.

According to Mauro (1995), bureaucratic inefficiency (a result of corruption) could affect growth indirectly (by lowering the investment rate) or directly, for example, by leading to a misallocation of investment among sectors. Mauro also suggests that there is a two-way relationship between corruption and growth. Corruption leads to low growth and low incomes resulting in a higher propensity to be corrupt.

Gunnar Myrdal (1998) points out why a study of corruption is important in South Asian countries which might be relevant for Uttar Pradesh:

- a) There is a taboo on research on corruption in South Asia.
- b) Beliefs and related emotions about corruption determine how people conduct their private lives. That is, peoples' beliefs about the corruption of politicians determine how corrupt they will be given the means.
- c) Corruption has been increasing over time.
- d) Corruption is inversely related to the official salaries of government servants and directly related to the number of people employed in the lower levels of administration.

Point (a) is clearly valid for Uttar Pradesh. A book search on the Internet reveals that not a single book has been written on the subject of corruption in Uttar Pradesh; articles in newspapers and the Internet have nothing specific to say apart from the fact that it is widespread. Point (b) stresses a psychological relationship which is invariant across regions and time. Point (c) and point (d) are hypotheses which need to be tested for Uttar Pradesh.

### 13.2.3. *Relative Size of the Public and Private Sector*

For good, effective and efficient governance it is necessary to delineate areas of private and public provision of goods and services. Hart, Shleifer and Vishny (1997) show that private provision is likely to work well for some public goods (e.g. garbage collection) but not at all well for some others (police and military). The underlying logic is simple. The private sector cares more for cost reduction than quality control. Where significant reductions in cost can be obtained without sacrificing quality and where corruption in government procurement is a serious problem, private provision of these goods is optimal. Examples are garbage collection, weapons production and procurement and education. In areas where the case is exactly the opposite, goods and services should be provided by the state. Examples are the maintenance of police and armed forces. In some other services, such as provision of health care, the analysis is problematic and therefore nothing definite emerges about the relative desirability of public and private provision.

This indicates that it is important to see what public goods and services are provided by the government, private sector or jointly by the private sector and the government.

### 13.2.4. *Decentralisation*

If governance is an important factor determining the level and growth of the domestic product then the structure of the government is clearly important. That is, whether it is centralised or decentralised. Whatever type of governance is involved, control rights should be given to persons who have the requisite information and incentives and will at the same time bear the responsibility for the political and economic consequences of their decisions. In most cases, this calls for a greater devolution of power to local authorities. However, such assignments of control rights have widely varying efficiency and equity effects, depending on the type of public good involved, initial conditions, etc.

Decentralisation is the transfer of decision making from the highest level of the government to quasi-autonomous units of the local government. Decentralisation can be fiscal, political or administrative. A strong merit of decentralisation is that it enables the government to be more responsive to local needs, tastes and financial viability. There is strong empirical evidence for the positive relationship between fiscal decentralisation and economic development. For a sample of 58 countries, measures of fiscal centralisation were significantly and negatively correlated with levels of per capita income (Oates, 1972).

Critics of decentralisation point out that it is not clear whether decentralisation is a cause or consequence of economic development. Bahl and Linn (1992) do not advocate decentralisation for low-income countries. According to them, decentralisation more likely comes with the achievement of a higher stage of economic development and the 'threshold level of economic development' at which decentralisation becomes attractive appears to be quite high.

The other demerits of decentralisation discussed in the literature are:

- a) Decentralisation might involve exchange of a central 'tyrant' for a local 'tyrant' with the resulting policies that do not address the welfare of the local populace.
- b) Efficiency arguments: Central provision of local public services can also be better suited to modulate public demand. Higher-level governments might differentiate among the services they provide according to space, just as private enterprises operating on a national or international scale have done for centuries.
- c) Centralisation is associated with greater economies of scope. Bureaucracies at higher levels of government might offer a greater diversity of tasks, possibilities of promotion and a longer view of issues. They may also invest more in technology, research, development, promotion and innovation.
- d) Centralised government production is associated with greater economies of scale.
- e) Decentralisation might lead to greater corruption. Empirical evidence from France and Italy indicates that monitoring and auditing are relatively poorly developed at the local level.

(f) Decentralisation has certain negative consequences for distribution:

- The rich can escape heavy tax rates by moving from one jurisdiction to another.
  - Different tax rates by different local governments implies unequal treatment of equals.
  - It perpetuates interregional inequalities. A higher tax base implies more public services and more growth. Thus, the gulf between rich and poor regions widens. Transfer of resources from poor to rich regions is limited by decentralisation.
  - Localities are prevented from specialising in the areas of their comparative advantage. Lack of specialisation is associated with sub-optimal resource allocation.
- g) There is a possibility that the fiscal policies of subnational governments will run counter to the fiscal policy of the Central Government. This is what happened in UK in the 1980s. As the Central Government was trying to decrease public expenditure (for structural reasons as much as for counter cyclical reasons), local governments were increasing their expenditure, thus frustrating the Central Government efforts.

Decentralisation has been going on since 1920 in Uttar Pradesh and has been strengthened after 1994 through the 73rd Amendment of the Constitution. Two questions, therefore, are of paramount importance: (a) Is decentralisation desirable? (b) If the answer to the first question is in the affirmative then is the type of decentralisation being implemented in Uttar Pradesh the right kind of decentralisation? The capacity to satisfactorily answer the above two questions will be limited by the availability of data.

The first question has been discussed in the preceding discussion. In fact, there is neither empirical data or a long enough history of active decentralisation to add to this discussion. Some comments need to be made at an early stage about the second question.

One of the main functions of a government is taxation. Five questions need to be answered in this regard.

- (i) Who chooses the tax base?
- (ii) Who assesses the tax base?

- (iii) Who decides the rate of the tax?
- (iv) Who collects the tax?
- (v) Who gets the proceeds of the tax?

There are a few local taxes, which say 'local government' to all the above five questions. Taxes considered as local taxes in the calculation of tax decentralisation ratios often have rates decided from above. In evaluating the desirability of the form of decentralisation in Uttar Pradesh, the analysis should aim at finding answers to atleast some of the above five questions.

### 13.2.5. Governance and Poverty Alleviation

Governments help in poverty alleviation through three channels:

- (1) Transfer of income from the upper and middle-income classes to the poor.
- (2) By contributing towards economic growth.
- (3) By providing cheap public services and food subsidies to the poor.

Channel (1) requires a review of incidence and compliance in taxation as well as the amounts spent on poverty alleviation programmes. Channel (2) contributes to poverty alleviation because some of the benefits of economic growth percolate to the poor. Channel (3) augments the standard of living of the poor and enables them to be more productive. A review of the effectiveness of these three channels is necessary for evaluating the performance of the Uttar Pradesh government in the field of poverty alleviation.

## 13.3. Evaluation of Performance

### 13.3.1. Corruption in Uttar Pradesh

An idea about the incidence of corruption can be made by looking at the number of complaints received by various anti-corruption departments.

It must be added that the number of complaints received by anti-corruption departments over the years is an indicator of the relative incidence of corruption only if: (i) the ratio of the number of reported cases of corruption to the number of actual cases of corruption is more or less constant in the period concerned and (ii) the proportion of false complaints in the total number of complaints is more or less constant in the period concerned. Thus, at best, there exists an imperfect indicator of the incidence of corruption.

#### 13.3.1.1. Qualitative Findings about Corruption in Uttar Pradesh

These are based on interviews conducted for this study with journalists, laymen, bureaucrats and anti-corruption officials. The anonymity of the contributors has been preserved.

(i) **Direct Relationship Between Incidence of Corruption and Level of Salaries:** Contrary to what economic theory dictates and what Gunnar Myrdal pointed out in his *Asian Drama*, the incidence of corruption is not linked inversely to the salaries of bureaucrats. Further, the incidence of corruption seems to be higher among the higher-level bureaucrats. This is due to three reasons:

- a) Corrupt bureaucrats at the higher level deal with large sums of money as opposed to lower level bureaucrats who deal with small sums of money.
- b) Higher level bureaucrats have protection from being harassed and convicted by anti-corruption authorities.
- c) Corruption by higher level bureaucrats is less visible than the corruption of lower level bureaucrats who deal directly with the public.

A couple of comments must be made about point (b). After a corruption case is registered with the concerned anti-corruption department it has to pass through various stages. At each stage, permission to proceed further has to be obtained from the government. Because of the prevalence of a clannish tendency among the higher administration, cases against higher administrative officials are dropped after the passage of some time. Thus they are practically immune from being prosecuted for corruption.

Points (a), (b) and (c) imply that the expected gains from corruption are much higher for higher level bureaucrats and expected penalties are much smaller. Thus, even though marginal satisfaction to be obtained from an additional unit of money may be much smaller for higher level bureaucrats (given that their incomes are much larger) they might still find it profitable to be more corrupt than lower level officials. Gunnar Myrdal's hypothesis, it would seem, is not true for Uttar Pradesh and this can be reconciled with standard economic theory.

The problem of a larger incidence of corruption at the higher levels of bureaucracy assumes greater importance if the trend in the needless proliferation of the number of government departments resulting in top-heavy growth is considered. Also noted is the fact

that, like other states, Uttar Pradesh is not an exception to the existence of corruption in the departments connected with revenue collection and public investment expenditure.

(ii) **Reasons for Corruption:** Two reasons are advanced for the high incidence of corruption, especially among the police and other administrative services:

- The demand for services by government officials is large compared to the supply. As a result, the market price of these services is fairly high which allows the concerned government authorities to be corrupt and extract a large amount of money for their services. For example, a police station in Uttar Pradesh gets a large number of criminal cases, far greater than the number to which it can attend. In this way corruption becomes a screening mechanism.
- Corruption is a way of augmenting scarce resources.

(iii) **The Way to End Corruption** is to eliminate political corruption because bureaucratic corruption is tied to political corruption. Bureaucrats have to keep politicians happy in order to continue in positions of power. Noted journalist, T.C.A. Shrinivasan Raghavan (1997) had this to say about the civil services on the completion of 50 years of independence.

“The predominant feeling is of helplessness in the face of orders from a minister who can make or break a career by ensuring indifferent assessments in an officers confidential record.

The decline in standards of political conduct has brought a parallel decline in the standard of civil servants. Few want to annoy the politicians who can create havoc in officers’ personal levels and careers.”

(iv) Government officials still have a considerable amount of discretion in Uttar Pradesh.

### 13.3.1.2. Recent Developments in Corruption Prevention

**a) Empowering Women:** In 1993, a constitutional amendment was enacted reserving 33 per cent of seats for women in Panchayats and other local bodies. A recent assessment of women in the *Panchayati Raj* conducted by Professor Susheela Kaushik of the Women’s Studies Centre at Delhi

University reveals that corruption has gone down and transparency greatly increased because of women’s participation in *panchayats* ([www.undp.org](http://www.undp.org)).

- b) Programme for Reform:** According to a 2000 News release from the World Bank, it has approved a programme for fiscal reform and public sector restructuring in Uttar Pradesh. The Bank’s first sub-national adjustment loan in India, it will assist Uttar Pradesh in implementing a comprehensive set of reforms in the areas of public expenditure management, tax policy and administration, civil service, anti-corruption, deregulation, decentralisation, privatisation, financial management and accountability.
- c) Certain positive steps have been taken for the prevention of corruption and the promotion of accountability. Primary among these are the Lokpal Bill and the Right to Information Bill.

### 13.3.2. Law and Order and Crime Prevention

According to the Uttar Pradesh Police website ([www.uppolice.org](http://www.uppolice.org)) records show that the crime rate in Uttar Pradesh was consistently below the all-India average in all years from 1993 to 1997. The worrying feature is the high incidence of political crimes, crimes against women, caste-based crimes and riots.

**a) Political Crimes:** Crime has become a way of life in politics. BBC South Asia<sup>1</sup> carried a special feature on India’s criminal politicians recently and among others Uttar Pradesh also figured in the discussion. Some excerpts from that feature are given below:

- 1) In the state of Uttar Pradesh, there were several hundred candidates (in the last general elections) with alleged criminal connections.
- 2) In recent years, there have been newspaper reports on a series of kidnappings in the western part of the state, allegedly carried out to meet the expenses of politicians.

**b) Crime against Women:** Crimes against women and lower castes have been documented (Ali, 2001). Statistics show that crime against women has declined from the year 2001 as a result of the efforts taken by the Uttar Pradesh government. The sum total of dowry deaths and rape cases (Table 13.1) increased from 3314 in 1998 to 3676

1. [www.news.co.uk/1/hi/world/south\\_asia/701360.stm](http://www.news.co.uk/1/hi/world/south_asia/701360.stm) (October 12, 2000).

in 2000, an increase of more than 10 per cent which is much higher than the percentage growth of population. However, the number of dowry deaths and rape cases have come down by 45 per cent for the period 2001-2003. The cases of 'women harassment' increased from 4456 in 1998 to 5226 in 2000, almost a 20 per cent increase.

TABLE 13.1

## Crime in Uttar Pradesh—Year-wise Comparative Figures

I.P.C. Offences			
	1998	1999	2000
<b>Crime</b>			
Dacoity+loot (robbery by 5 or more persons)	4977	3773	3885
Murder	7760	7320	7208
Riot	6616	5742	6531
House Breaking	9839	8057	7751
Road Holdup	69	69	65
Kidnapping for Ransom	183	152	186
Dowry Deaths+Rape	3314	3189	3676
<b>Total IPC</b>	<b>32750</b>	<b>28302</b>	<b>29302</b>
<b>Women Harassment</b>			
Dowry Act 304 B IPC	2030	1902	2041
Rape Act 376 IPC	1382	1369	1637
Sheel Bhang	2263	2282	2358
Kidnapping Act 363/366 IPC	2550	2441	2387
Eve Teasing	2565	2253	3018
Women Harassment	4456	4769	5226
<b>Total</b>	<b>15246</b>	<b>15016</b>	<b>16667</b>

Source: uppolice.up.nic.in

TABLE 13.2

## Harassment of Women—Year-wise Comparative Figures (2001-2003)

	Percentage Change	2003	2002	2001
Dowry Act 304 B IPC	-28.59	1259	1763	2076
Rape Act 376 IPC	-34.17	811	1232	1743
Sheel Bhang	-48.66	1053	2051	2709
Kidnapping Act 363/366 IPC	-36.82	1304	2064	2610
Eve Teasing	166.31	4980	1870	2579
Women Harassment	-52.58	2408	5078	6603
<b>Total</b>	<b>-15.96</b>	<b>11815</b>	<b>14058</b>	<b>18320</b>

Source: GoUP (Home Department).

FIGURE 13.2

## Harassment of Women—Year-wise Comparative Figures

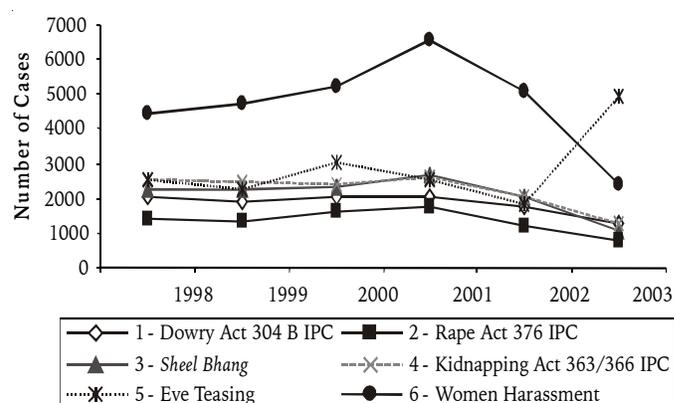


TABLE 13.3

## Crime Against SC/ST—Year-wise Comparative Figures (2001-2003)

	Percentage Change	2003	2002	2001
Murder	-27.82	262	363	420
Serious Injury	-66.53	159	475	768
Rape	-33.10	188	281	383
	-87.23	12	94	166
	-70.28	661	2224	3598
SC/ST	-80.33	377	1917	3663
<b>Total</b>	<b>-69.01</b>	<b>1659</b>	<b>5354</b>	<b>8998</b>

Source: GoUP (Home Department).

The overall crime against SC/ST has fallen considerably by 69 per cent, from 8998 in 2001 to 1659 in 2003.

## 13.3.3. Relative Size of Public and Private Sector

Going by Hart, Shleifer and Vishny's (1997) analysis and the status of various economic sectors (public or private) it seems that the size of the public sector is too large.

A case for privatisation can also be supported by the following facts:

- In 1998, 23 out of a total of 49 public enterprises owned by the Government of Uttar Pradesh (excluding the Uttar Pradesh State Electricity Board) were loss making.
- Till 1998, accumulated term loans of the public enterprises from the state government amounted to Rs. 9.2 billion.

Some steps have been taken in the sphere of privatisation including the privatisation of 13 public

sector companies in the early 1990s and the constitution of a Disinvestment Commission in the late 1990s.

#### 13.3.4. Decentralisation in Uttar Pradesh

##### 13.3.4.1. History of Decentralisation

The major political acts of decentralisation were as follows:

- a) **In 1920, the first Village Panchayat Act was enacted:** Village level bodies were set up to assist in the administration of civil and criminal justice, sanitation and other common concerns. However, the *Panchs* of the *panchayats* set up under the Act were to be appointed by the Collector of the district, ruling out any chances of democratic self-government.
- b) **Uttar Pradesh Panchayati Raj Act (1947):** Under this Act, three bodies were created. *Gaon sabha*, the *gaon panchayat* and the *panchayat adalat*. A Panchayat Udyog Scheme was also set up to establish rural industries (and thereby stimulate rural employment) and improve the financial position of the *gaon panchayat*.

TABLE 13.4

Synopsis of the Events in *Panchayati Raj* in Uttar Pradesh since 1947 till the 73rd Amendment

Legislations	
1947	Enactment of the United Provinces Panchayat Raj Act, 1947
1952	Amendment of the United Provinces Panchayat Raj Act, 1947
1961	Enactment of the Uttar Pradesh Kshetra Samiti and Zilla Parishad Adhiniyam, 1961
1989	Amendment to the United Provinces Panchayat Raj Act, 1947
1994	Amendment to the United Provinces Panchayat Raj Act, 1947 and the Uttar Pradesh Kshetra Samiti and Zilla Parishad Adhiniyam, 1961

- c) **In 1952 the ‘Community Development Movement’ was started:** The earlier concern for law and order was now matched by a parallel concern for agricultural development, communications, health, education, social welfare, supplementary employment and housing.
- d) **In 1996, the state government adopted a three-tier system of *panchayati raj*:** The three

tiers (from the lowest to the highest) consisted of village *panchayats*, *kshetra samitis* and the *zilla parishad*. The Act was known as the Kshetra Samiti and Zilla Parishad Adhiniyam. Given below are descriptions of the *kshetra samiti* and *zilla parishad*.

**Kshetra Samiti:** A body at the block levelled by a *Pramukh*, the *kshetra samiti* included the *Pradhans* of constituent *gaon sabhas* and all the MPs and MLAs belonging to the area or whose constituencies fell in the area. The *kshetra samiti* was given functions in the fields of agricultural development, minor irrigation, animal husbandry, health, education and cooperatives.

**Zilla Parishad:** This was the body at the district level. Its membership included: (i) the *pramukhs* of all *kshetra samitis* falling under its jurisdiction (ii) all the members of the Lok Sabha or the state assembly whose constituencies included any part of the district and (iii) all the members of the Rajya Sabha and the Legislative Council residing in the district besides others. The powers and functions of the *zilla parishad* are given below:

- i) Classification of fairs and festivals for the purpose of management and control.
- ii) General supervision of activities of *gaon panchayats* and *kshetra samitis* of the district.

The *zilla parishad* had the overall authority in the allocation of the budget for various projects to be carried out at the village and block level. The *kshetra samiti* was on the other hand responsible for the actual disbursement.

- e) **Developments after the 73rd Constitutional Amendment:** The two Acts of 1947 and 1961 were amended to conform to the 73rd constitutional amendment. The following were the important consequences of the amendments:
  - i) The amendment in 1994 stipulates that the state government shall establish for each block, a *kshetra panchayat*. The *kshetra panchayat* was to perform functions in the fields of finance and development, education and social justice.

- ii) The state government appointed an Administrative Reforms and Decentralisation Commission to recommend changes required in the process of planning and implementation of development projects. Acting on the recommendations of this committee and other ensuing committees, the state government issued orders to 28 departments for transferring some functions to *Panchayati Raj* Institutions (PRIs).
- iii) All the village level works pertaining to the departments of primary education, non-formal education, rural drinking water, youth affairs, social welfare, women's welfare and child development, medicine and health, agriculture, animal husbandry, land development and water resources, farming and village development have been brought under the control of the *gram panchayat* by a government order issued in July 1999.
- iv) By an order of 27 May, 1999 the Kshetra Panchayats have been given powers with respect to primary health centres, execution, implementation and evaluation of rural development programmes, public distribution system and godowns and works covering more than one village *panchayat* of the *kshetra panchayat* area.
- v) Financial devolution: *Gram Panchayats* have been empowered to levy a tax on the basis of 25 to 50 paisa per rupee payable as land revenue by residents of the village, levy taxes on theatres, cinema and other entertainment, for cleaning of drains, roads and maintenance of light and sanitation. The *kshetra panchayats* have been empowered to levy water tax, electricity tax and any other tax that the state government may empower them to impose.
- vi) Decentralisation in planning: The *kshetra panchayats* have been given the responsibility of preparing every year a development plan for the block, after taking into consideration the development plans of their *gram panchayats*. The *zilla parishad* in turn is to prepare every year a development plan for the district after including the development plans of the *kshetra panchayats*. After approving the plan the *zilla parishad* submits it to the District Planning Committee.

### 13.3.4.2. Indicators of Decentralisation

The tax revenue decentralisation index for Uttar Pradesh is the lowest among all the states listed in Table 13.3, both in 1992-93 and 1997-98, suggesting that fiscal decentralisation has been very limited in comparison to other states. It has also declined from 0.71 in 1992-93 to 0.57 in 1997-98, suggesting that post-73rd amendment developments have not resulted in effective fiscal decentralisation.

TABLE 13.5  
Revenue Decentralisation Ratio

State(s)	Tax Revenue Decentralisation Index of LBs (PRIs+ULBs)	
	1992-93	1997-98
Andhra Pradesh	1.68	2.76
Bihar	-	-
Goa	1.33	1.62
Gujarat	8.30	8.99
Haryana	3.02	2.43
Karnataka	2.39	1.86
Kerala	3.18	2.67
Madhya Pradesh	2.22	1.31
Maharashtra	19.25	21.29
Orissa	2.67	2.27
Punjab	6.29	8.49
Rajasthan	-	-
Tamil Nadu	2.56	3.23
Uttar Pradesh	0.71	0.57
West Bengal	0.78	-
<b>Total (All States)</b>	<b>3.11</b>	<b>5.01</b>

Source: Estimated from Report of the Eleventh Finance Commission for 2000-2005, Annexure VIII.2A & VII.2A and RBI Bulletins, October 1994 and February 1999.

Notes: - stands for Not Available; LBs stands for Local Bodies

PRIs stands for *Panchayati Raj* Institutions; ULBs stand for Urban Local Bodies

\* Based on progress from 1992-93 (100) to 1997-98

\*\* PRIs include all the three tiers of Village Panchayats, Blocks Panchayats and District Panchayats.

The local bodies do better in terms of the financial autonomy ratio, even though that too declines from 15.98 in 1992-93 to 14.47 in 1997-98, suggesting no positive decentralisation. The financial autonomy ratio of *village panchayats* is the lowest for Uttar Pradesh in both 1992-93 and 1997-98. Again there is a decline in this ratio from 1992-93 to 1997-98 (Table 13.4). The

expenditure decentralisation index of Uttar Pradesh was second lowest among all listed states and declined from 6.83 in 1992-93 to 6.03 in 1997-98 (Table 13.5).

TABLE 13.6  
Financial Autonomy Ratio of Local Bodies, Village Panchayats and Urban Local Bodies

State(s)	Financial Autonomy Ratio of LBs (PRIs+ULBs)		Financial Autonomy Ratio of VPs**		Financial Autonomy Ratio of ULBs	
	1992-93	1997-98	1992-93	1997-98	1992-93	1997-98
Andhra Pradesh	0.86	1.09	26.31	40.45	0.38	0.83
Bihar	-	-	-	-	-	-
Goa	46.46	44.46	46.66	51.91	46.39	41.13
Gujarat	22.21	26.42	63.06	53.45	78.76	85.21
Haryana	33.34	32.01	50.46	38.79	28.90	30.23
Karnataka	6.15	4.65	15.93	12.37	46.20	36.42
Kerala	43.83	21.24	28.51	22.49	62.05	41.80
Madhya Pradesh	21.89	7.49	4.71	3.84	40.03	23.85
Maharashtra	19.21	3.34	15.96	19.63	23.34	3.38
Orissa	19.73	11.85	6.81	4.80	57.09	61.76
Punjab	64.08	88.66	23.73	37.23	89.38	113.03
Rajasthan	19.46	20.28	4.35	1.64	74.35	77.75
Tamil Nadu	31.27	39.76	10.02	10.84	41.91	52.62
Uttar Pradesh	15.98	14.47	0.90	0.51	27.59	28.44
West Bengal	9.76	68.50	3.19	4.11	17.96	163.08
<b>Total (All States)</b>	<b>11.41</b>	<b>4.81</b>	<b>10.61</b>	<b>10.60</b>	<b>14.35</b>	<b>5.02</b>

Source: Estimated from Report of the Eleventh Finance Commission for 2000-2005, Annexure VIII.2A & VIII.2B

Notes: - stands for Not Available; LBs stands for Local Bodies; PRIs stands for Panchayati Raj Institutions; ULBs stand for Urban Local Bodies; \* Based on progress from 1992-93 (100) to 1997-98; \*\* VP is the lowest tier of 3-tier PRIs. The other two tiers are Blocks Panchayats and District Panchayats. Data for PRIs include all the three tiers.

As far as revenue of PRIs from own source is concerned, as a percentage of total revenue (Table 13.6), the figure declined from 0.84 in 1990-91 to 0.5 in 1998-99 for gram panchayats and from 66.75 to 28.48 for zilla parishads. The only positive development was that non-administrative expenditure increased as a percentage of total expenditure of PRIs (Table 13.7).

TABLE 13.7  
Expenditure Decentralisation Ratio

State(s)	Expenditure - Decentralisation Index	
	1992-93	1997-98
Andhra Pradesh	204.68	302.79
Bihar	-	-
Goa	2.79	2.18
Gujarat	29.35	27.85
Haryana	14.92	7.73
Karnataka	33.34	35.01
Kerala	6.84	10.90
Madhya Pradesh	10.25	19.68
Maharashtra	92.99	483.44
Orissa	9.90	13.36
Punjab	9.74	6.33
Rajasthan	18.22	22.00
Tamil Nadu	8.44	11.70
Uttar Pradesh	6.83	6.03
West Bengal	10.43	7.37
<b>Total (All States)</b>	<b>36.11</b>	<b>87.56</b>

Source: Estimated from Report of the Eleventh Finance Commission for 2000-2005, Annexure VIII.2A & VII.2A and RBI Bulletins, October 1994 and February 1999.

Notes: - stands for Not Available; LBs stands for Local Bodies; PRIs stands for Panchayati Raj Institutions; ULBs stand for Urban Local Bodies; \* Based on progress from 1992-93 (100) to 1997-98; \*\* PRIs include all the three tiers of Village Panchayats, Blocks Panchayats and District Panchayats.

TABLE 13.8  
Revenue of PRIs from own Source as % of Total Revenue

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
G.P.	0.84	0.84	0.91	0.92	0.89	0.63	0.43	0.52	0.5
Z.P.	66.75	66.75	68.47	53.36	48.6	44.1	41.28	28.48	-

Source: Various reliable sources.

TABLE 13.9  
Administrative Expenditure as a % of Total Expenditure of PRIs

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
G.P.	0.83	0.83	0.89	0.91	0.88	0.62	0.42	0.49
Z.P.	68.08	66.83	66.59	60.41	54.05	49.73	38.95	27.61

Source: Various reliable sources.

Thus, barring one or two exceptions, all indicators seem to indicate that Uttar Pradesh lags behind most states of India as far as fiscal decentralisation is concerned. Moreover, developments after the 73rd constitutional amendment have done little to improve the level of fiscal decentralisation. These findings are supported by those in Rajaraman (2002). Rajaraman goes on to say that Uttar Pradesh is perhaps the only case where the fiscal domain of the *gram panchayat* has contracted over time because of the State Finance Commission's disappointment over its failure to collect certain taxes.

### 13.3.5. Poverty Alleviation

#### 13.3.5.1. Indicators of Poverty Incidence and Alleviation

In absolute terms, Uttar Pradesh has the highest number of people below the poverty line, 20.3 per cent of the country's poor resided in Uttar Pradesh in 1993-94, whereas in relative terms Uttar Pradesh is doing fairly well. Over the period 1993-94 to 1999-00, the percentage of people below the poverty line decreased from 42 to 31 in rural areas of Uttar Pradesh as compared to a fall of 37 to 27 per cent for rural India for the same period. The urban areas of Uttar Pradesh also experienced a fall in the percentage of people below the poverty line from 35 to 31 per cent. Uttar Pradesh is the fourth worst state in terms of the headcount index of poverty, the second worst state in terms of male life expectancy and the third worst state in terms of female life expectancy, infant mortality and literacy.

Between 1957-58 and 1993-94, Uttar Pradesh's achievement in poverty reduction lagged behind the rest of India by about 6 per cent. The gap is even more dramatic in 1987-93, when the rest of India achieved a reduction in poverty by 3.2 percentage points, whereas poverty in Uttar Pradesh fell by only 2 percentage points (N.S.S 40th round and 50th round estimates). However, recent statistics show that there has been an encouraging turnaround in Uttar Pradesh's performance in poverty reduction with poverty falling by four percentage points in 1993-1998.

In order to analyse the reasons behind Uttar Pradesh's largely unimpressive performance in poverty reduction, it is necessary to evaluate the performance of its poverty reduction programmes. Our evaluation of poverty alleviation programmes draws on several accounts already in the literature. It must be added though that a part of the failure in poverty reduction can be explained by the deceleration in agricultural growth.

#### 13.3.5.2 Review of Poverty Alleviation Programmes

1. **Employment Generation Schemes:** Given below is a description of the major employment generation schemes.

a) *Jawahar Rozgar Yojana (JRY)*- Instituted in 1989, the central allocations in JRY are decided on the basis of the proportion of the number of poor in the state. As much as 70 per cent of the JRY funds are given to the *gram panchayats* while 13 per cent each are allocated to the block and zilla *panchayats*.

Schemes implemented under the JRY are selected on priority basis in village assemblies. The minimum labour component in the works is 60 per cent and the use of mechanical equipment and tractors is not allowed. In Uttar Pradesh, the *pradhan* and the *panchayat* secretary operate the JRY accounts.

b) *Employment Assurance Scheme (EAS)*: Instituted in 1993-94, this scheme aims to provide assured employment in unskilled manual work to the rural poor. Works undertaken under the scheme should take place during the lean season.

The expenditure under EAS is shared between the Centre and states on an 80:20 basis. It is a demand-driven scheme which allows a district to ask for more funds for those blocks which have utilised more than 50 per cent of the available funds.

A specific feature of the EAS in Uttar Pradesh is the linking of the scheme to various sectoral departments for the development of social and physical infrastructure. The recommended labour cost to material cost ratio in the EAS is 60:40.

An evaluation of the employment generation scheme leads to the following conclusions:

a) The January-December 1992 evaluation found that JRY had generated 3.24 person days of employment per family in Uttar Pradesh in a month, as compared to 5.17 days nationally. This works out to around 40 days in a year, far less than the targeted 100. Wages had a share of 45.5 per cent in Uttar Pradesh as compared to the national average of 50 and the norm of 60 per cent.

b) Less than 5 per cent rural workers had been employed in JRY funded public works whereas in EAS the percentage was even lower. Wages in

JRY and EAS were about 33 and 39 per cent below the stipulated minimum respectively.

- c) The accountability of the *panchayat* leadership is low even though improvements have been made in the recent past. Attendance in *gram sabha* meetings has increased from low to almost satisfactory levels though these meetings are still characterised by low female participation and participation by the poor.
- d) The proportion of available funds which have been utilised has gone down from 85 to 79 per cent in case of JRY and from 72 to 62 per cent in case of the EAS from 1995-96 to 1997-98.

**2. Integrated Rural Development Programme (IRDP):** The IRDP aims to reduce poverty by creating self-employment opportunities for a target group of beneficiaries below the poverty line which would help the group to augment their income. The programme is funded on a 50:50 basis by central and state governments. Fifty per cent of those assisted should belong to the scheduled castes and 40 per cent should be women. IRDP is implemented through the DRDA at the district level and the block machinery at the block level. Sub-schemes of IRDP are Ganga Kalyan Yojana, Training of Rural Youth for Self-employment (TRYSEM) which is a training scheme and Development of Women and Children in Rural Areas (DWCRA) which is a group lending scheme for women.

Our evaluation of this programme leads to the following broad conclusions:

- a) The income eligibility criterion is complex and leads to considerable arbitrariness. Studies in the state have found that at least 20 to 30 per cent of the beneficiaries are generally non-poor.
- b) The proportion of available funds that was utilised increased from 85 per cent in 1995-96 to 90 per cent in 1997-98.

**3. Indira Awaas Yojana:** The purpose of the programme is to provide dwelling units free of cost to poor families. Funds are allocated among the districts according to the proportion of SC/ST population. Expenditure on non SC/ST households should not exceed 40 per cent of the expenditure. The beneficiaries have to be involved in the construction of the houses.

The housing programme is based on a grant. The programme has been fairly successful in Uttar Pradesh though the problem of corruption in the selection of households still persists. In recent years this programme

has grown significantly. The proportion of available funds utilised by this project has increased from 87 per cent in 1995-96 to 91 per cent in 1997-1998.

#### 4. Food and Nutrition Schemes:

- a) The Target Public Distribution System (TPDS) was started around 1997. Poor households are eligible for 10 kg. of food grain in the plains and 20 kgs in the hill areas. An evaluation of the TPDS leads to the following conclusions:
  - i) The identification of poor households has proved to be a considerable problem as the existing lists are significantly inflated.
  - ii) Dual pricing under the scheme provides a considerable incentive for grain diversion and the scheme has proved to be extremely difficult to monitor.
  - iii) There is a problem of erratic supply which has led to a mismatch between demand and supply of foodgrains.
  - iv) In several cases, poor households are unable to purchase their rations in time.
- b) The Integrated Child Development Scheme (ICDS) caters to the nutrition and health needs of young children and pregnant and lactating mothers. In Uttar Pradesh 512 projects are operational in the rural areas while there are 31 projects in the urban slums. After evaluating the programme the following conclusions were reached:
  - i) Supervision is weak. One of the reasons for this is the large number of vacancies. While 51 District Programme Officers (DPOs) are in place at the block (project) level, 300 out of the 512 blocks are without CDPOS, who are the block level supervisors. Among *anganwadi* supervisors only 40 per cent positions have been filled up.
  - ii) The proportion of available funds that were utilised went down from 79 per cent in 1995-1996 to 54 per cent in 1997-98.

#### 13.4. Policy Recommendations

This section discusses certain policy recommendations in each of the fields discussed above. Of course all recommendations are made from a subjective point of view.

### 13.4.1. Corruption

- a) The size and functioning of anti-corruption organisations in the state needs to be monitored for adequacy and continuity.
- b) The progress of corruption cases should be determined by an independent jury (comprising members of the public) or a central organisation such as the CBI.
- c) The entry of women into local politics has seemingly checked the increase in corruption. Further, participation of women in politics should be encouraged. This can be done by targeting the women for political education.
- d) The trend in needless proliferation of government departments should be checked.
- e) Measures to increase transparency and accountability can go a long way in checking corruption. Some measures for attaining this objective are:
  - (i) introduction of a citizen's charter for each department and office,
  - (ii) computerisation in all government offices with significant public interface,
  - (iii) introduction of competitive bidding for all contracts with the government,
  - (iv) publication of reports of state sponsored commissions and key policy papers.
- (f) The susceptibility of bureaucrats to the whims and fancies of politicians should be reduced. This can be done by protecting the bureaucrats from arbitrariness in matters of appointments, postings and transfers. In order to attain this objective the following measures are recommended:
  - (i) calculate and publicise the average tenure of all government officials grouped by seniority,
  - (ii) build a consensus for stable tenure,
  - (iii) establish general principles for postings, transfers and appointments and make them public.
- (g) Measures should be taken in order to reduce the amount of discretion in the hands of government officials.
- (h) Measures to check corruption can only be successful if exact knowledge about the nature,

incidence and the extent of corruption exists and is available. Presently such information is scarce for Uttar Pradesh; whatever information is present is not available to the general public.

The importance of consumer surveys to estimate the incidence of corruption cannot be overemphasised. The Public Affairs Centre (PAC), Bangalore has taken a lead in this regard. An effort has been made through an independent survey to obtain consumer feedback on qualitative and quantitative dimensions of selected public services—drinking water, education, health services, public distribution system (fair price shops) and road transport (including bus services). This includes information on the proportion of consumers who faced demand for bribes. Results are already available for some states.<sup>1</sup>

It should be ensured that efforts such as those undertaken by the PAC become a regular exercise. This would enable us to gauge the change in the incidence of corruption over time. The methodology employed by the PAC can be extended to sectors such as police, general administration, etc.

Transparency International has launched an index known as the Corruption Perception Index (CPI) for around 90 countries. This index has been computed on the basis of 14 surveys from 7 independent institutions. The surveys were undertaken over the past three years and no country has been included in the CPI without results from a minimum of 3 surveys. The surveys reflect the perceptions of business people, analysts, academics and the general public. (For more details about the CPI methodology look at their website on the internet.) The Transparency International methodology can be easily replicated in Uttar Pradesh to form an idea about the quantitative incidence of corruption.

One aspect of corruption, however, is not captured by these consumer surveys—the corruption by departments such as engineering and public works which do not come into direct contact with the consumers but undertake huge investment expenditure, a considerable portion of which is often siphoned off. Clearly it is difficult to estimate the incidence of corruption in these departments. One way of indirectly arriving at the incidence of corruption is to compare the expenditure/output of these departments in Uttar Pradesh to those of other states. One of the assumptions being made is that the technology used in different states of the country is the same. This is not a terribly unreasonable assumption. However, there are other assumptions being made—the amount of

1. For further details please refer to Paul Samuel *et al.*, (2006). *Who Benefite from India's Public Services?* Academic Foundation, New Delhi.

unutilised capacity, the labour productivity and the degree of x-efficiency is the same. These restrictions seem to be too strict and one needs to speculate on how an empirical estimation of the incidence of corruption can be conducted even after relaxing these restrictions.

#### 13.4.2. Crime and Law and Order

a) Though there has been a fall in the incidence of caste-based crimes, Uttar Pradesh can also follow the measures undertaken by the state cabinet in Andhra Pradesh to undo the injustice to *Dalits* in the state following the recommendations of the Justice Punnayya Commission (*Hindustan Times*, October 3, 2001). The following measures have been undertaken:

- i) One police officer not below the rank of sub-inspector has been deputed to each village, where the *Dalits* face caste discrimination. The police officer will visit the *Dalitwada* once a week on a fixed day along with the Mandal Revenue Officer, Mandal Development Officer, *Sarpanch*, self-help groups and a representative of the social welfare department. The police officials will take the SCs to temples, direct the hotel keepers to remove the separate glass system in the hotels and provide access to wells.
- ii) A *Dalit* protection cell has been set up, headed by the Director General of Police to ensure better compliance among policemen. Police officers should register cases of atrocities against *Dalits* immediately. The collector or Superintendent of Police should visit the place within 24 hours of occurrence of the atrocity, ensure that an FIR is registered and provide relief in cash or kind.

Uttar Pradesh would do well to follow the example of Andhra Pradesh.

#### 13.4.3. Decentralisation

- a) Since fiscal decentralisation has not been effective, steps must be taken to increase the powers of PRIs with regard to collection of revenue and its disbursement.
- b) Another aspect which needs to be investigated is the decentralisation of line departments of the state government. Reliable quantitative data in this regard is not available but discussion with

experts seems to indicate that these line departments are still very centralised.

- c) The understanding of decentralisation has not seeped into the minds of those who run the administration and the general public. The issue has become more complicated by the issuance of too many circulars regarding decentralisation. The views and recommendations advanced by these circulars have kept changing and no stable stand on the desired nature and extent of decentralisation has emerged. Clearly, this is something which needs to be corrected. The government should take a long and hard look at the issues relating to decentralisation and formulate a stable policy which can be implemented over the next 10 years.
- d) Transfers to the different tiers of PRIs need to be harmonised with their spending responsibilities.
- e) The state government should ensure that the overall system of government finances imposes 'hard budget constraints' on local decision makers so as to make them fully accountable for their decisions.
- f) With regard to the multi-tiered rural local bodies, the central issue is to decide which services are to be provided and monitored at each level. It would be sensible to use the experience of success stories in this regard. The success of the District Education Programme shows that district level bodies are best placed for the responsibility of managing primary and upper primary education. Similarly, experience suggests that the block level local body could perhaps assume greater responsibility for the effective delivery of promotive health care.

#### 13.4.4. Delineation between Private and Public Provision

Our analysis seems to indicate that the size of the government sector engaged in the production of public goods is too large.

#### 13.4.5. Poverty Alleviation Programmes

The general conclusion that seems to emerge is that measures should be taken to simplify income criteria for the selection of beneficiaries, check corruption and ensure that the funds allotted are actually utilised.

### 13.5 Conclusion

The broad conclusions that emerge from our study are the following:

- 1) The incidence of corruption is increasing. It is the higher level officials who are more corrupt which runs contrary to conventional economic thinking regarding corruption. Clearly this is because they have greater immunity from being prosecuted. The situation can be changed by taking away powers of resolution of corruption cases from the present committee and appointing an independent jury or body.
- 2) While corruption is increasing the size of anti-corruption organisations is getting smaller over time. This is a disturbing trend which should be reversed.
- 3) The measurement of the incidence of corruption requires greater attention. Consumer feedback surveys seem to be useful in this regard.
- 4) While the overall incidence of crime in Uttar Pradesh is not very high, there are three kinds of crimes which have a high and rising incidence—caste-based crimes, crimes against women and political crimes. Recommended measures are implementation of specific measures for recording and preventing cases of atrocities against *Dalits* (as has been done by the Andhra Police) and preventing politicians with criminal backgrounds from contesting in elections.
- 5) The size of the government sector involved in the provision of public goods and services is too large. A considerable reduction in size through privatisation of certain activities is required.
- 6) Effective fiscal decentralisation has not been achieved. More powers regarding taxation and expenditure should be effectively given to *panchayats*. There is also a need for coherent and stable government directives regarding decentralisation.
- 7) Poverty alleviation programmes are marred by a high incidence of corruption, poor selection of beneficiaries and non-utilisation of available funds. Corrective measures should be taken in this regard.

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## APPENDIX A-13.1

Empirical Studies of Government and Development:  
A Shortened Annotated Bibliography<sup>1</sup>

Sl. No.	Authors	Methodology	Main Findings
1.	Ades, Alberto and Rafael di Tella (1996). "The Causes and Consequences of Corruption: A Review of Recent Empirical Contributions". <i>IDS Bulletin</i> 27(2).	Review of empirical contributions of causes and effects of corruption.	Corruption negatively affects investment, and corruption is associated with the lack of competition in the product market and with less independent judicial systems.
2.	Alesina, Alberto and Beatrice Weder (1999). "Do Corrupt Governments Receive Less Foreign Aid?" <i>NBER Working Paper No. 7108</i> .	Cross-country regressions for up to 90 countries, exploring the relationships between aid, foreign direct investment, and corruption.	Foreign direct investment over the 1970-95 period is reduced by host-country corruption levels, using one corruption indicator, but no relationship is found when using any of six other corruption indicators.
3.	Alesina, Alberto, Sule Ozler, Nouriel Roubini and Philip Swagel (1996). "Political Instability and Economic Growth", <i>Journal of Economic Growth</i> , 1(2): 189-211.	Cross-country regressions for 113, countries for the 1950-82 period using annual data.	In countries and time periods with more changes in government (peaceful or otherwise), growth is lower. Slow growth in turn increase the likelihood of coups, but not of peaceful changes in government.
4.	Chong, Alberto and Cesar Calderon (2000). "Empirical Tests on the Causality and Feedback Between Institutional Measures and Economic Growth". <i>Economics and Politics</i> (forthcoming).	Geweke decomposition is used to test the causality and feedback between institutional measures from BERI and ICRG (such as contract enforceability, nationalisation potential, infrastructure quality, bureaucratic delays, and a composite index of the above four) and economic growth.	Improving institutional development and promoting economic growth in developing countries. Causality also operates in the other direction, with growth leading to higher ratings on the ICRG and BERI indexes.
5.	Chong, Alberto and Cesar Calderon (1997). "Institutional Change and Poverty, of Why it to Reform the State?" <i>Mimeograph</i> , World Bank, Washington, DC.	Cross-country regressions using measures of risk of expropriation, risk of contract repudiation, law and order, corruption in government and quality of bureaucracy for institutional development, and measures proposed by Foster-Greer-Thorbecke (1984) for poverty.	Improvement in institutional efficiency reduces the degree, severity, and incidence of poverty.
6.	Evans, Peter B. and James E. Rauch (2000). "Bureaucracy and Growth: A Cross-National Analysis of the Effects of Weberian State Structures on Economic Growth", <i>American Sociological Review</i> , (forthcoming).	Cross-country growth regressions, testing the impact of bureaucratic structure and meritocracy, as measured by a 'Weberian State Scale' constructed from expert opinions for 35 developing nations.	Growth is strongly associated with higher values of the Weberian State Scale.
7.	Huther, Jeff and Anwer Shah. (1998). "Applying a Sample Measure of Good Governance to the Debate on Fiscal Decentralization". World Bank, <i>Operations Evaluations Department Policy Research Working Paper No. 1894</i> , World Bank, Washington DC.	Construction of an index of governance quality. Index includes: citizen participation, government orientation, social development, economic management.	A positive relationship exists between fiscal decentralisation and quality of governance.
8.	Kaufmann, Daniel and Aart Kraay and Pablo Zoido-Lobaton (1999). "Governance Matters". <i>World Bank Policy Working Paper No. 2196</i> .	A simultaneous model is used to isolate the direct effects of difference in governance on three measures of development outcomes: GDP per capita, infant mortality, and adult literacy. They use a very large set of indicators drawn from commercial sources and investor surveys. They allocate these indicators to six clusters and use a latent variable model to estimate a common element in each cluster.	A strong causal relation exists between governance and development outcomes for all six aggregate indicators. They find that their results hold whether or not OECD countries are included in their sample.

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Sl. No.	Authors	Methodology	Main Findings
9.	Knack, Stephen and Gary Anderson (1999). "Is Good Governance Progressive?", Unpublished manuscript.	Cross-country regressions examining changes in income growth for different income quintiles, and changes in Gini coefficients over time.	Income growth for the poorer quintiles is more sensitive to the quality of governance (measured by ICRG and BERTI indexes) than is income growth for richer quintiles. Gini coefficients decline more where the (initial) quality of governance is higher.
10.	Knack, Stephen and Philip Keefer (1997). "Does Social Capital have an Economic Payoff? A Cross-Country Investigation", <i>Quarterly Journal of Economics</i> 112: 1251-1288.	Cross-country regressions using indicators from the World Values Surveys on interpersonal trust, civic cooperation, and membership in groups.	Trust and civic cooperation have significant impact on economic performance. Group memberships, hypothesized to have positive effects by Putnam (1993) and negative effects by Olson (1982), have no relation to economic performance.
11.	Kormendi, Roger C. and Philip G. Meguire (1985), "Macroeconomic Determinants of Growth", <i>Journal of Monetary Economics</i> , 16: 141-163.	Cross-country growth regressions with 47 countries for the 1950-77 period. Independent variables include the Freedom House civil liberties index, a proxy for economic rights, such as freedom from expropriation or the enforceability of property rights and private contracts.	Growth and investment rates are higher, other things equal, in countries with greater civil liberties. The effect on growth appears to be entirely through increasing investment.
12.	Mauro, Paolo (1995). "Corruption and Growth". <i>Quarterly Journal of Economics</i> 110(3): 681-712.	Cross-country regressions using subjective indices of corruption, the amount of red tape, the efficiency of the judicial system, and various categories of political stability.	Corruption is negatively linked with economic growth.
13.	Scully, Gerald (1988). "The Institutional Framework and Economic Development", <i>Journal of Political Economy</i> , 96(3) 652-662.	Cross-country regressions of income growth for 1960-1980 for 115 nations, using the Freedom House indicators as proxies for property rights and the rule of law.	Controlling for changes in the K/L ratio, income growth is higher where countries are rated more highly on the Freedom House indices.
14.	<i>World Development Report 1997. The State in a Changing World</i> , Oxford University Press for the World Bank, Washington D.C.	Survey of the importance of the role of the state in development. A specially commissioned survey of 3600 firms in 69 countries for the publication reported on perceptions of the stability of laws and policies, adequacy of infrastructure, taxes and regulations, and crime and corruption.	The survey showed that entrepreneurs in some parts of the world live in constant fear of policy surprises and that the institutional framework was not well enough entrenched to withstand changes in government without serious disruption. Sound policies by themselves can improve results. Benefits are magnified where institutional capability is also higher.
15.	Zak, Paul and Stephen Knack (1998). "Trust and Growth", <i>IRIS Center Working Paper No. 219</i> .	Cross-country regressions for 40 market economies, using survey measures of interpersonal trust.	Trust is strongly related to growth rates. With data on 11 countries beyond those analysed by Knack and Keefer (1997), this relationship is found to be robust to variations in specification or period examined, and to the use of religious composition variables as exogenous instruments for trust. Trust is higher in nations with less income inequality and ethnic heterogeneity, and with more reliable legal mechanisms for enforcing countries.

Note: 1 This document is a shortened version of Annex 2 of "Background Note on Governance Indicators- Informal Board Seminar", July 1, 1999.