

Abstract

Main objectives of a welfare state are maintenance of external & internal security, law & order, and attainment of a higher human development which is sustainable. These objectives can be achieved by an efficient and effective public administration. Formulation and implementation of effective public policy and programmes have been a challenging task for all governments across the world. A state with high capacity is one, which can respond to challenges with efficient tapping of internal resources & structures, as well as gainfully leveraging the external resources. Behavioural Public Policy (BPP), a practical amalgamation of Behavioural Economics and Public Policy, helps leverage such external resources. This thesis is an attempt to explore the effectiveness of BPP in governance, policy formulation, and programme implementation with a final objective of strengthening state capacity through human development with focus on India.

First, we study the interrelation between the state capacity and Human Development Index (HDI), and the impact of increasing government expenditure on state capacity. Working with the data for 120 countries from 1996 to 2019, we use Fixed Effects Panel Data Models to study the relationship between HDI and the variables representing different components of state capacity. From empirical analysis, we find that HDI is a significant indicator of state capacity. Secondly, by using the Generalised Method of Moments (GMM) Panel Threshold Model to estimate the threshold of government expenditure for maximising the HDI, we show that there is an optimal value of expenditure which maximises the HDI and thereby state capacity. Beyond that threshold, the increase in expenditure has a diminishing effect on state capacity following an inverted U-shaped relationship. Given the limitation of government expenditure in further improving human development, BPP tools may play an important role in this regard.

Further, we study the relationship between BPP and state capacity, and the BPP interventions deployed in India through a case study approach in areas like health, sanitation, subsidy targeting, entrepreneurship, taxation, and policing/enforcement. BPP tools like Nudge, Loss Aversion, Framing, Default, Awareness, Social Norms, Cognitive Bias, Incentives, Competition, etc. have been successfully utilised in changing behavioural patterns of various stakeholders such as government departments & employees; civil society & non-governmental organisations; and citizens. Finally, we empirically test the impact of Aspirational Districts Programme, a behavioural public policy intervention, on different aspects of human development in India by Two-way Fixed Effects Heterogeneous

Difference-in-difference Model with data of 112 aspirational districts, i.e., treatment group, and 112 non-aspirational districts, i.e., control group. We observe that BPP has positively impacted the programme outcomes.

We finally conclude that various BPP interventions and tools have been found to leverage state capacity in India through improvement in human development. We recommend that BPP interventions may further be utilised in areas such as labour reforms, capacity building, skill development, social inclusion, innovation ecosystem, foreign trade and technology infusion, etc. Mainstreaming of BPP through evolution of a robust ecosystem of research, experimentation, regulation, and feedback systems, both in public and private sectors, is important to realise its true potential.