

Macro Perspective of Bihar's Development Achievements, Unfinished Agenda, and the Way Forward*

Ratna Sahay

NCAER

Santosh Gautam

University of Notre Dame, and IZA@LISER

Nishith Prakash

Northeastern University, BREAD, IZA@LISER, CESifo, and CReAM

Aakash Dev

NCAER

Abstract

Bihar's development is central to India's ambition of Viksit Bharat—to become a developed economy by 2047, given that Bihar has the second largest population and remains the poorest state. This paper provides a macroeconomic assessment of Bihar's development trajectory, achievements so far, remaining challenges, and reform priorities. Bihar's development story until the mid-2000s is complex—a combination of history, bad luck, and policy failures. This paper traces the reasons for the state's decline under colonial rule and during the post-Independence period, followed by the post-2005 turnaround associated with a reform-minded government that came to power with the mandate to focus on development and governance. We document the positive results under the new government yet find that the reforms so far are incomplete to deliver high, inclusive, sustainable, and stable growth. The paper then highlights the remaining challenges and identifies six priority areas that are fundamental and interconnected to make a big push: education, health, governance and law and order, mitigation of recurring floods, private sector development, and women's empowerment. These reforms are essential for raising productivity, accelerating structural transformation, and creating high-quality jobs for its young population. Recognising the scale of the required investment, the paper assesses Bihar's public debt dynamics and sustainability and quantifies the fiscal effort needed to finance alternative reform scenarios through stronger own-revenue mobilisation, more efficient and effective spending, additional support from the central government, and, if needed, further borrowing. Bihar's recent progress, favourable demographics, rising aspirations, natural resources, and scope to mobilise its large diaspora provide grounds for optimism, but sustained and coordinated reforms are necessary to achieve convergence with other states. and realise its development potential.

* Preliminary draft. Please do not circulate beyond the **NCAER India Policy Forum 2026**, for which this paper has been prepared.

*Ratna Sahay is Professor and Director and Aakash Dev is Fellow, Centre for Gender and Macroeconomy, National Council of Applied Economic Research, New Delhi, India. Santosh Gautam is Professor of Development and Global Health Economics, Keough School of Global Affairs, University of Notre Dame, Indiana, USA. Nishith Prakash is Dean's Professor of Economics and Public Policy, Department of Economics and School of Public Policy and Urban Affairs, Northeastern University, Massachusetts, USA. The authors are grateful to Ashok Gulati, Urjit Patel, and Alakh Sharma for their invaluable insights. They are also thankful to Kajal Kumari, Kishan Narayan, Kritika Soni, Navya Srivastava, Shivanshi Garodia, Vagisha Pandey, and Viha Dwivedi for their excellent research support. The views expressed in this paper are those of the authors and do not necessarily reflect those of their affiliated institutions.

Email ID: Ratna Sahay rsahay@ncaer.org, Santosh Gautam skumar23@nd.edu, Nishith Prakash n.prakash@northeastern.edu, and Aakash Dev adev@ncaer.org.