

# Accountability of Local and State Governments in India: An Overview of Recent Research <sup>1</sup>

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# 1 Introduction

Economists in the mainstream neoclassical tradition are accustomed to analyzing strengths and weaknesses of market economies, in what is commonly referred to as the study of ‘market efficiency’ and ‘market failure’. Only recently have they begun to study the phenomenon of ‘government failure’, where the behavior and outcome of real-world political and bureaucratic processes are analysed and compared against normative benchmarks. This has enlarged the scope of economic analysis to include institutions of governance and their role in the development process.

A decade ago I published a collection of essays titled ‘The Crisis in Government Accountability: Essays on Governance Reforms and India’s Economic Performance’. The book argued that in the 21st century India needed a wave of governance reforms to complement and sustain the momentum attained by the economy following the wave of market reforms of the 1990s. It described many sectors of the Indian economy where weak governance was proving to be a critical problem. A number of chapters dealt with administrative, bureaucratic and legal problems in the context of tax administration, legal institutions and regulations of the financial sector. The rest of the book dealt with the delivery of public services, in particular the promise and pitfalls of devolution of authority to the new *panchayati raj* institutions of local government.

In the decade that has elapsed since then, there has been a substantial growth in literature on political economy and accountability of local government, both in India and other countries. These include conceptual advances, systematic empirical work as well as detailed policy evaluations. The purpose of this lecture is to provide an overview of the literature evaluating the performance of Indian state and local governments with regard to anti-poverty programs, rural development and public service delivery.

It is appropriate at the outset to define the scope of this review. I shall start by outlining the analytical framework of political economy commonly used in the literature. The benefit of having such a framework is that it helps understand causal mechanisms and as-

sumptions underlying different hypotheses or views concerning governance, and test their empirical validity. One can understand their normative implications and discuss scope for policies to alter the outcomes. Moreover, the framework helps provide a useful classification of key components of government accountability and understand the relation between them. Broadly speaking, these components are the following: voter characteristics (such as political awareness, participation and loyalties which affect the nature and extent of political competition), politician or party characteristics (ideology, honesty and competence, and effects of political reservations), special interest groups (and related issues of campaign finance and elite capture), and political clientelism (e.g., vote-buying). For each of these, I will describe empirical studies in the Indian setting and the impacts of related policy interventions. I will end by speculating what these suggest for understanding current directions of changes in governance in various Indian states.

Many important aspects of governance will not be included, such as central government institutions, government bureaucracies, community or NGO-driven-development.<sup>3</sup> I will omit technical details relating to theory and empirical methods, and focus instead on their broader significance. With regard to empirical studies, I will restrict attention to contributions based on statistical and econometric analysis of micro-level datasets based on household or village surveys large enough to be representative of substantial parts of the country. The advantage of this approach is that it helps overcome problems of lack of representativeness of case studies. The studies rely as far as possible on responses to factual questions rather than perception-based questions or opinion polls. Many of them are designed to test specific causal hypotheses suggested by the theory. The empirical methodology incorporates concerns with inferring causality and unobserved heterogeneity that can cloud identification of cause and effect. I shall also focus on studies that help illuminate underlying political economy mechanisms; pure policy evaluation exercises are thus avoided.

The restriction to studies based on micro-econometric analyses means that many rich descriptive, institutional or case studies will not be covered. This is by no means a comment

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<sup>3</sup>Interested readers may refer to Mansuri and Rao (2012) for a wider review of the literature which includes community-based development as well as other developing countries besides India.

on the relative value of different methodologies in the social sciences. Qualitative or historical analyses add both breadth and richness to more narrowly focused, precise and more quantitative approaches. Specialization on the latter by economists is a natural consequence of their training, tradition and comparative advantage. For a fuller and more well-rounded view, it is necessary to for these studies to be complemented by insights from alternative approaches.

For instance, economists tend by and large to evaluate political and economic systems in terms of their measurable *outcomes* — resource allocations, targeting, benefits and costs, vote shares and the like — and much less with the actual processes at work. Other social sciences lay more emphasis on procedural matters, such as the extent to which democracies are inclusive, encourage participation and voice of diverse groups, and provide opportunities for citizens to engage in public debates that inform policy-making. This alternative view of democracy underlies goals of ‘gender empowerment’ (e.g., critiques of traditional forms of forest governance in India such as Agarwal (2001)) or ‘empowered participatory governance’ (Fung and Wright (2003)), and Amartya Sen’s celebration of *The Argumentative Indian* (Sen (2005)). These are less tangible than the kinds of outcomes that economists usually focus on. Yet they can be viewed as an essential element of fairness, hence ought to be valued for their own sake. They may also have broader, longer run social consequences. Policies will tend to be better-informed and responsive to citizen needs in a more inclusive, participative system. Social cohesion, trust and cooperation could be greater. There have been some recent attempts to evaluate *panchayati raj* institutions such as *gram sabhas* from this point of view as well using quantitative survey-based methods; I shall also devote some space to discussing these.

The lecture is organized as follows. The next section will start by discussing the notion of accountability, followed by an introduction to the Downsian theory of electoral competition. This serves as a convenient departure point for classifying different sources of accountability failures in actual political systems. Subsequent sections deal with each of these in turn: limited voter participation and awareness; ideology, honesty and competence of political parties and electoral candidates; capture by elites; clientelism and vote-buying. Each section

starts by explaining the relevant departure from the Downsian framework, and then reviews available empirical evidence in the Indian context for each of these possible ‘distortions’, besides effects of related policy interventions. The final section summarizes the lessons learnt, and the fresh questions that they raise.

## **2 Outlines of an Analytical Framework**

### **2.1 The Notion of Accountability**

The notion of accountability essentially represents the extent to which the policies of the government are responsive to the needs of citizens. If all citizens are homogenous with regard to their needs and preferences, this is relatively straightforward to define: to what extent do policies succeed in respecting these common preferences? For instance, consider a situation where there is unanimous demand among all citizens that residents of a certain region be provided relief following a natural disaster, they are willing to bear the financial burden of the relief, and it is logistically and administratively feasible for the government to provide such relief. An inability of the government to provide relief on the scale desired by citizens then represents a failure of accountability.

The notion is more problematic when preferences of the public are heterogeneous, with different groups desiring different policies in a given situation. Here government policy needs to trade off competing claims and views. A minimal criterion of accountability is that the government makes decisions impartially, based on the merits of the needs or arguments on different sides. It should not exhibit deliberate biases in favor of certain groups (classes, castes, gender) on the basis of their identity alone. Specific notions of justice such as utilitarianism define normative ideals more sharply: under this notion a government that is accountable ought to weigh the interests of different population groups in proportion to their demographic strengths. Conversely, a government that is not accountable is less responsive to the needs of a large fraction of its population, for the sake of advancing the

interests of a few. The favored ‘few’ in question may be an elite group in what could be viewed as a form of elite capture. Or those in government themselves may be defined as a distinct group. In that case those in government takes advantage of the rest of society to advance their own interests, which corresponds to a broad notion of corruption.

## **2.2 The Departure Point: the Downsian Model**

Formal models of electoral competition have been developed over the past half century, following the lead of Downs (1957), with many subsequent variations and extensions (an excellent summary of which is provided in Roemer (2001)). Models of the Downsian variety focus on how political outcomes are affected eventually by preferences and characteristics of voters, through a process of competition where electoral candidates are induced to pursue policies favored by the ‘median’ voter. The policy space is defined by a single dimension, with voters represented by heterogeneous preferences along a ‘right-left’ dimension. Restrictions are imposed on the nature of these preferences: they are ‘single-peaked’ with the peak located at an ideal point, with the voter preferring policies according to their proximity to this ideal point. There are two political candidates whose sole objective is to maximize the chances of winning (i.e., their respective vote-shares); they have no intrinsic preferences over policies. Candidates are assumed to commit to a policy platform in advance of elections, with voters voting for the candidate proposing a policy closest to their ideal point. The outcome of this process of competition is that both candidates converge on the same policy platform, the one located at the ideal point of the median voter (i.e., whose ideal point forms the median of the ideal points of the population of voters).

The main message of the Downsian theory is that competitive politics has an inherent tendency for disparate candidates to pursue centrist platforms, as a result of competition for the ‘middle’. The broader implications are that policy outcomes are explained ultimately by the preferences of the ‘average’ voter. This represents a sense in which electoral competition induces accountability of governments, and articulates the precise conditions under which this happens. The normative result is approximate, as the median voter outcome reflects

accountability to ‘popular opinion’, a form of populism which may deviate from optimal policy from a utilitarian point of view, the usual standard used by economists for normative evaluation. The populist bias of the Downsian outcome is represented by the disparity between the median income and per capita income in the population, which in turn depends on the skewness of income distribution. With a heavily skewed distribution reflecting a thick bottom tail and a long upper tail, the ideal point of the median voter lies further to the left of the mean voter ideal point. In such societies, the populist bias of governments induces selection of taxes and regulations that are higher than the levels that would correspond to maximizing per capita income or its growth rate.<sup>4</sup>

The Downsian theory has been the subject of intense scrutiny and criticism, concerning the realism and restrictiveness of its assumptions. Formal voting theorists have been concerned about the restrictiveness of the assumptions concerning the nature of the policy space (i.e., a single left-right dimension), the structure of voter preferences (the single-peaked assumption), and the assumption of there being only two competing candidates. The theory does not seem robust to departures from these assumptions, with the theory failing to provide any definite predictions when any of them were relaxed, exemplifying Arrow’s famous theorem in social choice. However, as we describe below, extensions of the voting model to incorporate probabilistic voting by Lindbeck and Weibull (1987, 1993) enabled some of these objections to be overcome, such as the restriction to a one-dimensional policy space, or the shape of voter preferences over policies. However, the dependence of the theory on the two-candidate setting largely remains, with three or more candidates or coalitional governments largely ignored by the theory.

Scholars of real world political institutions have been critical of other features of the Downsian model, the way it ignores issues concerning voter participation or awareness, the importance of political parties, political ideology, political commitment or its lack thereof, special interest groups and campaign finance. In the context of underdeveloped countries other aspects of political institutions are also relevant, such as corruption, vote-buying

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<sup>4</sup>This distinction and its implications for spending on public goods and rates of economic growth are elaborated in Persson and Tabellini (2002, Chapter 3) and Alesina and Rodrik (1994).

and clientelism, and the extent to which elections are marred by violence and unequal participation across the population. Nevertheless, various extensions of the Downsian model to incorporate these phenomena have also been developed in recent years, which we shall describe further below.

In many ways, the Downsian model can be viewed as a convenient point of departure, just as the Arrow-Debreu model provides a useful way of classifying different forms of market failure by generating different kinds of models to capture real world phenomena of externalities, increasing returns, missing markets or incomplete information and understand their normative consequences. Departures from the pristine assumptions of the Downsian model in different directions allow us to classify various sources of governance failure, understand how they operate and what their normative consequences are. The probabilistic voting approach (with suitable distributional assumptions explained further below) generates predictions for policy outcomes generated by each variant of the Downsian model that generates a simple measure of the resulting extent of government accountability. This is useful both conceptually and empirically — to understand the qualitative implications of various political ‘distortions’ that result in a lack of accountability, as well as provide a method of estimating them quantitatively from empirical data.

### **3 Voter: Political Participation and Awareness**

#### **3.1 Probabilistic Voting Theory**

Lindbeck and Weibull (1987, 1993) pioneered a major extension of the Downsian theory, by postulating that voters evaluate competing candidates on the basis of many other elements apart from their policy platforms the latter espouse. Voters may be influenced by the personal characteristics such as charisma and image of the candidates, a highly subjective dimension regarding which there can be substantial dispersion even within narrow citizen groups defined by caste, religion, class or location. Voters may have a strong sense of loy-

alty to the party or family from which the candidate hails, a phenomenon underlying the durability of political dynasties in many developing countries. Loyalties may also be shaped by historical events, such as evaluations of past policy performance. In traditional societies ethnicity can play an important role, in what is sometimes referred to as ‘identity’ politics. Even with regard to the evaluation of espoused policy platforms, substantial expertise and resources are needed to infer the likely consequences of any given policy. Voters with exactly the same interests may well differ in their access to information and end up with different opinions of how a given policy will affect their own well-being. Better informed voters are likely to be more politically aware and less susceptible to being influenced by the rhetoric of political campaigns.

The upshot of all this is that voting behavior of citizens in any social group cannot be predicted solely on the basis of actual impacts of policy platforms on the welfare of that group. A multitude of other influences on voting also operate, many of which are independent of the policy platforms, and are highly idiosyncratic. This is the sense in which voting is ‘probabilistic’. Predicting the voting behavior of any single voter is much harder than predicting vote shares of specific citizen groups, as a result of the aggregation of these numerous idiosyncratic influences. Vote shares are influenced but not entirely determined by differences in policy platforms across candidates.

Lindbeck and Weibull showed that the addition of these additional probabilistic determinants of voting behavior actually ends up allowing the Downsian theory to be generalized and extended in a number of directions. These insights have been further sharpened by subsequent contributions by Dixit and Londregan (1995) and Grossman and Helpman (1996). Policy spaces can be multidimensional; voter preferences need not be single-peaked or have any prespecified structure. Continuing with the assumption of two competing candidates that do not have any intrinsic policy preferences and want simply to win office for its own sake, the insights of the original Downsian model continue to apply. Candidates converge on a single policy platform which assigns weight to different citizen groups in proportion to their ‘policy awareness’, or relative sensitivity in voting behavior to policy differences, apart from their respective demographic shares. Their policy choices don’t just respond to

the needs of a single median voter, but all voters who happen to be ‘aware’. Voter groups that are more ‘aware’ tend to be accorded greater weight by policy-makers owing to the dictates of the political arithmetic of elections. While deciding on their policy platforms, candidates strategically give more weight to ‘swing voters’, i.e., those who are more likely to switch their votes in response to policy changes. Political awareness is thus a significant determinant of political power. Conversely, citizen groups whose voting patterns are determined more by historical or ethnic loyalties, campaign rhetoric or other non-issue-based considerations will end up getting less weight in the considerations of politicians.

An interesting implication of the theory is that the outcome of the election will be determined by these non-issue-based considerations, since competing candidates end up selecting the same policies. If a majority of voters happen to favor one candidate over another on the basis of ethnic or dynastic considerations, that candidate is more likely to win the election. The underdog may seek to neutralize its handicap by choosing policies that favor the interests of large voter groups that are more aware and thus more amenable to swing. But the favored candidate can effectively neutralize the effect of this by replicating the policy chosen by the underdog. With nothing to choose between the candidates on the basis of their policy platforms, actual votes will be driven entirely by non-policy-based issues.

This perspective throws light on one way in which poorer societies could be more prone to governance failures, despite a system of free and fair elections with high levels of turnout. Voter awareness of citizens are likely to be positively related to their education. Societies with greater poverty will involve voters that are less aware on average. Under the pressure of electoral competition, the asymmetry of awareness across classes will induce politicians to pay less attention to the needs of poorer voters, resulting in greater anti-poor bias.

Moreover, Bardhan and Mookherjee (2000) point out the harmful role of income and educational inequality on governance, if the effects of increasing income or education on awareness is subject to diminishing returns. For instance, suppose that the poor are substantially less aware than the rest of the population, while awareness of middle class and

the rich are similar. A society with a large middle class and small weight in the tails of the income distribution will have a higher average level of voter awareness than another society with the same per capita income but one which is more polarized between the poor and the rich, with a thin middle class. This phenomenon would be further accentuated in the presence of elite capture, as discussed further below.

The probabilistic voting theory can be further extended to incorporate differences in voter turnout. If a particular group is less inclined to turn out to vote, vote shares of competing candidates will end up being less sensitive to welfare consequences of policies for that group. It will then end up being more marginalized politically. More generally, political power of voter groups depend on both turnout rates and awareness — the rate at which they turn out to vote, and how their votes respond to policy differences. If voter turnout among the poor is greater than among the rich, this will then redress partially the inequality-aggravating effects of differences in political awareness with socio-economic status.

### **3.2 Evidence concerning Political Participation and Awareness**

The connection between political participation or awareness and socio-economic characteristics has been studied using household surveys in the context of a number of countries, such as the United States (Verba and Nie (1972), Delli Carpini and Keeter (1996), Rosenstone and Hansen (1993), Przeworski (2006)) and Latin America (Gaviria, Panizza and Seddon (2002)). Przeworski (2006) provides an overview of many studies of electoral turnout across a wide cross-section of countries. In general, political participation tends to increase with measures of socio-economic status, providing one mechanism by which the political mechanism contributes to growing inequality. However the extent of asymmetry in political participation and awareness varies substantially across countries. In the United States, political participation varies sharply with socio-economic status, with large and significant variations across race and income categories in voting turnout, participation in campaigns, and political awareness. In most other countries both developed and developing for which

data is available, patterns of political participation vary relatively little with socio-economic characteristics.<sup>5</sup>

In the Indian context variation in political participation and awareness in local government politics across socio-economic status has been studied using household surveys in the context of two districts of Karnataka by Crook and Manor (1998), three districts in Madhya Pradesh and Rajasthan by Krishna (2006), and fifteen rural districts of West Bengal by Bardhan et al. (2011). Reported registration and turnouts in local government elections are above 90% across different socio-economic classes. Landless groups exhibit lower rates (by about ten percentage points), but this turns out (in the West Bengal context) to be explained by the greater incidence of non-agricultural occupations and immigrants amongst the landless, and by lower levels of education, rather than differences in landownership *per se*. In West Bengal, the same factors consistently mattered in explaining differences in attendance or active participation in political rallies and campaigns, as well as awareness of government benefit programs or sources of information. Those with less education, engaged in non-agricultural occupations and immigrants tended to be less active and aware in West Bengal. Controlling for these attributes, those owning less land or belonging to scheduled castes (SC) or tribes (STs) were generally no less active and aware.<sup>6</sup> In general, variations in political participation and awareness resemble patterns in Europe and Latin America, rather than the marked asymmetries seen in the US. The importance of education also resembles the patterns seen in other countries. In particular, differences in awareness and participation across class or caste boundaries arise only to the extent that their education differs, suggesting that widening educational achievement to poorer groups will enhance

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<sup>5</sup>Przeworski (2006) reports from various studies that electoral turnout varies between 3 and 9 percentage points between top and bottom education quartiles across a large number of European countries, except Switzerland where the difference was 23%. Gaviria et al (2002) find the corresponding difference to be between 10-15%, which varies with education levels but not with socio-economic status after controlling for educational differences. In the United States this difference is nearly 40%, and socio-economic status plays a significant role in explaining this.

<sup>6</sup>One exception is in regard to election turnout, with STs tending to turn out significantly less than the rest of the population. On the other hand, SC and ST groups more actively engaged in local political meetings.

accountability.

### 3.3 Evidence concerning Determinants of Voter Awareness

A number of empirical studies have highlighted other determinants of voter awareness: the role of the media, transparency mandates such as the Right to Information Act or distribution of politician report cards to voters.

Evidence concerning the role of the media has been provided by Besley and Burgess (2002) who studied the responsiveness of state governments in India to natural calamities such as floods and droughts. Using a panel data for sixteen major Indian states covering the period 1958-1992, they found that public food distribution increased more in response to drops in foodgrain production in states with greater newspaper circulation. Whereas a 10% drop in foodgrain production per capita was associated with a 1% increase in public food distribution per capita for the average state, this increased to 2.3% for a state at the 75th percentile of newspaper circulation. A similar result was found for flood relief expenditures in response to flood damage. The role of competitive politics in generating these results is indicated by the fact that government relief expenditures were more sensitive to adverse shocks in states with higher election turnout rates and with more contested elections.

Cole, Healy and Werker (2012) provide evidence that Indian voters evaluate the responsiveness of elected representatives to rainfall variations which cause significant fluctuations in agricultural yields. Using a large data set from over twenty thousand elections in 28 Indian states spanning 1977-99, they show that voters reward incumbents with higher votes if they responded by raising disaster relief operations following rainfall shortfalls, especially prior to elections. However voters over-punish incumbents for below-average rainfalls even if their disaster relief responses were significant, indicating a form of over-reaction to natural calamities. They also point out that the greater attention given by voters to relief efforts immediately preceding elections generates incentives for incumbents to respond more to rainfall shortfalls that occur right before elections.

The effects of greater availability of information to citizens concerning the results of central government audits of their locally elected representatives have been highlighted by a number of recent papers. An influential study in the context of Brazil by Ferraz and Finan (2008) concerned the effects of release of results of central government audits of local government mayors. Release of audits (in municipalities chosen randomly) showing more than two corruption violations six months prior to local elections significantly lowered reelection chances of incumbent mayors by seven percentage points (comprising 17% of the mean reelection fraction) compared with mayors audited after the elections. These effects were magnified in areas with greater radio coverage.

Banerjee et al (2010) recently experimented with distribution of citizen report cards to Delhi slum residents prior to the 2008 state legislature elections. The report cards evaluated legislator performance (resources raised, meetings attended, and public service delivery) and characteristics (education, assets, criminal records if any). These were published in local newspapers which were delivered free (with supplementary area meetings to explain the content of these report cards) to 200 randomly chosen treatment slum areas, with 575 control slum areas. Report cards were associated with a 3.5% increase in voter turnout, and no effect on vote shares of incumbents with median performance. But they raised the vote shares of the top performing and second-best incumbents by 7 and 6.2 percentage points respectively.

These studies therefore indicate that voter information does matter for election outcomes, and in turn these can affect the responsiveness of government policies to citizen needs. They imply scope for policies that increase transparency by generating more information to voters about the performance and characteristics of their elected representatives – e.g., external audits whose results are released prior to elections, release and open discussion of local government budgets in village meetings, and oversight by citizen councils with veto rights (as in Bolivian local governments (Faguet 2006)).

### 3.4 Gram Sabhas: Forum for Deliberative Local Democracy?

A number of authors have studied the extent to which *gram sabhas* — bi-annual village assemblies mandated by the *panchayati raj* amendments to the Indian Constitution — have performed their intended role as a public forum for residents to air their grievances and question elected *panchayat* leaders concerning decisions taken by village *panchayats*. As mentioned in the Introduction, the extent to which local democracy allow scope for deliberative discussions among diverse citizen groups is desirable *per se*, besides enhancing transparency, and contributing to wider objectives of inducing greater fairness, social cohesion and trust.

Bardhan *et al* (2011) and Besley, Pande and Rao (2005) ask households surveyed in West Bengal and four states in South India respectively concerning the extent and nature of their participation in *gram sabhas*. Both find that villages holding *gram sabhas* regularly tend to target more benefits to SC and ST households, while noting that this correlation may not reflect a causal impact. Rates of attendance comfortably exceed the 10% necessary for a quorum — 17% in Karnataka as reported by Crook and Manor (1998), 12% in 20 West Bengal villages surveyed by Ghatak and Ghatak (2002). Bardhan *et al* find participation rates do not vary significantly across castes, while exhibiting an inverted-U with respect to landholding (with poor and rich exhibiting equal rates of participation). Education mattered significantly for participation (controlling for land, caste and other demographic characteristics), and especially the likelihood of speaking up in the *gram sabha*. On the other hand, Ghatak and Ghatak highlight unevenness in participation rates by gender (with women substantially under-represented) and by partisan association (with a large bias in favor of supporters of the political party in power in the local government).

The nature of topics discussed in the *gram sabhas* and of the conversation are examined more closely by Ghatak and Ghatak in the West Bengal context, and by Rao and Sanyal (2010) and Ban, Jha and Rao (2012) in the South Indian context. The former report that the discussions were substantive and active, reviewing decisions made by the local *panchayat*, discussing what items ought to be on the agenda, and selection of beneficiaries. *Panchayat*

decisions were sometimes criticized and later reversed under the pressure of these criticisms. Rao and Sanyal examine the transcripts from nearly three hundred meetings and conclude that ‘the *gram sabhas* are a deliberative space embedded within an electoral space forcing local politicians to allow all groups to speak, lest they lose votes’, and they have ‘become an arena where poor, low-caste villagers, male and female, participate and seek dignity’. Ban, Jha and Rao conduct an econometric analysis of the nature of the issues discussed and relate these to priorities expressed by households and village characteristics. In villages with significant caste heterogeneity, discussions were mainly on priorities expressed by the median voter. In villages with less caste heterogeneity, on the other hand, they tended to be dominated by local elites.

Ghatak and Ghatak comment on differences between West Bengal and Kerala concerning the extent to which these village meetings were participatory and inclusive. Kerala’s experience in this regard has been particularly impressive, with widespread participation by local citizens and civil society organizations in formulation of local development plans submitted to higher level governments. Heller, Harilal and Chaudhuri (2007) survey households in a sample of 72 Kerala panchayats, in which 92% of respondents felt the panchayats were responsive to citizen needs, much higher than the 75% for other government officials. Two-thirds of households felt their needs had been incorporated into the final plan, including 44% of heads of the opposition party. 44% of respondents also identified the *gram sabhas* as having the most influence over selection of beneficiaries, followed by panchayat members (17%) and special task forces appointed by the *gram sabhas*. The latter involved participation rates of approximately 40% for women, and over-representation of SC households. The *gram sabhas* delegated planning and specialized decisions to development seminars and task forces, in which participation rates of women and SCs were similar.

These studies therefore indicate that in the states surveyed, *gram sabhas* have been effective means of generating public discussions on matters of local interest between diverse citizen groups. Kerala seems to be an outlier in this respect, as well as the extent of delegation of finances and powers devolved to local governments (see Heller, Harilal and Chaudhuri for further details).

### 3.5 Electoral Competition, Non-Issue-Based Voter Loyalties and Politician Quality

The probabilistic voting framework can be extended to incorporate variations in competence and honesty across politicians. Suppose these are viewed as fixed and publicly known attributes of political candidates based on their public reputations. Voters motivated by policy consequences of election outcomes will prefer more honest and competent candidates, everything else remaining the same.

However everything else is rarely the same; candidates rarely compete on policy-relevant dimensions alone. Less competent or honest candidates may be offset by other characteristics that endear them to voters, so that they remain competitive in the election race. Corrupt US city mayors during the early 20th century such as Jimmy Walker in New York and James Curley in Boston were re-elected repeatedly owing partly to their personal charisma and colourful flamboyance.<sup>7</sup> Voter loyalties can also be based on caste, religion or gender identity, or membership in political dynasties. In the Indian context these factors account partly for the political success of Laloo Yadav, Mayawati and the Gandhi family. If these end up dominating policy-based factors, voters could end up electing incompetent and dishonest candidates. The presence of non-issue-based factors in voting ends up providing a competitive advantage to those of the favored caste group or family, so performance and quality on policy-relevant dimensions could end up mattering less in election outcomes.

A similar phenomenon could arise with respect to the performance of elected officials — the effort they put into effective governance, or the extent of corrupt activities they engage in. An incumbent who is heavily favored to win re-election owing to personal charisma, caste or religious identity alone knows that ineffective governance performance will not have any significant negative consequences for re-election chances. Electoral competition is then lopsided and does not generate a disciplinary effect. Those favored on non-issue-based grounds amass ‘secure vote banks’, enabling them to slack off on development effort, favor special

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<sup>7</sup>See for instance the account of the rise and fall of Walker in Mitgang (2003). O’Connor (1956)’s novel features a Boston mayor based on James Curley.

interest groups or engage in corrupt practices.

The emergence of 'identity politics' could thus severely damage government accountability. An even more pernicious influence could be an incentive provided to political leaders to heighten ethnic cleavages in order to reinforce senses of group identity in the minds of voters. The pressures of electoral competition can then foment political encouragement and incitement of incidents of hatred and terror between rival tribes, castes, religions or linguistic groups.

Banerjee and Pande (2009) provide evidence of the deleterious effects of increasing ethnicization of Uttar Pradesh state politics between early 1980s and late 1990s. In a study of over a hundred electoral jurisdictions, they calculate measures of quality of elected candidates, based on corruption rank as assessed by media and politicians in non-included areas, economic gains since assuming office, and whether they had criminal records. The extent of increased ethnicization in any given jurisdiction is measured by election of non-high-caste candidates that were traditionally excluded from political office in the state in previous decades. Their main finding is that the effect of increased ethnicization on lowering the quality of elected candidates was stronger in jurisdictions where the demographic share of low caste groups was larger. The reason for this is that a larger demographic share of the low caste group implies a more severe decline in electoral competition when caste affiliation becomes more important in voting patterns.

A study with contrasting results at the local government level is provided by Munshi and Rosenzweig (2008), who examine data from 1085 wards in 136 local governments in an all-India sample between 1980-2006. Munshi and Rosenzweig argue that an increase in demographic share of a dominant caste group can raise the quality of elected officials, owing to greater commitment of elected leaders to deliver on election promises (enforced by caste group sanctions). This results from a factor missing in the Downsian theory, which assumes that political candidates face no problems in making commitments to honouring pre-election promises to their constituents. They argue that large close-knit caste groups can help implement such commitments at the local level, though such effects are implausible

at the state level owing to the substantially larger size of jurisdiction involved. At the local level they argue that the commitment problem can reverse the deleterious effects of unbalanced demographic composition of the population, enabling voters to give more weight to politician quality in deciding how to vote. Munshi and Rosenzweig show the evidence is consistent with their hypothesis: a larger demographic share of the largest caste group had significant effects on wealth, past managerial experience and education of elected officials, with beneficial consequences for delivery of local public goods.

## 4 Political Parties: Ideology and Interests

### 4.1 The Citizen Candidate Theory

A striking feature of the Downsian theory is that it sidesteps the role of political parties, their ideologies and interests. This is represented by the assumption that the sole motivation of candidates is to maximize the chances of getting elected, in conjunction with the assumption that they can commit to policy promises made before the elections. It ignores the role that political parties appear to play in most elections. Political parties typically represent a particular set of groups or interests in society, defined by class, ethnicity or particular policy causes (e.g., pertaining to particular positions on national security or the environment). They have elaborate internal party structures that help define ideological and policy stances, and employ a large organizational apparatus that conducts election campaigns and mobilizes voters. Parties are organizations that live longer than individual candidates and have longer time horizons. It is indisputable that in most contexts espoused policy preferences differ markedly across different parties, in contrast to the Downsian prediction of policy convergence across competing candidates from rival parties.

The Downsian response to this criticism is as follows. Parties with policy platforms located far from the preferences of median voters will tend not to be elected. They would then be motivated to make compromise on their favored policies for the sake of raising

the chances of being elected. In other words, there would be a tension between ideology and pragmatism when parties decide on their electoral platforms. If parties are driven by pragmatic considerations, the result of the simple Downsian model continues to apply in a large range of circumstances, despite candidates having policy preferences of their own that deviate from policies favored by the median voter. The reason is that from a strategic standpoint it would make sense for the candidate to bend its policy enough to ensure it remains competitive in the race. The cost of moving away from its ideal point would be offset by the reduced likelihood of the rival winning, if the rival's policy is located further away. This competitive logic can lead both parties back to the ideal point of the median voter.

Of course parties may not be motivated entirely by pragmatism, and assign some weight to their own ideologies, and end up with platforms lying somewhere in-between their own preferences and those of the median voter. Moreover, the Downsian counter-argument is based on the assumption that candidates can commit to their policy platforms in advance of the elections. The role of the commitment assumption has received much attention lately. If candidates are short-sighted and cannot commit to what they will actually do in office if elected, they will be tend to select their own favorite policies once they are elected. In that case candidates representing distinct interests would select distinct policies if elected. Anticipating this, rational voters would ignore all pre-election campaign rhetoric, and vote based on their expectation that candidates once elected will carry out policies that they personally favor. In such a scenario, policy outcomes would be non-Downsian, diverging across politicians with distinct ideologies and representing disparate interests. Policy outcomes will be determined by the preferences of politicians, not voters. Voters would still retain some influence, but only insofar as they help decide who gets elected.

This is one the central tenets of the 'citizen candidate' theories of Besley and Coate (1997, 1998) and Osborne and Slivinski (1996). These theories also emphasize some other issues ignored by Downsian theories. The number of contesting candidates is determined endogenously, from the ranks of common citizens, and there can be more than two candidates that decide to contest. Decisions to enter the race are made by citizens with contrasting

policy preferences, taking into account effects on ultimate election and policy outcomes. With plurality voting (where the candidate with the most votes wins), only one candidate will represent any given interest group, to avoid dilution of the vote in favor of that group.

To emphasize its distance from the Downsian theory, the citizen candidate theory focuses on the polar opposite assumption that elected officials are short-sighted; it neglects altogether the consequences of their policy choices on future re-election prospects. Indeed, it has been often argued that an important role of political parties is that they are far-sighted, overcoming a chronic short-sightedness of member politicians, particularly those whose terms are limited or whose political careers are coming to a close. Parties keep an eye on electoral prospects of candidates that it will sponsor in future elections, knowing that voters will tend to look back on the past. Insofar as policy choices are made with an eye on resulting impacts on future election outcomes, the Downsian competitive logic will motivate all parties to move policy positions closer to ones that will maximize votes. The tendency for policies to diverge across candidates from opposing parties will be attenuated, to an extent depending on how patient parties are. Consequently, both sets of factors — ideology of elected officials (emphasized by the citizen candidate theory) and competitive pressures of re-election (emphasized by the Downsian theory) — would be likely to matter. Their relative importance is likely to be an empirical issue.

## **4.2 Empirical Evidence on Role of Ideology vis-a-vis Electoral Competition**

### **4.2.1 Land Reform Implementation in West Bengal**

Bardhan and Mookherjee (2010) examine the relative importance of political ideology and electoral competition in local government in the context of implementation of land reforms in rural West Bengal between 1974 and 1998. During this period West Bengal witnessed competition between the Left Front and the Indian National Congress (including the Trinamool Congress, an offshoot of the latter emerging in the late 1990s). The political ideology

of the Left Front during this period was built around land reform as a tool for restructuring agrarian relations, and limiting the power of landowning classes that have traditionally formed the base of the Congress Party. Despite paying lip service to the cause of land reform as in other Indian states since Independence, the Congress party dragged its feet with regard to actual implementation at the ground level. The interests represented by the two parties and their commitment to land reform thus differed dramatically. The simple Downsian theory predicts that the force of electoral competition would motivate both parties to put in the same effort. Extensions of the Downsian theory to accommodate probabilistic elements in voting and incentives of elected officials to slacken implementation effort out of laziness or corrupt reasons predict that implementation effort would rise with the extent of political competition. Either of these would generate a level of implementation that is either invariant or inverse-U-shaped with respect to the proportion of seats in local panchayats secured by the Left Front. In contrast the ideology hypothesis predicts that the level of implementation would be rising monotonically with the proportion of Left Front control of local panchayats.

Empirically Bardhan and Mookherjee find that the data vindicates the hypothesis that electoral competition motives dominated: the actual pattern was either flat or inverse-U-shaped, with a peak located near 50%. This happened to be true both in the cross-section (comparing across different villages in the state) as well as longitudinally (over time within any given village). With a majority of the panchayats being dominated by the Left Front during this period, i.e., with a seat share exceeding 50%, this meant that further consolidation of Left Front representation in the panchayat either had no effect, or caused land reform implementation to decline. In this context, pragmatism trumped ideology.

#### **4.2.2 Effect of Political Reservations**

Since 1950 the Indian Constitution has mandated reservations of state legislature positions for scheduled castes and tribes (SC/STs) in proportion to their weights in population across different jurisdictions. Amendments in the early 1990s that created a three-tier system of

local governments (*panchayats*) also mandated reservations of mayor (*pradhan*) positions at the bottom tier (*gram panchayats*). One third of these are reserved for women and a fraction of them for SC/STs based on their demographic weight in the local population.

Downsian and citizen candidate theories differ in their predictions concerning the effects of these reservations. Under the assumption that women and SC/STs have policy preferences regarding allocation of spending or delivery of public services that differ from the rest of the population, the citizen candidate theory predicts that these reservations would cause policies to shift in ways that favor women and SC/ST groups respectively. In contrast the Downsian theories would predict these reservations would have no effect, as all candidates being subject to competitive pressures would end up selecting policies that would maximize vote share. With regard to the women reservations, the same prediction would also be made those who believe that women elected to reserved positions are mere surrogates for other males in their families or ethnic groups who are politically powerful and continue to wield power behind the scenes. With regard to SC/ST reservations, both the Banerjee-Pande and Munshi-Rosenzweig theories would predict a decline in quality: the former by restricting electoral competition, and the latter by reducing commitment ability of elected leaders owing to a reduction in the size of the largest eligible caste from which candidates can be selected.

Pande (2003) examined the effects of reservation of state legislature positions for SC/ST candidates, using data from 16 states accounting for over 90% of the Indian population, covering the period 1960-92. Her empirical identification strategy of the reservation effect was the study the impact of changes in the proportions of jurisdictions reserved owing to revised estimates of population shares of SC/ST groups owing to demographic changes or redrawing of administrative boundaries between jurisdictions. These changes usually take place with a lag following the changes in population shares. She controlled for the actual population shares of SC/ST groups, besides per capita income and population density, to isolate the effect of the changes in reservations from underlying social and economic changes that could cause the population shares to be endogenous. She found that SC reservations raised job quotas for SCs and had no significant effects on spending levels or its allocation.

By contrast, ST reservations raised spending on ST welfare spending while reducing educational spending. Hence the reservations did have significant effects on some dimensions of policy, which could be rationalized in terms of the greater assimilation of SC groups in the population resulting in their being able to take greater advantage of job quotas than ST groups. ST groups expect to benefit less from job quotas and education programs compared to direct spending on ST welfare programs such as building houses.

Chin and Prakash (2011) follow a similar approach with state panel data covering the same period as Pande's study, but look at effects on poverty rates (using various standard measures from different rounds of the National Sample Survey). They find that SC reservations had no effect on poverty rates, whereas ST reservations lowered poverty significantly, especially in rural areas. This suggests that the SC reservations worked by redistributing job quotas in favor of SCs at the expense of non-SC poor groups, whilst the ST reservations had a net effect on welfare expenditures on the poor.

With regard to the effects of women reservations of gram panchayat (GP) *pradhan* positions, Chattopadhyay and Duflo (2003) reported evidence on similar effects on government spending across different local public goods at the GP level in one selected district in West Bengal and one in Rajasthan. They found a shift in favor of spending on drinking water and roads, in line with the priorities of women residents that can be inferred from complaints filed with the GP. With regard to SC/ST reservations they found increases in allocations to SC/ST households, partially owing to increases in proportion of spending on hamlets where the elected *pradhan* resides. A similar bias was not observed in the case of the women reservations. Combined with Pande's study, the Chattopadhyay-Duflo paper provides support for the predictions of the CC theory and against the Downsian theory, besides providing vindication for political reservations as a policy tool to improve delivery of public services to hitherto disadvantaged groups.

However other researchers studying other regions and impacts on other dimensions of GP policies have failed to find similar results for effects of women *pradhan* reservations in panchayats. Bardhan et al (2010a,b) examine a sample of 89 villages chosen randomly

from 15 major agricultural districts of West Bengal and find no significant effects of the women reservations on drinking water or roads allocation, or on intra-village allocation of various benefit programs delivered by GPs to female-headed households. On the other hand they find a significant negative effect on intra-village allocation of private benefits delivered to SC/ST groups, which dropped by approximately 10 percentage points (from an average of 44%). They argue that this finding is inconsistent with Downsian, CC or elite capture theories (the latter will be elaborated in the next section), and is consistent with a hypothesis of political clientelism (also explained further below).

In another study of 17 districts in Chattisgarh, MP, Rajasthan and UP in the fiscal year 2005-06, Rajaraman and Gupta (2008) find no effect of women pradhan reservations on water/sanitation projects, or on revenues collected by GPs. They argue that the effects of varying gender of the panchayat pradhan are trumped by variables representing needs of the median voter, as measured by existing infrastructure facilities relative to the demographic structure of the local population.

In the context of South India, the results of series of papers by Besley, Pande, Rao (2004, 2005) and Ban and Rao (2008) for Karnataka, Andhra Pradesh and TamilNadu based on 2002 data can be summarised as follows: women reservations resulted in increased diversion of BPL cards to ineligible households, had no effects on participation of women in *gram sabhas* or voter perceptions of GP performance. Women in reserved posts were less likely to meet with higher level officials. However, they were more effective when they were more experienced. Consistent with this are the findings of Gajwani and Zhang (2011) who study 144 GPs in TamilNadu in 2005 and find women pradhan reservations did not improve delivery of any public good and lowered delivery for some (schools and roads), a result they interpret as a result of lack of experience of women elected to reserved positions in knowledge of GP issues or in bargaining with higher levels of government. In a study of GPs in Andhra Pradesh, Afridi, Iversen and Sharan (2012) find women reservations were associated with significant increase in irregularities in social audits of NREGA programs.

In many of these studies the adverse impacts of women reservations were associated

with lack of prior experience of the women candidates elected to reserved posts. Hence it is possible that the findings of these papers concern short-term effects of the women reservations that could disappear with the passage of time. Beaman et al (2009) find that increased exposure to women leaders as a result of reservations reduced negative stereotypes held by male voters (with no changes in perceptions of female voters). Bhavnani (2009) shows that the chances of women being elected in Mumbai municipal councils in 2002 increased five-fold (from 3.7% to 21%) if the post in 1997 had been reserved for a woman. Hence it is quite likely that reservations will lead to increased representation of women in elected posts and for women to gradually increase their administrative and political experience over time. Nevertheless, it remains to be seen whether in the long-run women reservations will end up having any tangible effects on actual policies.

With respect to the effects of the SC/ST reservations, practically every study (Bardhan et al (2010) for West Bengal, Besley et al (2004, 2005, 2011), besides the earlier studies by Pande and Chattopadhyay-Dufllo) has found significant impacts in favor of targeting of benefits to SC/ST groups. Here the evidence decisively rejects the Downsian hypothesis in favor of the CC theory.

## **5 Campaign Finance, Special Interest Groups and Elite Capture**

We now introduce an important dimension of political economy neglected so far in the preceding sections: lobbying of politicians by special interest groups, and exercise of influence over policies by such groups by their ability to contribute to political campaign funds. Many Influential thinkers across a broad ideological spectrum from Marxists to Gary Becker and the Chicago school have argued that governments do not have much autonomy, being captured by special interest groups: government policies can be understood in terms of interests of various classes or groups that capture governments. However, they rarely spell out the precise mechanisms by which such capture takes place.

Grossman and Helpman (1996) provide an elegant extension of the Downsian model with probabilistic voting to incorporate campaign finance and special interest groups. It is assumed that impressionistic or unaware voters can be swayed by campaign advertisements; the likelihood that any such voter votes for any given candidate increases according to the extent to which that candidate outspends the others. Consequently political candidates now have two strategic tools to influence their vote shares: they can sway informed voters by their choice of policies as in the standard Downsian theory, and they can influence uninformed voters by the amount of money they can raise for their election campaigns. Hence they are willing to deviate from the Downsian policies that maximize vote share among aware voters, if they can raise more campaign finance which can compensate by raising vote share among unaware voters.

This is the trade-off that external interest groups can exploit. They can make offers of campaign contributions which are conditioned on policy platforms chosen by political candidates, which the latter are willing to accept. Assuming that interest groups make such conditional offers on a take-it-or-leave-it basis, the theory generates a number of interesting predictions. Candidates favored by voters on non-issue-based reasons are more amenable to capture, and hence deviate more from Downsian policies. Hence competing candidates no longer converge to the same policy platform. This provides a way for Downsians to explain why in the real-world competing candidates often select different policy platforms, providing a cynical interpretation of political ideology of parties as a form of capture by the interest groups that finance their campaigns.

There are limits to the extent to which policy platforms are ‘bent’ by politicians to accommodate the preferences of special interest groups. This owes to the trade-off between vote share among aware and unaware groups of voters respectively. Bending the platform too much to appease special interest groups will cost politicians too much in terms of their vote share among aware voters. They end up providing some weight to the interests of aware voters, and some to those of special interest groups. The relative weights depend on (among other factors) the relative proportion of aware and unaware voters. The accountability of the government (measured by the implicit welfare weight accorded) to any given citizen group

depends (positively) on the fraction of voters from that group that are aware, (negatively) on the extent to which the political candidate in question is favored to win owing to non-issue-based loyalties of voters at large, and (negatively) on the effectiveness of campaign finance in raising votes.

Bardhan and Mookherjee (1999, 2000) point out an interesting implication of the Grossman-Helpman theory: capture depends on wealth and education inequality. A voter that is wealthier and more educated is typically more politically aware and able to participate more actively in political activities (in terms of contributing to political campaigns and lobbying efforts). Moreover, this relationship is subject to diminishing returns: the rate at which awareness increases slows down as education or wealth rises. Societies with high inequality will then be composed of a smaller fraction of aware voters, which increases the overall effectiveness of campaign finance, thus rendering politicians more susceptible to capture. Moreover, the capacity of any given citizen group to organize themselves into an effective interest group depends partly on how wealthy and well-connected that group is. The poor may be too preoccupied with survival to be able to spare much time or resources for political activity. Hence a society which is highly polarized between rich and poor may well be one in which the sole interest group is that of the rich, and in which capture is rendered easy owing to a large fraction of unaware voters. In contrast, societies with a strong middle class can have a multiplicity of interest groups representing the middle class and rich respectively, and campaign finance is less effective in increasing vote shares with a larger fraction of voters that are aware. Such societies would then be less susceptible to elite capture.

This suggests a dynamic theory of persistence of inequality and underdevelopment through a political mechanism alone. An explicit theory along similar lines has been developed by Borghignon and Verdier (2000). Societies that start sufficiently unequal are subject to high elite capture. Governments cannot then choose policies that reduce inequality and increase supply of public goods (favored by non-elites), resulting in persistence of inequality and low public goods.

Such arguments implicitly underlie accounts of historical persistence of extracting colonial institutions and underdevelopment, as in the work of Engerman and Sokoloff (1998) for historical divergence between North and South America since the 16th century. In similar vein Acemoglu, Johnson and Robinson (2001) provide cross-country evidence that 16th century colonial settlement patterns have affected current day underdevelopment. These authors argue that countries where colonial settlers were able to set up extractive institutions to enable them to appropriate the gains from mineral resources or primary commodities with high value on the world market in the 16th and 17th centuries, are the ones that tend to be under-developed today owing to the lack of effective property rights, rule of law and public investments in education or infrastructure. These conditions prevented the emergence of a middle class that could serve as a counter to the power of colonial elites and their descendants.

In the Indian context, Banerjee and Iyer (2005) provide a similar argument that distinct colonial land tenure systems under the British Raj in the 19th century account for significant differences in levels of development between different regions of India in the post-Independence period. Those areas under *zamindari* land systems under British colonial rule served to entrench a class of landed elites who were able to stifle efforts by state and local governments to implement public programs in irrigation or education that would have induced broad-based development. Consistent with this hypothesis, Banerjee and Iyer show significant variations in investments in agricultural improvements, education and health and corresponding variations in agricultural yields, education and health outcomes between neighboring landlord-based and non-landlord-based colonial land revenue systems.

A problem with most of these historical studies is that they cannot identify the precise channel of causation by which historical inequality has been persistent and inhibited development. Have they resulted from a failure of governance owing to elite capture? Or are they due instead to failure of markets e.g., imperfections in credit markets or informational frictions? Or do they reflect failures of local collective action, wherein unequal communities are less able to organize collectively to undertake local development? Or instead to social or psychological sources of path dependence e.g., where aspirations of the poor are adversely

affected by historical circumstances or local environments? There are a variety of possible mechanisms by which particular regions could get locked in to low levels of development. For this reason it is useful to look for direct evidence of elite capture as a source of poor governance.

## 5.1 Empirical Evidence for Elite Capture

Pandey (2010) provides evidence of elite capture in Uttar Pradesh (UP), in an attempt to complement the historical findings of Banerjee and Iyer. She compares educational facilities and attainments (measured during random school visits during 2002-03) for 4th grade children in government schools in 130 gram panchayats located on either side of the border between landlord-based and non-landlord-based areas in British colonial times. Landlords tend to send their own children to private schools, so would have little interest in the quality of local public schools. The elite capture hypothesis predicts that landlord areas would be associated with poorer educational facilities and attainment of school children. Consistent with this hypothesis, she shows that government schools in landlord-based systems were (i) less functional (in terms of village meetings, participation in Village Education Committees, Parent Teacher Associations; (ii) more corrupt (measured by embezzlement of school funds); and (iii) had worse school infrastructure and outcomes (measured by teacher effort, student test scores, attendance).

Kochhar (2008) adds flesh to this argument by providing evidence concerning reasons for landed elites to block public investments in schooling of the poor. Her analysis is based on the following arguments, for each of which she provides empirical evidence at the all-India level. First, poor households rely more on public schools relative to private schools: data from the 50th and 52nd round of the National Sample Survey shows that 24% of those enrolled in private middle schools came from the highest (wealth) quartile, while only 8% came from the lowest quartile. Similar numbers apply for use of private tutors. Second, increased schooling of the poorest quartile significantly reduces farm profits of the landed, with an extra year of schooling in this quartile accounting for 15% reduction in farm profits,

using a large household and farm survey of the NCAER comprising over 33,000 households in 16 Indian states. A large part of this effect comes from the effect of schooling on wages of unskilled agricultural workers. Hence the landed have a strong incentive to block investments in education of the poor. Consistent with this, Kochhar shows that the number of teachers assigned to government primary schools shrank significantly in districts where farm profits were more sensitive to farm worker wages.

Anderson, Francois and Kotwal (2011) examine the effect of varying degrees of dominance of Maharashtra villages by ‘Maratha’ castes, measured either on the basis of local population or landholding shares, on local government implementation or utilization of poverty alleviation programs sponsored by higher level state and central governments. Using a survey of over 9000 households in 300 randomly selected villages in three major Maharashtra districts, they find that greater dominance by Marathas is associated with significantly lower provision of local public goods and utilization of developmental programs targeted at the poor. It is also characterized by less consultation by *gram panchayat* leaders with local villagers, reports of corruption among leaders and of an unequal power hierarchy. Workers earn lower wages, while those owning agricultural land earn higher profits. At the same time there is an appearance of a properly functioning democracy, with free and fair elections and high electoral turnout. There is also evidence that Maratha-dominated villages are characterized by greater cross-caste consumption insurance, higher levels of social capital and local cooperation. The social relation between the Maratha elites and lower caste groups resembles a classic patron-client relationship, involving a high degree of unequal dependence of the latter on the former, in exchange for which the elites stymie external development programs that could potentially reduce this dependence.

Bardhan-Mookherjee (2006) examine targeting patterns in programs administered by local governments in West Bengal in order to evaluate the extent to which resources were diverted to serve the preferences of local elites. They use the same panel of 89 villages located in 15 agricultural districts of West Bengal as described in a previous section, and examine how targeting patterns responded to changes in the distribution of land and caste within villages over the twenty year period between 1978 and 1998. Under the elite cap-

ture hypothesis, increases in local inequality and poverty (measured by concentration of landownership, the demographic share of landless or SC/ST groups) would intensify the scope for elite capture, resulting in a reduction in targeting of local programs to landless and SC/ST groups. In the absence of elite capture, local governments would target programs more to the socio-economically deprived groups in response to increases in inequality or poverty. They find little evidence of elite capture with regard to intra-village targeting of private benefit programs (such as distribution of subsidized IRDP loans or agricultural minikits). Resources available to local governments were distributed in a highly egalitarian manner, with the poor and low caste groups obtaining a larger share compared with the rest of the village.

On the other hand, they found evidence of elite capture with regard to generation of employment in food-for-work programs by local governments, and inter-village allocation of funds by higher levels of government. They interpret these contrasting findings as indicating reduced scope for elite capture of highly transparent dimensions of local government policies such as intra-village allocation of private benefits. The extent of funds received by GPs relative to other neighboring GPs, or the scope for allocating food-for-work program budgets between wages and material costs (which allow some diversion), is correspondingly less evident to local residents.

One would expect, of course, that the extent of elite capture would vary with local inequality, and with political awareness and participation of citizens. On these grounds one would expect low elite capture in Kerala, owing to its egalitarian patterns of landholding, and high levels of education, awareness and political participation cutting across caste, gender and class lines. This is confirmed by Heller, Harilal and Chaudhuri (2007), with extraordinarily low incidence (less than 6%) of reports of beneficiary selection in Kerala panchayats on the basis of personal connections or caste affiliation considerations. 74% of the households in their survey reported a significant reduction in corruption following the devolution to local governments.

Other states such as Karnataka with high norms of civic participation and a high de-

gree of devolution to panchayats but higher levels of social and economic inequality than Kerala exhibit forms of capture by dominant caste groups with respect to inter-village allocation of panchayat funds, with lower allocation to villages with high SC/ST populations (Palaniswamy and Krishnan (2008)). A similar pattern of discrimination against SC/ST groups in West Bengal is found by Bardhan et al (2011). Hence elite capture prevails even in settings where the ideology of the dominant political party is openly hostile to traditional landed elites and favoring SC/ST groups. The extent and form of such capture is probably far less significant and blatant than other states such as Uttar Pradesh with greater socio-economic inequality.

## 6 Clientelism and Vote-Buying

The preceding discussions suggest that one way to empirically evaluate government accountability is to examine the proportion of benefits that flow to poor or disadvantaged groups in the population. Are the lion's share of benefits accruing to powerful and wealthy sections of the population, who are not the intended beneficiaries of anti-poverty programs? Or are they getting diverted by officials administering the programs, as is commonly alleged in media accounts of corruption in India? Do the per capita benefits received by the poor and SC/STs fall below those received by the non-poor and non-SC/STs? Equivalently, how does the share of the disadvantaged groups compare with their demographic share?

Using these common-sense measures, the delivery of benefits to disadvantaged groups in West Bengal villages indicates high levels of accountability of panchayats: the share of these groups in most programs consistently outweighed their demographic share, using data from different sources and time periods. So much so that it gives rise to a concern of a somewhat different nature. Is it possible that the Left Front was actively 'buying' votes from the poor by offering them benefits conditional on their voting for the Left? Is that how they managed to perpetuate their grip on political power in West Bengal for over three successive decades?

This brings us to clientelism, another form of political distortion that could induce lack

of government accountability that is distinct from all others described in previous sections. Kitschelt and Wilkinson (2007) overview studies of ‘patronage-based, party-voter linkage’ from Africa, India, Latin America and Japan:

“In many political systems citizen-politician linkages are based on direct material inducements targeted to individuals and small groups of citizens whom politicians know to be highly responsive to such side-payments and willing to surrender their vote for the right price. Democratic accountability in such a system does not result primarily from politicians’ success in delivering collective goods..., nor does it rest on improving *overall* distributive outcomes along the lines favored by broad categories of citizens (e.g., income and asset redistribution through taxes and social benefit schemes). Instead, *clientilistic accountability* represents a transaction, the direct exchange of a citizen’s vote in return for direct payments or continuing access to employment, goods and services.”  
(op.cit, p.2)

Clientelistic transfers tend to be directed towards the poor, since they are willing to sell their vote for a lower price. They provide an appearance of high degree of government accountability to the poor. But as numerous case studies have indicated across a wide swathe of developing countries, they frequently take the form of programs delivering short-term private benefits on a discretionary basis to a narrow segment of the population, instead of programmatic transfer programs, public goods or long term developmental initiatives in education and public health. They resemble the tendency for politicians to target ‘swing’ voters with directed transfers, tax breaks or pork-barrel projects, as emphasized in the theory of Dixit and Londregan (1995).

## 6.1 Empirical Evidence of Clientelism

Formal empirical evidence of clientelism has been provided in the contexts of Benin by Wantchekon (2003) and Argentina by Stokes (2005). Wantchekon conducted a field exper-

iment in which Presidential candidates were persuaded to randomly vary their electoral platforms between a clientelistic program providing cash transfers to specific ethnic groups and a developmental local public good oriented program. The clientelistic platform ended up generating higher votes. Stokes surveyed voters in three Argentine provinces, and found 12% of voters reporting receiving private benefits from political parties in an election campaign. The likelihood of receiving these benefits was positively correlated with having received ballots directly from party operatives rather than in anonymous voting booths. Lizzeri and Persico (2004) provide evidence of how extensions of the franchise in mid-19th century Britain made it more difficult for political parties to secure election results by buying the votes of a few swing voters with promises of directed private transfers. This subsequently induced local governments to switch to a strategy of improving public health.

Bardhan and Mookherjee (2011) extend a Downsian model with probabilistic voting to incorporate both clientelism and elite capture, in order to explain their respective sources and consequences. Political parties are assumed to have organizational capacities to monitor voting behavior of specific individuals or citizen groups. This enables parties to condition delivery of private transfers on information they have concerning voting patterns. Clientelism biases the allocation of government programs in favor of ‘inferior’ private goods favored by poor citizens relative to public goods, in contrast to the bias induced by elite capture in favor of ‘superior’ goods valued by wealthier citizens. Incumbents gain a credibility advantage over prospective electoral rivals owing to their capacity to tailor current programs in a clientelistic fashion, besides their superior ability to monitor votes cast. This lowers the degree of effective electoral competition, limiting incentives of elected officials to respond to broad based citizen needs. At the same time clientelistic transfers being targeted to relatively poor voter groups provide an impression of pro-poor targeting. Yet such transfers are frequently directed to narrow sub-groups of ‘swing’ voters in a discretionary manner, generating inequities in targeting *within* poor groups. In such a system incumbent politicians have perverse incentives to keep recipients in a permanent state of dependency, in order to keep the price of votes low and perpetuate their own grip on power.

To identify the extent of clientelism in any given context requires more detailed data

than is typically available. Most studies of targeting patterns based on household or village surveys focus on specific service programs and examine how they were allocated between broadly defined citizen groups (defined by wealth or ethnic identity). One needs data that is both broader (e.g., the allocation of government resources between ‘inferior’ and ‘superior’ private goods, those generating short-term consumption benefits rather than augmenting longer range productive capacities, and between private and public goods), and finer (e.g. distinguishing subcategories within the poor while assessing targeting, examining the process by which beneficiaries were selected). In poor countries where governments lack resources to provide comprehensive benefit programs, at best only a subset of the poor can be served. Horizontal equity considerations would dictate that recipients within eligible categories be randomly chosen. It is very difficult to verify whether recipients were indeed chosen impartially or on the basis of political discretion, and whether they were conditioned by government officials on voting behavior, turnout in political rallies or assistance with election campaigns.

It is nevertheless possible to gather forms of indirect evidence of clientelism. Khemani (2004) examines election year effects on state government finances using a state-level panel for 14 states spanning 1960-92. She finds a tendency for targeted (excise and inter-state trade) tax breaks aimed at small groups of producers, and shifts in spending towards capital spending projects such as roads during election years. These could be interpreted either as reflecting a form of capture by special interest groups who are awarded special benefits in exchange for campaign contributions, or an attempt to buy the votes of select constituents. Golden (2011) examines disaggregated data concerning distribution losses in electricity in Uttar Pradesh over 2000-2009 and finds losses rise in election years and their magnitude is correlated with the likelihood of the incumbent party getting re-elected, reflecting vote-buying from farmers by incumbent politicians.

At the micro-level, Bardhan et al (2009) show that the relative likelihood of rural West Bengal voters voting in favor of the Left Front in 2003 within villages was correlated with their receipt of short-term recurring benefits (such as cheap loans, subsidized agricultural inputs, employment in public work programs, help in personal emergencies) rather than

one-time benefits (such as provision of houses and toilets, drinking water taps, local roads or below-poverty-line identity cards entitling recipients to subsidized food and fuel thereafter) from Left-dominated panchayats in three previous three decades. This suggests a *quid pro quo* relationship between voters and local political parties, rather than a generalized tendency of benefit recipients to vote for those granting them benefits out of a sense of gratitude.

Bardhan and Mookherjee (2011) argue that the puzzling adverse effects of women reservations in West Bengal GPs on targeting to SC/ST groups can be explained by weakening of clientelistic ties of the Left to SC/ST groups owing to the political inexperience of the women elected to reserved posts. This is borne out by the contrasting effects of the reservations on intra-village targeting of inferior and non-inferior goods, wherein the SC/ST share of only inferior goods declined. The findings are inconsistent with other theories described above.<sup>8</sup>

## 7 Summary and Future Directions

We have described a range of possible reasons that limit the effectiveness of elections as a mechanism inducing governments to be accountable to their citizens, and then reviewed the evidence available from the Indian context concerning each of these. How well is local democracy functioning, particularly in the two decades since the 73rd and 74th constitutional amendments ushered in a three tier structure of local governments?

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<sup>8</sup>The Downsian theory predicts that the reservations would have no effect. The elite capture theory can explain the results only if the women elected to reserved posts being politically inexperienced were more susceptible to elite capture. In that case the fall in the share of SC/ST groups would be greater in villages with greater inequality and poverty, whereas the results show the opposite. The results cannot be explained by the citizen candidate theory: women reservations did not improve the share of female-headed households, and there is no good reason why women politicians would tend to have a stronger bias against SC/ST groups than male politicians. Moreover, those elected to posts jointly reserved for women SC/ST candidates ended up directing fewer resources towards SC/ST groups.

Before summarizing the findings, it is appropriate to note that the geographical coverage of the empirical studies has been quite uneven, particularly those pertaining to local governments. States such as West Bengal and those in South India have been disproportionately represented. The results are therefore not representative for the entire country. This proviso is essential in any attempt to draw any conclusions.

With respect to the conduct of elections, patterns of political participation and awareness, states that have been studied exhibit symptoms of a healthy, well functioning democracy. Elections are free and fair for most part, exhibiting high levels of turnout. *Gram sabhas* appear to allow space for representation of diverse citizen groups cutting across caste and class groups, though less so with respect to representation of women. There do not seem to be much evidence of significant variation in political participation or awareness across most measures of socio-economic status, with the exception of education.

One therefore has to look deeper for signs of how well the system is delivering in terms of actual outcomes.

One set of potential concerns relate to the extent to which votes are cast on the basis of issues unrelated to development performance of candidates, such as caste or communal identity, or preference for political dynasties. These limit the connection between the performance of elected officials and their re-election prospects, with adverse consequences for selection of high-quality leaders and for their incentives to provide high quality governance. There is some evidence that increasing ethnicization of politics has resulted in a slackening of governance quality in some states. While the media is active and plays a role in promoting responsiveness of governments, there appears to be scope for enhancing governance quality by releasing more information to voters concerning performance of their elected representative, and increasing transparency in government.

The pressures of electoral competition can also be dulled by short-term incentives of elected officials who have political ideologies or personal policy agendas that deviate from median voter preferences. The empirical evidence indicates some role for both electoral competition concerns and policy preferences of elected officials. The role of the latter has been

particularly salient in the context of reservations of political positions in state legislatures and panchayats for SC/ST groups, which have resulted in enhanced flows of benefits to SC/ST groups. Not all these benefits have resulted in net reductions in poverty: SC reservations appear to have no net effect on poverty, so enhanced benefits for poor SC groups have been offset by corresponding losses to non-SC poor groups. With few exceptions, reservations of panchayat positions for women have not yielded comparable benefits in terms of enhanced responsiveness of local governments to the needs of disadvantaged minorities.

Capture of government by elites owing to the dependence of the former on campaign contributions of the latter provides another source of imperfection in the electoral system which tilt government programs in ways that favor elite interests. The extent to which this happens is likely to be highly context-specific, and is more likely in areas with low average levels of education and high socio-economic inequality. There is evidence of elite capture in states as varied as Uttar Pradesh, Karnataka, Maharashtra and West Bengal, though relatively little in Kerala. The extent and form of such capture varies across the former group of states, with West Bengal or Karnataka exhibiting very little capture in allocations within villages but some capture in inter-village allocations. One should therefore expect considerable diversity in accountability of local governments in service delivery, with respect to the nature of the program, as well as locations varying with respect to wealth inequality, education, participation and awareness of voters and nature of civil society. It is no surprise that *panchayati raj* institutions are more effective and inclusive in Kerala compared with states in Northern India.

Finally there are the pressures of populism inherent in competitive electoral processes, wherein political candidates try to sway the votes of select swing groups with directed private transfers, or buy their votes by monitoring voters and conditioning delivery of benefits on voting patterns. These reduce the incentives for politicians to undertake long range developmental programs or public goods, by enabling them to win elections on the basis of such targeted transfers. While there are numerous anecdotes and case studies, systematic empirical evidence for the prevalence of clientelist politics is harder to come by. But various forms of indirect evidence confirm the view that clientelism is widespread.

What does this literature imply in terms of predicting future trends of government accountability? There are many worrying trends of diminishing credibility of the state in various parts of the country in the face of Maoist rebellions and separatist movements fuelled by poor leadership and a failure to deliver basic security, infrastructure or coherent development efforts. But there are a number of hopeful signs. Established incumbents have lost power in recent state elections in Bihar, West Bengal and Uttar Pradesh, following disappointing performance on developmental dimensions. These indicate voters are increasingly becoming more aware and more demanding of their electoral representatives. They are less content to vote based purely on caste identity or ideological affinity. There are many possible causes: rising levels of education and economic aspirations among a progressively younger voting population, increasing role of the media and greater transparency in government (e.g., following the passage of the Right to Information Act in 2005). As the role of agriculture diminishes, a larger fraction of rural society is engaged in non-agricultural occupations. The spread of television and telecommunication facilities means that they are better connected with the rest of the world. As living standards rise, citizens are more concerned with infrastructure, educational and health services, and non-agricultural employment opportunities. They are less likely to remain content to stay within the confines of a static environment, and less willing to sell their vote for token handouts from local political leaders, diminishing the effectiveness of clientelism as a way of generating secure vote banks. The scope for elite capture is limited when voters are more aware of diversion of programs to serve elite interests, and more willing to stand up in village meetings and question local leaders regarding such irregularities.

On the other hand, it remains to be seen how quickly politicians will begin to perceive the altered landscape and adapt their strategies to pursue developmental agendas that satisfy needs and aspirations of a wide section of the population. To what extent will there be entry of competent and less corrupt set of people into politics? To the extent that this does not happen, the result could be a further acceleration of anti-incumbency waves and political instability, and a greater erosion of government credibility in the eyes of voters. In the few places where it does happen, one might expect increased stability and enhanced prospects for development. The dynamics of interaction between voter expectations and

politician performance is likely to be complex and varied across different parts of the country. Understanding these processes of change in political economy is challenging and needs greater attention in future research.

With regard to implications for policy, we have already noted studies evaluating the effects of political reservations. These are quite complex and multifaceted. Reservations for SC/ST candidates have influenced the allocation of spending to programs favored by such groups. At the same time, they are likely to have reduced the quality of politicians elected. Reservations for women have not resulted in widespread improvements in targeting of programs or quality of governance.

On a more positive note, some experimental studies have emphasized the scope for increasing awareness of voters through information campaigns and disclosure mandates. The association between education and measures of political awareness suggest the role of spread of education as a way of enhancing government accountability.

Other ways of inducing greater accountability include assigning greater responsibility to local governments over education and health programs. Numerous studies have shown that the abysmal quality of services provided by government schools and health clinics owe to absenteeism and low effort of teachers and doctors (e.g., see Chaudhary et al (2006), Muralidharan (2012)). Empowering panchayats to contract with teachers and doctors would then allow local citizens directly affected by absenteeism to put pressure on panchayat officials to ensure that service providers show up for work more regularly. These pressures could be enhanced by distributing report cards that summarize the performance of local panchayat officials with respect to public service delivery.

Another implication is the scope for introducing formula-bound transfers at the village level which reduce the scope for elites or panchayat pradhans to bias allocations in their own favor. Some states (such as Karnataka) have formulae for allocation of grants across *gram panchayats*, while many others do not. Each *gram panchayat* has a number of different villages under its jurisdiction, and there is considerable evidence of allocations across villages being manipulated by those in power. Transparent formulae which define the entitlement of

individual villages in terms of demographic and economic measures of need (for which data is available in the public domain) would limit the scope for such forms of elite capture.

Yet other reform possibilities would involve providing greater autonomy to local governments over their spending and developmental programs, through provision of block grants. Currently higher levels of government spend far more time in approving spending plans submitted by local governments on a year-by-year basis, releasing funds late in the fiscal year and unduly restricting the planning horizon for capital spending projects (Harilal (2012)). Panchayats in most states administer a bewildering array of diverse, poorly coordinated development programs whose design, scope and funding are decided by the state and central government. Providing greater autonomy to panchayats would enable more comprehensive planning for local development. However the potential benefits of such autonomy need to be traded off against the risks of increased corruption and elite capture. The experience with NREGA implementation by panchayat bodies indicates this is a real concern (e.g., see Niehaus and Sukhtankar (2012)). Enhanced devolution to panchayats need to be accompanied by enhanced audits by higher levels of government, and the release of this information to local citizens prior to elections.

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