

On the future of Kerala's economy

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Thank you, my task is to comment on the very good presentations by Professors A V Jose, Prof Mridul Eapen and Prof Rajan. I would like to do this by examining Kerala's long-term achievements and also thinking about what Kerala should do to consolidate these achievements further, in the years to come. To begin with, on the first point, Kerala's achievements so far are also a commentary on the relation between growth of wages, on the one hand, and industrialization or economic growth, on the other. As we all know, from the 1970s onward, Kerala has been considerably ahead of the rest of India in terms of the level of wages of casual workers in rural and urban areas. I remember that when I started doing my research on Kerala's industrial sector almost 20 years back, the comment that I used to hear was: what is there to study about Kerala's industry? That Kerala had only a small industrial sector was considered a paradoxical situation. On the one hand, this is a State that was already well known then for its high human development achievements. But on the other hand, Kerala was lagging behind in terms of economic growth. In fact, during the late 1980s, Kerala's per capita income was approximately 20% less than the per capita income of India, and was at a level similar to the per capita income of Uttar Pradesh. However, there has been an impressive revival of economic growth over the next three decades. As per our Economic Review, Kerala's per capita income today is approximately 1.6 times or 60% higher than the Indian average and almost 3.3 times higher than the per capita income of Uttar Pradesh.

In fact, what Kerala has achieved in terms of economic growth is indeed crucial and worth discussing more. Typically, the mainstream economic argument has been that rising wages are a hurdle to economic growth. However, Kerala's experience clearly shows that this is not true. In fact, Kerala is a good example for a Keynesian model of 'wage-led' economic

development. That is, high wages have been the real stimulus to Kerala's economic growth over the last two decades. High wages have helped to stimulate consumer expenditure, domestic demand, and thereby overall economic growth. But I think that is not enough for Kerala. We now have to really look forward, and I would like to spend the rest of my talk on what should we do next.

There are at least three or four important challenges. First, I would like to highlight issues related to the demographic structure- Prof Jose mentioned demographic dividend. But I think, increasingly, Kerala is becoming an aging society. The state is facing the danger of growing old before getting rich - this is an issue of much concern for China today, and it will become an issue for India too in the coming years. For Kerala this is not an issue to be dealt with in the future - but a problem that has already become quite serious today. The changing demographic structure implies that Kerala has to shift into a faster economic growth trajectory as quickly as possible. If this does not happen now, it may just be that Kerala may never become a fast growing economy in the future. So that is the first point I want to make.

The second point I want to make build on all the three previous presentations. That is, in Kerala there is a mismatch between the structure of the labour market and the structure of the economy in general. The sectors which provide the largest numbers of employment in Kerala even today are the traditional industries or economic activities which do not require worker skills or education, or industries which gain their competitive advantage from low wages. Consider, for instance, garment industry or the plywood industry in Perumbavoor. These are all relatively low wage industries. These are industries in which Kerala does not have lasting advantages. Not just because wages are relatively high in Kerala. But more importantly, young and educated workers in Kerala do not seek opportunities in these industries. We know that most of these industries now depend almost entirely on migrant workers from other states for their survival in Kerala. It is crucial for Kerala to move out of this industrial structure. Clearly, Kerala has to think of a new economic structure, and that is why this discussion about the knowledge economy in Kerala is very crucial. The discussion is crucial if you also look at some other aspects of Kerala's labour structure, which was highlighted by Prof Rajan.

Consider our higher education institutions. Approximately, 1.7 lakh come out of Kerala's higher education institutions every year, but possibly at least an equal number of young persons from Kerala could be pursuing higher education outside the State. These are all potential workers who could be employed in knowledge-intensive or high-skilled industries

in Kerala. Even if we assume that 2 lakh persons with higher education are available in Kerala every year, there will be 10 lakh or one million such persons in five years. This is indeed Kerala's potential. The State has the potential to create 1 million high skilled jobs every five years. But it's also a challenge because we are not able to create those many high-skilled jobs in Kerala. Many of these job aspirants from Kerala will have to look for jobs outside the State. This has been happening even before, but the process is likely to gain speed in the coming years, as highlighted by the previous speaker. So both for higher education and for higher high skilled jobs, the current situation is one in which many Keralites have to go outside the state. But that's clearly not a sustainable option in the long run. Increasingly - with the outbreak of the COVID epidemic and the war that is happening in Ukraine - we find that there are going to be limitations on the process of globalization, which has been going on over the last two or three decades. Kerala is probably one of those regions, which has benefited from globalization from the 1990s onward. This is because when India opened up its economy by the early 1990s, Kerala was one of the few regions in India that had many of the preconditions for a very fast economic growth, which included a highly educated workforce and good health infrastructure. But that growth based on export of human capital may have limitations in the future. This means that we have to generate high skilled jobs within Kerala, we have to create opportunities for higher education within Kerala, and that is going to be the crucial challenge for the state's policymakers. It also means that we need world-class infrastructure. In the case of knowledge-intensive industries, the level of competition is much greater than for other industries. In fact, when it comes to industrial growth possibilities, Kerala has a disadvantage compared to labor surplus states such as Uttar Pradesh and Telangana. Growth based on labor-intensive industries is not a possibility for Kerala. The only future growth possibility for Kerala is a growth based on skills or knowledge. So investment in higher education and investment in knowledge industries is a must for the State. Our planners have to think about what all are needed to create an environment conducive to the growth of knowledge industries in Kerala. Clearly we need world-class infrastructure, excellent research and academic institutions, laboratories, and other institutions of higher education and learning.

I want to make a comment on what Prof Jose mentioned about demand-side initiatives. And I really want to build on that, that's a very important point; also Prof Mridul was mentioning about initiatives involving women. The kind of jobs that women and men are seeking in Kerala are high-end jobs/ high-skilled jobs, and not really manual jobs. We need to relook

and redesign our public employment programs, including the MGNREGA, in a way that is more suited for these educated and high skilled workers. Can we create productive assets for the knowledge economy through such public employment programmes, with greater public investment? Investments in education, especially creating facilities for higher education, can have impacts at multiple levels. The facilities that are created are very important for the younger generation, to pursue new courses and academic programmes. At the same time, by creating facilities for higher education, we will also be able to generate new jobs for people who are already well-educated. Setting up new institutions for higher education and research can create a lot of new job opportunities in Kerala, not only for the existing job seekers in the State but also generate high growth potential for the State in the future.

It is a fact that, for carrying out all the above-referred initiatives, we do not have enough fiscal resources. Being a state government, the tax-raising powers are very limited for Kerala. So that's a major constraint when it comes to building knowledge industries or competing with the best places in the world. We have to think of new institutions which can help mobilize financial resources for Kerala. There is a large volume of savings in the state, in fact, most of it is idle savings, and there are many people seeking investment opportunities, seeking better options with the money that they have. There are so many people who want to invest in houses or put their money in gold. But these are all savings that can be channeled to building infrastructure and research and other institutions for the knowledge economy that I mentioned before. But, as of now, we do not have an effective institution that can help channel the savings within the region into productive investments. We have to think of innovative financial institutions that can take the state forward. I would like to end with this remark. Thank you again for giving me this opportunity

Reference

Government of Kerala (2022). *Economic Review, 2021 Volumes 1 and 2*, March 2022, State Planning Board, Thiruvananthapuram.