

How to reduce poverty in Bihar

LSE blogs.lse.ac.uk/southasia/2014/01/20/how-to-reduce-poverty-in-bihar/

2014-1-20

Chinmaya Kumar argues that Bihar's economic growth can spur further poverty reduction if the state government removes binding constraints for agricultural growth.

Bihar's turnaround under the leadership of Nitish Kumar – from a badly governed, economically backward state, to the fastest growing state in India – has received widespread attention. This turnaround story assumes greater significance because Bihar's economic decline and divergence from rest of the India had been an extremely long and continuous process, rarely reversed by major economic and political changes that transformed many other states of India.



The permanent settlement regime imposed by the colonial government sowed the seeds of Bihar's decline, and continues to hinder its development even now (see Banerjee & Iyer 2005). Even after the independence, the central government adopted several discriminatory policies such as freight equalisation, which led to the further economic marginalisation of Bihar. Successive state governments in Bihar also contributed to its economic decline by plundering public resources and ignoring the state's developmental needs.

Bihar's average economic growth since 2005, when the current government came to power, has been more than 11 per cent, which is often termed a 'miracle' considering the extremely low level of economic growth under previous regimes. This spectacular economic progress has, however, recently been questioned for its negligible impact on poverty reduction (Acharya, 2013).

According to National Sample Survey (NSS) data, the percentage of people living below the poverty line (BPL) was 54.5 per cent in 2004-05, which reduced only marginally to 53.5 per cent in 2009-10. This is surprising as many states with lower economic growth saw much higher poverty reduction during this period. While many commentators use this evidence to jump to the conclusion that Bihar has pursued a growth model that benefitted only the rich, a closer look at the data suggest that it would be a mistake to take the poverty figures of 2009-10 seriously. This is mainly because 2009 was not a 'normal' year as Bihar (and many other states) faced severe drought that resulted in 11 per cent reduction in agricultural output, which in turn lowered the income level of around 76 per cent of households that are dependent on agriculture and allied activities for their livelihood.

Poverty estimates based on the 2011-12 round of NSS data, recently released by the Planning Commission of India, is consistent with this hypothesis. It shows that percentage of BPL population in Bihar is only 33.74 per cent, which means a massive 20 percentage point reduction within two years. This is incredibly high and can be true only if 2009-10 was an outlier year.

Let's therefore disregard the estimates of 2009-10 and compare the estimates of 2004-5 with 2011-12 for further analysis. How do we rate Bihar's 20-percentage-point reduction in poverty over a period of seven years, when Bihar's average growth rate during that time was almost 10 per cent? On ranking 20 bigger states of India in terms of total poverty reduction during this period, we find that Orissa tops the list with 24 percentage points, followed by Maharashtra, Bihar, Andhra Pradesh and Rajasthan, all of which report an approximately 20 percentage points' reduction in the poverty ratio. The good news is that Bihar is in the top three states in terms of total poverty reduction, which dispels the myth that Bihar's growth had little impact on poverty reduction.

However, Bihar's performance is not as impressive as its growth rate: many other states with lower rates of economic growth managed similar reductions in the poverty level. Clearly, Bihar needs to make its economic growth more pro-poor.

Given the fact that two thirds of Bihar's population is dependent on agriculture, boosting agricultural growth is likely to be the most effective way of enhancing the poverty-reducing effects of economic growth. The government of Bihar has prepared a long-term roadmap for agriculture that attempts to address some of the challenges, but it seems that the biggest constraint to agricultural growth in the state is the government's inability to implement land reforms. West Bengal, Bihar's neighbouring state, which was also under the permanent settlement regime under the colonial government and faced similar problems in the agriculture sector, managed to implement land reforms in late 1970s that have had a major impact on agricultural growth for decades (Banerjee et al 2002).

The Government of Bihar did set up a land reforms commission in 2006 but has not been able to implement its recommendations due to strong opposition from the upper castes who continue to wield immense political power. Admittedly, it might not be politically feasible for the current government to take up radical land reforms measures such as land redistribution. But it is possible to strategically implement some of the less sensitive land reforms on a priority basis: updating land records, tenancy registration, and better enforcement of tenants' interests. Even these second best reforms, as Besley & Burgess (1999) have shown, are associated with significant poverty reduction. The tenancy reforms lead to poverty reduction through various channels. First, increased tenurial security leads to higher investment in land, which raises long-term productivity and the income level of the cultivators. Second, tenancy registration allow the sharecroppers/tenants to avail benefits of several government programmes that are generally available only for owner cultivators. Third, these reforms also result in higher agricultural wages, which improves the welfare of landless households.

Bihar's economic growth, which was more than 14 per cent in the last financial year, continues to defy the recessionary forces that India is facing. However, the extent to which this spectacular growth translates into poverty reduction depends on the government's ability to remove binding constraints for agricultural growth.

Chinmaya Kumar is a Country Economist for the International Growth Centre's India-Bihar programme.

References

Acharya, Shankar (2013), "Progress and Poverty in Bihar", in N.K. Singh & N. Stern (eds), *The New Bihar*, Harper Collins.

Banerjee, Abhijit, and Lakshmi Iyer (2005). "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." *American Economic Review*, 95(4): 1190-1213.

Banerjee Abhijit, Paul Gertler & Maitreesh Ghatak (2002). [Empowerment and Efficiency: Tenancy Reform in West Bengal](#), (with. *Journal of Political Economy*, Vol. 110, No. 2, April 2002

Besley Timothy and Robin Burgess (2000), "Land Reform, Poverty and Growth: Evidence from India" Quarterly Journal of Economics, 105(2).

- Copyright © 2016 London School of Economics