Do Smaller States Lead to More Development? 
Evidence from Splitting of Large States in India

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Introduction

In year 2000 three large states Uttar Pradesh, Bihar and Madhya Pradesh split to create three new states Uttarakhand, Bihar and Chhattisgarh respectively. As states are the primary determinants of local institutions during development outcomes, a change in their boundaries provides us an opportunity to evaluate the impact of these states on the provision of public goods and distribution of development outcomes. However, shifting of state borders or creation of new states are very rare, and the case of creation of three new states in India in November 2000 provides us with an opportunity to test these development hypotheses. This paper makes an attempt to investigate the impact of the creation of these three states on the development indicators like per capita income, literacy rate, availability of electricity, roads and the power grid.

Arguments in favor of new states

Arguments in favor of new states:

1) The creation of a smaller state unblocks the suppressed growth potentials of the hitherto peripheral regions of a large state.

2) Comparatively smaller but compact geographical entities tend to ensure that there is better democratic governance, as there is greater awareness among the policy makers about the local needs.

3) Smaller spatial units having linguistic compatibility and cultural homogeneity also allow for better management, implementation and allocation of public resources in providing basic social and economic infrastructure services.

4) A relatively homogeneous smaller state allows for easier communicability, enabling marginal social groups to articulate and raise their voices.

5) Smaller states provide gains for the electorate in terms of better representation of their preferences in the decisions by the government. Smaller states mean key decisions will be taken closer to the ground. It makes more sense if the decision on key issues of a state is made in Himachal Pradesh than in India.

Arguments against new states

Arguments against new states:

1) Reminiscent of ‘parochial anxiety’, many fear the rise of regional and linguistic factions as threats to national unity and integrity. A global surge in ethno-nationalist conflicts serves to validate these fears.

2) Many believe that bigger states ensure cohesion and stability; however, there are myriad forms of political violence going on unabated in the big states.

3) Smaller states (like Westerwelle in Brunei and Brunei) are often viewed as being more amenable to the pressures of the corporations and multinationals due to their small scale economies and the gild of the newly emergent regional elite.

Data: The papers use data from three panels of Indian Human Development surveys conducted in 1993, 2001 and 2011.

Quasi-experimental Methods

1. Difference-in-Difference approach with parent states as control

\[ \gamma_{it} = \beta_0 + \beta_1 \text{treatment}_{it} + \beta_2 \text{post}_{it} + \beta_3 \text{treatment}_{it} \times \text{post}_{it} + \delta \text{X}_{it} + \epsilon_{it} \]

Where \( \gamma_{it} \) are indicators of Development like Per capita Income, Literacy, monthly per capita expenditure etc of household \( h \) in district \( d \) in year \( t \). Treatment is a dummy = 1 if district is in new state, 0 otherwise. \( \beta_1 \) is fixed effect for each year, \( \beta_2 \) fixed effect for each district, \( \beta_3 \) dummy variable, 1 for year after year 2000 and 0 before. \( X_{it} \) = HH level demographic & socio-economic control variables, \( \epsilon_{it} \) is the error term

2. Difference-in-Difference approach with adjacent states as control

\[ \gamma_{it} = \beta_0 + \beta_1 \text{treatment}_{it} + \beta_2 \text{post}_{it} + \beta_3 \text{treatment}_{it} \times \text{post}_{it} + \beta_4 \text{treatment}_{it} \times \text{post}_{it} + \beta_5 \text{treatment}_{it} \times \text{post}_{it} + \delta \text{X}_{it} + \epsilon_{it} \]

Where \( \gamma_{it} \) are indicators of Development like Per capita Income, Literacy, monthly per capita expenditure etc of household \( h \) in district \( d \) in year \( t \). Treatment is a dummy = 1 if the district falls in new state, 0 otherwise. \( \beta_1 \) is fixed effect for each year, \( \beta_2 \) fixed effect for each district, \( \beta_3 \) dummy variable, 1 for year after year 2000 and 0 before, \( \beta_4 \) = HH level demographic & socio-economic control variables. \( \epsilon_{it} \) is the error term

Results and Conclusions

1) The newly carved out states are faring much better compared to their parent states in development indicators like per capita income, availability of power or electricity. This confirms that creation of new state unblocks the suppressed growth potentials of the hitherto peripheral regions of a large state.

2) As it is possible that the parent state cannot act as a valid control, so we compare the development indicators of newly formed state and parent states with nearby states and we find that the newly formed states did better compared to the adjacent states whereas the parent states did worse. This is possible due to better governance of the newly formed state.

3) To take all the factors into consideration, it indeed we are not on the same page that the newly formed states are better off compared to the adjacent states.

4) The newly formed states are better off compared to the newly formed states due to the presence of better governance and better economic policies.

5) The newly formed states are better off compared to their parent states due to the presence of better governance and better economic policies.

References


