

Resource transfers to local governments: political manipulation and household responses in West Bengal

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Clientelism and vote buying are commonly mentioned symptoms of poor governance in developing countries. They are said to distort the disbursement of public spending, result in favoritism within constituencies and lower overall effectiveness of government benefit programs.

We, Pranab Bardhan, Dilip Mookherjee, Sandip Mitra and Anusha Nath have conducted an EDI case study on government benefit programs in West Bengal, India between 2004-2011.¹ We find that benefit allocations were subject to manipulation by elected officials for political reasons. Increasing political competition caused resources allocated to local level governments controlled by the opposing party to shrink, while those controlled by the same party expanded. Households responded to these variations in benefit flows in a manner consistent with clientelism: short term recurring private benefits such public works employment was most closely associated with political support for the local incumbent. Public benefits such as roads did not have any effect on political support; neither were road programs manipulated by upper-level bodies in response to increasing competition.

Since 2011, the Government of West Bengal has initiated efforts to introduce formula-bound benefit transfers based on need and merit. However, the formulae used so far have been ad hoc. Our analysis and data can help assess the effectiveness of different formulae for targeting benefits. The State Finance Commission has expressed interest in such analysis, which we plan to carry out as a follow up to this paper. Other ongoing EDI research projects will complement this.

¹ Pranab Bardhan, Dilip Mookherjee, Sandip Mitra and Anusha Nath (2018), Resource transfers to local governments: political manipulation and household responses in West Bengal. Available at: www.edi.opml.co.uk.

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Motivation

Clientelism and vote buying are commonly mentioned as symptoms of poor governance in developing countries, which reduce the capacity of the state to spend public resources effectively to promote infrastructure, provide safety nets and reduce poverty (Stokes, Dunning, Mazareno and Brusco 2013). Theoretical analyses of clientelism predict various distortions in state expenditure programs, such as insufficient spending on public goods (roads, canals, public health, functioning schools) and on private long-term 'one time' benefits (land titles, citizen registration, access to housing and sanitation) and excessive spending on short-term 'recurring' benefits (employment in public works, subsidized loans, inputs and food). These theories also predict politically motivated inequality in devolution of funds to local governments by elected legislators and officials in upper layers of government, and in allocation of benefits by local governments across different citizens. The latter category of distortions, especially within-constituency targeting of benefits, have figured prominently in discussions of elite capture of local communities in the literature on decentralization in developing countries (World Bank 2004, Mansuri and Rao 2014, Mookherjee 2015). Less is known about across-constituency targeting, as well as the role of clientelism in generating targeting failures.

Study overview

These considerations motivate our current paper, which examines the delivery of a wide range of government benefit programs to citizens in rural West Bengal, a state in eastern India. We use various rounds of a household survey to create a panel dataset of benefits of different kinds received by households between 2003-2011, and the support they expressed for different political parties in 2011. The study is conducted at two levels. The *upper layer analysis* examines variations in benefits across different local governments, to gauge political manipulation of their program budgets by the influence of elected officials at higher levels of the government. The *household level analysis* investigates how receipt of various benefits by households affected political support expressed by their respective heads. Finally, we examine the consistency of the results across the two layers: did upper level governments engage in greater manipulation of the programs whose benefits were more effective in generating political support?

We use disaggregated data on receipts of benefits of different kinds by households in different years. Program scales at the local government level are estimated by the per capita reported household benefits, instead of administrative data prone to manipulation. To isolate exogenous sources of variation in political competition, we utilize redrawing of boundaries between state legislative assembly constituencies ('redistricting') carried out in 2007 by a politically neutral state Delimitation Commission composed of members of the national judiciary. In the Indian context, there are many constitutional restrictions on the process; in our data, we find no evidence of political manipulation of the redistricting. Hence, the reassignment of specific villages to different electoral constituencies provides a way to estimate the effects of exogenous variation in political incentives (alignment and competition) on allocation of benefits by local governments.

The upper-layer analysis provides evidence consistent with theoretical predictions generated by the hypothesis of clientelistic distortions. Specifically, we find large variations in the allocation of recurring benefits, smaller variations in one-time private benefits and no variations in public benefits by upper level governments to those at the most local level (gram panchayats (GPs)) when competitive stakes

were higher. Resources allocated to GPs controlled by the opposing party shrank significantly, while those controlled by the same party expanded. Households responded to these variations in a way that also confirms the theoretical predictions, and rationalizes the behavior of the upper level governments. Their political support for the local (GP) incumbent was strongly related to the receipt of private recurring benefits, with smaller responses to receipt of private one-time benefits. The effect of local-government-provided road benefits on political support for the incumbent were insignificant and negative.

Policy implications

A possible policy reform would reduce scope for discretion of elected officials at all levels by replacing existing programs with programmatic formula-bound transfers made directly to local governments (for infrastructure spending) and households (for private benefits) on the basis of publicly available measures of need and merit. Faguet (2004) argues the adoption of formula-based grants to local governments in the 1995 decentralization reform in Bolivia dramatically reduced inequality of public expenditures between poor rural and affluent urban areas. The Government of West Bengal has initiated efforts to improve local government institutions and financing over the last decade, in collaboration with the World Bank Institutional Strengthening of Gram Panchayat program covering 1000 GPs in the state since 2010 (World Bank 2010). In combination with recommendations of the Third and Fourth State Finance Commissions of West Bengal, and successive Central Finance Commissions, GPs are now receiving larger grants based on transparent criteria of performance and need. The formulae used so far have been ad hoc. A key question is how to design formulae for the allocation of benefits.

Our paper shows that in the absence of such formulae prior to 2011, some allocations may have responded to genuine need of beneficiaries or performance of local governments, but there was a significant extent of manipulation by elected officials for purely political reasons. Our analysis and data can help estimating what the consequences of alternative formulae for targeting benefits would have been, and compare them with the actual allocations that were observed. In particular, we can assess the targeting effectiveness of formulae proposed by the Third and Fourth State Finance Commissions, and of alternative formulae that we could propose. The Chairman of the Fourth State Finance Commission has expressed interest in such an analysis, which we plan to carry out as a follow up to this paper.

Authors:

This brief was prepared by Pranab Bardhan, Dilip Mookherjee, Sandip Mitra and Anusha Nath.

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Further reading

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