

Kerala Model Revisited

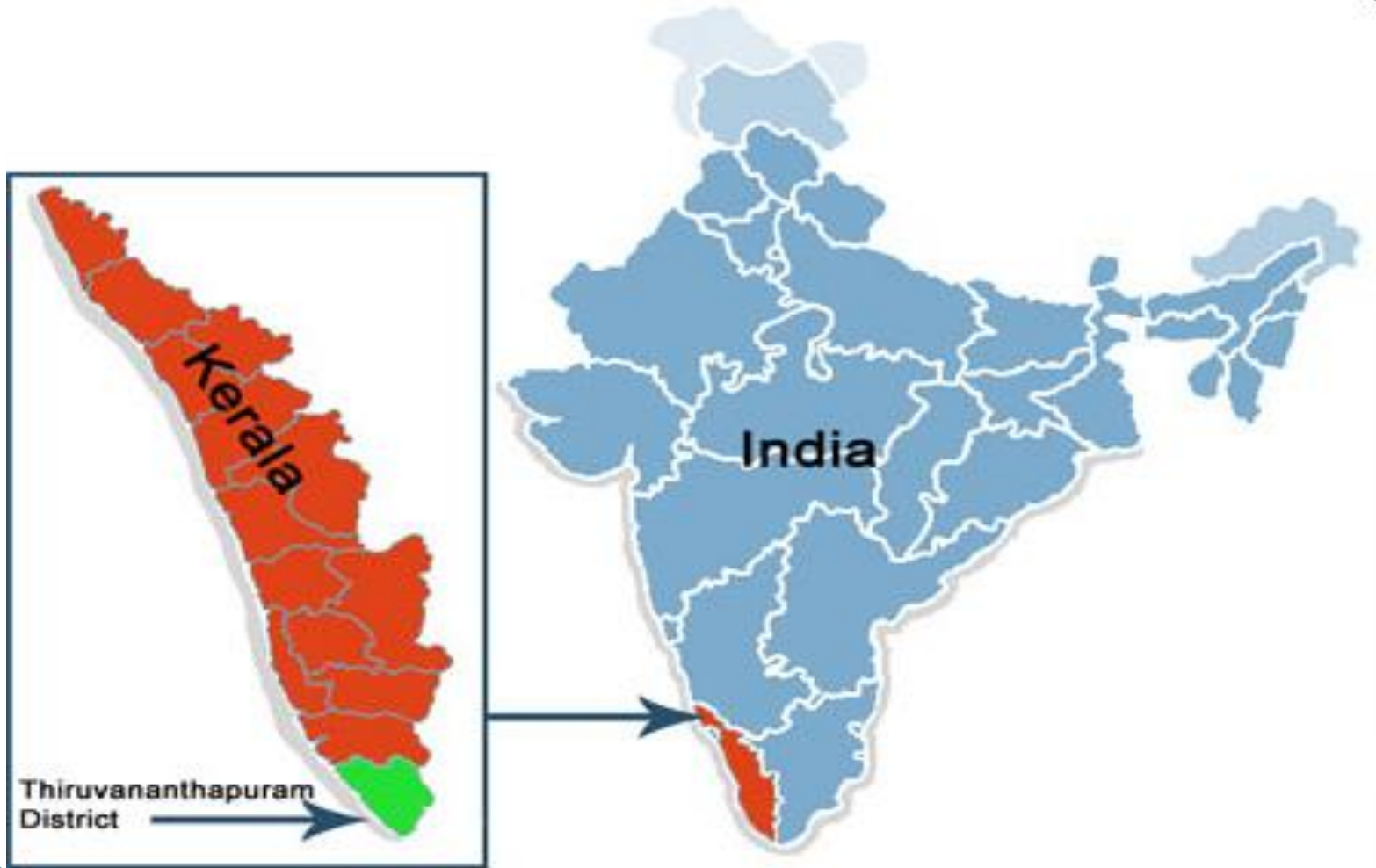
- Dual development and party competition

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Kerala State



The Kerala Model

Kerala: A classic case of development starting from redistribution instead of accumulation.

- A higher Human Development Index than all other states in India since 1960s
 - A literacy rate of 91%, the highest in India (67%)
 - A poverty rate of 3.6%, the lowest in India (19%)
 - High life expectancy (73 years)
 - Low infant mortality rate (13/1000)
 - Low birth rate (18/1000)
- Below-average economic development until 1980s

The Sustainability Debate

- **Unsustainable.** The state government has not enough fiscal capability to support the costly social redistribution system. The state lacks a strong manufacturing sector for sustainable growth. (Bhat and Jain,2004; Dillip,2008; Tsai,2007,etc.)
- **Sustainable.** Kerala is going through an economic structural change and becoming a healthier economy. (Kannan and Hari, 2002; UNDP Human Development Report – Kerala, 2005; Vijayamohanan, 2008; etc.)
- **Consensus** : the sustainability of the Kerala model depends on its economic development and consistent welfare regime.

Motivation

- **Empirical:**
Generate hypothesis for future China-India comparison in their respective development path
- **Theoretical:**
Two distinct development paths:
 - The “new” growth literature: there is a negative relationship between distributional equality and growth performance. (Alesina and Rodrik, 1994; Persson and Tabellini, 1994; Clark, 1995; etc.)
 - Sen: capability approach. Economic development depends on “positive freedom”, which means individuals must have certain "functionings“, such as education, social welfare, infrastructures, etc., to guarantee their freedom of economic development.

Research Questions

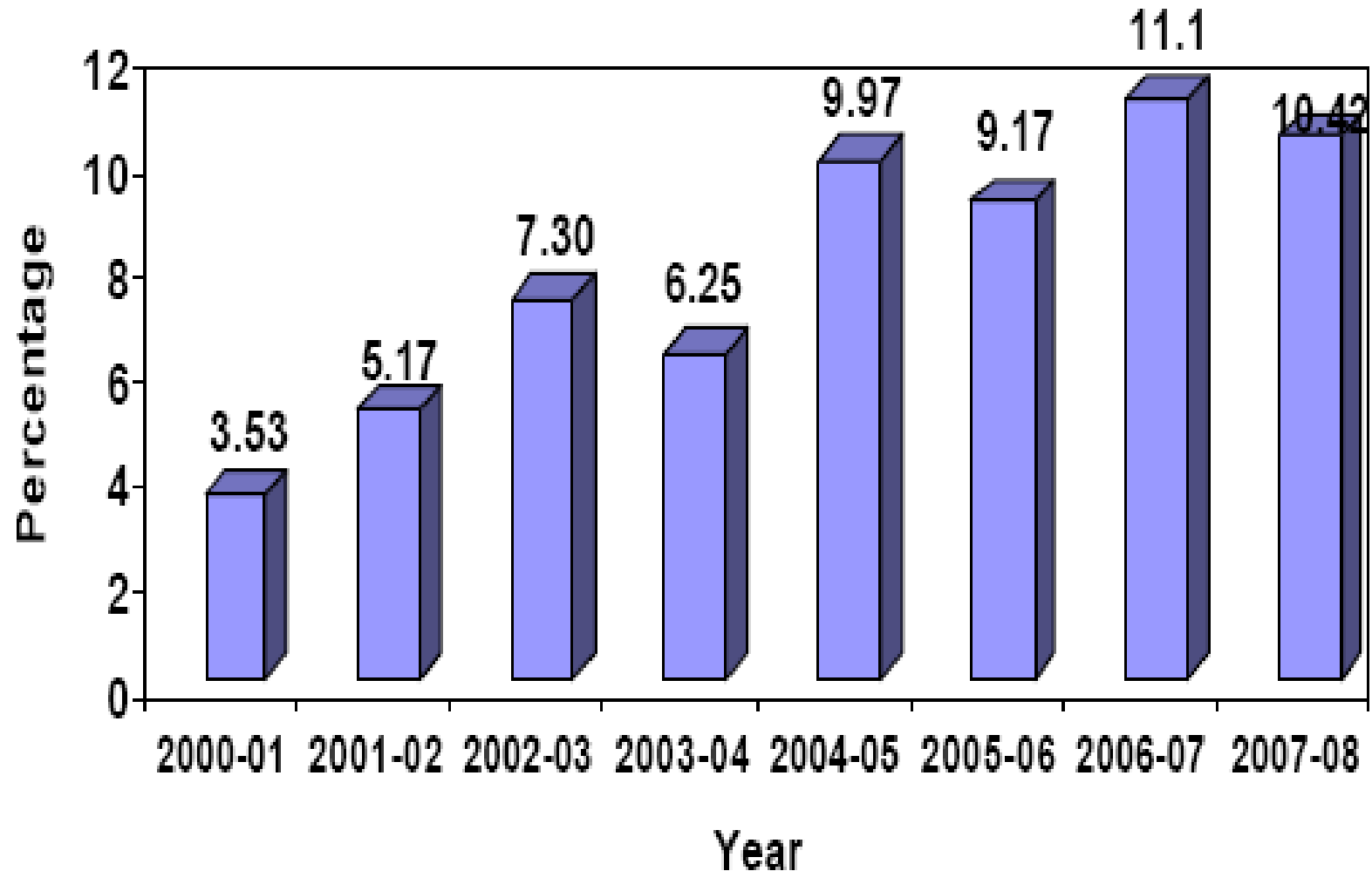
1. What is Kerala's current state economic performance and welfare status?
2. How did a relatively poor state like Kerala achieve double success in both economic growth and social equity?

Research Question I

What is Kerala's current state economic performance and welfare status?

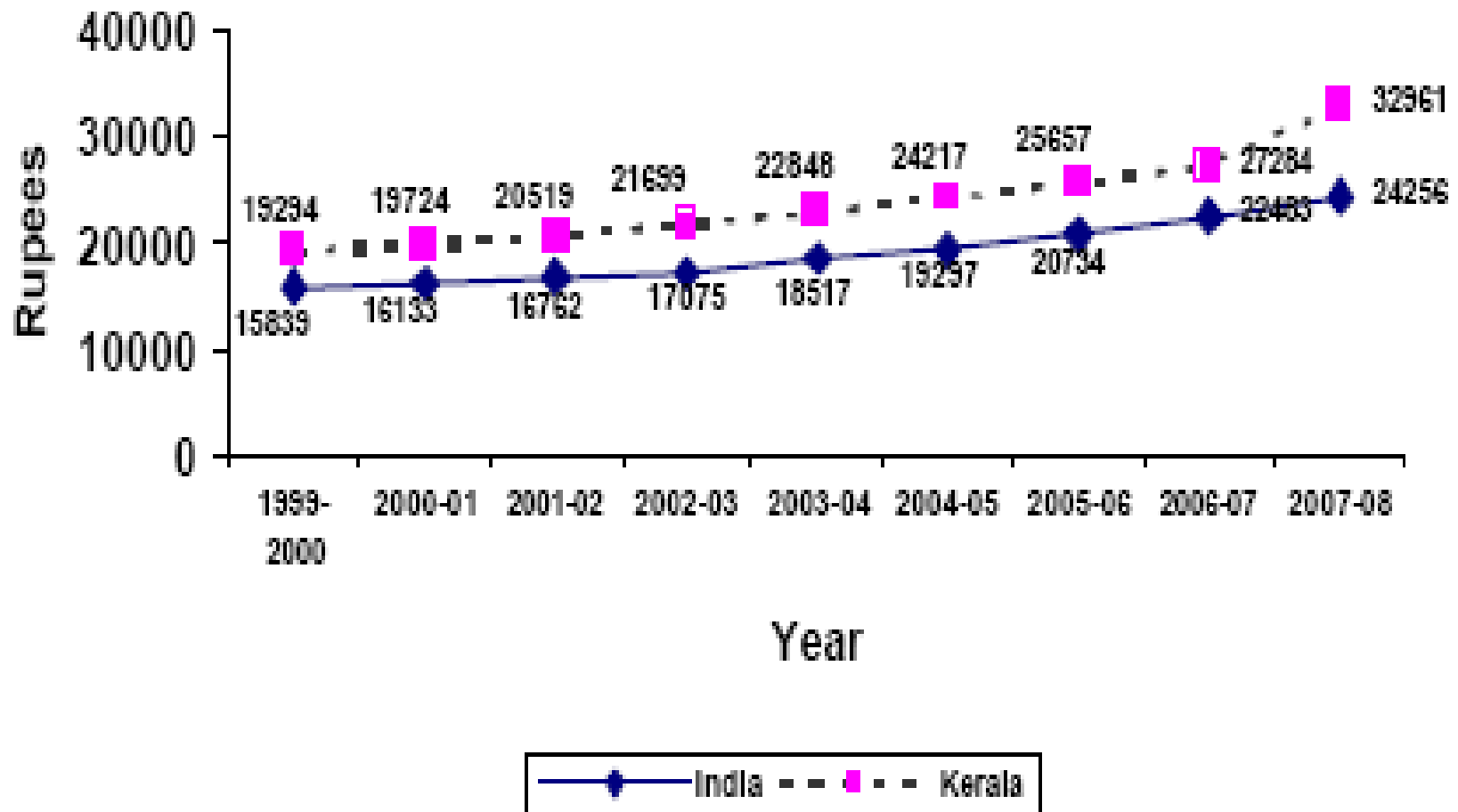
- Current economic literature that prove its economic growth (Kannan and Hari, 2002; UNDP Human Development Report–Kerala, 2005; Vijayamohanan, 2008; Harrilah and Kannan,2002; etc.)
- Economic and fiscal indexes: GSDP, per capita income, government debts, etc.
- Dutch disease model – a steadily growing service industry (Leng,2010)
- Introducing private investment into the public goods market. Case: Healthcare Market in Kerala.

Growth Rate of GSDP at Constant (1999-2000) Prices - Kerala



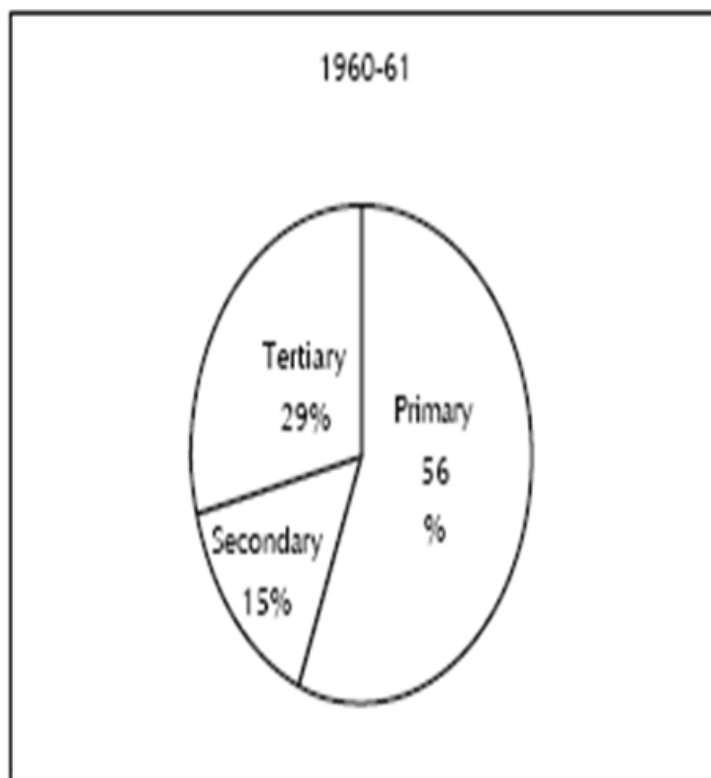
Source: Reserve Bank of India

Per Capita Income at Constant (1999-2000) Prices

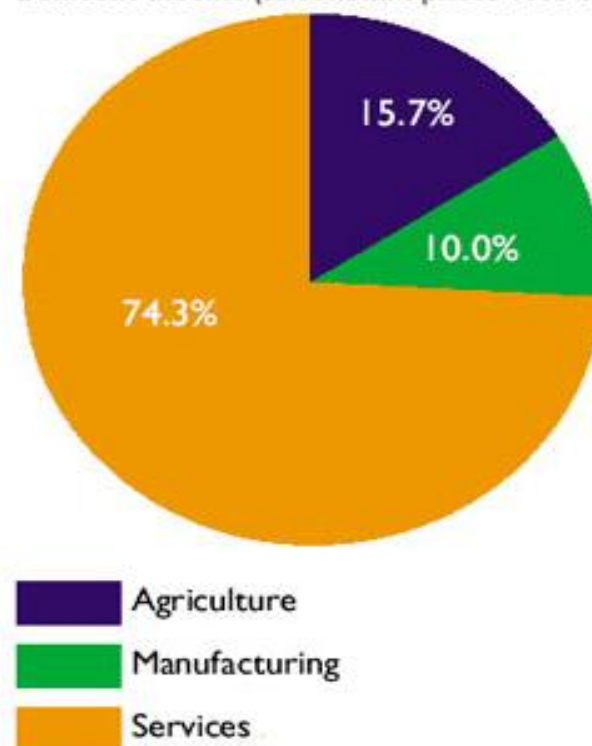


Source: Reserve Bank of India

Industry Breakdown



Sectoral Contribution to Net State Domestic Income (at constant prices 1993-94)



Case study: Healthcare Market

- Public spending on healthcare gradually decreased by 15% from 1980 to 2004. Private investment in the healthcare market increased by 40% in the same time span.
- Preferential policies for private actors: tax cuts, subsidies, etc.
- A pyramid structure: the poor and the gravely ill go to government hospitals, and people above mid-income level go to private healthcare facilities for regular treatments.

Source: Bureau of Economics and Statistics, Government of Kerala, Report on Private Medical Institutions in Kerala, 2004)

Research Question II

How did a relatively poor state like Kerala achieve double success in both economic growth and social equity?

Arguments

- A balanced policy emphasis on both economic development and social equity since 1980
- Regular party coalition alteration based on a social redistribution policy regime
- A growing middle class in urban Kerala that constrained the policy regime

Political Scene in Kerala

- **LDF (The Left Democratic Front)**
 - Led by the Communist Party of India (Marxist) (CPI(M)).
 - Terms: 1950s-1970s, 1987-1991, 1996-2001, 2006 to now.
 - Electoral base: agrarian workers, industry workers, rural population
 - “anti-capitalism”.

- **UDF (The United Democratic Front)**
 - Led by the Indian National Congress Party.
 - Terms: 1981-1987, 1991-1996, 2001-2006.
 - Electoral base: urban middle class, the forming entrepreneurial class, and the Muslim and Christian population

Mutually Constrained Party Competition Mechanism

- LDF (The Left Democratic Front):
 - Welfare regime supporter
 - But constrained by the emerging urban middle class electoral base in economic policy making
- UDF (The United Democratic Front):
 - Economic reformer
 - But constrained by the policy regime
- Result: a balanced policy scheme in economic and social redistribution policies

A Welfare Policy Regime and the New Economic Pursuit

- A **welfare policy regime** formed when “major parties, regardless of their partisan stripes, propose and implement similar policies”. (Przeworski, 2000)
 - Historical and cultural tradition of emphasis on healthcare and education
 - “Hegemonic project” (Jessop, 1990) in Kerala: institutionalized policies through land reform, public good distribution system and other leftist policies from the 50s to the 80s
- **New economic pursuit** complemented the policy regime
 - A fast growing middle class in the cities
 - A high-level unemployment rate

Tentative Conclusions

- An economic structure that creates a sound compensation mechanism between middle class and working class promotes overall development in developing countries
- Party competition based on an institutionalized policy “hegemonic project” promotes overall development