

Mandaar Manthan 4

25–27 December 2026 | 3-Day, 2-Night Residential Retreat

Theme: Bihar as a High-Cost Equilibrium

Introduction

Bihar presents a striking economic puzzle: Why does the state smoothly import goods from distant industrial hubs despite high logistics costs, while local production, private investment, and industrial scale remain limited — even after recording 13.1% nominal GSDP growth in 2024–25, outpacing the national average?

Mandaar invites economists, development researchers, legal scholars, and institutional analysts to Mandaar Manthan-4 (25–27 December 2026) — a selective, closed-door residential retreat for rigorous inquiry into this puzzle.

We propose to examine the hypothesis that Bihar may function as a high-cost equilibrium — a stable but inefficient system in which the total cost of economic participation systematically suppresses cost-adjusted returns to living, working, producing, owning assets, and investing.

Analytical Framework: Cost of Economic Participation

Economic outcomes depend not only on the revenue or income an activity generates, but also on the full burden of participating in it. The Cost of Economic Participation (CEP) is the total burden an economic actor bears to enter, continue, and expand an economic activity. It includes direct expenditure as well as time, effort, institutional frictions, uncertainty, and foregone opportunities.

Expected Net Return = Expected Gross Return – Cost of Economic Participation

This concept note examines CEP through four broad domains: Cost of Living, Cost of Doing Business, Cost of Ownership, and Cost of Litigation. Their scope and sub-components are outlined below. Uncertainty cuts across all four domains: weak contract enforcement and institutional unpredictability can increase the effective burden of participation. The domains may also interact, so the combined effect need not be simply additive. The analytical task is to make the total burden visible while avoiding double-counting overlapping costs.

When participation costs are high, rational responses may include importing rather than producing locally, remaining small rather than scaling, operating informally, or migrating. Aggregated, these behaviours may sustain a high-cost equilibrium characterised by extreme fragmentation (97–98% micro-enterprises), weak clustering, low manufacturing depth, muted private investment, and largely public-led growth.

The framework builds on transaction cost economics (Coase, Williamson), institutional theory (North), low-level equilibrium traps (Nurkse, Nelson), and Indian misallocation literature (Hsieh & Klenow). Its distinctive emphasis is the cost of participation across households, firms, and institutions, using revealed behaviour — including import dependence and out-migration — as a diagnostic for costs that may otherwise be difficult to observe. Such behaviours are clues to investigate, not by themselves proof of the hypothesis. While grounded in Bihar, the approach may offer insights for other regions with persistent fragmentation and high transaction costs.

Key Cost Domains

- **Cost of Living:** Household costs of sustaining life and developing capabilities. Elevated out-of-pocket health expenditure and education-related migration, for example, can raise the effective cost of human capital formation and shape labour supply.
- **Cost of Doing Business:** The costs of creating and delivering value. These include five interrelated dimensions (the 5C framework): Creation (setup, R&D, raw materials, machinery, tools and logistics); Credit (access to finance and working capital); Coordination (aligning suppliers, workers, customers,

departments and other actors, especially where clusters are weak); Compliance (administrative and regulatory burdens); and Competition (market conditions that affect firms' ability to compete on productivity, quality and trust, including possible "market for lemons" dynamics associated with low-quality products; Akerlof, 1970).

- **Cost of Ownership:** The costs and frictions involved in acquiring, securing, transferring and productively using assets. Insecure property rights, land mutation delays and disputes can erode collateral value and weaken long-term investment incentives.
- **Cost of Litigation:** The time, expense and uncertainty involved in enforcing contracts, resolving disputes and obtaining remedies. Court pendency and weak enforcement can increase risk and push transactions into informality.

These domains can reinforce one another. Insecure ownership can constrain credit; weak coordination can prevent firms from reaching scale; and limited scale can make investment in quality and compliance harder. The retreat will examine whether such interactions help explain persistent firm dwarfism and constrain structural transformation.

Testable Research Questions

- How can the total cost of economic participation be measured for households and businesses across the four domains, while avoiding double-counting and accounting for time, uncertainty and other indirect burdens?
- How do the five dimensions of the Cost of Doing Business interact with living, ownership and litigation costs to shape firm entry, survival, scaling, innovation and local value creation?
- Can patterns of import dependence, migration, informality and enterprise fragmentation help reveal the mechanisms and relative importance of participation costs in Bihar?
- Which institutional or infrastructure changes — such as more reliable power, clearer land records, improved access to credit or faster dispute resolution — could reduce participation costs and help shift Bihar towards a lower-cost, higher-scale equilibrium?

Format and Expected Outputs

The retreat will feature paper presentations, data sessions, collaborative working groups, and structured debate in a residential setting. Participation is limited to ensure depth. Expected outputs include:

- A refined, testable framework for understanding Bihar as a high-cost equilibrium.
- A measurement framework for the Cost of Economic Participation, including potential indicators and conceptual foundations for a Bihar Cost Index.
- Working papers that examine key mechanisms, evidence gaps and testable propositions.
- Policy-relevant reform pathways for reducing participation costs and enabling productive activity to scale.

Registration and Contact

- Register for Mandaar Manthan by filling this form here: <https://forms.gle/gZoVBNZ2VDnHTKEa9>
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