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### W O R K I N G P A P E R

# Putting the "Kerala Model" to Rest: Lessons for a New Era of Development in India

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## Putting the "Kerala Model" to Rest: Lessons for a New Era of Development in India

## Apoorva Shah\*

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Abstract: In a country where two out of five citizens, about 450 million people, live in poverty, it is no exaggeration to say that the development experience of Kerala – a coastal state on the southwestern tip of India – stands out as extraordinary. Despite a history of anemic economic growth, this state of 32 million boasts effectively universal literacy rates and life expectancy levels close to many Western societies. Because of this, the "Kerala model" has been hailed by NGOs, development experts, and Western academics as an alternative path for human development in which a robust welfare system rather than economic growth drives social progress.

The real story, however, is quite different from this received wisdom about the "Kerala model". Through the use of historical evidence and quantitative data, this paper shows that government welfare policies in Kerala had less positive impact on social development and more negative impact on economic development than commonly perceived. Not only do many of the state's successes trace back to institutions that predate the welfare state, the socioeconomic realities within Kerala reveal a society trying its best to break free from the yoke of statism. In fact, *dirigiste* policies explain how a highly educated, healthy society has been unable to achieve robust economic growth despite substantial latent capacities. Today, Kerala serves both as an example – of how investments in human capital pay off handsomely even in the midst of other economic challenges – and as a harbinger – of an "emerging India" that is impressive in its potential but often underachieving in its results.

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#### Introduction

In a country where two out of five citizens, about 450 million people<sup>1</sup>, live in poverty, it is no exaggeration to say that the development experience of Kerala – a coastal state on the southwestern tip of India – stands out as extraordinary. Despite a history of anemic economic growth, this state of 32 million boasts effectively universal literacy rates and life expectancy levels close to many Western societies. Because of this, the "Kerala model" has been hailed by NGOs, development experts, and Western academics as an alternative path for human development in which a robust welfare system rather than economic growth drives social progress.

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"We are not going to do anything wonderful."

-Campaign slogan of the Communist Party of Kerala, India, 1957

In 1957, the Communist Party of Kerala, a state in southwestern India, became the first democratically elected Communist government in Asia.<sup>2</sup> For leftists around the world, the election was an opportunity to demonstrate the viability of Communist regimes in non-Communist national systems. Many in the West, however, feared that communism would metastasize across South Asia, making Kerala the "Yan'an of India".<sup>3</sup> But as its diffident campaign slogan reflected, the Communist government in Kerala could neither promise radical social reform nor revolution because its actions were

<sup>&</sup>lt;sup>1</sup> World Bank estimate, 2005, poverty defined as income levels of less than \$1.25/day PPP. http://www.worldbank.org/poverty.

<sup>&</sup>lt;sup>2</sup> Rosenthal, A.M, "Reds Begin Rule of State in India," The New York Times, April 6, 1957.

<sup>&</sup>lt;sup>3</sup> Yan'an was the stronghold of Mao Zedong's Chinese Communist revolution during the late 1930 and early 1940s. President Dwight D. Eisenhower's administration was apparently concerned about the Communist victory in Kerala and both the State Department and CIA had been briefed about the election. See Nair, C. Gouridasan, "Fresh light on Liberation Struggle," *The Hindu*, February 12, 2008. http://www.hindu.com/2008/02/12/stories/2008021254000400.htm.

checked by Prime Minister Jawaharlal Nehru and his Congress Party-led federal government, which still controlled the coffers in New Delhi.

Instead, from within the political bounds of India's divided government, the Communists of Kerala initiated what has purportedly become the most successful social welfare program in the developing world. In less than a generation, Kerala became known for its high levels of government spending on health and education, and for having the highest literacy rate and life expectancy of any state in India. (See Table 1)

#### The Kerala Model

As far back as 1960, Kerala outpaced the rest of India in terms of literacy and life expectancy, but this divergence truly became appreciable from 1980 onwards, when Kerala's male literacy rates were more than 30 percentage points higher than India's overall average and its life expectancy at birth was 13 years greater. By the 1990s, Kerala not only bested India but also China in many of these indicators; and in fact in 1990-1, Kerala's female literacy rates were higher than any single province in China.<sup>4</sup> By 1999, life expectancy for males and females in Kerala was 74 years, one year more than in South Korea, four years more than China, and 11 more than India overall.<sup>5</sup>

Table 1: Adult Literacy Rates and Life Expectancy in Kerala, India, and China, selected years

Literacy rate (Males 15+)				Life expectancy at birth, males and females (years)		
Kerala	India	China		Kerala	India	China
47	24		1960	50.3	44	47.1
86	55	79	1981	66.9	53.9	67.7
93	62	87	1999	74	63	70
	Literac Kerala 47 86 93	Literacy rate (Males <b>Kerala</b> India <b>47</b> 24 <b>86</b> 55 <b>93</b> 62	Literacy rate (Males 15+) <b>Kerala</b> India China <b>47</b> 24 <b>86</b> 55 79 <b>93</b> 62 87	Literacy rate (Males 15+) <b>Kerala</b> India China <b>47</b> 24 1960 <b>86</b> 55 79 1981 <b>93</b> 62 87 1999	Literacy rate (Males 15+)   Life exmales a     Kerala   India   China   Kerala     47   24    1960   50.3     86   55   79   1981   66.9     93   62   87   1999   74	Life expectancy at I     Life expectancy at I     males and females (*     Kerala   India     47   24    1960   50.3   44     86   55   79   1981   66.9   53.9     93   62   87   1999   74   63

Sources: Drèze, Jean, and Amartya Sen, *India: Development and Participation* (New York: Oxford University Press 2002), Table 4.2. Life expectancy from Ibid, Table 4.3.

\*1961 literacy rates are for males and females combined; Source: Desai, Manali, "Indirect British Rule, State Formation, and Welfarism in Kerala, India, 1960-1957," *Social Science History* 29:3 (Fall 2005), Table 7

<sup>&</sup>lt;sup>4</sup> Dreze, Jean and Amartya Sen, India: Development and Participation, Oxford University Press (New York: 2002), Figure 4.2.

<sup>&</sup>lt;sup>5</sup> Ibid, Table 4.2.

Kerala also has one of the highest levels of tertiary education attainment in India. As can be seen in Table 2, more than 6.5 percent of Kerala's total population, or about 2.08 million people, have completed some form of tertiary education. This is higher than even the state's high performing South Indian neighbors such as Tamil Nadu and Karnataka, which have approximately 4.3 percent and 5.1 percent of tertiary education attainment, respectively. In fact, other than Manipur, the only states or territories in India with higher percentages of tertiary education attainment than Kerala are in fact small urban areas such as New Delhi or Chandigarh.

Chandigarh	16.49%	Orissa	3.64%
Delhi	13.09%	Jammu & Kashmir	3.35%
Pondicherry	8.62%	Madhya Pradesh	3.33%
Goa	8.37%	Tripura	3.22%
Manipur	6.86%	Uttaranchal	3.22%
Kerala	6.54%	Jharkhand	3.10%
Maharashtra	5.54%	Mizoram	3.10%
Karnataka	5.13%	Uttar Pradesh	3.07%
Daman & Diu	4.98%	Nagaland	3.00%
Andaman & Nicobar Islands	4.94%	Chhattisgarh	2.96%
Dadra & Nagar Haveli	4.79%	Lakshadweep	2.90%
Punjab	4.58%	Sikkim	2.78%
Gujarat	4.54%	Rajasthan	2.67%
Haryana	4.34%	Assam	2.63%
Himachal Pradesh	4.30%	Bihar	2.63%
Tamil Nadu	4.28%	Arunachal Pradesh	2.62%
Andhra Pradesh	4.28%	Meghalaya	2.30%
West Bengal	4.10%	India (Total)	4.06%

#### Table 2: Percent of Total Population with Tertiary Education, 2001

Note: Tertiary Population includes population with 'Non-Technical Diploma,' 'Technical Diploma,' or 'Graduate and above' education.

Source: Registrar General of India. "Census of India" (2001).

Kerala also stands out from the rest of India and further resembles the West in terms of its demographic structure. According to 2001 census data, within India, the state has the highest median age – 27.9 years vs. 22.7 for India overall – and the highest percent of seniors above the age of 65 in terms of its total working force – 16.5 percent vs. 13.1 percent overall.<sup>6</sup> (For comparison, in 1989, Japan's percentage of seniors in terms of its workforce was 16.8 percent.<sup>7</sup>) Indeed, Kerala had declining fertility and infant mortality rates along with consistent improvements in life expectancy, processes that lead to population aging, before any other state in India. In 1971-1975, the estimated total fertility rate (TFR) for women in Kerala was 3.4 births per lifetime as opposed to 4.8 for India overall.<sup>8</sup> By 2005-6, the TFR was approximately 1.93 in Kerala – well below a notional replacement fertility rate of 2.1 – and it was 2.68 in India overall.<sup>9</sup> Differences in infant mortality rates (IMR) in Kerala and India have been equally stark and reveal the "take-off" in human indicators that occurred in Kerala after 1961. In Table 3, for example, we can see that in 1951, the Indian infant mortality rate was 146 per 1000 births while Kerala's rate was 120 per 1000 births – an approximately 20 percent difference. By 1961, this discrepancy had jumped to 44 births, about a 49 percent difference, between India overall and Kerala. In 2005, Kerala's IMR was 14 per 1000 births and India's was 58. Strikingly, more than three decades later, India had barely reached Kerala's 1971 infant mortality levels.

			Ratio of
			Kerala/India
	Kerala	India	(India = 100)
1951	120	146	82.2
1961	90	134	67.2
1971	58	129	45.0
1981	37	110	33.6
1991	16	80	20.0
2001	11	66	16.7
2005	14	58	24.1

Table 3: Infant Mortality Rates (per 1,000 births) in India and Kerala, 1951-2005

Sources: 1951 and 1961 data from Ratcliffe, John W. "Poverty, Politics, and Fertility: The Anomaly of Kerala." *The Hastings Center Report* 7, no. 1 (1977): 34-42. Table 2. 1971-2005 data from Government of India, Planning Commission, *Kerala Development Report* (New Delhi: 2008), Table 2.4, Figure 2.6.

<sup>&</sup>lt;sup>6</sup> Government of India, Planning Commission, *Kerala Development Report* (New Delhi: 2008), Table 12.3. Note: The old age dependency ratio is calculated as the total population aged 65 and over divided by the total population aged 15-64.

<sup>&</sup>lt;sup>7</sup> Panikar, P. G. K., "High Cost of Medical Care in Kerala: Tentative Hypothesis," *Economic and Political Weekly* 27, no. 23 (1992): 1179-1181, Table 2.

<sup>&</sup>lt;sup>8</sup> Government of India, Planning Commission, Kerala Development Report (New Delhi: 2008), Table 2.4.

<sup>&</sup>lt;sup>9</sup> National Family Health Survey (NFHS-3), Volume 1, International Institute for Population Sciences (Mumbai: 2005-6), Table 4.3.

Kerala is also the only state in India where sex ratios favor females over males.<sup>10</sup> As of India's 2001 census, Kerala's sex ratio was approximately 945 males for every 1000 females whereas India's overall sex ratio was approximately 1072 males for every 1000 females.<sup>11</sup>

There are other states in India that boast relatively high male literacy rates (Mizoram – 92.5 percent), low TFRs (Andhra Pradesh – 1.79), or high female life expectancy (Punjab – 70.4 years), but Kerala stands out because it has all of these characteristics.<sup>12</sup> Taken as a whole, Kerala is unique not only within India but also among the rest of the developing world, where policymakers, NGO workers, and politicians in low-income settings endlessly struggle to achieve Kerala-style results. It is of no wonder, then, why others look to Kerala as a "model" for human progress.

But while Kerala reached Western-standard health, education, and fertility levels, the state's economy underperformed – even relative to India's sluggish "Hindu rate of growth" economy.<sup>13</sup> As can be seen in Figure 1, between 1972 and 1993, Kerala's per capita income was between 15 to 24 percent *lower* than India's arguably dismal per capita levels during this same period.<sup>14</sup>

<sup>&</sup>lt;sup>10</sup> Demographer S. Irudaya Rajan from the Centre for Development Studies in Kerala attributes the state's more "natural" sex ratio to the influence of the Syrian Christian community in Kerala as well as the widespread education of women in the state. Source: Rajan, S. Irudaya, 2010, Interview by author, July 2010.

<sup>&</sup>lt;sup>11</sup> Registrar General of India. "Census of India" (2001). Note: Since India presents sex ratios as females per 1,000 males, these data have been recalculated to conform with the standard males per 1,000 females.

<sup>&</sup>lt;sup>12</sup> State data from Registrar General of India. "Census of India" (2001).

<sup>&</sup>lt;sup>13</sup> Throughout this paper, state and national level incomes are measured and referenced as net domestic product and gross domestic product (GDP). Net national product and gross national product (GNP) are never used.

<sup>&</sup>lt;sup>14</sup> The economic turnaround since 1993, we will see later, is due to exogenous factors – specifically migration and remittances – rather than endogenous factors.



Figure 1: Relative Per Capita Income of Kerala vs. India, 1972-2000 (0 = Per Capita Income of Kerala equals India)

Source: Kannan, K. P. and K.S. Hari. "Kerala's Gulf Connection: Emigration, Remittances and their Macroeconomic Impact 1972-2000." Working Paper 328. Centre for Development Studies, March, 2002. Table 6.

For proponents of the Kerala model, this was proof that the state simply pursued an "alternative" path for human development in which it chose to improve social conditions without concerning itself over economic growth. They posited that Kerala did not have to become rich in order to get healthy, become educated, or control fertility.

The milestone in this exposition of the "Kerala model" was a 1975 publication by the United Nations and the Centre for Development Studies in Kerala, which highlighted Kerala's unique mix of high human development and low per-capita income and consumption indicators.<sup>15</sup> With this report, Kerala and the "Kerala model" became poster children for *dirigiste*, avowedly egalitarian social welfare policies in the Third World. In the report, the authors wrote that while "Kerala is a relatively poor

<sup>&</sup>lt;sup>15</sup> "Poverty, Unemployment and Development Policy: A Case Study of Selected Issues with Reference to Kerala," Centre for Development Studies, Dept. of Economic and Social Affairs, (New York: United Nations, 1975).

state in India when judged by conventional norms such as *per capita* income, [... it has] nevertheless been possible for the state to make fairly impressive advances in the spheres of health and education." Over the next four decades, this view of the Kerala experience would gain traction as scholars and journalists from across the world championed the state as a lesson for the "Global South."

For example, along with China, Sri Lanka, and Costa Rica, Kerala was a featured region in a prominent 1985 Rockefeller Foundation public health conference in Bellagio, Italy. Entitled "Good Health at Low Cost," the conference declared that "one just can't wait for affluence," and that the other countries along with Kerala were examples of areas with low average incomes per capita that achieved good health "through a sustained political commitment to universal health and wellbeing."<sup>16</sup>

In addition to such conferences, many development-oriented journals such as *Population and Development Review*, the *International Journal of Health Services*, and the India-based *Economic and Political Weekly* featured academic studies that championed the Kerala experience in the development policy world. In a 1978 issue of the *International Journal of Health Services*, for example, John Ratcliffe argued that Kerala's successful declines in fertility and mortality were a result of high education and broad-based political participation in the state, which resulted in "distributive policies" that brought about more equity and social justice.<sup>17</sup> A 1994 essay entitled "Kerala: A Valid Alternative to the New World Order" in the *Bulletin of Concerned Asian Scholars* also typified the conventional academic view of the Kerala model. Despite rising concerns about high unemployment and poor economic growth in Kerala at that time, authors Richard W. Franke and Barbara H. Chasin lauded the state's development experience, posing a dichotomy between human development and economic performance:

We believe Kerala has made a 'morally superior choice' in putting infant survival, nutrition, education, and public services ahead of consumerism and private gain for entrepreneurs.<sup>18</sup>

But perhaps a more important question then is the inverse: why did Kerala not improve its economic conditions naturally with its latent human capacities? Could it be that statist policies had *more* impact suffocating growth and *less* impact promoting human development and non-material "well-being" than originally perceived?

<sup>&</sup>lt;sup>16</sup> "Good Health at Low Cost" (Proceedings of a Conference for the Rockefeller Foundation held at the Bellagio Conference Center, Bellagio, Italy, October, 1985), 248-9.

<sup>&</sup>lt;sup>17</sup> Ratcliffe, John, "Social justice and the demographic transition: lessons from India's Kerala state," *International Journal of Health Services* 8, no. 1 (1978).

<sup>&</sup>lt;sup>18</sup> Franke, Richard W. and Barbara H. Chasin, "Kerala: A Valid Alternative to the New World Order," *Bulletin of Concerned Asian Scholars* 26, no. 3 (1994).

#### Historical Underpinnings of Health and Education Success

In fact, the origins of Kerala's peculiar condition can be rooted to a time well-before either "Kerala" – the demarcated state within an independent India – or the Communist Party of Kerala existed, back during the era of British imperial rule. By studying this history, it is possible discount the impact of Kerala's statist governments on the state's positive human development outcomes and trace it instead to local institutions and collective actions taken by Keralite citizens themselves.

In 1956, the former princely states of Travancore and Cochin and the Malabar district of the Madras Presidency of British India were constituted to form Kerala. These three regions of British India were similar in that they shared a common language, Malayalam, and like many other states that were formed following Indian independence in 1947, were joined based on linguistic identity.

While Travancore, Cochin, and the Malabar district were governed separately during the British era, the origins of Kerala's high public investments in areas such as health care and education can be traced back to this time period. Indeed, as early as 1867, while discussing Indian governance in the House of Commons, the British secretary of state for India praised Travancore as a "model native state" for its successful public administration.<sup>19</sup>

The sizeable Christian population of Kerala made it an attractive base for missionaries and served as reinforcement to British power. For example, the rulers of Travancore and Cochin had established a British-style administration in their governments and had encouraged the work of Christian missionaries, who received grants to build schools in the region. By 1904, the government of Travancore had already begun to take up the entire cost of primary education for lower caste residents. By 1924-25, public education expenditures in Travancore had reached 18 percent of state revenues.<sup>20</sup>

The church also played an important role in raising resources from poor families to pay for education. In fact, much of Kerala's educational financing, during and after Indian independence, came from private funds raised through collective mobilization. For example, housewives were instructed by the church to save one handful of rice per day and hand these savings to the church every month. These contributions were calculated to account for approximately 5 percent of families' consumption expenditure, and through such efforts, three out of five primary and middle schools; two out of five secondary schools; and four out of five colleges were privately managed by 1976, well into the recognized era of the "Kerala model."<sup>21</sup>

<sup>&</sup>lt;sup>19</sup> Tharamangalam, Joseph, "The Perils of Social Development without Economic Growth: The Development Debacle of Kerala, India," *Bulletin of Concerned Asian Scholars* Vol. 20 (1998).

<sup>&</sup>lt;sup>20</sup> Nair, P.R. Gopinathan, "Education and Socio-Economic Change in Kerala, 1793-1947," *Social Scientist* 4, no. 8 (March, 1976): 33-34.

<sup>&</sup>lt;sup>21</sup> Ibid, pp. 35-36.

It may even be possible to trace Kerala's education successes even farther back. The Malayalam language, one of four major Dravidian languages of southern India, has a rich literary history that dates as far back as the 9<sup>th</sup> century. There have been estimates that in pre-British times, as many as 50 percent of male and 25 percent of female Malayalam speakers may have been literate. As local schools disappeared during the beginning of British rule, literacy plummeted before rising again.<sup>22</sup>

The story of Kerala's public health achievements is similar in some ways to its education success. The rulers of Travancore and Cochin had implemented Western-style health care systems starting in the 19<sup>th</sup> century, and by 1879, had made vaccinations mandatory for all public servants, prisoners, and students. In another example of preventative measures taken by the government, Travancore, with support from the Rockefeller Foundation, conducted parasite surveys in 1928, which led to measures that controlled hookworm and other communicable diseases.<sup>23</sup>

Describing the progressive public health measures taken in Kerala well-before independence, one author notes:

Development of health services was not confined to the provision of preventive care – the general hospitals in Trivandrum and Cochin are about 150 years old. Initiatives were also taken to get members of the respective states who were trained in western medicine into key posts in the government service. The appointment of Dr. Mary Punnen Lukose as the surgeon-general of Travancore in the early years of the 20<sup>th</sup> century is a case in point. A doctor trained in England, she was the first woman to be appointed surgeon-general in an Indian state, at a time when women doctors were still a rarity in Europe and America.

Development of health services was complemented by other parallel events: initiatives to provide safe drinking water (in the capital city of Trivandrum initially) and the provision of state supported primary education, including education for women. Though schooling had not reached today's levels of coverage, the first steps were taken. Another important factor was the establishment of mission hospitals in remote areas under the auspices of Christian churches. Young girls from the Christian community in Kerala were keen to take up nursing as a career.<sup>24</sup>

The above-described characteristics of pre-independence Kerala were quite different from other princely states and territories that constituted British India. And while proponents of the Kerala model argue that the state's development successes could be easily replicated in other poor states within and outside of India with intelligently-directed social spending, it is important to understand

<sup>&</sup>lt;sup>22</sup> Jeffrey, Robin, "Governments and Culture: How Women Made Kerala Literate," *Pacific Affairs*, 60, no. 3 (Autumn, 1987): 450.

<sup>&</sup>lt;sup>23</sup> Kutty, V. Raman, "Historical Analysis of the Development of Health Care Facilities in Kerala State, India," *Health Policy and Planning*, 15, no.1: 103-109.

<sup>&</sup>lt;sup>24</sup> Ibid.

the complexity and depth of Kerala's experience, in which success has been a result of a mixture of public investment coupled with well-established health and educational institutions and historical precedent.

Many analysts, however, have countered that while the Malabar district was far behind both Travancore and Cochin in terms of health and education attainment during Kerala's formation in 1956, it was able to "catch up" with the rest of the state, and in less than a generation boasted social indicators that were indistinguishable from the other parts of Kerala. Because of this, they downplay the development momentum of pre-independence institutions and private investments in the state and argue that the Communist government's policies were equally if not more indispensable in Kerala's development experience.

But the phenomenon of Malabar "catching up" can perhaps be better understood by considering the hypothesis of economic "convergence" - most prominently developed by Harvard economist Robert Barro and Columbia University economist Xavier Sala-i-Martín.<sup>25</sup> – in which economic growth of poorer regions outpaces that of richer regions, leading to a convergence in income levels within contemporary economies in Europe, North America, and elsewhere.<sup>26</sup> According to Barro and Sala-i-Martín's analysis, convergence occurs as a result of increased labor and capital mobility and technological diffusion within open economies. In the case of Kerala, this would make sense, as the integration of Cochin, Travancore, and Malabar into one state would have naturally facilitated such flows. While Barro and Sala-i-Martín's convergence analysis is limited to economic performance as measured by income, some recent studies have used measures such as the Human Development Index (HDI), health indicators, and education indicators to study convergence in human development. In one study of HDI convergence across Indian states, researchers found that the HDI of lesserdeveloped states grew faster than that of higher-developed states.<sup>27</sup> In another study of 84 countries between 1970 and 1990, IMF economists also found convergence in life expectancy, infant mortality, and education stocks between richer and poorer countries.<sup>28</sup> Indeed, Malabar's ability to reach development parity with the Cochin and Travancore regions could be explained by this convergence

<sup>&</sup>lt;sup>25</sup> Barro, Robert, and Xavier Sala-i-Martín, "Convergence," Journal of Political Economy (April 1992): 100, 223-51.

<sup>&</sup>lt;sup>26</sup> However, economist Lant Pritchett has argued that, in fact, there has been "divergence, big time" in per capita incomes between the richest and poorest countries. Using per capita income data from 1870 to 1990, he finds that the ratio of per capita incomes between the richest and poorest countries increased by approximately a factor of five. But this could be simply a discrepancy in the level of data analysis. While Barro and Sala-i-Martín study convergence at the level of U.S. states in their seminal essay "Convergence," Pritchett uses macro data from countries as a whole. As far as this study is concerned, convergence at more local or regional levels is of more interest. Pritchett, Lant, "Divergence, Big Time," *The Journal of Economic Perspectives* 11, no. 3 (Summer,

<sup>1997): 3-17.</sup> 

<sup>&</sup>lt;sup>27</sup> Roy, Hiranmoy and Kaushik Bhattacharjee, "Convergence of Human Development across Indian States," (presented at Quantitative Approaches to Public Policy Conference, Indian Institute of Management, Bangalore, August 9-12, 2009). <u>http://www.igidr.ac.in/pdf/publication/PP-062-22.pdf</u>.

<sup>&</sup>lt;sup>28</sup> Randa, Sab and Stephen C. Smith, "Human Capital Convergence: A Joint Estimation Approach," IMF Staff Papers 49, no. 2. (International Monetary Fund, 2002).

hypothesis, which appears to hold not only for economic growth but also human development within open economies.

Nevertheless, research on human development convergence is at its infancy and rife with many caveats, thus we cannot say that the public action of modern Kerala's governments has been completely futile. In fact, the speed of Malabar's development can only be explained by the proactive nature of government health and education investment in Kerala. While convergence analysis generally assesses changes over long time periods, Malabar "caught up" with the rest of the state in less than a generation. These facts, however, do not nullify the depth of experience and tradition in health and educational development that characterized pre-colonial, colonial, and modern Kerala. As one author notes, "the state was only one of the players – and a relatively passive one – in the transformation of Kerala [...]."<sup>29</sup>

#### The Rise of the Private Social Service Sector

For the beginning of the post-independence period, the progress of health and education in Kerala appears to track closely with state government investments in health and education. In 1965-66, about a decade after the election of Kerala's first Communist government, the state's public education expenditures amounted to 50.3 percent of total revenue expenditures; in India, education expenditures were only 33.9 percent of total revenue expenditures.<sup>30</sup> While Kerala and India had similar levels of health care expenditures in 1965-66 – 15.3 percent and 14.0 percent of total expenditure, respectively<sup>31</sup> – the rate of growth in government health care expenditure in Kerala from 1956 to the early 1980s (13.04 percent) outpaced the growth of total government expenditure and of the state's gross domestic product.<sup>32</sup> The total number of beds in government hospitals during this time also jumped from 13,000 in 1960-61 to 36,000 by 1986.<sup>33</sup> In per capita terms, this was an increase from about .77 government beds per 1,000 people in 1960-61 to approximately 1.24 beds per 1,000 people in 1986.<sup>34</sup>

But the biggest improvements in health and education indicators in Kerala did not occur until the middle of the 1980s and into the 1990s when the state's indicators moved from above average within

<sup>&</sup>lt;sup>29</sup> Mathew, E. T., "Growth of Literacy in Kerala: State Intervention, Missionary Initiatives and Social Movements," *Economic and Political Weekly* 34, no.39 (1999): 2811-2820.

<sup>&</sup>lt;sup>30</sup> Apte, M.D., "Education and Unemployment in Kerala." *Economic and Political Weekly* 10, no.28 (1075):1041-1042.

<sup>&</sup>lt;sup>31</sup> Ibid

<sup>&</sup>lt;sup>32</sup> Kutty, V. Raman, "Historical Analysis of the Development of Health Care Facilities in Kerala State, India," *Health Policy and Planning* 15, no.1: 103-109.

<sup>&</sup>lt;sup>33</sup> Ibid.

<sup>&</sup>lt;sup>34</sup> Beds per 1,000 calculated using 1961 and 1991 data from registrar General of India. "Census of India" (2001).

India to almost on par with Western societies. By this time, however, the government of Kerala had in fact begun to moderate its social spending. Between 1985-86 and 1995-96, for example, health care expenditures as a percentage of total revenue expenditures declined from 8.8 percent to 7.2 percent.<sup>35</sup> And while beds in government hospitals only grew by 2,000 between 1986 and 1996, beds in private hospitals jumped by 18,500, from 49,000 to 67,500 beds.<sup>36</sup>

Indeed, today Kerala stands out because of its unusually *high* level of private expenditures in health care. Figure 2 shows the relationship between total per capita health care expenditures and male life expectancy in India in the early 2000s.



Figure 2: Total Per Capita Health Expenditure, 2001-2 (rupees) vs. Life expectancy at birth, males, 2002-6, Kerala and 15 other Indian states

Source: National Health Profile of India, 2008. Central Bureau of Health Intelligence. http://www.cbhidghs.nic.in/index2.asp?slid=1000&sublinkid=706.

As expected, there is a close relationship between total per capita health expenditures and health outcomes. States that invest more money in health tend to achieve the best results. However, contrary to the wisdom that these expenditures must be bankrolled by government coffers, there appears to

<sup>&</sup>lt;sup>35</sup> Ibid, Table 2.

<sup>&</sup>lt;sup>36</sup> Ibid.

be no relationship between the level of *public* per capita health expenditures as a percentage of total per capita health expenditures and male life expectancy (see Figure 3).



Figure 3: Public Health Expenditures, per capita, as a % of Total Health Expenditures, per capita, 2001-2 vs. Life expectancy at birth, males, 2002-6, Kerala and 15 other Indian states

Not only is there almost no relationship between public health spending and health outcomes in India, Kerala also happens to have one of the lowest levels of public health care expenditures in all of India. In 2001-2, more than 87 percent of health expenditures in Kerala were in the private sector.

This phenomenon can be partially explained by the changing nature of health care needs and demands in Kerala. As the state's high life expectancy and low infant mortality rates reflect, the need for medical treatment of communicable diseases like tuberculosis and typhoid has minimized. On the other hand, the increasingly aged population is beginning to suffer from "Western" ailments like cardiovascular disease, diabetes, memory loss, and other chronic disease, which requires more specialized health care services.<sup>37</sup> For example, while Kerala has one of the lowest rates of tuberculosis in

Source: National Health Profile of India, 2008. Central Bureau of Health Intelligence. http://www.cbhidghs.nic.in/index2.asp?slid=1000&sublinkid=706.

<sup>&</sup>lt;sup>37</sup> See "Stress on Early Detection to Manage Alzheimer's Disease," *The Hindu*, September 22, 2009, http://www.thehindu.com/2009/09/22/stories/2009092258590300.htm.

the country (275 per 100,000 vs. 445 per 100,000 in India), it has a self-reported diabetes rate (among females) almost three times higher than the national average and self-reported asthma rates more than twice as high.<sup>38</sup> This does not mean that women in Kerala suffer more from diabetes and asthma than in other states, but that it is diagnosed, and therefore reported, more frequently.

Indeed, in an important study of self-assessed health in the early 1990s, public health experts Lincoln Chen and Christopher Murray found that self-assessed health was typically worse for more educated populations even though clinical data clearly proved that the more educated populations were healthier. <sup>39</sup> In a case of what economist Amartya Sen has coined "positional objectivity," residents of the United States assessed their health to be worse than residents of Kerala, who assessed their health to be worse than that of people in poorer Indian states such as Bihar and Uttar Pradesh, even though evidence of morbidity and disease rates showed that quite the opposite was true.<sup>40</sup>

Even today across India, there is a close relationship between the level of female literacy in a particular state and the self-reported diabetes rate among women in that state (see Figure 4). As education levels increase, one's self-perception of health status and wellness becomes more acute, and in Kerala, it appears that these perceptions have influenced health care decisions.

<sup>&</sup>lt;sup>38</sup> National Family Health Survey (NFHS-3) Vol. 1, International Institute for Population Sciences (Mumbai: 2005-6), Tables 13.2 and 13.6.

<sup>&</sup>lt;sup>39</sup> Murray, C.J.L. and Chen, L.C., "Understanding Morbidity Change," *Population and Development Review* 18, no. 3 (September, 1992): 481-503.

<sup>&</sup>lt;sup>40</sup> Sen, A., "Positional Objectivity," Philosophy and Public Affairs 22 (1993): 126-145.



Figure 4: Self-reported diabetes rate, females, 2005-6 vs. Female literacy rate, 2001

Sources: Diabetes rate: National Family Health Survey (NFHS-3) Vol. 1. International Institute for Population Sciences (Mumbai: 2005-6). Table 13.6; Female literacy: "State-wise Literacy Rates (1951-2001)." Registrar General of India. http://indiabudget.nic.in/es2006-07/chapt2007/tab94.pdf.

In addition to desiring treatment for more chronic ailments, Kerala's citizens are looking for more high tech methods of medical diagnosis and therapy; they have become more discriminating health consumers with a higher aggregate demand for health care services. This high demand, coupled with little federal legislation overseeing private hospitals, has created a health economy that no longer relies on state funding. These factors also help to explain why few other states have experienced similar transitions in their health care sector. Except for Punjab, no other Indian state has reached overall health levels close to those of Kerala and therefore has not cultivated a similar demand in private healthcare services.

Kerala's education sector appears to also be undergoing a similar transition to more private-driven services. In 2003, 56 percent of schools in Kerala were managed in the private sector as opposed to only 12 percent in India as a whole.<sup>41</sup> While many of these schools receive financial support from the government, the number of "unaided" private schools has more than doubled from 2003 to 2008.<sup>42</sup>

 <sup>&</sup>lt;sup>41</sup> Government of India, Planning Commission, *Kerala Development Report* (New Delhi: 2008), Chapter. 8, pg.265.
<sup>42</sup> Government of Kerala, Finance Department, "2008 Economic Review," Table 11.1. <u>http://www.keralaplanningboard.org</u>.

Since 1997, education and health expenditures in Kerala's government have declined in proportion to other government spending and remained effectively constant in relation to state income. On the other hand, pension expenditures have increased from 11.1 percent of the state's revenue expenditure to almost 20 percent in 2007-8.<sup>43</sup> This is perhaps a sign of things to come; Kerala's low fertility rates coupled with high life expectancies will soon increase the burden of the elderly on the state's workforce.

#### The Changing Nature of Kerala's Political Economy

Evidence of privately driven social spending – both in historical context and in the present day – helps to discount the impact of the state in Kerala's development story. But looking more closely at Kerala's economic policies, it is also possible to see how the state did not just deprioritize economic progress – it impaired it.

#### Statism and Underperformance

Kerala's workforce is one of the most educated in all of India, on par with high performing states such as Karnataka (with tech-hub Bangalore) and Maharashtra (with financial center Mumbai). Nevertheless, Kerala has also had one of the highest levels of unemployment in the country. According to the Kerala Development Report, in 1987-88, 19.8 percent of the labor force in Kerala was unemployed, as opposed to 5.5 percent of the total labor force in India. More strikingly, 39.5 percent of urban females in Kerala were unemployed versus 17.8 percent in India. By 1999-2000, urban female unemployment had declined to 26.4 percent in Kerala and 7.1 percent in India, while overall unemployment in Kerala was 11.4 percent versus only 2.7 percent in India.<sup>44</sup> In a more recent study by the Centre for Development Studies in Kerala, the unemployment rate still reached 12.2 percent in 2007, one of the highest levels of any state in India.<sup>45</sup>

In a state with almost universal literacy rates and high levels of tertiary education, such statistics seem anomalous. But as Indian social scientist K.P. Kannan has found, Kerala's employment troubles can partially be explained by the rigidity of the state's labor laws and regulations. Kannan found an "all-encompassing nature of unionization" in Kerala, which, he argues, accorded unions a high level of power even relative to the state. <sup>46</sup> Furthermore, these unions failed to agree to productivity improvements through technological changes, "increasingly resorting to 'closed shop' strategies." He

<sup>&</sup>lt;sup>43</sup> Ibid., Table 2.12.

<sup>&</sup>lt;sup>44</sup> Government of India, Planning Commission, Kerala Development Report (New Delhi: 2008), Table 3.5.

<sup>&</sup>lt;sup>45</sup> Zachariah, K.C. and S. Irudaya Rajan, "Migration, Remittances and Employment: Short-term Trends and Long-term Implications," Working Paper 395, Centre for Development Studies (December, 2007).

<sup>&</sup>lt;sup>46</sup> Kannan, K. P., "Political Economy of Labour and Development in Kerala." *Economic and Political Weekly* 33, no. 52 (1998): L61-L70.

notes, "Generation of new employment was so low because of the inability of the state to attract new investment and [the] decline in the technologically stagnant labor-intensive occupations."

*Dirigiste* policies in Kerala have also made the state of one the most difficult for conducting business in all of India. In the World Bank's 2009 *Doing Business in India* report, which compared business regulation in 17 major cities across India, Kerala's commercial capital Kochi ranked 16<sup>th</sup>. For example, the report found that it took a new business in Kochi more than 210 days to obtain building permit approvals and utility connections, whereas a business in Hyderabad or Bangalore could do the same in about 80 or 90 days, respectively. While Kochi had the lowest cost per container (US\$432) to export goods, it also took the longest time (28 days) of all cities to complete all of the documents and procedures for exporting the container.<sup>47</sup>

Even when considering non-material exports such as information technology exports (IT, of course, is a purported strength in Kerala), Kerala underperforms. As measured by firms registered under the Software Technology Parks of India program, Kerala only had Rs. 2.96 billion in IT exports in the fiscal year 2005-6 whereas South Indian economic rivals Karnataka, Tamil Nadu, and Andhra Pradesh had Rs. 370 billion, Rs. 139.6 billion, and Rs. 125.0 billion, respectively, during the same year.<sup>48</sup> In per capita terms, this discrepancy is even starker. (See Figure 5 and Table 4) While Karnataka had Rs. 136,383 in IT exports per tertiary educated graduate in 2005-6 and Maharashtra had Rs. 28,887, Kerala posted a mere Rs. 1422 of IT exports per higher educated graduate. Even much poorer states such as Uttar Pradesh and Orissa had higher levels of IT exports. In fact, the only reporting states which had lower IT exports through its special economic zones (SEZs), which in 2007-8 exported more than Rs. 670 billion in goods, or approximately 45 percent of its 2006-7 net state domestic product.<sup>49</sup> Madhya Pradesh, on the other hand, is an impoverished, agriculture-based economy with a per capita domestic income in 2006-7 less than half than that of Kerala.

- <sup>48</sup> Software Technology Parks of India. <u>http://www.stpi.in/news1.htm</u>.
- <sup>49</sup> Pandit, Virendra, "Gujarat SEZs see Rs 74,000-cr exports in 2009-10," Business Line (India), April 24, 2008.

<sup>&</sup>lt;sup>47</sup> *Doing Business in India 2009*, World Bank (2009). available at http://www.doingbusiness.org/subnational/exploreeconomies/India2009.aspx.



Figure 5: IT Exports in India, per tertiary graduate, 2005-2006

Note: Tertiary Population includes population with 'Non-Technical Diploma,' 'Technical Diploma,' or 'Graduate and above' education.

Sources: Software Technology Parks of India. http://www.stpi.in/news1.htm.; Registrar General of India. Census of India 2001. (2001).

Karnataka	136,383
Haryana	90,986
Tamil Nadu	52,252
Andhra Pradesh	38,345
Maharashtra	28,887
Chandigarh	19,796
Delhi	19,410
Uttar Pradesh	10,748
West Bengal	7,605
Pondicherry	4,760
Orissa	3,469
Rajasthan	1,793
Punjab	1,630
Kerala	1,422
Gujarat	1,074
Madhya Pradesh	942

Table 4: IT Exports per Tertiary Educated Graduate (in Indian Rupees), 2005-6

Note: Tertiary Population includes population with 'Non-Technical Diploma,' 'Technical Diploma,' or 'Graduate and above' education.

Sources: Software Technology Parks of India. http://www.stpi.in/news1.htm.; Registrar General of India. Census of India 2001. (2001).

Kerala also has one of the poorest records in India of attracting foreign investment into the state. Despite recent admissions even by Communist governments in Kerala of the need for more investment and economic growth in the state and deliberate charm offensives by such governments to attract this investment, Kerala brought in less than half a percentage of the country's total foreign direct investment (FDI) inflows between April 2000 and December 2009.<sup>50</sup> Maharashtra, in contrast, received more than 35 percent, Karnataka more than 6 percent, and Gujarat almost 6 percent of total FDI inflows. Even the much poorer state of Rajasthan received more foreign direct investment than Kerala.

Considering the amount of latent human capital, Kerala's economic performance has been simply aberrant. Indeed, for the modern world as a whole, the structural relationship between human capital (health and education attainment) levels and income is strong, positive, and almost universal. Table 5

<sup>&</sup>lt;sup>50</sup> Government of India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion, "Fact Sheet on Foreign Direct Investment, from August 1991 to December 2009." <u>http://dipp.nic.in/fdi\_statistics/india\_FDI\_December2009.pdf</u>.

presents ordinary least squares regression outputs assessing the relationship between the independent variables of health (life expectancy at birth) and education (average years of schooling for ages 15+) and the dependent variable of income (GDP per capita) in approximately 100 countries around the world. Since 1980, there has been a consistent, positive relationship between health/education levels and a country's per capita income level.<sup>51</sup> In other words, for the amount of education and good health residents of Kerala have had over the last half century, their state should have been one of the richest not only in India, but in the developing world.

Table 5: Regression Output of Relationship between Health, Education, and Per Capita GDP, 1980-2000

#### Dependent Variable: Log of GDP Per Capita, PPP

Independent Variables	1980	1990	2000
Life Expectancy at birth (years)	.065***	.060***	.052***
Average Years of Schooling (ages 15+)	.105***	.156***	.203***
R-squared	0.812	0.843	0.845
N (sample size, # of countries)	98	104	102

\*\*\*Significant at 1%

Sources: World Bank. *World Development Indicators 2008*. CD-ROM. 2008.; Maddison, Angus. "Historical Statistics for the World Economy: 1 - 2006 AD." 2009.; Barro, Robert, and Jong-Wha Lee. "Education Attainment in the Adult Population." World Bank. 2000. <u>http://go.worldbank.org/8BQASOPK40</u>.

To take this estimate further, consider the strong positive relationship between average years of schooling and GDP per capita in 2000 as plotted in Figure 6. India, which had an average of approximately 5 years of schooling for males and females ages 15 and above in the year 2000, had a GDP per capita PPP of about \$1700, underperforming the global trend by about \$1400. China, which had about 6.3 years of average schooling, had a GDP per capita of approximately \$2600, also underperforming the global trend by approximately \$2700. If we use this regression to roughly estimate the

<sup>&</sup>lt;sup>51</sup> Over time, the relative importance of education in this relationship has increased, while health has become slightly less influential in determining income levels. This can be observed in the change in coefficients for the health and education variables in the regression. The coefficient for average years of schooling has almost doubled, from .105 in 1980 to .203 in 2000 while the coefficient for life expectancy at birth has declined slightly from .065 in 1980 to .052 in 2000. This means that for a given life expectancy, say 65 years, moving from 5 to 6 years of average schooling would have increased GDP per capita PPP by about \$450 in 1980 and by approximately \$680 in 2000. The difference is more striking at higher levels of schooling. A country that goes from 10 to 11 average years of schooling, with a constant life expectancy at birth of 65 years, would have increased its GDP per capita PPP by \$774 in 1980 and by \$1879 in 2000.

potential GDP per capita for Kerala in 2000, which according to an estimate by the 2001 Census of India, had a median of 8 years of schooling for males and females in 2001, the state would have had a per capita income around\$11,000. Even if it underperformed like India and China (both countries' actual GDP per capita PPP is approximately 50% of the regression-predicted GDP per capita), its income would have still reached around \$5,000-6,000. This estimate, of course, is not exact because the measures in the original regression use "average" years of schooling and country-level data, while estimating Kerala's income requires "median" years of schooling and state-level data. But even a rough, "worst-case scenario" estimate shows that Kerala's income should be at least three to four times higher than India's and should approach that of upper middle income economies such as Brazil, Turkey, or South Africa. (As of 2007-8, Kerala's income per capita was Rs. 32,961 while India's was Rs. 24,295.)





Sources: World Bank. World Development Indicators 2008. CD-ROM. 2008.; Barro, Robert, and Jong-Wha Lee. "Education Attainment in the Adult Population." World Bank. 2000. http://go.worldbank.org/8BQASOPK40.; Kerala years of schooling estimated using Registrar General of India. Census of India 2001. (2001). Kerala GDP per capita PPP calculated based on the proportional difference between India and Kerala's GDP in 2000-1 in Rupees from *Handbook of Statistics on Indian Economy 2008-9*, Reserve Bank of India. 2009. In Figure 1 above, we saw that since 1993, Kerala's per capita income levels began to outpace India's average. It is important, therefore, to assess the nature of Kerala's economic transformation over the last decade since, in terms of GDP growth at least, it has gone from underperformer to 'above average' in the Indian economy. In Figure 7, which shows the per capita net state domestic product for Kerala and selected other Indian states, we can see that Kerala's per capita income rivals that of industrial power Gujarat and IT hubs Karnataka and Tamil Nadu. A little more than a generation ago, Kerala's income would have registered around the levels of Rajasthan and Madhya Pradesh, two of India's poorest states today.



Figure 7: Per Capita Net State Domestic Product, 1999-2007, Kerala and selected Indian states

Source: *Handbook of Statistics on Indian Economy 2008-9*, Reserve Bank of India. 2009. http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20India n%20Economy.

The growth in Kerala has been uneven and disproportionately driven by growth in the service sector. Figures 8 and 9 show the composition of total state income in Kerala and Gujarat, one of India's most industrialized states. While both states have enjoyed unprecedented growth over the last decade, the nature of their growth is truly distinctive.



Figure 8: Net State Domestic Product by Sector, 1999-2007, Kerala



Figure 9: Net State Domestic Product by Sector, 1999-2007, Gujarat

Source: Handbook of Statistics on Indian Economy 2008-9, Reserve Bank of India. 2009.

Source: *Handbook of Statistics on Indian Economy 2008-9*, Reserve Bank of India. 2009. http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20India n%20Economy.

Figure 8 shows that apart from Kerala's service economy, income in the state effectively stagnated over the last decade. In fact, the size of Kerala's service sector is larger than Gujarat's industrial and agricultural sector combined. On the other hand, Figure 9 shows the balanced nature of economic growth in Gujarat, in which industry has played an equally important role as services.

Breaking Kerala's service economy down further, the components that have exhibited the most robust growth since 1999 have been first, the transport, storage, and communication sector; second, the banking and insurance sector, and third, the construction sector.<sup>52</sup>

#### The Workforce - Voting with their Feet

Suffocating labor regulations, a poor business climate, and the disproportionate power of unions have dissuaded firms from investing and creating employment in Kerala. Nevertheless, Kerala has managed to outpace economic growth in India for more than a decade now. How can this be explained? In a word: Migration.

In 1982, approximately 230,000 Keralites, or less than 1 percent of the state's total population, were working abroad as migrant laborers. By 2003, this number jumped to more than 1.8 million, or almost 6 percent of the state's total population.<sup>53</sup> The majority of these migrants work in Gulf countries such as the United Arab Emirates and Qatar, and cities like Dubai have relied on unskilled and semi-skilled labor in its once-booming construction sector. In fact, in the year 2000, Keralites comprised more than 35 percent of all Indian migrant labor in the Gulf countries.<sup>54</sup> In other words, it appears that many unemployed Keralites simply decided to "vote with their feet," traveling abroad in search of the economic opportunity that was lacking at home.

One consequence of this exodus of migrant labor was an increased inflow of remittances. In 1999-2000, Kerala received more than US\$3 billion in remittances, which amounted to approximately 22 percent of the state's net domestic product.<sup>55</sup> By 2007, remittances continued to comprise more than 20 percent of the state's income.<sup>56</sup> For comparison, remittances as a percentage of India's total GDP only amount to a little more than 3 percent in 2005-6.<sup>57</sup> Indeed, as can be seen in Figure 10, the up-

http://www.thehindu.com/2008/04/15/stories/2008041554800700.htm.

<sup>&</sup>lt;sup>52</sup> Handbook of Statistics on Indian Economy, Reserve Bank of India (2008-9).

http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20India n%20Economy.

<sup>&</sup>lt;sup>53</sup> Zachariah, K.C. and S. Irudaya Rajan, "Gulf Revisited: Economic Consequences of Emigration from Kerala, Emigration and Unemployment," Working Paper 363 (Centre for Development Studies, September 2004), Table 1.

 <sup>&</sup>lt;sup>54</sup> Kannan, K. P. and K.S. Hari, "Kerala's Gulf Connection: Emigration, Remittances and their Macroeconomic Impact 1972-2000," Working Paper 328. Centre for Development Studies, March 2002, Table A3.
<sup>55</sup> Ibid., Tables 1 and 3.

<sup>&</sup>lt;sup>56</sup> "NRIs, a big revenue source for Kerala," *The Hindu*, April 15, 2008.

<sup>&</sup>lt;sup>57</sup> Chishti, Muzaffar, "The Rise of Remittances to India: A Closer Look," *Migration Policy Institute*, February 2007. <u>http://www.migrationinformation.org/Feature/display.cfm?id=577</u>.

tick in Kerala's economy tracks almost exactly with the increase in the proportion of remittances on state income. Remittances made their biggest jump at the beginning of the 1990s, jumping from less than 8 percent of state income to more than 18 percent in less than two years. By the middle of the 1990s, Kerala's per capita domestic product also began to surpass that of India. For instance, in 1990, Kerala's per capita income was almost 25 percent less than India's; by 2000, it was 20 percent more.



Figure 10: Comparison of Per Capita Income and Remittances in India and Kerala, 1972-2000

Source: Kannan, K. P. and K.S. Hari. "Kerala's Gulf Connection: Emigration, Remittances and their Macroeconomic Impact 1972-2000." Working Paper 328. Centre for Development Studies, March 2002., Tables 1 and 6.

One of the first impacts of the influx in remittance income was an increase in personal consumption levels. For example, in 1972-73, Kerala ranked eighth in the nation in terms of per capita consumer expenditure; by 1993-4, it had jumped to second place and by 1999-2000, Kerala led the country at

almost 10,000 rupees of annual per capita personal consumption.<sup>58</sup> In other words, Keralites, who make up 3.5 percent of India's population, consumed nearly 10 percent of the consumer goods produced in the country. Residents use these remittances to buy ready-made garments, medicines, and other household necessities.<sup>59</sup> However, because most of these goods are imported rather than produced at home, the state's industrial sector has not grown as fast as the service sector, in which demand for construction and telecommunication services increased among remittance-receiving families and drove economic growth.<sup>60</sup>

Indeed, each of the sectoral components of Kerala's net state domestic product described above bares the tell-tale signs of a remittance-fueled economy – an economy that would have effectively stagnated without this enormous inflow of money. As more remittances were wired home, migrant workers and their families began to build new houses, open bank accounts, and purchase cell phones, fueling service sector growth.

However, Kerala continues to be plagued by "educated unemployment" because the majority of migrants who went abroad were relatively low-educated skilled or semi-skilled workers, while most higher educated job-seekers remained behind in Kerala. In 2007, more than 24 percent of tertiary degree holders were unemployed as a percentage of the total labor force; though this number was 36.4 percent in 2003.<sup>61</sup> This slight decline in educated unemployment levels since 2003 can be attributed to the rise of inter-state migration from Kerala. While "educated unemployment" continues to be a problem in the state, many higher educated residents have moved to other parts of India such as Tamil Nadu and the national capital region (New Delhi and its suburbs) in pursuit of employment opportunities in industries such as telecommunications and information technology. In 2007, more than 50 percent of inter-state emigrants from Kerala had secondary or higher levels of education, whereas more than 55 percent of Keralite emigrants abroad were primary educated or below.<sup>62</sup>

#### Kerala's Economic Outlook.

Regardless of its challenges, Kerala has evolved into an economy ripe for substantial economic progress. Like its neighbors Karnataka and Tamil Nadu, the state boasts some of the best technically trained citizens in the country and could play a significant role in India's booming technology indus-

<sup>&</sup>lt;sup>58</sup> "High consumption, low entrepreneurship make Kerala vulnerable to globalization," *Business Line* (India), December 14, 2003.

<sup>&</sup>lt;sup>59</sup> Ibid.

<sup>&</sup>lt;sup>60</sup> Pushpangadan, K, "Remittances, Consumption, and Economic Growth in Kerala: 1980-2000," Working Paper 343, Centre for Development Studies, (March, 2003); Zachariah, K.C., and S. Irudaya Rajan, "Gulf Revisited: Economic Consequences of Emigration from Kerala, Emigration and Unemployment," Working Paper 363, Centre for Development Studies (September, 2004).

<sup>&</sup>lt;sup>61</sup> Zachariah, K.C. and S. Irudaya Rajan, "Migration, Remittances and Employment: Short-term Trends and Long-term Implications," Working Paper 395, Centre for Development Studies (December, 2007), Tables 24 and 25.

<sup>62</sup> Ibid.

try. Nevertheless, Kerala at this moment is a latent power rather than an emerging power. Too much of its economy still relies on remittance income, and despite the state government's best efforts, some reins of statism – a difficult business climate and antiquated labor and investment laws, for example – continue to hobble strong and sustainable economic growth.

But there are signs of hope. Transparency International has ranked Kerala as the least corrupt state in the country.<sup>63</sup> And even Communists in the state government have shown pragmatism with regards to foreign investment, labor laws, and regulatory measures. Industry Minister Elamaram Kareem of the Communist Party of India-Marxist, for example, has noted that remittances should go into more "investment and employment generating ventures" and that his government is working to make Kerala "a serious hub for commerce and trade."<sup>64</sup>

In recent months, Kerala's IT sector has also grown consistently even while IT in other states has slowed down due to the economic crisis. For example, in fiscal year 2007-8, software exports in Kerala grew by more than 43 percent, and in October 2009, Kerala's chief minister inaugurated a third IT park in the state, which would create nearly 200,000 jobs over the following two years and become part of a hub and spoke system with other IT parks in Kerala.<sup>65</sup> Technopark, a 300 acre technology park in the state's capital Trivandrum – and the first in technology park in India – employs over 28,000 people and continues to expand at a rapid pace.<sup>66</sup> The Government of Kerala and private industry groups have also begun several IT business promotion campaigns intended to attract companies and investment into the state – one delegation even traveled to Germany to showcase 25 companies looking for investment in Kerala.<sup>67</sup>

#### Conclusion

While recent upticks in economic opportunity and reductions in unemployment may bode well for Kerala's economy, and while the state has achieved some of the best health and education levels in India and even in the world, it is time to either declare the end of the "Kerala model" or to dramatically rethink its lessons for development and human progress. The unique historical experience of Kerala sets it apart from other parts of India, and in fact, it appears that the reins of statism have

<sup>&</sup>lt;sup>63</sup> "India Corruption Study – 2005," Transparency International.

http://www.transparency.org/regional pages/asia pacific/newsroom/news archive2/india corruption study 2005.

<sup>&</sup>lt;sup>64</sup> "Unemployment levels in Kerala decline as services sector picks up," *Live Mint* (India), October 4, 2007; Ashraf, Mohammed, "Kerala: Investment Opportunities Galore," *Arab News*, January 20, 2007.

<sup>&</sup>lt;sup>65</sup> "Software exports from Kerala grows 43 percent," *Indo-Asian News Service*, March 27, 2009; "Two lakh new IT jobs in Kerala in two years: Achuthanandan," *Indo-Asian News Service*, October 10, 2009.

<sup>&</sup>lt;sup>66</sup> See <u>www.technopark.org</u>.

<sup>&</sup>lt;sup>67</sup> "IT firms to be wooed to Tire 2 cities in State," *The Hindu*, May 25, 2006; Alexander, Richy D, "GTech planning CEOs' tour to Germany," *ExpressBuzz* (India), January 16, 2010.

done more to hold the state's economy back than to move its human development ahead. The lessons that should be learned from Kerala's experience include first, the need for human capital investment in health and education, which creates a latent resource pool which is easier to mobilize for economic progress, and second, the importance of an accommodating business and regulatory environment open to investment and employment creation. Even when Leviathan controls the commanding heights, we can see from Kerala's experience that citizens prefer to make their own choices about health care, education, and even employment. Many of the state's residents have simply 'voted with their feet,' looking abroad for the opportunities they lacked at home.

Indeed, economic liberty and a "culture of growth" will be critical for Kerala's future. As Jose Sebastian, director of an NGO that promotes entrepreneurship in Kerala notes, "Without growth, the Kerala model – if there is such a thing – will cease to exist."<sup>68</sup>

But the lessons of Kerala's experience are not just important for Kerala but also for India as a whole. The state's comparative advantages, in high technology, education, and health care, are also India's comparative advantages. And Kerala's economic goals – to improve infrastructure, boost service exports, and strengthen its knowledge economy – are India's economic goals. Indeed, Kerala's fate is India's fate.

On the world's stage, India is an emerging power – one of the 'BRICs' slated to make structural impacts on the global economy. The country is renowned for its world class scientists and engineers and its booming information technology, telecommunications, and manufacturing industries. Yet India often lacks the influence and authority on the international stage that should be coupled with this latent power. It is hobbled by domestic challenges such as corruption, poverty, and stark health and educational disparities. Paradoxically, Kerala has learned how to resolve such basic issues of human development and governance, yet it doesn't lead the country in its economic rise, sauntering instead in mediocrity.

It is this enormous potential of Kerala that makes its story to date so baffling and almost tragic. For India, Kerala should not just be an example of successful human development; it should be a warning about economic underachievement. For the world, Kerala should teach us that there is no developmental force as powerful as human capital. Nothing, that is, except for one potentially more powerful force: statism.

<sup>&</sup>lt;sup>68</sup> Sebastian, Joseph, 2010. Interview by author, Trivandrum, Kerala, July 2010.

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