

Sixty Years of Kerala's Economy : Economic Policies, Development Strategies and Development

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Objectives

- To review the economic policies, development strategies and development during the six decades (1956-2016)
- To assess the economic performance and identify the major development issues and problems

Data Source

- Statistical publications of development of economics & statistics and central government's statistical agencies
- Publications of state planning board, government departments and central government departments.

Theoretical Framework

Pre-conditions for economic growth and development

- High rates of investment in physical capital stock, social and economic infrastructure and human resources (public and private investment)
- Technological progress resulting in increase in factor productivity (land, labour, capital productivity etc)
- Population growth and associated increase in labour force (workers and work seekers in working age group)
- Institutional, attitudinal and ideological changes creating conducive climate for promoting investment, production, productivity, technological progress, migration of the labour force etc.

- Public expenditure on health, education, provision of public utility services, poverty alleviation schemes, social welfare schemes
- Preservation and protection of natural resources, ecology and environment (sustainable development)
- As market mechanism is the basic mechanism which determines the working of the economy, market friendly policies are required.
- Kerala being a regional economy of India and a part of the global economy, it will have to function within the constraints imposed by the national and global factors.

- Achieving a higher rate of economic growth is a pre-condition for development (more production of goods and services, generation of employment, income and consumption etc)
- But the growth should be achieved with two conditions
 1. It should be inclusive growth (for achieving poverty reduction, to be sustainable in the long run, broad based across sectors and inclusive of large part of country's labour force)
 2. It growth should aim sustainable development (protection of environment, ecology and natural resources.)

Wide variations in development due to difference in economic policies in pre and post liberalisation period

- Wide variation in development during the pre-liberalised period (1956-1990) and post-liberalised period (1990-2016)
- This is due to difference in economic policies pursued
- The policies pursued during the pre-liberalised period were not favourable to satisfy the pre-conditions of development.
- Low rate of investment, discouraging private investment, heavy dependence of public investment.
- Heavily relied on the small amount of resources of the state for development and expansion of social services.
- Public investment through economics plans are considered as solution to economic backwardness (five year plans)
- Hostile attitude to technological development, modernisation of production activities.

- Political ideology discouraging private investment in industry and service sectors
- Believed in socialist ideology and implemented unhealthy market interventions and hostile market policies
- Political ideology supported militant trade union activities which adversely affected investment and starting industry and service units
- Thus basic economic policies were against market principles, promotion investment, technological change, increase in production of goods and services and generation of employment.
- But there had been a radical shift in economic policy, since 1991 favourable to market functioning, promotion of private investment, technological progress and increase in production of goods and services.

Phases of development of Kerala : Three Phases

First phase (1956-1975)

- State remained as very backward economy with traditional methods of production
- The rate of growth was very low due to low investment
- The private investment in non-agricultural sectors was small
- The volume of investment was too small to break the vicious circle of low rate of growth, technological backwardness and low levels of productivity in all sectors.

Second Phase (1976-1990)

- The economy began to move forward from economic backwardness and stagnation
- The large scale migration of labour to Gulf countries and flow of remittances began to make rapid economic changes
- Flow of remittances stimulated economic change in income, consumption, savings and investment of lakhs of migrant households
- The spending of remittances resulted in construction of houses, real estate, demand for consumer durables, motor vehicles, education, health and generation of new secondary and tertiary activities.

Third Phase (1991-2016)

- Liberalisation and globalisation policies were implemented in India since 1991
- Created favourable conditions for private investment
- Rapid increase in private investment
- Increase in migration and flow remittances
- Higher rate of investment and technological progress
- More public expenditure on public infrastructure and social services
- Rapid reduction in poverty and unemployment
- State moved to a higher level of economic growth, technological change, and speedy transformation of economy and generation of more employment.

State of economy during the first phase (1956-1975)

- State remained as very backward economy
- Agricultural sector remained backward, with low productivity levels
- Backward industries with dominance of traditional and labour intensive industries like coir, cashew, handloom etc.
- Massive poverty and high rate of unemployment
- According to one estimate the percentage of poor people in Kerala was 90.75% in 1960-61
- The techno-economic survey estimated the unemployment rate as 13% in 1956

- The Kerala model of development was presented in 1970's when 53% of the people were below poverty line (1977-78)
- Though Kerala is a poor state, it could make impressive advances in health and education and hence bring about improvement in quality of life (based on indicators like birth rate, death rate, infant mortality rate, life expectancy etc)
- The Kerala model gave a distorted explanation and adversely affected policy formulation and development perspectives.

Economic Policies

- The state pursued a highly market intervention type of policy since 1956.
- Imposed economic controls, regulations and restrictions which distorted the functioning of market mechanism
- Expansion of public sector through public investment
- Infrastructure sectors like power, water supply, irrigation, communication, roads were put under the state ownership and monopoly
- Policies totally prohibited all private efforts to develop infrastructure items.

- Industrial policies aimed at starting public sector units, industrial co-operatives, reviving sick units by co-operatives, industrial licencing, introducing controls, restrictions on mechanisation etc.
- Modernisation and mechanisation were prohibited. Eg. Prohibition of mechanisation of coir weaving industry, agitation against introduction of tractors and tillers and computers
- Education policies aimed only to promote public education institutions through public spending (government institutions and grant-in-aid support to private educational institutions)

- A major objective of education was to get public sector jobs.
- Prohibited private investment in higher education sector which resulted in stagnation of professional and technical education institutions.
- A number of big bureaucratic institutions (Department of agriculture, Agriculture University, research stations). Construction of big irrigation projects, creation of credit agencies etc were started for agriculture development.
- Lot of public resources was spent for constructing major irrigation projects lasting construction for two to four decades. Nobody bothered about the public money wasted for the purpose.

Second phase (1976-1990)

- The backward economy began to witness rapid changes during the second phase, (1976 to 1990) with the large scale migration of Keralite workers to the Gulf countries.
- The large scale migration and flows of remittances have resulted in unprecedented economic changes in Kerala.
- The total stock of Keralite emigrants in Gulf increased from 2.5 lakh in 1979 to 6.17 lakh in 1990
- Remittances received from the Keralite emigrant workers increased from about ₹ 824 crore in 1980 to ₹ 1310 crore in 1990

- Widespread changes had taken place in the labour market, consumption, savings, investment, poverty, income distribution and regional development.
- Migration had also resulted in reduction of unemployment, created shortage of construction workers, upgraded skills, increased wages and promoted the migration of construction workers to Kerala from neighbouring states.
- Available evidences suggest that migration has helped migrant households to attain higher levels of income, consumption and acquisition of assets compared to non-migrant households.

- Due to the unfavourable climate for industrial investment, there had been a continuous outflow of capital, bank deposits, entrepreneurs, businessmen and industries to other states during the period.
- A hypothesis on economic impact on gulf migration ‘ since the mid – 1970s, the factor which had the greatest impact on Kerala’s economy especially on labour market, consumption, savings, investment, poverty, income distribution and economic growth has been the Gulf migration and migrant remittances’ (B. A. Prakash, (1998) Economic and Political Weekly).

Third Phase (1991-2016)

- During the third phase, four major factors influenced the economic changes viz.
- The impact of liberalised economic reforms implemented by the Government of India since 1991, the state policies and public expenditure, rapid increase in private investment due to the economic reforms and increase in migration and flow of remittances.
- The United Democratic Front (U.D.F) government made serious efforts to introduce market oriented liberalisation reforms since 1991.
- But it could not succeed due to the strong and persistent opposition of left political parties and trade unions.

- The Left Democratic Front (L.D.F) government that came to power in 1996 strongly held a view that the liberalisation reforms aggravated the economic problems of Kerala.
- They argued that the globalisation and liberalisation policies were destroying the very fabric of Kerala.
- Due to this controversy about the merits and defects of the reforms by ruling and opposition parties, the reforms were fully implemented only since 2001.
- Economic data on GDP growth, urbanisation, investment, production, technological change, employment generation, reduction of poverty, increase in consumption levels etc suggest that Kerala witnessed the highest rate of change during the post-liberalisation period compared to earlier period.

Emerging Development Issues

- Kerala has been experiencing a dual pattern of development at the economic and social fronts. While the real sectors like agriculture and industry remained sluggish with low productivity levels, the service sector achieved rapid progress.
- On the one side, Kerala achieved better human development compared to other states, but on the other, more than one third of the people remains poor.
- In spite of development of infrastructure, acute shortage poor maintenance etc are reported in the case of roads, road transport, railways, power, water supply, water ways, irrigation, urban infrastructure, waste disposal etc.
- The continuous unsound fiscal situation of the state government during the last two decades has severely affected the ability of the state to promote development and social welfare activities.

- The labour market has developed in to a paradoxical situation of excess supply of educated labour on the one hand (acute educated unemployment) and shortage of manual category of workers.
- Though the state has achieved substantial expansion of public health and education, they face serious deterioration in quality of services.
- The decentralisation of power and strengthening local governments failed to improve the civic services and implementation of local level development plans.
- The worst deluge experienced in Kerala within a century in August 2018, created unprecedented damage and destruction of properties of lakhs of people and destroyed their economic base built during their lifetime.
- Even after the completion of six decades, Kerala do not have a sound economic policy or development strategy to achieve inclusive growth and sustainable development.

Table 1**Annual Average Growth Rate of Net Domestic Product of Kerala**

Sl. No	Year	Sector wise growth rate (%)			
		Primary	Secondary	Tertiary	Total
1.	At 1960-61 Prices				
	1960-61 to 1965-66	0.4	5.8	4.4	2.5
	1965-66 to 1970-71	5.1	4.3	5.6	5.1
1.	At 1970-71 Prices				
	1970-71 to 1975-76	1.6	4.0	3.3	2.6
	1975-76 to 1980-81	-1.2	5.6	4.1	2.0
3.	At 1980-81 Prices				
	1980-81 to 1985-86	0.2	0.6	3.2	1.4
	1985-86 to 1990-91	5.1	6.2	5.3	5.3
	1990-91 to 1995-96	2.8	8.2	9.2	6.8
4.	At 1993-94 Prices				
	1995-96 to 2000-01	1.0	3.3	8.1	5.1
	2000-01 to 2004-05	1.7	4.2	9.2	6.8

Source: BES, 1977, Statistics for Planning 1977; DES, 2001 Statistics for Planning 2001; B A Prakash & Jerry Alwin (ed) (2018) Kerala's Economic Development, Sage New Delhi

Table 2
Net Domestic Product of Kerala Sectoral share (%)

Year	Sector wise growth rate (%)			
	Primary	Secondary	Tertiary	Total
1960-61 (Current Prices)	56.0	15.2	28.8	100.0
1970-71 (Current Prices)	49.4	16.3	34.2	100.0
1980-81 (Current Prices)	39.2	24.4	36.4	100.0
1993-94 (Current Prices)	32.2	20.3	47.5	100.0
2004-05 (at 1993-94 prices)	16.6	18.7	64.7	100.0
2015-16 (at 2011-12 prices)	10.6	26.4	63.0	100.0

Source: Same as table 1

Table 3
Category of Workers in Kerala : Share (%)

Sl. No.	Industrial Category	1961	1971	1981	1991
Total workers		100	100	100	100
1	Cultivators	20.9	17.8	13.7	12.3
2	Agricultural labourers including activities unspecified	31.2	30.7	29.5	26.6
3	Livestock, forestry, fishing, mining, etc	8.6	7.4	10.0	8.4
Total primary		60.7	55.9	53.2	47.2
4	Household industry	8.7	4.2	4.0	3.9
5	Other than household industry	9.4	11.4	12.5	10.5
6	Construction	1.3	1.7	2.9	3.6
Total secondary		19.4	17.4	19.4	18.3
7	Trade and commerce	5.7	9.1	10.2	11.5
8	Transport, storage & communication	2.7	3.8	4.9	5.4
9	Other services	11.5	13.5	12.3	17.5
Total tertiary		20.0	26.5	27.4	34.4

Source: census of India 1961, Vol. 7, Kerala, Part II B (i); Census of India 1981, Series 10, Kerala, Part III (A and B) (i); BES 1977, Statistics for planning 1977

Table 4
Category of workers share (%)

Sl. No.	Sector	Urban		Rural	
		1993-94	2009-10	1993-94	2009-10
1	Agriculture	25.3	11.0	56.4	35.7
2	Mining and quarrying	0.5	0.7	1.5	1.1
Primary		25.8	11.7	57.9	36.8
3	Manufacturing	18.8	16.8	12.8	11.7
4	Electricity, water etc	0.6	0.3	0.3	0.4
5	Construction	8.0	14.2	5.7	15.4
Secondary		27.4	31.3	18.8	27.5
6	Trade, hotels and restaurants	16.7	20.9	9.0	13.1
7	Transport	7.8	9.4	4.0	7.2
8	Real Estate and business services	3.0	9.1	1.1	3.6
9	Services	19.3	17.6	9.2	11.8
Tertiary		46.8	57.0	23.3	35.7
Total		100.0	100.0	100.0	100.0

Source: National Sample Survey Organisation (2002). Report No. 455: 'Employment and Unemployment in India, 1999-2000. Key Results

Table 5
Distribution of Workers in Kerala

		Persons	
		1993-94	2009-10
1. Rural			
	Self-employed	45.4	39.8
	Regular employed	11.5	19.4
	Casual labour	43.1	40.8
	Total	100.0	100.0
1. Urban			
	Self-employed	39.8	34.0
	Regular employed	26.8	34.2
	Casual labour	33.4	31.8
	Total	100.0	100.0

Source: same as table 4

Table 6
Remittances to Kerala (₹ in crore)

Year	Remittances (in Rs. crore)	Remittances as percent GSDP
1980	824	21.5
1985	1018	15.6
1991	2335	15.4
1998	13652	21.9
2003	18465	19.1
2008	43288	21.3
2011	49695	16.1
2014	72680	15.6

Source: B A Prakash & Jerry Alwin (ed) (2018) Kerala's Economic Development, Sage New Delhi

Table 7
Percentage of poor in Kerala based on poverty line
(planning commission)

Year	Rural (%)	Urban (%)	Combined (%)
1973-74	59.2	62.2	59.7
1977-78	51.5	59.5	52.9
1983	39.0	48.7	40.9
1987-88	29.1	43.4	32.1
1993-94	25.8	24.6	25.4
1999-2000	9.4	20.3	12.7

Source: Planning Commission 1993, Report of the Expert group on estimation of proportion and number of poor
 Government of India, 2002, Economic Survey 2001-02

Table 8
District wise Number of Families Below Poverty Line
(as on 31-08-2003)

Sl. No.	District	Number of families	Number of BPL families	Percentage of BPL families
1	Thiruvananthapuram	481223	188310	39.1
2	Kollam	446630	175617	39.3
3	Pathanamthitta	226435	74856	33.1
4	Alappuzha	339857	156151	45.9
5	Kottayam	326926	59182	18.1
6	Idukki	225177	34435	15.3
7	Ernakulam	374728	99521	26.6
8	Thrissur	473916	158961	33.5
9	Palakkad	392461	204605	52.1
10	Malappuram	438016	180375	41.2
11	Kozhikode	378224	131781	34.8
12	Wayanad	129927	64794	49.9
13	Kannur	314171	122067	38.9
14	Kasaragod	163981	72901	44.5
	State Total	4711672	1723556	36.6

Table 9
Number of Motor Vehicles in Kerala

Year	Goods Vehicles	Buses	Taxi cars	Motor cars	autorikshaws	Tractors	Jeeps	Motor cycles	Others	Total
1960-61	5128	3511	1485	11611	-	-	NSA	2064	681	24480
1970-71	13162	6563	8848	33294	1062	2046	4828	15117	1314	86234
1980-81	24682	9159	18890	56802	9640	1853	7834	59531	6206	194597
1990-91	66190	21454	37530	125769	67317	4305	26133	288498	10426	647742
1999-2000	163443	58888	71581	257796	227895	7782	67497	1020797	34558	1910237
2015-16	556751	106758	107567	2070665	610235	14213	NA	6472335	233289	10171813

Source: B A Prakash & Jerry Alwin (ed) (2018) Kerala's Economic Development, Sage New Delhi

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THANK YOU

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