



Structural Change and Development in Bihar: An Economic and Policy Analysis

Dr. Resham Vijay Ratne

Assistant Professor, Department of Economics, S.M. College, Bhagalpur T.M. Bhagalpur University,
Bhagalpur, Email id- reshamvijayratne@gmail.com

Dr. Suman Kumar

Head, Department of Economics, T.N.B College, Bhagalpur, T.M Bhagalpur University, Bhagalpur
Email id- kumarsuman2003@gmail.com

DOI : <https://doi.org/10.5281/zenodo.18692603>

ARTICLE DETAILS

Research Paper

Accepted: 26-01-2026

Published: 10-02-2026

Keywords:

*Economy of Bihar,
Regional development,
agriculture, infrastructure,
inclusive growth*

ABSTRACT

Bihar, being one of the most populous, economically important, and economically backward state of India, plays an influential role in the context of regional development and inclusive growth of India. Historically known for low per capita income, high level of poverty and a continuing experience of structural constraints, Bihar has continued to lag behind the state with respect to most socio-economic indicators. Factors such as poor industrialization, excessive reliance on agriculture, poor infrastructure and low human capital formation have traditionally constrained the state's development trajectory. However, in the latest times, Bihar has shown positive changes in economic growth, infrastructure creation and development of social sectors which are largely due to increased public investment, welfare-oriented government interventions and effective governance mechanisms. This article attempts to carry out an in-depth study of the structural composition of economy of Bihar particularly with regard to distribution among various sectors, growth performance and employment patterns. It analyses the major constraints that are impeding sustainable development which include agrarian distress, low productivity, informal job, poor industrial base and unpromising out-



migration. At the same time, the study shows the new opportunities that have emerged in certain key areas including agricultural diversification, infrastructure-led growth, human capital development, rural entrepreneurship, and boosting of micro, small and medium enterprises (MSMEs). Special attention is paid to the role of government policies and public expenditure to stimulate economic activity and lessen regional disparities. The article states that the economic progress in Bihar, while substantial in absolute terms, is still severely consumption driven and developing unevenly across sectors and regions. For development to be sustainable and inclusive, the state needs to concentrate on enhancement of productivity, employment generation and institutional strengthening. A region-specific development strategy combining agriculture, industry, and services and putting an emphasis on education, health, and skill development is of paramount importance. The paper concludes with the view that with effective implementation of policies, as well as long-term planning, Bihar has the potential to turn its demographic advantage into a basis for sustained economic development and social progress.

Introduction

Regional imbalance has been a constant and characteristic feature of the economic development of India since independence and reflects unequal distribution in spatial terms of resources, industries and public investment. Within this broader national picture behind reverse discrimination Bihar has a central position in academic and policy discourse on the backwardness, inclusive growth and regional planning. Despite its own rich natural endowments, fertile alluvial plains and human resources, historically, Bihar has been one of the economically lagging states in the Indian federation.

The roots of economic backwardness of Bihar are to be traced back to several historical and structural parameters. During the colonial period, the region had to endure systematic neglect in terms of industrial development, creation of infrastructure and human capital formation. The colonial economy focused on extraction and accretion of agrarian surplus at the expense of local industrial growth and therefore Bihar has had a poor production base. In the post-independence era, this inheritance was furthered by policy failures, weak investment in industry, political instability and governance issues, which collectively



checked the rate of economic transformation. As a result, Bihar remained poor in terms of per capita income, high in poverty incidences, low on industrialization and highly dependent on agriculture.

However the economic story of Bihar has started to change gradually in the last two decades. Recent trends indicate the signs of structural transformation bolstered by higher public investment in infrastructure, expansion of welfare-oriented government schemes, and improvement in basic service delivery. Investments in roads, electricity, education and health have improved connectivity and access while interventions in the social sector have led to improvements in literacy, enrolment and basic health outcomes. What more, the Bihar's big and young population provides a large demographic potential for economic growth in the future, if well harnessed.

Review of Literature

- **Dreze, J., & Sen, A. (2013).** Dreze and Sen emphasize that economic growth is not a sufficient condition for development unless serious improvements in education, health and social security are made concurrently. Their human development framework holds great relevance for Bihar, a state in which the increase in income in the past has not always led to improved human development outcomes. The study contributes to the understanding of insurability of Bihar for continuing lag in health and education indicators even though growth performance in the state has shown improvement.
- **Planning Commission of India 2014.** This report gives an overall insight into the measurement of poverty, and how regional disparities in India are measured. Bihar is always identified as one of the states with the highest incidence of poverty. The report shows how structural constraints and the issue of informal employment define the poverty reduction in backward regions such as Bihar.
- **NITI Aayog (2021).** The SDG Index measures states in regards to health, education, gender equality, and economic growth. The relatively poor positioning reflecting enduring gaps in sustainable development indicators This piece of literature supports the argument that the development challenges of the state of Bihar are multidimensional as opposed to just purely economic.
- **Ahluwalia, M. S. (2002).** Ahluwalia's work is about how economic reforms led to uneven regional consequences across the states of India. The study draws the attention that states with better infrastructure and governance benefited more from liberalization while states such as Bihar lagged behind and perpetuated regional imbalance in economic development.



- **World Bank (2020).** This report examines the economic structure of Bihar, the governance reforms, and the investment needs in Bihar. It therefore depicts the importance of infrastructure development, agricultural productivity, as well as institutional capacity for accelerating inclusive growth. The study offers policy-oriented knowledge that can be directly used in the development strategy for Bihar.

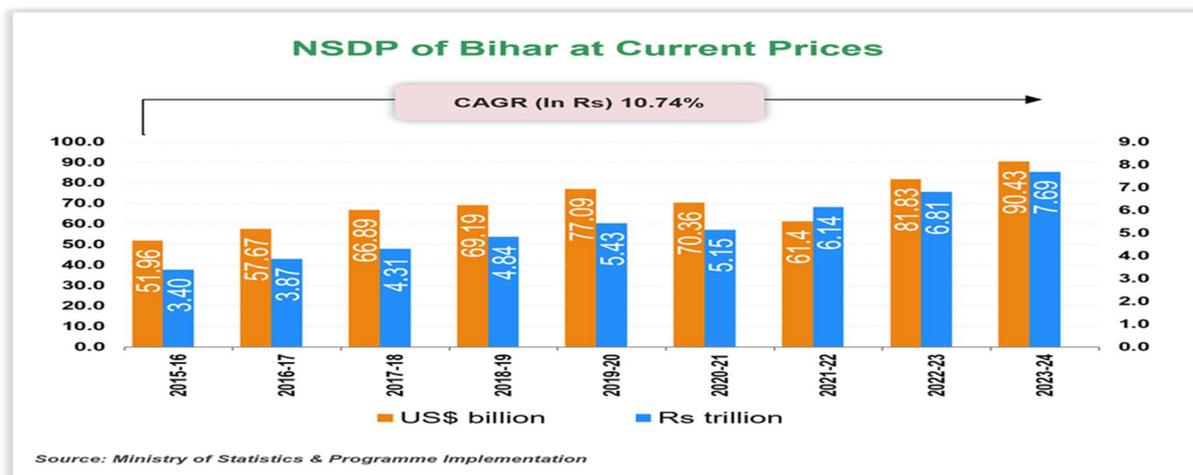
Table: Net State Domestic Product (NSDP) of Bihar at Current Prices

(2015–16 to 2023–24)

Year	NSDP (US\$ Billion)	NSDP (₹ Trillion)
2015–16	51.96	3.40
2016–17	57.67	3.87
2017–18	66.89	4.31
2018–19	69.19	4.84
2019–20	77.09	5.43
2020–21	70.36	5.15
2021–22	61.41	6.14
2022–23	81.83	6.81
2023–24	90.43	7.69

CAGR (2015–16 to 2023–24): 10.74%

Source: Ministry of Statistics & Programme Implementation (MOSPI), Government of India.





A table is presented showing the trend in Net State Domestic Product (NSDP) of Bihar at Current prices over a period of time from 2015-16 to 2023-24 in US dollars (billion) and in Indian Rupees (trillion). NSDP is a very important signifier of economic performance of a state, as it is a measure that reflects the net value of the goods and other services produced in the state after making necessary deductions for the wear and tear of these products.

A close look at the data shows a steady expansion of the economy of Bihar over the years. The NSDP of Bihar in 2015-16 amounted to US\$ 51.96 billion (₹ 3.40 trillion). Over the next few years, the state showed steady growth and reached US\$ 77.09 billion (₹ 5.43 trillion) in 2019-20. This upward trend signifies the positive impact of the increase in public investment, growth of the service sector and gradual improvement in the infrastructure and connectivity.

The year 2020-21 indicates health decline in between both with NSDP at US\$ 70.36 billion majorly contributed by the economic disruptions of the pandemic of Covid-19. This contraction is due to lower economic activity and supply chain interruptions and lower demand across sectors. However, the strength of Bihar's economy is seen in the period following the pandemic. From 2021-22 onwards NSDP shows good recovery, it increases sharply to US\$ 90.43 billion (₹ 7.69 trillion) by 2023-24.

The overall performance in growth is also depicted by a Compound Annual Growth rate of 10.74% over the analysed period. This relatively high CAGR indicates that Bihar has been one of the faster growing State economies of India in nominal terms. Nevertheless, it is important to note that growth at current prices takes into effect the effect of inflation and increase in population. Therefore, though growing NSDP has been a symptom of economic development, it is not necessarily synonymous with the generation of proportional outcomes in terms of rising per capita income or employment creation.

Structure of Bihar's Economy

Dominance of Agriculture

Agriculture remains the backbone of the economy of Bihar employing a majority of the work force. The fertile Gangetic plains of the state are conducive to farming of crops like rice, wheat, maize, pulses and sugarcane. Despite high potential for productivity, the problem associated with agriculture in Bihar is fragmentation of land holding, low level of mechanization, limited availability of irrigation and low level of linkages with the market.



From the economic point of view, the low agricultural incomes have been a source of disguised unemployment and large scale out-migration, especially to the urban and industrial centres outside the state.

Limited Industrial Base

Bihar's industrial sector is not well developed, and it makes a small contribution to state income. The lack of giant manufacturing clusters, insufficient private investment, and poor industrial infrastructure has been a constraint to industrialization. However, micro, small and medium enterprises (MSMEs) particularly agro-based industries, food processing and handloom sectors have the potential for employment generation.

Infrastructure with Economic Growth

Infrastructure development has become an important factor in the recent economic growth of Bihar. Investments in road connection, rural electrification, bridges and digital infrastructure have led to improved access to market and cutting of transaction cost. Improved transport networks have made agricultural marketing and expansion of the service sector easier.

From the point of view of Keynesian development model, the public capital formation in infrastructure administered by the state of Bihar has provided a growth stimulus, and this has created multiplier effects in construction, transport, allied services. Yet, there are still some holes in city infrastructure, logistics facilities and industrial parks.

Human Resources and Human Development

Education

Human capital formation plays a central role in the long-term process of development. Bihar has made gains in school enrolment rates and literacy rates (especially among women). However, challenges concerning the quality of education, high drop out rates at secondary level, as well as a lack of access to higher and technical education exist.

Health and Productivity

Health indicators in Bihar are still lower than the national average, which have an impact on labour productivity and economic efficiency. Public expenditure on healthcare infrastructure, nutrition, and maternal health has positively impacted on outcomes, but there are huge rural-urban disparities.



Economically, better health outcomes are the key to turning Bihar's demographic blessing into a productive work force.

Poverty and Employment and Migration

Poverty reduction is a key development challenge. While the incidence of poverty has decreased over the years, a significant percentage of people in Bihar remain vulnerable to poverty due to the presence of informal employment and low wages. Seasonal and permanent migration has become a survival tool of rural households.

Remittances are a major contributor of rural incomes but migration is also symptomatic of structural failure of local employment generation. A development strategy that focuses on the development of rural non-farm employment, skill development and local enterprise creation is thus essential.

Role of Government Policies

Government intervention has played a key role in the process of development in Bihar. Programs that relate to rural employment, self-help groups, agricultural support, and social security have improved consumption demands and alleviate extreme deprivations.

If we look at it from the perspective of development economics, Bihar is a case in point in highlighting the role of state-led intervention in backward regions where market forces cannot ensure the process of inclusive growth. However, effective implementation, transparency and institutional capacity are important issues.

Emerging Opportunities: Development of Bihar

- **Agricultural Diversification:** Cultivation of high value crops, dairy, fisheries and food processing helps to increase the farm income.
- **Rural Industrialization:** Promotion of MSMEs and cluster development through it can provide employment at the local level.
- **Skill Development:** The skills must be matched to the economic needs of the regions to reduce distress migration.
- **Digital Economy:** Expansion of digital services and e-governance can contribute towards improving their efficiency and inclusion.



- **Green Development:** The management of floods, renewable energy and climate-resilient agriculture are some ideas that provide long-term sustainability.

Conclusion

The story of development in Bihar is symptomatic of the complexities of the regional economic change in a developing country. While the impingement of structural constraints remain a limitation on growth, more recent improvements show the extent of the potential of interventions in public investments and inclusive policy. Agricultural reform, industrial promotion, human side capital and strengthening institutions would be the balance to sustainable development in Bihar. With right policy interventions and sound governance, Bihar can use its demographic and natural resource boons as a foundation for a long sustained economic growth.

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