

Why do the poor receive poor services?

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Abstract: India exhibits a large reliance on targeted transfer payments and subsidies, and significant underprovision of social services such as education. These are puzzling outcomes because the poor in India, who vote in large numbers, would benefit most from more of the latter and less of the former. We argue that inadequate social services and excessive targeted transfers can be explained as a consequence of the incomplete information of voters, the lack of credibility of political promises, and social polarization.

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Introduction: The puzzle

Why have public expenditures in India failed to deliver basic services to the majority of poor citizens when political representatives taking decisions over public resource allocation depend upon the support of the poor to win office? India is unique in the developing world not only in sustaining democratic elections to multiple tiers of government over an extended period of time, but also in extensive participation in the political process by its poor and disadvantaged citizens, which by several accounts has been increasing over time (Yadav, 1999). Political incumbents and contenders therefore need to choose policies to woo the large majority of low-income voters in order to win elections.

Despite this, striking evidence demonstrates that basic public services have failed the poor. Government schools and health clinics are empty of teachers and doctors, and text books and medicines. Clean water is unreliable or unavailable. Instead, public spending has focused on delivering private transfers either to interest groups organized around these transfers, or to individual citizens. These transfers have taken the form of public employment or subsidies on essential consumption commodities such as food and inputs to agricultural production. Spending that on paper is allocated to public services such as education and health lacks strong accountability mechanisms for actual service delivery by teachers and doctors. The purpose of even this spending appears to be the creation of jobs in the public sector.

We view this as a puzzle. In terms of human development indicators such as literacy, schooling, morbidity and mortality, India ranks amongst the poorest countries in the world. It is reasonable to argue – and we do so below – that the poor in India would be better off if public resources were shifted to effectively providing basic services that would simultaneously benefit many, and away from targeted transfers that are difficult to sustain fiscally if the benefits are distributed over large numbers. In their review of research on public spending and the poor, Van de Walle and Nead (1995) find that basic health and education services almost universally yield benefits for the poor; fine targeting, on the other hand, often comes at a cost to the poor, largely because of administrative costs and unintended behavioral consequences. They conclude by advocating the use of “broader targeting” through the provision of basic public goods when poverty is widespread and administrative capacity is constrained.

This paper argues that the explanation for the puzzle lies in the lack of credibility of political promises to provide broad public goods, as opposed to private transfers and subsidies. Electoral competition therefore revolves around distributing public resources as transfers to individual citizens rather than around providing broad and basic services to which many would simultaneously have access. When a political challenger cannot convince voters that she will provide better public services if elected, but can convince them that she will provide greater private transfers, then the incumbent’s spending policies will be skewed towards private transfers rather than broad public goods. We argue that the differential credibility of promises related to public goods versus private transfers can be attributed to three factors—one, the history of past electoral competition and the types of political reputations to which this leads; two, the extent of social fragmentation amongst voters; and three, limited information amongst voters about the quality of public services. These factors

together help explain the variation across and within states in India in the extent to which public spending is effective in delivering basic services or merely in distributing private transfers.

Are there any policy solutions to this problem of political credibility? We propose that information dissemination about the quality of public services and the impact of simple policy interventions in improving quality can assist in building political credibility and in mobilizing voters around the issue of basic services. This “solution” might sound obvious, and can indeed be derived from different diagnoses of the underlying problem than the one presented here. However, the argument here suggests that the actual design of information dissemination strategies is critical and points to specific characteristics that are not emphasized by these other diagnoses. Much work is needed in exploring alternate types of information that could be generated and alternate institutional mechanisms for its dissemination. The role of NGOs, civic groups, and indeed, international aid organizations, in this process is likely to be critical. We present some initial ideas in this direction, and hope that it provokes further debate and discussion on institutional solutions to an explicit problem of political accountability.

How are public expenditures in India allocated?

Even after the dramatic changes in regulatory policies in India, with economic liberalization over the past decade, the size and composition of public budgets have remained essentially the same. If anything, public expenditures and deficits in relation to the economy have been increasing. Consolidated government revenues have remained between 17 and 19 percent, and total expenditures between 25 and 29 percent of GDP since 1985 (World Bank, 2003). Thus, elected political representatives have access to a powerful policy instrument to affect the lives of the majority of poor voters—public expenditures. However, the allocation of these resources has yielded poor results in terms of actual well-being of the poor and low-income groups.

Explicit food and farm subsidies, interest payments, and defence spending together make-up the bulk of total central government spending. During budget discussions in 2003, the Finance Minister informed the parliament on March 14, 2003 that “Of our revenue, 50% is swallowed by payment of just interest on government debt; another 20% goes on subsidies, and 25% on defense. What am I left with?” (*Times of India*, March 14, 2003). In the first budget speeches after the 1991 elections the Congress-led government proposed to substantially reduce fertilizer subsidies, but subsequently scaled back its proposals, and “gave total exemption from the hike in fertiliser prices to small and marginal farmers”. (Chhibber, 1995; *Times of India*, 2nd Jan 1992). A similar drama of announcing the urgent fiscal need to scale back agricultural subsidies at the start of the budget cycle, only to retract immediately afterwards, was played out more recently in the 2003 budget proposals by the Finance Minister.¹

A large literature examines the record of the food distribution system in providing food security to the poorest households. Analysts largely agree that leakage of subsidized grain into the open market is substantial and that a large portion of the subsidy has gone to

¹ High expenditures on defense – the classic “public good” – are the much touted exception that proves the rule: no other public good in India comes close to being as politically salient as defense. Given the history of conflicts in the region, this is not surprising. At the same time, in no country is the military establishment a disinterested observer in the budget process.

the non-poor (Jha and Srinivasan, 2001). The current food situation in India therefore offers a dramatic paradox. Government stocks of food grains in public storage are huge, almost three times the specified minimum norm advocated for the objective of price stabilization. Per capita consumption of the poorest households, on the other hand, continues to be below recommended levels, and malnutrition and stunted child development continue to be widespread (Jha and Srinivasan, 2001). Recent research shows more directly that relatively large changes in the size of the subsidy can have little or no effect on child nutrition—a sudden reduction in the subsidy on rice supplied by the public system in the state of Andhra Pradesh had no effect on nutritional status of children as measured by weight-for-age (Tarozzi, 2003).

Subsidies to farmers consume substantial social resources. The implicit subsidy in the price of electricity supplied to agricultural consumers by state utilities spiked in the mid-1990s. It is widely regarded as the single largest threat to fiscal and financial stability of state governments in India. Recent estimates of incidence show that bulk of the gains are captured by medium and large farmers, who are the owners and users of electrically operated irrigation pump sets (Howes and Murgai, 2003). However, small and marginal farmers gain the most as a percentage of net farm income. If the subsidy were to be removed, these farmers would need to divert the largest proportion of net income to the purchase of electricity (Sur, 2003).² In the case of fertilizer, Panagariya (2002) reports that subsidies have risen to 0.7 percent of GDP, but that little of the subsidy flows to farmers. Fertilizer manufacturers themselves appear to capture most of the subsidy benefit. Comparing India to OECD countries, it appears that the subsidies to economic interests are particularly large and, though the evidence is less clear, that subsidy incidence is particularly skewed away from the poorer members of the special interest groups.³

The allocation of spending on basic human services is correspondingly inefficient. These services are largely the responsibility of state governments, which have spent an average of 15 percent of state GDP on them since 1985. Spending on education alone accounts for 20 percent of total state spending, second only to spending on general state administration (including interest payments on state borrowing), which makes up 30 percent

² Evidence on incidence and impact of power subsidies is only just emerging, and is still tentative. While much of the policy rhetoric has focused on highlighting the larger share of subsidies going to medium and large farmers, there has been less attention given to the relative value of these subsidies across groups.

³ For example, although the comparison is not entirely apt for a number of reasons, total agriculture spending in the United States federal budget (including transfers to farmers and food stamps for the poor, but also agricultural extension, research, inspection and administrative expenses of the Department of Agriculture) amounts to approximately one percent of total federal spending (United States Government, http://w3.access.gpo.gov/usbudget/fy2004/sheets/fct_2.xls). This spending is considered high, and explained as a consequence of the widely recognized clout of farm states in both US presidential elections and in the US Senate. In India, food subsidies alone, excluding fertilizer and other input subsidies for farmers, and administrative expenses of the central government and other services to farmers and consumers, were 3.01 percent of central government spending in 1995 (Radhakrishna, et al. 1997). As much as .7 percent of GDP goes to fertilizer subsidies, though most farmers pay international prices for fertilizer (Panagariya, 2002). The bias towards large farmers is also less in the US: farms with net cash farm income of more than \$40,000 (compared to GDP/capita of approximately \$36,000 in 2000) received 53 percent of total subsidies, with 47 percent going to farms with net cash farm incomes of less than this (McElroy, et al. 2001). Furthermore, non-farm income is relatively higher among the low farm income subsample than in the comparable subsample in India. The incidence of fertilizer and electricity subsidies in India suggests a distribution of benefits substantially more skewed to the higher income groups.

of the total.⁴ The remainder is distributed over a laundry-list of programs in agriculture, irrigation, rural development, health, sanitation, and welfare of disadvantaged social groups.⁵

Despite the resources poured into education, there appears to be little corresponding impact on actual schooling and educational achievement (PROBE, 1999). In India, recurrent expenditures on primary education account for 98 percent of total government expenditure on primary education; salaries account for 96 percent of recurrent expenditures, and teachers' salaries account for 97 percent of all salaries in education spending (Tilak, 1993, p. 60). Yet, field investigations in rural areas of Indian states, particularly in the north, reveal that teacher absenteeism is endemic, with almost two-thirds of the teachers employed in the sample schools absent at the time of the investigators' unannounced visits (Drèze and Gazdar, 1996; Weiner, 1991; Prasad, 1987). It is reasonable, therefore, to conclude that one of the primary effects of education spending is simply to provide jobs in the public sector rather than the public good of basic learning.

Political participation by the poor

Spending patterns and outcomes that are particularly skewed towards special interests and are particularly incompatible with the interests of the poor are puzzling since the poor in India tend to vote more than middle class or rich, villages more than cities, and lower castes more than upper castes (Yadav, 2000). Hence, the failure of democratically elected governments to provide adequate services to the poor cannot be explained by lack of participation of the poor in the political process. It must hinge on the *nature* of that participation.

Conventional wisdom might seek to explain the puzzle by appealing to three types of arguments. First, the poor (e.g., poor farmers) might prefer targeted transfers rather than public services such as education. The benefits of transfers are immediately available while the returns from education emerge over a longer time horizon that might be unacceptable to people living near subsistence levels. Second, the poor might be coerced or manipulated by organized elite interest groups, such as large farmers, to vote for particular policies favored by these groups even if they are detrimental to their interests. Third, Indian public spending policy might simply exhibit the usual influence of organized special interests that are known for their political clout even in other richer and older democracies. We argue that these explanations are incomplete.

A thought experiment illustrates the limited usefulness of the first, demand-side explanation. Suppose that a village must choose between demanding a single job for some randomly chosen individual in the village, or requesting the allocation of a teacher to the village school with the responsibility of providing a basic level of education to any child that chooses to enroll in the school.⁶ Suppose the village has thirty families and that the teacher would instruct one child from each family until the child is functionally literate. Further,

⁴ These numbers have been calculated by the author using the States Finances Database compiled by the World Bank from annual publications of the Reserve Bank of India Bulletin, and various state statistical abstracts.

⁵ In the last couple of years, interest expenditures of state governments have increased significantly, equaling education expenditures as a proportion of state GDP as well as total spending.

⁶ Given fiscal constraints, it is not possible to provide more than one job to the village, so the job can either take the form of political patronage without any service delivery expectations, or the provision of a teacher who will be held responsible for providing quality education, and can be fired for failing to do the job.

assume that literacy raises the present value of each child's lifetime income by 30 percent, and that absent education, this present value would be the same as that of the average wage earner in any of their families. Then the total additional value to all 30 families from having the teacher (assuming the teacher is held responsible for instructing the child to attain functional literacy) would be 9 times the present value of the average wage earner's lifetime income without education.

To exceed this wealth effect, the job offered in lieu of a teacher would have to pay almost ten times the average wage to make the expected value of the job to the village the same as the expected value of the teacher. The demand for education would therefore have to be extraordinarily low, for example because returns to education are low, or future discount rates are high, or severe credit market constraints block access to complementary inputs (books, foregone child labor), to explain preference for jobs and subsidies over schools and clinics. However, we observe the poor making large sacrifices to educate their children – for example, in private institutions – despite imperfect credit markets and discount rates that are not particularly low. A common finding of village studies and household surveys in India is that education is widely perceived by members of disadvantaged groups as the most promising chance for a better life for their children (Drèze and Sen, 1995). It therefore makes sense to look beyond demand-side issues in explaining this puzzle.

The second argument, that the elite captures transfers intended for the poor because of its control of vote blocs, seems outdated given the large scale political mobilization and empowerment of poor and traditionally disadvantaged social groups (Yadav, 2000; Chandra, 1999). According to a large national survey of voting behavior conducted in 1996, 75 percent of the sample were not guided by anyone in their voting decision, and of the 25 percent who sought advice only 7 percent sought it from caste and community leaders (Oldenburg, 1999). Based on detailed interviews of village residents in a sample of north Indian villages, Krishna (2003) concludes that political parties can no longer rely heavily on big landlords and caste leaders to mobilize the votes.

Indeed, the most striking features of electoral competition in India since the late 1980s are massive swings in political support for a party between elections, high levels of party fractionalization, and a large anti-incumbency effect (Yadav, 1996, 1999). This pattern of electoral competition casts doubt on the power of elite-dominated organized vote blocs to “capture” public policies, and still begs the question of why no candidate or party is able to switch to a “winning” strategy of broad policies that win support from a larger vote base.⁷ We address this issue directly and argue that political parties have a limited ability to win stable support from a majority of voters because of the difficulties they confront in making credible pre-electoral promises.

The third argument, that narrow interest groups always prevail over unorganized voters, and generally prefer transfers (such as in the form of subsidies) to public good provision, is also insufficient. On the one hand, as is noted earlier, farm subsidies in India differ in striking ways from other countries with strong agricultural interest groups, such as the United States. On the other hand, agricultural subsidies in India do not, in any case, fit

⁷ Bardhan and Mookherjee (1999) show that with greater electoral uncertainty, when the equilibrium probability of a party winning an election is low, the likelihood of capture of public policies by organized interest groups is reduced.

the usual story of how special interests influence policy. The classic argument for the political influence of special interests is that the benefits of certain policy choices are concentrated in a small group, while the costs are dispersed over a larger group of voters and are therefore relatively small on a per-capita basis; thus, in equilibrium, the small group of beneficiaries is able to leverage policies without significant protest from the majority. Instead, Indian farmers constitute the plurality of citizens and would most likely be better off if agricultural subsidies were diverted to better public good provision.

The puzzle therefore remains – why do farmers not organize themselves to demand better public services, including better power supply and agricultural extension services, rather than input subsidies that are inefficient and unsustainable? We argue below that the answer lies in the credibility of political promises--they do not demand nor receive sufficient public goods because political competitors are unable to make credible offers of public goods and because information about the quality of public goods is difficult for farmers and other poor to collect and evaluate.

Credibility of political promises—setting the agenda of electoral competition

If political competitors cannot make credible promises to the electorate, then elections can serve only the purpose of removing from power an incumbent who has performed poorly. Elections do not offer an opportunity to choose between alternative policy platforms offered by different parties (Ferejohn, 1986; Persson and Tabellini, 2000). These scholars show that in a world where political promises are not credible, policy platforms of different agents are irrelevant, contenders cannot launch an effective campaign against the incumbent (because they cannot credibly promise an alternative) and political incumbents are able to extract high rents from office while providing minimal public resource allocations – or none at all if voter coordination is sufficiently imperfect. For example, if voters set too high a threshold for re-election, then agents have no incentive to seek re-election, capturing all public resources as private rents, and allocating nothing to the provision of public services. This stylized model from the literature provides a technical basis for understanding how credibility of political promises is critical in determining electoral incentives, and that incentives for good performance in office might be particularly dull even if voters participate massively in political processes.

It is rarely the case, however, that politicians are credible to no voters on any policy dimension. Individual politicians often are credible to narrow segments of the electorate with whom they have established a personal reputation grounded in a history of repeated interaction. Such politicians can rise to political power by delivering upon targeted promises to those segments that believe them. A widely observed phenomena in many developing countries that are nascent or unstable democracies is that political competition and political decision-making is characterized by an excessive tendency of political patrons providing private goods to their “clients”—this excess is termed “clientelism”.

Keefer (2002) shows that clientelism can be viewed as the natural outcome of political competition when the credibility of political competitors is limited. In these cases, political promises are credible only to “clients.” This has clear implications for public policy: the larger the number of clients, the greater the focus of government spending on items targeted to specific individuals (clients) and, ultimately, the less spent on public goods. Compared to a situation where no politicians are credible, clientelism generates less rent-

seeking or corruption – but only because instead of keeping resources for themselves, patrons are obligated to transfer the fruits of office to clients.

In an empirical application of his model, Keefer (2002) shows that as democracies age the impetus for clientelist policies first increases—as politicians are likely to increase their credibility first on a targeted basis by increasing their number of clients—and then declines as broader reputations finally develop. Consistent with this argument, he finds that corruption and public investment spending (which is more targetable to particular constituencies) are both higher in younger than in older, well established democracies.

An additional wrinkle is the uneven ability of voters to coordinate. In most countries, including India, only some voters are organized, and most of these in special or single-interest groups (in Persson and Tabellini 2000, all voters are organized into different groups). These voters can coordinate on a common performance threshold, giving them a correspondingly better ability to extract transfers from incumbent politicians. In contrast, less coordinated voters set the performance threshold either “too high”, such that incumbents prefer in any case to extract rents rather than to satisfy the threshold, or “too low”, allowing incumbents to extract rents without penalty. In either case, incumbents have little incentive to provide public goods to satisfy these voters. The only exception to this, among unorganized voters, are those voters who enjoy personalized, clientelist relationships with politicians – the only unorganized voters to whom politicians can make credible promises. Again, though, politicians reward clients with targeted transfers, not basic public services. All of this adds up to what we observe in India and many other countries: high payments to special interests, pervasive clientelism, and a low level of basic human services.

What changes when competing parties can make credible promises to all voters? First, voter coordination ceases to matter. As long as voters believe the promises of politicians, they have an incentive to vote for the party that offers the most independent of what the other voters do.⁸ Second, public goods and basic human services matter more. Politicians have an incentive to promise the government services that offer the most benefits to the largest number of voters. Third, and by extension, transfers to special interests and clients matter less, since the public goods foregone in making such transfers cost more votes than the transfers gain.

The inability of politicians to make credible promises also prevents them from influencing the distribution of rents inside special interest groups. A fruitful political strategy in the case of electricity, for example, might seem to be to liberalize electricity prices, making offsetting payments to poor farmers and freeing up resources to attract other voters. This offer is not credible, however, since poor farmers know that when wealthier farmers lose the electricity subsidy, they also lose interest in organizing poor farmers as a potent political force. The income support to poor farmers would therefore not be politically sustainable, since after the special interest dissolved, political pressure to support farmers would dissipate, as well. Only political parties who had built up a reputation of serving poor farmers would be able to make such a deal. As a consequence of the lack of political

⁸ Voter coordination matters when there are more than two political competitors, but for reasons unrelated to politician credibility. For example, if there are three parties, none commanding a majority of voters, where supporters of the two smaller parties prefer each other’s candidates to the largest party’s candidate, would benefit by coordinating on one of the two smaller party’s candidates to avoid the largest party’s candidate winning the plurality of votes and the election.

credibility, however, the organizing elites within any special interest group can extract most of the rents from the government transfers to the special interest.

India demonstrates that the development of political reputations for the provision of public goods is not an inevitable or rapid process. Chhibber (1995) argues that parties cannot be differentiated in the space of economic policies, but rather compete on the basis of promises to use state resources to deliver targeted benefits to their respective support bases, usually defined along social cleavages. To the extent that it has developed, party reputations seem therefore grounded in the provision of benefits to narrow groups.

Variations in political credibility and the agenda of electoral competition

The lack of political credibility is not inevitable outcome. We explore three circumstances that have made it difficult, especially in India, for political parties to build up a reputation for the provision of basic human services. Credibility of political promises to provide broad public goods seems to vary with the history of political competition, the extent of social fragmentation, and the degree of information available to voters about the quality of public services.

History of political competition

In the early years of electoral competition, if a political class emerges that is able to make credible promises about providing broad public goods, then that will shape the nature of political competition in the years following, leading to greater public resource allocation to public goods. There is therefore, likely to be a path dependency to public policies which is difficult to break because of credibility constraints in political markets. The striking contrast in human development outcomes between the southern state of Kerala and the northern state of Uttar Pradesh (UP), that has been explored extensively by Drèze and Sen (1995, 1996), can be interpreted in the light of divergent paths of political competition since the early years of elections.

In Kerala, in their competition with the Congress Party the communist parties were particularly active and invested substantially in mobilizing the poorest voters. By repeatedly interacting with these voters, these parties developed the ability to make credible promises to them (Chander, 1986; Nossiter, 1982). Mobilization involved extensive personal contact with voters, and therefore required committed party activists. Mobilization also entailed a party decision to rally voters around high quality public services. Had the communists not had activists, they would have been unable to mobilize voters; had they cared about issues other than basic human services, mobilization might simply have led to a triumphant political force founded on targeted transfers or jobs. Early political success in delivering high quality public health and education bolstered the credibility of political promises in this area and sustained electoral competition on the platform of social service provision. The political importance of clientelism and transfers to special interests dropped accordingly, to an extent unparalleled in any other state.

In UP, in contrast, the dominant Congress party did not confront vigorous competition from credible and well-organized parties, winning on average more than 70 percent of the seats in the state assembly in the early years of elections. No political force emerged that advocated basic human services and succeeded in making credible promises to voters. From the beginning, then, the political consequences of failures in the delivery of basic human services have been modest or non-existent.

Figures 1a and 1b show how spending tracks the political story in the two states. They depict spending on health and education and spending on state administration alone (on the overall organs of the state, interest payments, pensions, etc., that is, exclusive of spending on public services) as a proportion of total expenditures in the two states since 1960 to 1998. Kerala started out in the early decades of electoral competition investing more than three times the proportion of its public resources in social services compared to UP.⁹ Moreover, expenditures in Kerala were effective—the first two decades of elected state government saw dramatic improvements in human development indicators. Infant mortality declined about 43 percent, for instance, between 1956 and 1966 (Krishnan, 1991). This decline has largely been attributed to high female literacy (which was also expanding through state programs in education) but was clearly facilitated by access to public primary health care, and state-sponsored programs of infant and child immunization (Zachariah, 1992). Absenteeism and other indications of widespread shortfalls in service delivery in UP suggest that even those resources spent on education and health were largely another font of political patronage, in the form of targeted jobs for teachers and health workers (Drèze and Gazdar, 1996).

Pre-independence history helps to explain further the divergent evolution of political competition in the two states. Perhaps one reason the communist parties were able to effectively mobilize voters and establish credibility for broad political promises in Kerala is because of the political heritage of the state on the eve of Independence. A large part of the state, the area of Travancore, was a “Princely state”, not under direct British colonial administration, but for which the queen issued a proclamation in 1817 laying out a vision of state-led provision of basic education to advance the human development of its citizens (Ramachandran, 1996).

Iyer (2002) finds that districts that were formerly part of “Princely” (Indian-ruled) states have persistently exhibited greater availability of public goods than those that were under direct British colonial rule. Direct British rule may have suppressed incentives of Indians to develop broad political constituencies; British mandates regarding public service provision in “Princely states”, however, may have constrained Indian rulers from relying on clientelism, inadvertently leading them to build up reputations for service provision more broadly. In similar vein, Banerjee and Iyer (2002) find that districts where a higher proportion of land was under landlord control under the British, as opposed to where control was vested with the cultivators of land, have lower levels of public goods even today, despite the landlord class having been abolished in the early 1950s. This result is once again suggestive of different platforms of electoral competition across districts based on differential credibility of political promises—the landlord dominated areas might have been more likely to produce political leaders that used clientelist transfers as their currency in electoral competition.

⁹ Largely because of the growing debt burden in both states which increased the share of resources going towards interest payments (included under state administrative spending), they have converged to similar levels of spending, in proportional terms, in recent years. However, in per capita terms, spending on health and education in Kerala is double that in UP.

Social fragmentation

According to substantial anthropological and anecdotal evidence, disadvantaged groups in India are systematically excluded from using public goods within their own villages by social processes of discrimination. Micro-level case studies and survey evidence from India show that within-village inequality in education access and achievement is significant, with the privileged castes in the village enjoying near-universal adult literacy for several decades while literacy rates are still close to zero among disadvantaged castes in the same village (Drèze and Sen, 1996). The standard explanation for these differences is social animus: groups do not want to support public goods that are used by other groups of whom they disapprove. However, even if the animus were to disappear, the legacy of social fragmentation amongst the electorate makes it more difficult for political agents to make promises about public service provision to large segments of voters. Given such fragmentation, voters might only believe promises made by candidates belonging to their own ethnic or religious group; those promises are therefore necessarily narrow and targeted to members of the respective ethnic groups.

Betancourt and Gleason (2000) find that districts with a higher proportion of traditionally disadvantaged groups with respect to caste and religion – the scheduled castes and Muslims – have lower public inputs in health and education. Similarly, Banerjee and Somanathan (2001) find that districts with a higher share of scheduled tribes in their population receive significantly fewer “desirable” public goods. They also find some evidence that links the relationship between ethnic heterogeneity and public good delivery to underlying political incentives—districts that are ethnically fragmented are also likely to be politically fragmented, in that elections in these districts are characterized by a larger number of contestants and a smaller vote share for the winning party. Again, although inter-group animosities animus can explain these patterns, the lack of cross-group credibility best explains why parties are fragmented rather than united under a single partisan umbrella that promises low levels of largely targeted spending to the different groups: such promises are only credible to members of a group when they are made by members of that group.

To solve the problem of animus and social discrimination, India instituted political reservations for scheduled castes and tribes in the national and state legislative assemblies. Pande (2002) finds that mandated reservations in state legislatures resulted in increased public sector job quotas for scheduled castes in the public sector, but significantly lower resources allocated to education. The argument outlined here suggests that this is because narrow appeals to ethnic constituencies are the only credible promises that politicians can make in many ethnically fragmented societies, leading them to favor targeted rather than broad public goods. Mandated reservations may in fact worsen overall public service performance by strengthening clientelist relations and reducing incentives of political competitors to invest in broad policy reputations across the electorate.

Information problems

History and social fragmentation provide some clue as to why it is more difficult to make credible pre-electoral political promises in India. Information problems exacerbate the credibility problem, particularly with regard to the provision of basic human services. The essential puzzle that information helps to solve is the following: why do farmers organize for subsidies when they could, in principle, organize for better schools or health care that would provide them greater benefits at lower cost? One possible reason already discussed is

that wealthier farmers, to the extent that they exercise substantial control over farm groups, can more easily extract the lion's share of subsidies than they can the lion's share of health or education benefits. Another reason, the focus here, is that voters (farmers) can more easily assess whether politicians have fulfilled their promises regarding financial transfers than they can verify promises regarding service provision.

In the case of a subsidy, voters can instantly match the subsidy that they receive to the subsidy that was promised them, and can easily assess blame if it is too low. The production process for turning monetary inputs into monetary transfers is straightforward. In the case of education or health, the production process is more complex. Financial resources are turned into education inputs, which in turn map into student learning or patient health – but in a way that varies with student and patient characteristics, and with the characteristics of the provider (teacher or doctor). These services are transactions-intensive and depend critically on the day-to-day behavior of public providers. Voters therefore cannot easily attribute outcome failures to politicians renegeing on their promises.

Even if they knew the budget envelope for the provision of these services, voters would still need to know how much quantity and quality of service they could reasonably expect from the resources available. Confronting bad service outcomes, they would not know whether these were due to particularly difficult circumstances of their case, to a lack of funds, or to shirking by the provider. They could better distinguish among these alternatives if they knew about the quality and quantity of service provision across all provider units, information that is seldom available even in wealthy countries. However, to know if politician failure were responsible for bad outcomes, they would need still other, perhaps international or inter-regional, benchmarks.

Service delivery promises are therefore altogether less verifiable than promises of subsidies. Alternate programs of targeted transfers that provide private benefits such as subsidized food and jobs in the public sector are easier to evaluate on each of these information dimensions. Information problems may thus lead voters to give greater credit to politicians for initiating public works projects (including school construction), providing direct subsidies for essential commodities, and increasing employment in the public sector (including hiring teachers and doctors), than for allocating resources and effort towards improving actual quality of education and health services, such as ensuring teacher and doctor attendance or that school and clinic buildings are properly equipped.

Electricity tariffs provide a clear example of the tradeoffs that voters and politicians make in non-credible environments, even within a single sector. Farmers in India receive cheap, but terribly unreliable electricity. The effect of politicians on the price of electricity is clearly observable. It is more difficult for farmers to observe the contribution politicians make to the reliability of power supplies, however. Hence, the political pressure in a non-credible environment is towards cheap and unreliable electricity.

There is increasing evidence that when voters are informed about particular policies they are able to extract greater resources and better performance from political agents. Strömberg (2001) finds that between 1933 and 1935 in the US, federal assistance to low-income households was greater in those counties where more households had radios and were thus more likely to be informed about government policies and programs. The spread of the radio particularly improved information access for rural voters, who were previously disadvantaged relative to urban voters (since the latter already had access to alternative

sources of information such as newspapers, while radio waves made it easier to deliver information to remote areas). Besley and Burgess (2003) find that state governments in India are more responsive to declines in food production and crop flood damage via public food distribution and calamity relief expenditure when newspaper circulation, particularly in local languages, is greater.

While telling, this evidence does not inform the broader question of whether policy is more socially beneficial when voters are more informed. In particular, it is not clear that informed voters are more “deserving” of transfers, nor can one draw the conclusion from this evidence that more informed voters heighten government incentives to provide public goods. It could, for example, be the case that the mass media better enabled politicians to take credit for targeted payoffs to particular constituencies, leading them to reduce expenditures on public goods or on broad-based social programs.

Policy solutions and further research?

The notion of political credibility and its implications for public policies has only just begun to be explored. Rigorous analyses, particularly empirical, of how political credibility emerges have not yet emerged and constitute a fruitful target for further research. These analyses will lead in turn to a more complete menu of potential solutions to the serious failures of political markets that occur when political competitors are not credible. What is clear already, however, is that where poor voters are already active in political processes, a key goal must be to bolster the credibility of political candidates to provide broad social services, with a corresponding reduction in existing political pressures to pursue clientelist policies. Here we offer some preliminary ideas along these lines.

Of the credibility obstacles discussed in the foregoing, the most tractable to address are those related to information. One issue, for example, is the inability of politicians to take credit for improvements in the quality of service provision. Here, though, non-governmental entities can help. Independent agencies with no direct political ambitions—civic society organizations, NGOs, international aid agencies—might assist voters in verifying political promises about public service provision, and thereby mobilize both voters and politicians around electoral platforms that focus on effective provision of basic services. There are examples of particular experiences from around the globe of how “information campaigns” regarding public services have succeeded. However, we have no rigorous evidence for what kinds of information dissemination strategies significantly and systematically alter the nature of political competition. Further research would be valuable on the nature of information availability and processing by poor voters, and how information provision mechanisms can be institutionalized to enable these voters to provide stronger incentives for politicians to improve performance of public services.

We can however speculate on some features of the type of information and dissemination strategy that would make a difference in terms of improving political incentives. First, the information should provide individual voters with a sense of how their specific representatives in government hurt or helped them. This means that the information on public service provision should be disaggregated to levels that are meaningful for individual voters. Report cards, surveys and other information on voter satisfaction could therefore be most usefully reported by relevant political jurisdiction, for example. Second, it needs to provide information about financial inputs, disaggregated in precisely the same way. Third, the process of collecting such information might, in and of itself, trigger

improvement if the organizations collecting the information could credibly threaten to mobilize voters around public service issues. Politicians in all countries respect interests that can bring voters to the polls. To the extent that the process of information collection by organizations lowers their costs of mobilizing voters, and they express an interest in mobilizing voters, service improvements are likely to follow. In many cases, however, service information is collected in a one-off manner by local survey firms or even by foreign entities that have little or no ability or intention to affect voter mobilization.

At the end of the day, then, information campaigns must not only tell citizens that services are bad, how bad, and which services are worse than others. To spur political action, information campaigns must tell them how bad the services are in their neighborhood relative to others, and who or what processes are responsible for this, and give voters a chance to credibly threaten politicians with removal when they fail to improve services.

NGOs with established credibility could serve this role. They could regularly generate and disseminate specific information about service delivery, with the specific purpose of verifying political promises and mobilizing voters in the area of public service provision. If, in addition, these NGOs established relationships with large numbers of voters (through surveys or through grassroots advocacy work), they would present a latent political challenge to incumbents without in fact having any political ambitions, other than mobilizing voters and holding political agents accountable around particular policy issues. Their power would be derived from their credibility on public service issues, their ability to assess the performance of political agents, and then disseminate this information widely amongst voters. Such NGOs could have a large impact on the quality of government spending and hence the availability of basic services for the poor.¹⁰

Development of mass media in specific ways could also be useful. The importance of journalist training is often touted. The arguments here suggest particular emphases in such training, including improving their ability to ask the right questions (how to report on whether government policy succeeds or fails, including how to identify the right benchmarks). A second step to improve media is to reduce barriers to entry that allow existing media to be easily captured by special interests or government. A third step is precisely to reduce media dependence on government and large private interests dependent on government largesse.

The foregoing steps point at improving the information that voters receive. Just as important, though, is to identify new ideas in service delivery that give politicians greater ability to take credit for service delivery improvements. What simple policy interventions in the provision of basic social services could politicians could use over the short term to deliver high quality outcomes, and more importantly, demonstrate that these outcomes were the result of specific initiatives undertaken by them? Rigorous impact evaluation of innovative policy experiments both provides knowledge of what works and allows the

¹⁰ There is another NGO model – the activist/service provider model. In Bangladesh, this has proven a difficult combination. The largest (and they are very large) NGOs are service providers (Grameen, Proshika). Their activities as service providers give them a tremendous headstart with respect to voter mobilization. However, they have a vested interest in the modalities of service provision as well as its quality, yielding, at least in theory, a conflict of interest.

attribution of improved outcomes to particular policies for which politicians can take credit. This increases the political credibility and thence the nature of electoral competition.

If innovative projects are developed that experiment with verifiable policy interventions (through expressed pilot projects) with the potential of providing immediate gains that are rigorously evaluated, the results of these efforts then used by incumbent governments to scale-up successful interventions, and subsequently publicize outcomes with full credit given to particular (verifiable) policies adopted by the incumbent government, then political credibility may be developed for particular policies as challengers to the incumbent government are forced to contend with this demonstrated success. Again, local civic society organizations, research organizations, and NGOs, with potential financial assistance and partnering with international aid agencies, might be poised to undertake such experiments and subsequent information dissemination to enhance political credibility.

Institutional reform is another possible strategy for ameliorating credibility problems. One such reform is decentralization of the responsibilities for the provision of local public goods. Decentralization works when it mitigates the political market failures that undermine centralized government decision making. It works, that is, when poor provision of local public goods is more salient in local than in national elections; when voters know more about the production process and budget constraints of local provision of public goods; and when political promises regarding local public goods by local politicians are more credible than those of regional or national politicians.

Even partial decentralization could help. If education service delivery responsibility is completely centralized, remote, central government politicians cannot credibly promise to monitor providers; this may lead to empty school buildings and absent teachers, where school construction is useful for political kick-backs and teacher posts for extending political patronage. But if decentralized user monitoring of providers is institutionalized, leaving funding at the central level, then voters need only verify whether political agents have made resources available for schools and clinics in order to decide whether to reward or punish them at election times.

Still, in theory, decentralization may not improve matters. Information about local public goods may be easier to come by and coordinate upon in local elections, and political agents may have greater credibility because of proximity to the community and reputation developed through social interaction over an extended period of time. However, local voters may be apathetic to local elections and have little or no information about the resource availability and capability of local governments, if resources are concentrated in higher tiers of government; social polarization may be more intense at more local levels due to age-old differences across settled communities, and perhaps weaker at the national level owing to national campaigns of nation-building; and clientelist promises to a few voters may be easier to make and fulfill due to closer social relations between the elected representatives and their clients (see Keefer, Narayan and Vishwanath, 2003, for a more extensive discussion of these issues).

Decentralization of primary health and education, or water and sanitation, to locally-elected governments or community-based organizations is prominent on the reform agenda not just in India but in many developing countries around the world, ranging from Bolivia and Indonesia to Nigeria and South Africa. It is early to draw firm conclusions about the impact of these reforms, although existing evidence suggests that the experience has been

divergent. In Bolivia, the creation of rural local governments has been associated with dramatic shifts in public allocation away from infrastructure and into the social sectors, and particularly so where pre-decentralization allocations were most skewed away from the social sector (Faguet, 2001). In Nigeria, on the other hand, local governments are accused of appropriating federal grants for private purposes, with no money left over even for the salaries of primary teachers and health workers (Khemani, 2003). The early stage of most reforms means that there is a tremendous opportunity to rigorously evaluate the impact of different institutional designs on actual outcomes, in terms of quality of public goods, and on the process of political competition, so that lessons can be applied to different institutional contexts around the world.

Conclusion

Interest groups are powerful forces in every country, and it is no surprise that farmers in India, for example, are able to exert significant influence on policy. A focus on interest groups, however, does not tell us why their effects are more dramatic in some countries than others. If the argument we make here is correct, the credibility of political competitors provides such an explanation. Even more, we argue that the lack of credibility of political competitors is the most imposing obstacle to the reform of social service delivery, or indeed, to the reform of any state policy failure.

This is a difficult message, since whether in business or in politics or in any other sphere of human interaction, personal experience and rigorous research yield a single message: credibility is challenging to build and easy to destroy. Though significant gaps in our understanding of credibility remain, which point the way to important new areas of research, the evidence is at least sufficient to argue that reform strategies and advocacy should make issues of credibility a priority. Moreover, although building credibility is difficult, a number of feasible interventions exist that can buttress the credibility of political promises regarding basic human services while moderating reliance on destructive, clientelist promises as the basis of political competition.

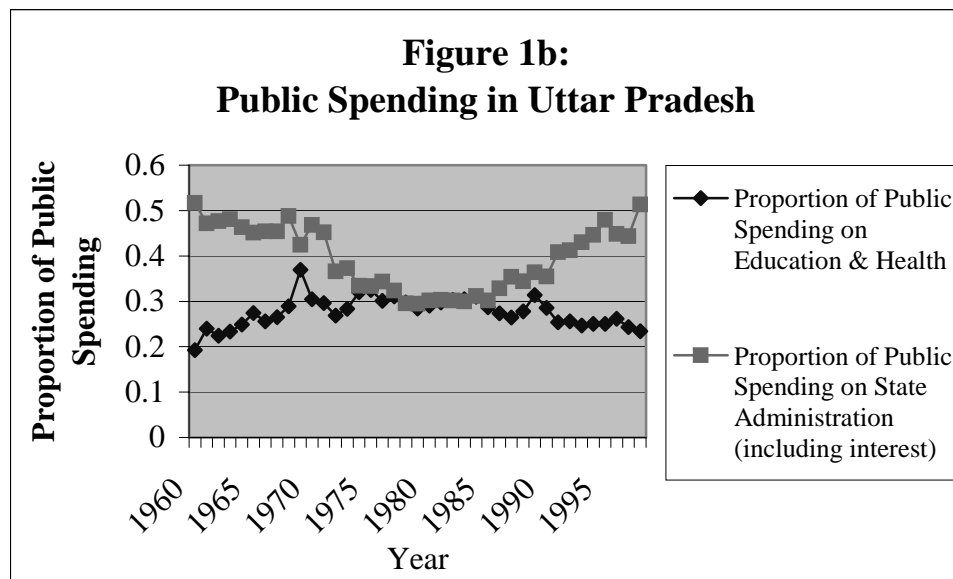
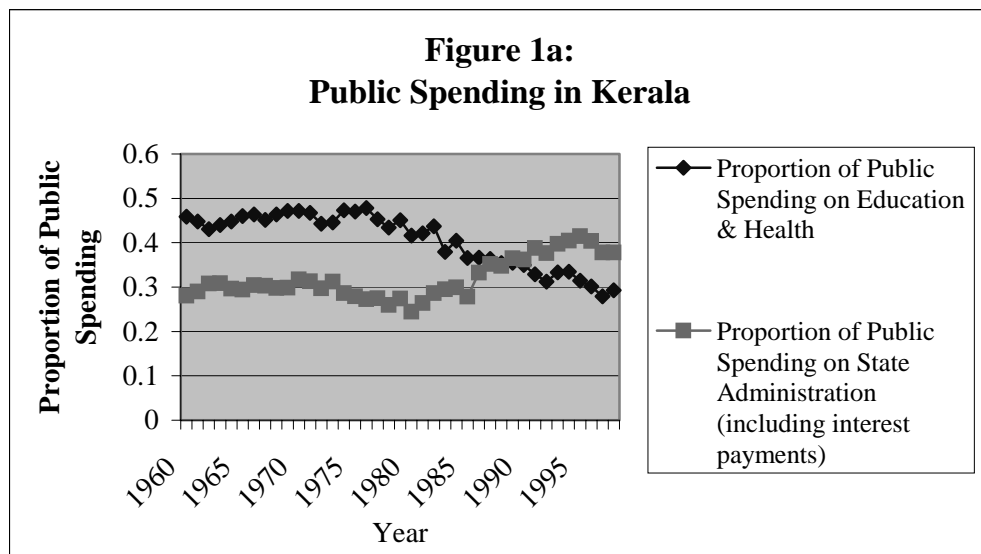
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Source: Reserve Bank of India Bulletin, various issues. Public spending data refers to spending on the current account, the largest category of state government expenditures which includes the bulk of spending on social services.