
Democracy, Public Expenditures, and the Poor: Understanding Political Incentives for Providing Public Services

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The incentives of politicians to provide broad public goods and reduce poverty vary across countries. Even in democracies, politicians often have incentives to divert resources to political rents and private transfers that benefit a few citizens at the expense of many. These distortions can be traced to imperfections in political markets that are greater in some countries than in others. This article reviews the theory and evidence on the impact on political incentives of incomplete information for voters, the lack of credibility of political promises, and social polarization. The analysis has implications for policy and for reforms to improve public goods provision and reduce poverty.

Governments can accelerate economic development through their decisions on public expenditures. Allocated appropriately, public expenditures can overcome market failures that exacerbate poverty, such as the inability of poor people to borrow for education or to learn about preventive health care or the existence of externalities that increase the public health hazards that disproportionately hurt poor people. Allocation is often inappropriate, however. Public spending goes to wage bills for bulky state administrations, farm subsidies absorbed by the wealthiest farmers, or public works projects with limited public utility, all at the expense of the quality of public services. The Millennium Development Goals and many efforts around the world to “empower” poor people, whether through devolved decisionmaking or through participatory budgeting, are all responses to these failures of government expenditure policies.

Misallocation has persisted despite a sea change in the way in which governments are selected and remain in office. From 1990 to 2000 the number of countries governed by officials elected in competitive elections rose from 60 to 100 (Beck and others 2001). Low-income voters make up a large share of the electorate in many

countries, and democratization might be expected to benefit them. However, policy-makers in poor democracies regularly divert spending away from areas that most benefit the poor or fail to implement policies that improve the services that are known to disproportionately benefit poor people.

In most countries, the distribution of income is skewed toward the higher end of the income spectrum. The median voter hypothesis (that the policy most preferred by the median voter can defeat any other policy proposal under majority rule) implies that when the income of the median voter is less than the average income of all voters, government should be larger and social services should be correspondingly more extensive (Meltzer and Richard 1981). This model evidently does not hold in many low-income countries, because in many countries where the median voter is poor, social services are especially deficient. Moreover, there is little evidence that redistribution is greater in countries with greater income inequality (Knack and Keefer 1997). Political market imperfections, which disrupt the translation of voter preferences into government policy, help explain this puzzle.

This article focuses on three political market imperfections that are particularly important for understanding government incentives to serve the poor: lack of information among voters about the performance of politicians, social fragmentation among voters manifested as identity-based voting, and lack of credibility of political promises to citizens. Efforts to improve the quality of public policy for the poor may fall far short of their goals unless efforts are expanded to address those political market imperfections.

One difficult conclusion of the analysis is that the broad public services most important to the poor—health and education—are the most vulnerable to these three distortions. Political pressures to improve these services are therefore weakest. With respect to information, citizens cannot easily evaluate the quality and efficiency of these services. Even when they can, they cannot easily determine whether service providers, higher-level ministry officials, or politicians are responsible for breakdowns or improvements. Similarly, politicians in many countries can make credible promises only to narrow groups of voters. It makes little sense for politicians to promise reforms that benefit large numbers of voters when only a few voters believe these promises. These politicians prefer to promise narrow targetable goods, such as infrastructure, rather than improvements in broad public services. Social polarization exacerbates these problems because it raises the possibility that one group may oppose a broad reform from which it would benefit if the reform would also benefit other groups.

Low demand for social services by poor people is an unlikely explanation for pervasive failures of social service provision, as the next section argues. The following sections assess the impact of each of these imperfections in political markets, particularly on social service provision, and then demonstrate how these political market imperfections help explain one of the more striking contrasts in government policymaking—the

famous cases of the states of Uttar Pradesh and Kerala in India. The lack of voter information, greater social polarization, and the noncredibility of political party platforms in Uttar Pradesh explain its poor performance on social services compared with Kerala. The final section explores some implications of this political economy analysis for policy initiatives to improve the allocation of public resources.¹

Politics and Social Services

There is ample evidence that governments, particularly in poorer countries, prefer to spend more on targeted programs, such as government jobs or infrastructure investment, than on improvements in broad social services. Feyzioğlu and others (1998) find that governments receiving foreign aid targeted to education are likely to offset the funds by reducing their own financing of education. When aid is used to support public infrastructure investment (transportation and communications), however, governments tend to maintain their own fiscal efforts in the provision of these goods. Foster and Rosenzweig (2001) and Pande (2003) show that when disadvantaged groups in India—the landless poor and scheduled castes—were newly able to elect their own representatives, more government resources flowed toward these disadvantaged groups. But the increased flows took the form mainly of increased access to government jobs and targeted welfare transfers, not of improved education or access to other broad-based social services—even though the resource cost of such improvements, relative to the likely welfare gains, might have been much smaller.²

The preference of politicians for “pork barrel” or targetable spending is not the exclusive province of developing economies. It has been widely documented in the United States (see, for example, Mayhew 1974). The problem for development is that many governments have exaggerated preferences for targeted expenditures. For example, a large and disproportionate share of expenditures in health and education typically flows to the salaries of teachers and health workers, yet absenteeism and shirking are rampant, so that no effective services are provided in many cases. In India, where recurrent expenditures account for 98 percent of government expenditure on primary education, salaries account for 96 percent of recurrent expenditures (Tilak 1993, p. 60). Yet field investigations in rural areas, particularly in the north, reveal that teacher absenteeism is endemic, with almost two-thirds of the teachers employed in the sample schools absent at the time of the investigators’ unannounced visits (Drèze and Gazdar 1996; Weiner 1991; Prasad and Eswara 1987).

Governments use resources to provide (targetable) jobs rather than (less targetable) high-quality services. Service delivery falls far below the levels that even poorer countries can afford, suggesting that the tradeoffs between targeted and nontargeted public expenditures are much steeper in developing economies than in developed countries.

The problem is not simply “capture” of the levers of government policymaking by the “rich.” Even explicitly propoor programs frequently take the form of targeted (and often unsustainable) redistribution programs, such as free food and temporary employment in public works, even when cheaper broad-based programs to improve basic health and education services would have a bigger impact on welfare. At the same time, apparently broad-based programs benefit mainly special interests or the rich. Bates (1981) has shown for Africa that agricultural subsidies, such as price protection and subsidized electricity, disproportionately benefit middle-size and large farmers, who grow the protected crops and are more likely to engage in capital-intensive, power-driven private irrigation. India provides a wealth of examples, ranging from power subsidies to fertilizer subsidies, exhibiting the same characteristics. Once again, such biases are well-known in all democracies but are particularly extreme in many developing areas.

It is similarly unlikely that failures of social service provision are rooted in lack of citizen demand. A common finding of village studies and household surveys in India is that members of disadvantaged groups widely view education as the most promising chance for a better life for their children (Drèze and Sen 1995).

A thought experiment also makes clear that demand-side considerations alone cannot explain why the landless poor, even if they are fully informed about the value of education, might still prefer targeted jobs. Suppose that a village with 30 families must choose between a single job for a randomly chosen individual in the village or the provision of a teacher from outside the village who would instruct one child from each family. Assume that literacy raises the present value of each child’s lifetime income by 30 percent, that literacy takes five years of education to achieve, and that the present value of each child’s income, absent education, would be the same on average as that of the average wage earner in any of the village families. Then the total value to all 30 families of having the teacher (assuming the teacher is guaranteed to stay for five years) would be 0.3 times 30 times the present value of the average wage earner’s lifetime income.

To match this wealth effect, and even assuming that the job offered in lieu of a teacher was guaranteed for the life of the beneficiary, the job would have to pay 10 times the average wage to make the expected value of the job to the village the same as the expected value of the teacher. The demand for education would therefore have to be extraordinarily low to explain the apparent preference of the poor in many developing economies for jobs and subsidies over schools and clinics.³ However, because the poor are often observed to make large sacrifices to educate their children despite imperfect credit markets and discount rates that are not particularly low, it makes sense to look beyond demand-side issues in asking why voters in some countries do not pressure politicians to provide high-quality education.

Why does Political Competition Fail to Induce the Optimal Provision of Public Goods?

It is easy to show the conditions under which, in a simple median voter model with no political market imperfections, governments always provide the optimal level of public goods. In the real world, where such imperfections are endemic, political incentives to provide public goods fall far below the optimum. One key imperfection that upsets the relationship between citizen preferences and politician decisionmaking is that citizens cannot easily observe the contributions that a specific politician makes to policy nor the connection between policy and their own welfare. Imperfect information makes it difficult for citizens to assign credit or blame. Politicians therefore have heightened incentives to seek rents rather than to provide public goods.

Another imperfection arises because citizens are heterogeneous with respect to income, ideology, religious belief, language, and the value they attach to different public goods, occupations, and locations. These differences affect citizen preferences for government policies and public goods. Moreover, if citizens prefer politicians from a particular ethnic group at all costs, these preferred politicians are not likely to face opposition if they perform poorly.

The lack of credibility of political competitors is the final major disruption in the relationship between citizens and government. In the worst case, when political challengers cannot make credible promises to any voters, the threat of political competition imposes practically no constraint on incumbent politicians. Incumbents, knowing that voters do not believe challengers' promises to do a better job, feel freer to underperform and seek rents.

These imperfections—information asymmetries, social polarization, and non-credibility of political promises—undermine the role of elections in guaranteeing accountable and responsive government. Each imperfection is explored in greater detail in the sections that follow. Substantial evidence suggests that all are important sources of distortion in political markets. Reform efforts designed to improve the access of poor people to better-quality social services need to address them explicitly to be successful.

Impact of Imperfect Information on the Provision of Social Services to Poor People

Information constraints reduce the ability of citizens to hold politicians accountable and encourage politicians to cater to special interests, thus distorting incentives to provide social services to poor people. Even if poor people actively participate in the political process, imperfect information about individual politician's contributions to social service improvements can distort incentives. Broad segments of the poor population might be particularly disadvantaged in accessing information—because of

illiteracy, limited mobility, and underdeveloped media for mass communications—creating space for organized and informed special interests to push for narrowly targeted policies at the expense of broad services.

Social services have several characteristics that present substantial information challenges to citizens attempting to assess a politician's contributions and to structure punishments and rewards based on the quality of services available to them. Because of these information problems, politicians prefer to expend resources on constructing and staffing schools and clinics, even if they remain empty and unused, for example, than on improving the quality of services. Politicians get some credit for easy-to-observe buildings and jobs but little or no credit (or blame) for the quality of services available. Mani and Mukand (2002) show that if elections are intended to enable voters to select the most competent candidates, then resource allocation will be biased against public goods whose outcomes are more noisy and harder to use to assess politician ability, and politicians will have an incentive to provide goods that are better signals of high ability.

First, the quality of services that actually affect citizen welfare, such as health and education, depends more on the day-to-day behavior of providers than on any easily observable actions of remotely located politicians. Although policy decisions by politicians, such as in teacher management or preventive health care initiatives, can strongly influence provider incentives and behavior, citizens need specific and substantial information to determine which policies have contributed to better-quality services.

Second, measurable benefits (or costs) may not emerge until several years after the policy action has been taken, making it difficult for voters to reward (or punish) political agents within a particular electoral cycle. The effects of education reforms, for example, are typically difficult to verify until a cohort of students has been exposed to them over an extended period.

Third, providing service jobs for constituents is the sort of activity for which politicians in low-information societies can easily take credit. Like roads and buildings, jobs are easily targeted and highly visible. But it may be politically more rewarding to give jobs to unqualified people who have fewer other job opportunities and therefore owe a greater debt to politicians than do highly qualified people. Gazdar (2000) and the World Bank (1998, 2001) show that nonprofessional qualifications are key factors in the placement of teachers in Pakistan. Similar reports from the Dominican Republic suggest that the posting of teachers is highly discretionary and not clearly related to educational concerns (Keefer 2002b).

Fourth, if poor people are particularly uninformed participants in the political process, broad social services can also suffer as politicians make policy concessions to organized and informed special interests. Uninformed voters may be unduly swayed by political campaigns and advertisements rather than by independent evaluations of the performance records of competing candidates. Special interests—single

firms, groups of manufacturers, farmers, public sector employees, or subsidized retail store owners—purchase narrowly targeted policies by providing campaign finance (Baron 1994; Grossman and Helpman 1996). These special interests need not be rich, but they are, by definition, informed.⁴

There is little direct evidence on the information available to or used by voters who are poor. Indirect evidence demonstrates the general importance of information for political accountability, however. One piece of evidence concerns the impact of exogenous shocks on voter behavior. Voters regularly punish politicians when exogenous conditions are unfavorable and reward them when those conditions are favorable. In Indian states, governments tend to lose elections in years of poor rainfall. In the United States, voters in oil-producing states tend to reelect incumbent governors during global oil price booms and vote them out of office when oil prices drop (Wolfers 2002). Unobservable or difficult-to-observe shocks that disrupt the connection between electoral success and government performance can undermine government incentives to perform at a high level.

A second strand of evidence on the importance of information comes from the literature on electoral cycles in monetary and fiscal policies. Large and systematic electoral cycles in policies are more likely to occur when voters are ill-informed about the competence of politicians and their contributions to a voter's welfare.⁵ Cross-country evidence indicates that electoral cycles in monetary and fiscal policy are significantly larger in developing economies (Block 2002; Schuknecht 2000; Shi and Svensson 2000). Shi and Svensson (2000) establish a direct link between electoral budget cycles and limited information available to voters. They show that some of the difference in the size of political budget cycles across countries is due to variations in access to free media—the greater the access, the smaller the observed budget cycles. Evidence of election cycles in the composition of public spending in India, a long-standing democracy, is also suggestive of the impact of information constraints on service delivery. Khemani (2004) finds that as elections near, state governments increase expenditures on easily observable public investment projects and decrease them on more broad-based public services. State governments in India also increase targeted tax breaks to narrow groups of producers before elections, actions that may be intended to elicit special interest contributions to campaign financing.

To mitigate information problems, the evidence suggests that improving accountability does not require that all voters be deeply informed, only that most voters share some information about political responsibility for key policy outcomes. Studies in the United States have shown that voters adopt simple voting criteria based on very limited information about politics and public policies (Ferejohn and Kuklinski 1990). Fiorina (1990) emphasizes that the information that people use when they vote comes from the ordinary performance of social and economic roles and is therefore “free.” Fiorina and Shepsle (1990) and Chappell and Keech (1990) argue that citizens can employ voting rules requiring very little information and still motivate politicians to pursue policies in their interest. Ferejohn (1990, pp. 8–9) captures this

process as follows: “Find a way to get the electorate to commit itself to act as though it is a simple principal with a one-dimensional set of rewards. In this way, incumbents will be prevented from taking advantage of the conflicting interests in the electorate.” This suggests the potential for citizens to coordinate information about particular policies and thereby coordinate voter responses for greater political accountability.

Coordination problems emerge when the information diverges greatly across the population or is unavailable. The content of “free” information can vary widely across the electorate depending on the differentiation of occupations and social settings in the economy and the reach of mass media. For example, do poor people listen to state-controlled radio while well-off groups read independent newspapers? Only when a large enough part of the electorate is exposed to the same information is there a threat of coordinated voter action in response to underperforming incumbent governments (Ferejohn 1990; Iyengar 1990; Ottati and Wyer 1990).

There is some evidence for the role of mass media in spreading and coordinating information among the electorate and thereby improving political accountability. Strömberg (2001) finds that between 1933 and 1935 in the United States federal assistance to low-income households was greater in counties where more households had radios and were thus more likely to be informed about government policies and programs. The spread of radio particularly improved information access for rural voters, accounting for as much as 20 percent more in social assistance funds to a rural county than an identical urban county. Besley and Burgess (2003) show that state governments in India respond more to declines in food production and crop flood damage through higher public food distribution and calamity relief spending where newspaper circulation, particularly in local languages, is greater.

Such evidence confirms that when voters are informed about particular policies they are able to extract greater resources and better performance from political agents. But it does not tell us whether an increase in media access improves government incentives either to target the neediest citizens with transfers or to invest in public goods benefiting large segments of the population. It could be that the mass media make it easier for politicians to take credit for targeted payoffs to particular constituencies, leading them to reduce expenditures on public goods or on broad-based social programs. In countries where the reach of information media is limited and difficult transportation and communications systems divide the electorate, coordination is less likely. The information base of poor rural citizens of developing economies might therefore be skewed in a way that diminishes their ability to hold elected officials accountable for the quality of public services.

This evidence suggests that reforms to solve information problems should include loosening restrictions on the media, including dependency on government advertising, and reducing barriers to entry for media firms. But promoting competitive media markets may not be enough to ensure adequate coverage of government performance. Competitive information media might provide inadequate information if the markets

they serve consist largely of better-off groups that do not consume public services. They also might not be able to solve the problem of voter coordination, because differentiated products providing different types of information might appear when barriers to entry are low.⁶ External interventions, such as journalist training, subsidized information transmission, or information campaigns by civic society organizations, may be useful in promoting the diffusion of the information needed for political accountability, particularly in poorer countries.

There are numerous examples of successful information campaigns on public services, but no rigorous evidence for what kinds of information dissemination strategies systematically alter the nature of political competition. A well-known example is the public service report cards developed by the Public Affairs Centre in Bangalore, India (www.pacindia.org). Still, some types of information and dissemination strategy would seem likely to make more of a difference in improving political incentives than others. Information about broad public sector performance aggregates, for example, whether based on surveys, budget studies, or report cards, is likely to be politically relevant only if it provides individual voters with some notion of how their own government representatives have hurt or helped them. Information is more likely to promote reform when information providers are able to coordinate voter responses to poor service provision by moving beyond information collection and dissemination and taking a more aggressive stance toward political accountability. Thus information campaigns need to tell citizens not just how bad services are and which are worse than others—information that citizens tend to have already—but also how bad the services are in their neighborhood relative to others, who is responsible, and whether specific policy reforms have resulted in improved services.

Finally, the information burden on voters is lightened if the key actors are political parties rather than individual politicians. It is difficult for voters in one electoral district to hold their elected officials responsible for problems in social service delivery that afflict the entire country. The influence of individual legislators on overall government policy is difficult to establish, and in any case voters know that individual legislators are likely to have little influence over public services. Where parties are institutionalized, however, and exercise substantial control over their members, voters can more easily assign responsibility for poor performance.

Social Polarization and Provision of Services to Poor People

Social services for poor people also suffer when societies are deeply divided, an acute problem in many developing areas. Studies of electoral politics in India show that identity characteristics along ethnic, linguistic, and religious lines dominate political behavior (Weiner and Field 1974). An experimental study in Benin confirmed that social cleavages along ethnic lines often play a prominent role in determining political behavior (Wantchekon 2003). In socially or ethnically fragmented societies voters

tend to vote for candidates that they identify with most closely, whatever their performance records. Political competition among parties also concentrates on identity issues, and candidates are nominated from constituencies largely on the basis of demographic calculations of ethnicity and religion. Like uninformed voters, polarized voters are less able to hold politicians accountable for their performance in office. There is compelling evidence to show that the provision of public goods suffers under these conditions because politicians in polarized societies rarely internalize the societywide costs and benefits of their policy decisions.

In a cross-country study, Easterly and Levine (1997) find that ethnic diversity is negatively correlated with the quantity and quality of such public goods as measured by the percentage of paved roads, the efficiency of the electricity network, and years of schooling of the population. For cities in the United States, Alesina and others (1999) show that shares of public spending on productive public goods—education, roads, sewers, and trash pick-up—are inversely related to the city's ethnic fragmentation. Miguel (2001) concludes that higher levels of local ethnic diversity in Kenya are associated with sharply lower contributions to primary school funding and worse school facilities.

The effects of identity politics are especially dramatic when minority groups lack political power. In India, Betancourt and Gleason (2000) find that districts with a higher proportion of traditionally disadvantaged groups—scheduled castes and Muslims—receive lower public inputs in health and education. Similarly, Banerjee and Somanathan (2001) find that districts with a higher share of scheduled tribes receive significantly fewer desirable public goods. They also find some evidence linking ethnic heterogeneity and public goods delivery to underlying political incentives—districts that are ethnically fragmented are also likely to be politically fragmented, with elections in these districts having a larger number of contestants and a smaller vote share for the winning party.

There is also substantial anthropological and anecdotal evidence that disadvantaged groups in India are systematically excluded from using public goods within their own villages by social processes of discrimination. Micro-level case studies and survey evidence from India show that inequality in education access and achievement is significant within some villages, with privileged castes having enjoyed nearly universal adult literacy for several decades, whereas disadvantaged castes in the same village still have literacy rates close to zero (Drèze and Sen 1995).

Adverse policy effects do not emerge in all countries with profound caste, religious, tribal, racial, or other differences. The affinity-based voting patterns observed in India and Nigeria are not evident in the United States or Western Europe, for example. Surveys of voting behavior in the United States in the 1950s and 1960s (Campbell and others 1966) find that an overwhelming determinant of voting behavior is the ideological identification of voters with political parties. In this case, though, ideology has significant policy roots in citizen identification with the perceived position of political parties on a wide range of social and economic issues.

Devising interventions to soften the social divides in a country thus requires understanding why these divides drive politics in some countries but not in others. One possibility is simply that members of the same ethnic, religious, or social group may value each others' welfare more than they do the welfare of members of other groups. Historic antipathies between groups may even mean that reductions in welfare for one group improve welfare for others. In the end such arguments simply say that group preferences are buried in the utility functions of citizens. To the extent that this is the case, the design of appropriate interventions is best guided by psychological and sociological insights into what sorts of information about and interactions between different groups would best reduce the animosity that divides them.

A second explanation, the focus of the next section, is that when political competitors are generally not credible, voters often believe only the promises of competitors with whom they have personal connections. In the United States parties have established credible positions on certain issues. Voters then appear to be “ideologically” committed to the party when they are simply committed to the policy positions with which those parties are credibly associated. In India and Nigeria, though, the problem is the reverse. Voters believe promises only from political candidates within their own ethnic or religious groups; those promises are therefore necessarily narrow and targeted to members of that ethnic group. Political promises for broad-based public services that cut across social groups are not credible.

Examination of the effects of increasing the political power of minority groups suggests that both animus and credibility may explain the role of social polarization in political competition. India, for example, instituted political reservations for scheduled castes and tribes in national and state legislative assemblies. Pande (2003) finds that mandated reservations in state legislatures resulted in increased public sector job quotas for scheduled castes, but significantly lower resources allocated to education. The antagonism of the majority toward the scheduled castes and tribes explains why benefits (jobs) grew along with political influence for scheduled castes and tribes. But because the new representatives of the disadvantaged groups could make credible appeals only to their own ethnic groups, they favored targeted rather than broad public goods, even when broad public goods would have brought larger benefits to their groups per rupee expended.

Credibility and the Provision of Social Services

As discussed, politicians may be unable to make credible promises to citizens because of imperfect information—when citizens cannot easily verify whether public goods have been provided, politicians have an incentive to underprovide relative to what they promise. Promises about social service provision are particularly difficult to verify. Knowing this, citizens disregard promises to improve social services, and politicians stop making such promises. Another reason for the inability to make credible promises

is the absence of penalties for renegeing on promises. In particular, citizens do not believe the promises of a politician who would experience no reputational loss from renegeing, such as a politician who is not expected to seek office in the future or who has no history of fulfilling promises.

When preelection promises are not credible, elections become less effective instruments for holding politicians accountable. Even in the best case, when voters can coordinate on ex post performance standards and turn out incumbents who fail to meet them, public goods are still underprovided, targeted transfers are not provided at all, and rent-seeking is high (Persson and Tabellini 2000). In the worst case, if voters cannot coordinate, elections are useless and rent-seeking prevails (Robinson and Verdier 2002).

Clientist Governments. In low-credibility environments, elections would thus have little meaning and politicians would never authorize narrow, targeted expenditures. In countries lacking established political parties with clear policy reputations, however, politicians typically feel threatened by elections and are deeply concerned about their ability to deliver targeted transfers to constituents. Keefer (2002a) suggests that these outcomes emerge when politicians can make credible promises only to voters with whom they have built a personal reputation. Such ties emerge most clearly in the “patron-client” relationships that a large body of literature identifies with the politics of developing economies. Credible politicians are, for example, locally influential people who have helped families with loans or jobs or assistance with legal or bureaucratic difficulties. In the absence of well-developed political parties or national party leaders who are more broadly credible to voters, the promises of such influential people are all that voters can rely on in making electoral choices.

Patrons have relatively weak incentives to provide public goods because they benefit nonclients as well as clients. Promises of buildings and government jobs become the currency of political competition at the expense of universal access to high-quality education and health care. Narrowly targeted goods can be provided to individuals and small groups of voters and therefore are clearly seen as evidence of political patrons fulfilling their promises to clients—recalling that only clients believe promises in the first place. Universal access by definition is not easily targeted. Improvements in quality are also difficult to target, both because they tend to involve managerial improvements that spread throughout the system and because they are difficult for voters to attribute to politicians. For example, if teacher quality or attendance has improved, voters cannot distinguish whether that happened because of their own pressure on the teacher, because the teacher decided to do a better job, because of a generalized reform in teacher quality that is affecting all teachers, or because of the targeted intervention of a particular politician.

Evidence supports the notion that clientelist governments have a stronger than average preference for targeted infrastructure provision, are more corrupt than

average, and underprovide education. For example, Keefer (2000a) argues that in young democracies political competitors, especially political parties, are less likely to have built up reputations through repeated electoral cycles. Political competitors in young democracies are therefore less likely to be able to make credible promises to all voters and are more likely to rely on clientelist promises. Targeted spending—public investment—is higher in young democracies than in old, secondary school enrollment is lower, and corruption is greater.

Qualitative evidence from Pakistan supports this logic. Competitive elections were a regular feature of the political landscape of Pakistan during the 1990s, but credible promises by political parties or political leaders to voters were supported largely by clientelist relationships and related to targeted transfers rather than broad public policies. There is little evidence of political competition on the basis of broad policy promises, nor of distinctions among the major parties by their stances on broad policy issues. In this kind of environment the provision of broad-based public goods would be expected to be low and the provision of targeted goods to be emphasized.

Indeed, compared with countries with similar incomes per capita and demographic characteristics (age and proportion rural), primary school enrollment in Pakistan in 2000 was 20 percentage points less than would be expected. Access to potable water, however, was 25 percentage points higher than expected. Investments in potable water, particularly in rural areas where they consist largely of well-drilling, are particularly easy to target and their benefits are immediately accessible and observable (World Bank 2002).

Short Time Horizons. Pakistan also illustrates the importance of a long time horizon for ensuring the credibility of political promises. For decades Pakistan has been marked by political instability, with the tenure of incumbent leaders frequently cut short. During the 1990s, no elected government completed its term, so voters and elected officials had short time horizons. This would have generated a marked preference for government provision of goods that generate benefits immediately and would not be dependent on the decisions of future governments. Political competitors with short time horizons are unable to credibly promise to implement projects that require a long time to bear fruit. Promises that concern jobs or public works projects, by contrast, can be fulfilled with little delay after an election, and their benefits can be quickly realized and recognized by voters. Government services, such as education, become considerably less useful to politicians because these services have long time horizons.

Schooling yields few benefits until students achieve literacy and numeracy, which may not occur before grade 4. In Spain, returns to education are low before grade 10, but returns spike after completion of grade 4 (Sanmartín 2001). Glewwe and Jacoby (1994), in examining the determinants of student achievement in Ghana, gave subjects a basic reading and mathematics test. Performance was so poor for students who had not advanced beyond grade school that they were excluded from the sample, and

the study focused on middle school achievers only. To the extent that education also serves a signaling function, the horizon problem worsens: Receipt of formal credentials generates a discrete jump in the returns to previous years of schooling, but the credential is received only after a certain number of years of schooling.⁷

The horizon problem can have a significant impact on voter decisionmaking. Consider again the hypothetical case of the 30 families, each with a school-age child. These families can choose between a politician who promises to provide a job for one member of the community and one who promises to staff the school with a qualified teacher who is unrelated to the 30 families. Before the election the families do not know which one will get the job, so the expected value of the job to each family is 1/30 of the salary. If they know that the teacher will stay for five years, long enough for each child to become numerate and literate, then each family benefits from a 30 percent increase in lifetime income. If the teacher will stay less than five years, there is no benefit to education. These families prefer the politician who promises the teacher only if the promise is credible over the entire five-year period.

Institutionalized Parties. There is no direct evidence of the horizon effect on social service delivery, but there is documentation related to other long-term promises of governments. Arguing that the older a regime (number of years as a democracy or dictatorship) the longer the horizon of the political decisionmakers, Clague and others (1996) consider the security of property rights, which is clearly sensitive to the horizons over which government actors can make credible promises. They present evidence suggesting that the security of property rights is higher in both older democracies and older dictatorships. Keefer and Knack (2002) find that productive public investments, whose payoffs are largely in the future, fall when property rights are weak, whereas unproductive public investments (corruption and rent-seeking) rise. These results suggest that social service provision, particularly education, is likely to suffer when government officials can make credible promises only over short time horizons.

There is nothing inevitable about the formation of policy reputations, however. Although young democracies are less likely to exhibit institutionalized political parties, institutionalization is far from an automatic development as democracies age. For example, though political parties could gain by attempting to build strong policy reputations, there are strong political incentives in the opposite direction. In socially polarized countries, for example, there are political rewards to developing a reputation for favoring one group at the expense of another. As Glaeser and Shleifer (2002) show for the city of Boston and as the experience of Zimbabwe and countless other countries throughout history has clearly shown, politicians can often gain political advantage by fanning ethnic divisions. In the limit, as in Boston or Zimbabwe, electoral advantage is cemented by simply pushing the out-of-power ethnic group out of the jurisdiction.

The difficulties of developing political party reputations are more general than this, however. In an environment where no party is credible, the most successful

parties have leaders who are personally credible and have national reputations. If these leaders build up the party's apparatus and reputation separate from their own, they cement their party's hold on power but loosen their personal hold. Once the party is institutionalized, the barriers to entry for party leadership fall. Competitors no longer need the national profile that is required for success in the absence of institutionalized political parties. Given this tradeoff, it is not surprising that so many parties, for example, in Pakistan or Bangladesh, have failed to institutionalize.

Finally, reputation can develop for the "wrong" policies when there is uncertainty about the most effective instruments for achieving particular public objectives. Political competition may lead to a bad equilibrium in which only promises for inefficient policies are credible. New democracies established in poor, agricultural economies have historically adopted poverty-reduction strategies focusing on subsidies for consumption and agricultural production, at the expense of broad public services that may have higher returns in terms of poverty impact and economic growth. Once political reputations are established for particular policies, even if the policies are suboptimal, they will receive greater public resources than they would if all political promises were credible.

Given the obstacles to reputation building, interventions to strengthen the credibility of preelectoral promises of political competitors are difficult to devise. Many organizations seek to improve the professionalism of political parties. This can be important as long as it advances the policy basis of the party. Professionalization can also enhance the development of party machines, however. This may not be entirely bad: Relative to a personalized political system, a patronage-based party is likely to have a longer horizon and is more likely to provide public goods. However, competition between credible, policy-based parties that engage in some patronage is almost certainly better for public policy than competition between more purely machine-based parties.

The Dynamics of Political Competition and the Provision of Social Services: Uttar Pradesh and Kerala

Some of the most striking contrasts in basic health and education outcomes exist between neighboring countries or regions within the same country with comparable levels of economic development—between Sri Lanka, Thailand, and the southern states of India on the one hand, and Pakistan, Bangladesh, and the northern states of India on the other. Drèze and Sen (1995, 1996) have examined this contrast between the northern state of Uttar Pradesh and the southern state of Kerala in India. The two states have almost identical per capita income and poverty rates, but dramatically different outcomes in health and education (table 1). Human development outcomes are comparable to those in some of the richest nations of the world in Kerala but to some of the poorest in Uttar Pradesh.

Table 1. Contrasting Experience in Social Services, Kerala and Uttar Pradesh

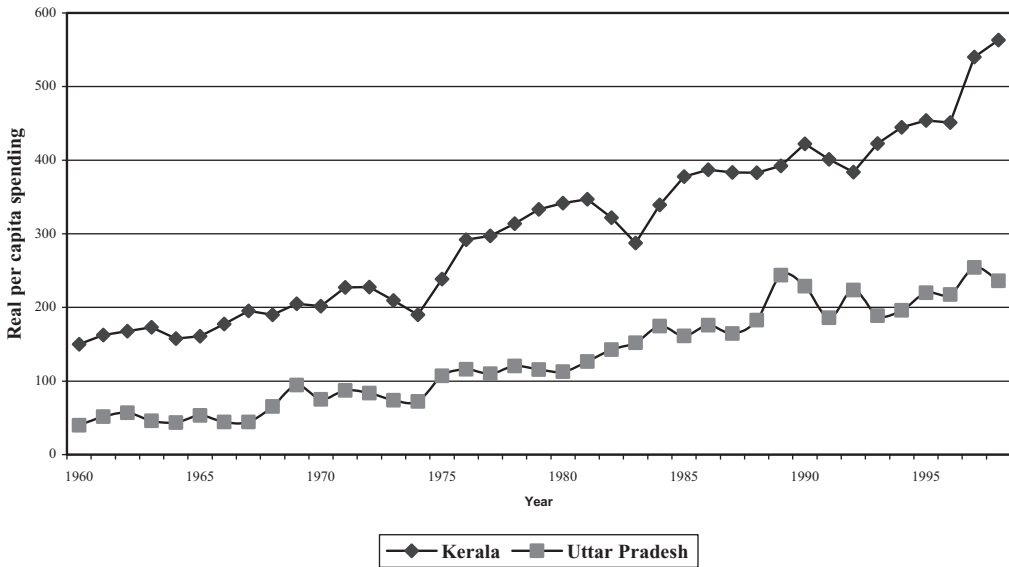
<i>Indicator</i>	<i>India</i>	<i>Kerala</i>	<i>Uttar Pradesh</i>
Per capita income in current prices, 1991–92 (rupees)	5,583	4,618	4,012
Poverty headcount ratio, 1987–88 (%)	44.9	44	47.7
Real per capita public spending on education, 1985–92 (1992 rupees)	228	309	147
Real per capita public spending on health, 1985–92 (1992 rupees)	70	82	49
Literacy rate, ages 7 and older, 1991 (%)			
Female	39.3	86.2	25.3
Male	64.1	93.6	55.7
Share of rural children ages 12–14 never enrolled in school, 1986–87 (%)			
Female	51	1.8	68
Male	26	0.4	27
Share of people ages 6 and older who have completed primary education, 1992–93 (%)			
Female	28.1	60.5	21.4
Male	48.6	65.8	47.3
Share of children ages 12–23 months who have never been vaccinated, 1992–93 (%)	30	11	43
Share of recent births preceded by an antenatal check-up, 1992–93 (%)	49	97	30
Infant mortality rate (per 1,000 live births), 1990–92	80	17	98
Proportion of villages with medical facilities, 1981	14	96	10

Source: Drèze and Sen (1995, 1996); public spending numbers from annual publications of the *Reserve Bank of India Bulletin* on state finances in India; India-wide numbers on public spending only for 15 major states.

Drèze and Sen attribute these stark differences in outcomes to differences in public action. Their analysis is reinterpreted here to emphasize the differences in political incentives between policymakers in the two states to provide social services to all. There are striking differences in real per capita public expenditures on health and education in the two states (figure 1). In each decade between 1960 and 1995, average real per capita spending in Kerala has been more than double that in Uttar Pradesh.

Kerala allocated 45 percent of public expenditures to education and health services in the early decades of democracy, and less than 30 percent to state administration—largely for jobs for nonservice providers (figure 2). During the same period, Uttar Pradesh (and most other Indian states) did the reverse, allocating

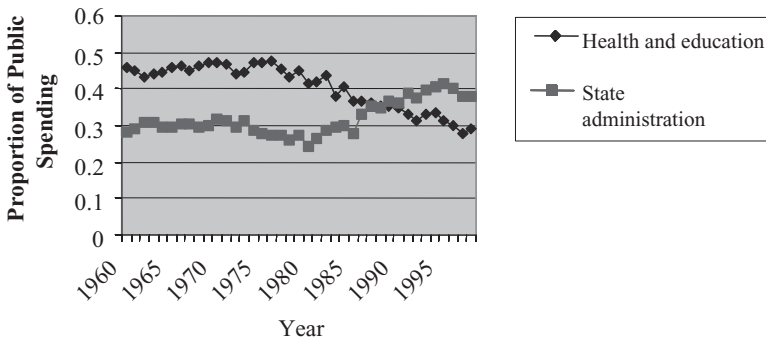
Figure 1. Per Capita Public Spending on Health and Education in Kerala and Uttar Pradesh 1960–95 (1992 rupees)



Note: Public spending data refer to the current account, which includes the bulk of spending on health and education.

Source: Nominal public expenditures, Reserve Bank of India Bulletin (various issues); price deflator and population, Ozler and others (1996).

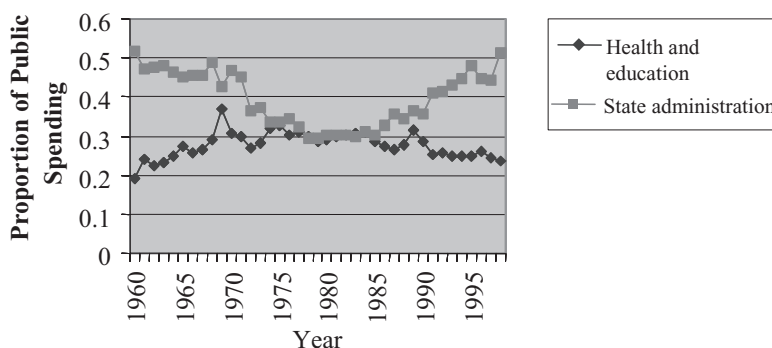
Figure 2. Distribution of Public Spending in Kerala on Health and Education and State Administration (percent of current account spending)



Note: Public spending data refer to the current account, which includes the bulk of spending on health and education. State administration includes interest payments.

Source: Reserve Bank of India (various issues).

Figure 3. Distribution of Public Spending in Uttar Pradesh on Health and Education and State Administration (percent of current account spending)



Note: Public spending data refer to the current account, which includes the bulk of spending on health and education. State administration includes interest payments.

Source: Reserve Bank of India (various issues).

almost 50 percent of public resources to state administration and less than 25 percent to health and education (figure 3).

The quality of public services is indisputably harder to target, but here the evidence is clear: The quality and effectiveness of public spending are higher in Kerala. Drèze and Sen review extensive evidence showing that public schools and health clinics in Kerala have high teacher and physician attendance and are well supplied, adequately maintained, and widely used. Many facilities in Uttar Pradesh simply lie abandoned.

Why did these differences emerge? Why do they persist? Why, for example, can a village school in Uttar Pradesh be nonfunctional for as long as 10 years because of teacher absenteeism and shirking, without any collective protest, whereas in Kerala there are massive demonstrations at the nearest district office if a primary health center is unstaffed for a few days (Dreze and Sen 1996)? Both states are in the same sovereign nation, and both have the same formal political and legal institutions. Both have had regular elections to their legislative assemblies since the 1950s in accordance with constitutional procedures and monitored by the Election Commission of India.

The answer must lie in the dynamics of political competition rather than in differences in the political institutions themselves. These include differences between the two states in access to information, social polarization, and the credibility of political promises. Kerala's voters have been better informed and less polarized on nonpolicy dimensions than voters in Uttar Pradesh, and Kerala's political parties compete on credible platforms for delivering broad social services, rather than on clientelist platforms as in Uttar Pradesh.

Kerala entered the era of democratic elections with a politically active electorate and a literacy rate of about 40 percent, whereas Uttar Pradesh did so with a population of largely illiterate voters (less than 18 percent even in 1961) with limited access to widely published information. Massive voter illiteracy suggests that voters were poorly informed about the connection between political decisionmaking and their well-being, undermining the ability of any party to make credible promises to voters. Reputation is difficult to establish if voters are poorly informed. Under conditions of visible and often coercive social discrimination, organization of the victims of discrimination was very costly. Active institutions of social discrimination effectively prevented so-called backward castes from accessing public services or participating in political processes. Although caste issues also existed in Kerala, poor and socially disadvantaged voters were more likely to participate in political processes to influence policy issues affecting their welfare (Chander 1986; Nossiter 1982). These differences affected political party competition and the likelihood that credible political competitors would emerge to contest elections.

Another key political variable was political party competition. Following independence, the Congress Party was the dominant party in India. It had the widest national presence, the most solid reputation based on its association with the fight for independence, and the longest history as a political party. Congress espoused a common socialist platform throughout India, focusing on government-led development and redistribution to the poor. At the state level, however, there was substantial variation in voters' perceptions of the Congress Party, the extent of competition from other parties, and the types of credible promises to voters that the party could or had to make to be successful.

In states like Uttar Pradesh the Congress Party did not confront vigorous competition from other credible and well-organized parties. In other states, like Kerala, regional parties and emerging communist parties mounted credible challenges to the Congress Party. The Communist Party was particularly active in Kerala and invested substantially in mobilizing the poorest voters. By interacting repeatedly with these voters, the party was able to make credible promises to them (Chander 1986; Nossiter 1982). This was not inevitable. First, the ability of the Communist Party to mobilize large numbers of activists to establish personalized contact with voters is unusual. Without this asset, the party would have been less able to establish its credibility in competition with the Congress Party. Second, leaders of the Communist Party could have chosen to use these personalized contacts mainly to focus on jobs and targeted services to core constituencies or to strengthen their own positions in the party. Although these activities were certainly a part of the message to voters, these activities were also used to establish the party's policy credentials.

Competition in Kerala was therefore between two credible political parties, the Congress and Communist Parties, both able to make promises to broad segments of society and both driven by elections to make promises that would best serve the

needs of broad segments of the population—such as high-quality social services. This diminished the importance of patron-client relationships to an extent that was unparalleled in any other state.

In Uttar Pradesh, such competition did not develop. The Congress Party in Uttar Pradesh confronted opposition only from personalized parties rather than from more institutionalized parties. Because the opposing parties were not broadly credible, the Congress Party could win elections with exceedingly modest promises—winning on average more than 70 percent of the seats in the state assembly (Butler and others 1995).

In Kerala, political credibility was reinforced as promises were kept. The first two decades of elected state government saw dramatic improvements in human development indicators. Infant mortality fell 43 percent between 1956 and 1966 (Krishnan 1991). Much of this decline has been attributed to high rates of female literacy (expanding through state education programs), but it was clearly facilitated by access to public primary health care and state-sponsored programs of infant and child immunization (Zachariah 1992). In Uttar Pradesh, meanwhile, absenteeism and other indications of widespread shortfalls in service delivery have persisted since the beginning, suggesting that there have been few political pressures to use resources for purposes other than political patronage.

Perhaps as a reflection of more informed voting along policy dimensions in Kerala, and greater credibility of political parties, voter turnout has been higher than in any other state, averaging more than 75 percent even in the first few state elections. In Uttar Pradesh, turnout averaged 55 percent in the first few elections, suggestive of greater voter apathy on policy issues because of a combination of lack of information, greater social polarization, and lack of credibility of political parties.

Literacy has slowly climbed in Uttar Pradesh, and democratic institutions have penetrated the social fragmentation bit by bit over the past 50 years, especially through the political mobilization of traditionally repressed lower castes. However, consistent with the earlier discussion of the obstacles to building reputation, social services have not improved with more competitive elections, the emergence of new parties, the increased integrity of elections, and the representation of lower castes. Instead, new parties have either been personal vehicles for party leaders or have built themselves up as vehicles for representing narrow segments of the population. In either case political incentives to improve broad-based access to quality social services remain weak.

Ethnic or caste-based political parties are an important new development in Uttar Pradesh. In an otherwise noncredible environment there is political advantage in mobilizing voters along caste or ethnic lines, because the credibility of promises is greater when directed to a single group. Among the three main parties competing in the state today, the Bharatiya Janata Party appeals to upper caste Hindus; the Bahujan Samaj Party to so-called backward castes, scheduled castes and tribes, and minority religion groups; and the Samajwadi Party to similarly

marginalized religious and caste groups. These parties compete on explicitly clientelist platforms. The Bahujan Samaj Party, for example, does not print any election manifesto to explain its platform, but it does publicize the ethnic profiles of its candidate list to demonstrate commitment to its single-point program of proportional representation for every ethnic group in the bureaucratic institutions of the state (Chandra 1999).

The contrast between Kerala and Uttar Pradesh demonstrates that the same formal institutions of democracy can sustain very different forms of electoral competition with substantial impact on the quality of public services. It also demonstrates that the sheer endurance of democracy is no guarantee that political market imperfections will disappear. In fact, path dependency in public policies or persistence of differences in the nature of electoral competition is exactly what would be expected when there are credibility problems in political markets. The analysis here suggests that external interventions to break this path dependency, change the process of political competition, and hence affect the quality of social services should focus on the information processing capacity of voters, social fragmentation, and the capacity of politicians to make credible commitments.

Further research is needed to evaluate the impact of ongoing political and institutional reforms in the developing world and draw lessons from the variations in institutions across countries. Where poor voters are already politically active, the real issue is to bolster the credibility of political candidates to provide broad social services while reducing political pressures to pursue clientelist policies.

Policy Implications and Further Research

The Millennium Development Goals call for dramatic improvements in the condition of the poor. A large body of literature suggests that institutions are likely to matter a great deal in this endeavor. How they matter is the subject of this article. The specific circumstances of electoral competition and political decisionmaking have a large effect on social service outcomes for the poor. Information gaps, social polarization, and the absence of credible political competitors lead to the underprovision of government services to the least informed, the most polarized, and the vast majority who do not have personal connections with a powerful patron.

There are many examples of reforms intended to improve the ability of poor people to secure their own interests in government decisionmaking (to empower them), including decentralization, legislative reservations for minority groups in India, decentralization in Pakistan, and participatory budgeting in Brazil. These are all effective to the extent that they overcome the underlying political market imperfections that impair government services to the poor. However, as the discussion of the effects of reservations in India suggests, the improvements wrought by these reforms

may be only partial if they leave many important aspects of the political marketplace unchanged.

Two types of decentralization in particular are often seen as responses to inadequate central government attention to social service delivery. One is decentralization of responsibilities for the provision of local public goods to locally elected village and municipal governments. A second is greater autonomy of decisionmaking for service providers, such as schools and clinics, combined with greater participation of citizens through community-based organizations, such as parent-teacher associations and health committees. The political economy analysis here has implications for both.

Decentralization is likely to have a positive impact on social services if it enables voters to become better informed about political responsibilities for local public good provision, if local public good provision is more salient in local elections than in central government elections, and if promises by political competitors are more credible in local elections than in central government elections. This type of decentralization may not succeed if local voters are apathetic to local elections and have little or no information about the resource availability and capability of local governments, if social polarization is more intense at the local level, or if clientelist promises to a few voters are easier to make and fulfill at the local level because of closer social relations between the elected representatives and their clients (Keefer and others 2003 provide a more extensive discussion of these issues).

Decentralization of authority to service providers and communities can solve both credibility and information problems, although again not necessarily. Remotely located political agents are not able to credibly promise to improve the quality of services in such transaction-intensive sectors as health and education, because agents are unable to closely monitor service providers. By shifting monitoring to communities, this form of decentralization reduces the information voters need to hold politicians accountable: They need only verify whether political agents have made resources available for schools and clinics.⁸ But such policies are difficult to enforce because they require politicians to rein in their claim on public employment as political patronage. Complementary efforts to generate and widely disseminate information about the impact of policy changes on social services would make it easier for politicians to take credit for successful policies that increase benefits to broad sections of the population, thereby reducing the need for targeted patronage.

Reforms other than decentralization can also reduce political market distortions caused by incomplete information. Independent validation of the quality of public goods and the scope of accomplishment and failure of individual political decision-makers, by clearly communicating to citizens that the information is widely shared, could provide a vehicle for voter coordination. Not only can the press provide this type of validation and coordination but so can external agencies and civil society groups. Survey instruments (such as citizen report cards that consolidate public

feedback on the state of government services) are potentially powerful vehicles for mobilizing voters around the issue of quality of public services.

Credibility, like information, is likely to be particularly problematic in developing economies. Reforms designed to directly improve social service delivery can strengthen credibility by making it easier for politicians to take credit for public goods improvements. Social service reforms are more sustainable if they help politicians build a reputation for broad-based service delivery, as in Kerala. This is challenging, however. It would require that external aid be provided specifically for education and health when politicians have made emphatic, public, and verifiable promises regarding health and education services. This is not common in developing democracies.

Finally, social polarization can have harmful effects on social service provision, just as it does on other aspects of civic life. When considering the design of external assistance to support reform, a key consideration should be that criteria unrelated to social cleavages determine access to resources. This may not always be practical, however, as when one group is poorer than the other—redistributional transfers based on income will always favor the poorer group.

When social cleavages are purely “taste-based” (a preference for one ethnic group or tribe and a dislike for others), a two-pronged, long-term approach is necessary: educational responses to moderate these tendencies and strong signals from the center that such preferences are inappropriate. Ample experience suggests that this approach can soften such cleavages over time. Where polarization is in response to grave imperfections in political and economic markets, however, causing people to retreat into groups with which they have the strongest personal links and the greatest hope of accessing resources, the appropriate response is to remove those imperfections.

The profound role that political market imperfections play in development is just beginning to be understood. More research and practical experiments are needed to discover how best to alleviate these imperfections. The decentralization reforms that are taking root in a variety of contexts and with significant institutional variation provide an important opportunity to evaluate one strategy for addressing them. Systematic research on experiences around the world with information campaigns for improving public services is likely to be feasible and promising. Further research would be valuable on information availability and processing by poor voters and on how information provision mechanisms can be institutionalized to enable these voters to create stronger incentives for politicians to improve the performance of public services. Finally, more innovative research is required on credibility in politics. Under what conditions do politicians shift their promises from targeted transfers to broad and continuous improvements in service quality? The rewards to such admittedly difficult research are likely to be enormous, because it would vastly improve our understanding of the extensive differences in government performance around the world.

Notes

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1. This focus on fundamental characteristics of electoral competition is complementary to another strand of the literature (reviewed by Persson and Tabellini 2000) looking at the impact of electoral and political institutions—presidential or parliamentary regimes, majoritarian or proportional electoral rules—on government decisionmaking and spending. Preliminary work suggests that the magnitude of the institutional results varies significantly with the underlying electoral characteristics of countries, the focus in this article. For example, in poorer or younger democracies, where voters are less likely to be informed and political competitors are less likely to be credible, the difference in government spending between presidential and parliamentary systems is less than half the difference in richer or older democracies. The analysis here is therefore a logical first step in a full and comprehensive analysis of the political economy of government expenditures and the poor.

2. In a review of research on public spending and the poor, Van de Walle and Nead (1995) find that resources spent on basic health and education services (broadly targeted fiscal policies) have higher payoffs for the poor than finely targeted food subsidies or other redistribution schemes, in part because of the greater administrative costs and behavioral consequences of the targeted schemes.

3. Demand might be low because returns to education are low, discount rates are high, or severe credit market constraints block access to complementary inputs (books, forgone child labor).

4. Alderman (1988) describes protests in Pakistan by retailers of government subsidized wheat and flour when their livelihood was placed at risk by amendments to the subsidies program.

5. The most persuasive theoretical explanation for electoral cycles emerge from rational expectations models in which asymmetric information and shocks to politician competence over time create conditions under which it is rational for voters to focus on performance closer to elections (Persson and Tabellini 2000; Rogoff 1990).

6. Several studies have examined the conditions of competition in political and economic markets and the resulting incentives for the kind and quantity of information disseminated by the media industry (Djankov and others 2002; Mullainathan and Shliefer 2002; Strömberg 2004).

7. The magnitude of the signaling effect is contentious, particularly for primary and secondary education. Layard and Psacharopoulos (1974) strongly dispute it, but Hungerford and Solon (1987) claim to find convincing evidence of it.

8. This solution is limited to the extent that central government intervention is needed to remedy disparities in performance or funding across jurisdictions, however.

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