

1

Introduction

The Miracle

In 1981, the south Indian state of Kerala was among the poorest regions in India. The state's average income was about a third smaller than the national average. In the late 1970s, by average income, Kerala was in the bottom third of India's thirty-odd states. In 2022, per capita income in the state was 50–60 per cent higher than the national average.¹ Among those states large in land size, populous and with a diversified economic base, the state was the fifth richest in terms of average income in 2022. Gujarat, Karnataka, Tamil Nadu and Telangana were the other four. None of the others saw such a sharp change in relative ranking.

Kerala's economy did not grow steadily throughout these forty years. The acceleration, catching up and overtaking were not more than fifteen years old, twenty at the most. Income growth rates were low for much of the 1980s and the 1990s. The numbers changed sharply only in recent decades. The roots of this extraordinary growth performance, however, were much older. This book is a search for these roots.

It is not a common practice among economists to treat a state in India as the subject of long-term economic history. But 'Kerala is different' from all other Indian states.² A huge scholarship building from the 1970s and drawing in many social scientists insisted it was different. Although poor, the population

¹ In 1960, the state had a per capita income of 265 rupees; the Indian average was 306 rupees. Until 1980, the divergence held steady. After that, there was a catchup. In 2021–23, the average income of the state stood at 148,790 rupees, while the average for India was 98,374 rupees.

² Polly Hill, 'Kerala Is Different', *Modern Asian Studies* 20, no. 4 (1986): 779–92.

of the state lived much longer than the average Indian and had a significantly higher literacy rate than in the rest of India. The scholarship trying to explain this anomaly was mindful of history. But the history had a narrow purpose. It was made to work for a specific question: how did an income-poor region make great strides in human development? The discourse that emerged to answer the question had two critical weaknesses. First, it was too state-focused and neglected to analyse enough market-led changes. Second, it took income poverty for granted. Neither the question nor the answers offered are useful to explain the recent acceleration in income. The explanations could not show how the basic premise of a low income might change someday because the research agenda did not consider that prospect very likely.

Our book attempts to explain the long-term pattern of economic change by studying economic history. The income trend figures centrally. The interpretation considers four main factors in their mutual interaction: a tradition of engagement with the world economy that dates back centuries; a rich reserve of commercially exploitable natural resources; an abundance of literate workers; and an activist leftist political tradition that started as a movement against inequality but morphed into regimes that pursued growth with help from the private capitalist sector. These factors did not work in concert. For decades after the formation of the state in 1956, the political tradition suppressed some forms of transactions between Kerala and the world economy. But that changed in the 1990s, and the four factors started to align in a mutually compatible manner. As they did, Kerala rediscovered the comparative advantage it had lost in the 1970s.

Because this state (unlike most other Indian states) has been the subject of a large discourse in applied development studies, it is fair to start with a reference to that scholarship.

‘Kerala Is Different’

A large and ‘to some extent [*sic*] learned’ scholarship, said the social anthropologist Polly Hill, claimed that Kerala was unlike ‘the great agricultural plains areas [of India], which for centuries before the British had experienced large-scale political organisation’ (the historian Eric Stokes, cited by Hill). Its coastal position, semi-equatorial climate, maritime tradition, mixed-faith society and princely rule in one part set it apart. Hill, like Stokes, did not say how that mattered. Most general interpretations of the region’s

economic history went, like this one, in a speculative and incomplete manner and ‘to some extent learned’.

When Hill wrote this piece, Kerala had progressed from being just different to being a model. About ten years earlier, a landmark study, *Poverty, Unemployment and Development Policy: A Case Study with Reference to Kerala*, published by the United Nations, had projected the state as the case that showed the possibility of attaining high levels of human development at a relatively low level of income.³ In the 1980s, the concept of development embraced human development, and Kerala offered a message of hope among economies otherwise trapped in low income and weak growth.

The state became a model precisely because it was income-poor and had low income growth. Measured in average income, ‘Kerala is overwhelmingly poor,’ wrote Richard Franke and Barbara Chasin in 1992 in the *Earth Island Journal*. ‘If it were an independent country, it would be the ninth poorest in the world.’⁴ And yet, it had ‘the world’s highest levels of health care, education and social justice to the area,’ a unique profile in the developing world and India. In 1981, the literacy rate was above 70 per cent, against 40 for India. In 1981, the literacy rate for females in the state was 65 per cent (a little lower than for males), 40 per cent higher than male literacy for India, and 160 per cent higher than female literacy. All over India, cities had a distinctly better developmental profile than villages. In this state, the inequality disappeared. For example, urban and rural literacy rates were nearly equal. Infant mortality rates showed a similar difference from the Indian pattern.

According to Franke and Chasin, Kerala showed how development could happen even in a poor society. It challenged the right-leaning academic obsessed with growth rates in the gross domestic product (GDP), who said that nations needed income growth first, the benefits of which would spread through society via tax-funded public expenditure and private expenditure on healthcare and education. Instead, income growth was not needed at all for education and healthcare. A sound redistribution system of limited gains was all that was required.

For the left-leaning academic, the message was that radical redistributive policies worked wonders. Kerala, Prabhat Patnaik said in the *Social Scientist*

³ United Nations, *Poverty, Unemployment and Development Policy: A Case Study of Selected Issues with Reference to Kerala* (New York: United Nations, 1975).

⁴ Richard Franke and Barbara Chasin, ‘Kerala: Development Without Growth’, *Earth Island Journal* 7, no. 2 (1992): 25–26.

in 1995, besides gaining from a ‘long history of struggles unleashed by the powerful Communist movement’, also had a different economic structure. It had ‘an internally-balanced production-structure where it is self-sufficient in basic necessities’. For the rest of the Global South, the lesson was that socialistic self-reliance was desirable, and capitalistic globalisation was unnecessary, even undesirable. ‘All those who look upon the Kerala trajectory as a worthwhile model for the third world ... cannot but oppose the implementation of Fund-Bank-dictated economic “reforms”’, Patnaik concluded.⁵ There was something right in this emphasis on politics and distribution. One of the most unequal societies even by Indian standards before 1947, the region’s brutal caste hierarchy had come under attack by a range of political and social forces including the communists.

Still, by 1990, the model and its message of hope were fast losing their lustre. No one disputed that Kerala was different, but the euphoria over that statement was dying. Experts based in the state were the first to attack it. It was unsustainable in a regime of low economic growth and consequent strains on the state finances, said K. K. George in 1999.⁶ In 2003, P. D. Jeromi reiterated the message with more force.⁷ In 2000, K. T. Rammohan said that the Kerala Model had hollowed out conceptually.⁸ By hiding many social ills, the concept did not persuade, carried too many preconceptions and did not represent anything virtuous anymore. By then, money coming in from outside the state had changed its economy unrecognisably. Well into that process, K. Ravi Raman wrote that growing dependence on foreign borrowing in the state could put pressure on the sustainability of the Kerala Model.⁹

⁵ Prabhat Patnaik, ‘The International Context and the “Kerala Model”’, *Social Scientist* 23, nos. 1/3 (1995): 37–49.

⁶ K. K. George, *Limits to Kerala Model of Development: An Analysis of Fiscal Crisis and Its Implications* (Trivandrum: Centre for Development Studies, 1993).

⁷ P. D. Jeromi, ‘What Ails Kerala’s Economy: A Sectoral Exploration’, *Economic and Political Weekly* 38, no. 16 (2003): 1584–600.

⁸ K. T. Rammohan, ‘Assessing Reassessment of Kerala Model’, *Economic and Political Weekly* 35, no. 15 (2000): 1234–36.

⁹ K. Ravi Raman, ‘Asian Development Bank, Policy Conditionalties and the Social Democratic Governance: Kerala Model under Pressure?’ *Review of International Political Economy* 16, no. 2 (2009): 284–308. See also essays in K. Ravi Raman (ed.), *Development, Democracy and the State: Critiquing Kerala Model of Development* (London and New York: Routledge, 2010).

These scepticisms are significant but limited tools to explain the long-term trajectory of change. We do not dispute that the state did have unusual levels of achievements in human development. But this is not the story we find either interesting or worthy of a serious explanation. This book addresses a different puzzle altogether.

The Task before Us

The task before us can be described with reference to Figure 1.1. The chart has three lines; two of these lines measure social development, specifically literacy and life expectancy. The third measures economic growth (per capita income). In all cases, the lines trace the state’s position relative to India.

The social development proxies show a higher level than India throughout but a long-term convergence between Kerala and India. The state had a better record than India, but only initially. Since independence, both the state and India have improved life expectancy and literacy. Indeed, what the state did, India did even faster. The India model was not fundamentally different from the Kerala Model, and was possibly more interesting than the latter.

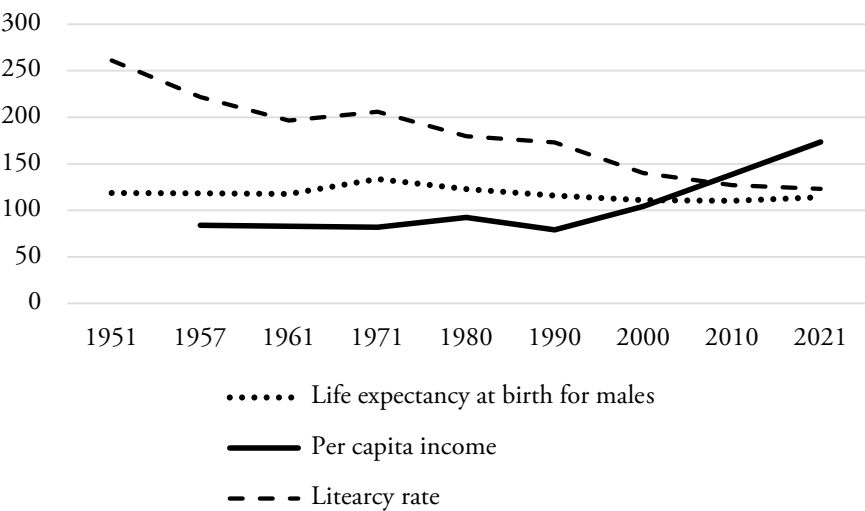


Figure 1.1 Kerala as a proportion of India (%)

Source: The sources are various documents available in the public domain, but principally the Indian censuses and State Planning Board datasets.

All that remains to be explained is the *initial difference in levels*. Demographers have a simple explanation for the level of difference in life expectancy – benign semi-equatorial climatic conditions in the state, compared with the semi-arid tropical conditions in much of southern and western India with a history of droughts, famines, periodic food and water shortages, and epidemic disease. ‘It is quite possible that Kerala held this advantage [in mortality] for a long period in history,’ two authorities on population history write, ‘due to favourable climatological conditions and scattered pattern of settlement that might have helped in arresting the spread of epidemics....’¹⁰ The more modest change in life expectancy line in Figure 1.1 represents the persistence of a geographical advantage.

The initial advance in education is a little more complicated. The two default stories in popular history discourses are that this was a gift from enlightened princely rulers, whereas British colonial rulers neglected public goods in much of South Asia, and that the communists delivered or forced states to deliver more welfare spending. Both are crude and uninformed narratives. Modern Kerala contained both colonial and independent territories. British-ruled Malabar did fall behind the southern region, but then the southern region had greater taxable capacity than British India thanks to a different economic structure (Chapter 6). Princely states did not spend much money on defence because British India subsidised their defence. There were non-state agents behind the education drive: the Christian church, a powerful social reform movement as a counter to brutal forms of inequality that the princes did little to redress, and competition between communities. From before the Travancore rulers took up the cause of mass education, the Christian missions pursued that cause. Specific patterns of market exchange must be factored in. Kerala exported people to service-sector jobs inside India and abroad on a large scale and much before other states in India began to do it. That history of labour export might account for a part of the incentive to acquire education.

No matter the explanation for the head-start, the post-independence trend in social development is too unsurprising and uninteresting to write a book about. All that the trend says is that the state held its commitment to spend on schools and hospitals, whereas the rest of India quickly caught up in

¹⁰ P. N. Mari Bhat and S. Irudaya Rajan, ‘Demographic Transition in Kerala Revisited’, *Economic and Political Weekly* 25, nos. 35–26 (1990): 1957–80.

the same endeavour. The truly interesting story about Kerala is not its social development, but the shift in relative economic growth from a falling-behind in the 1980s to a forging-ahead (the income line in Figure 1.1). That needs explaining because there is clearly a structural shift here. Education and life expectancy do not explain that in any obvious way.

Two decades into the new millennium, the state was one of the vanguards in the country's post-liberalisation growth resurgence. From the mid-1990s, economic liberalisation (implementing a part of the so-called Fund–Bank recipe) was underway in India. Kerala joined the neo-liberal bandwagon. By 2022, it represented another anomaly – a Marxist state presiding over a robust capitalist resurgence. Its income growth has been consistently and significantly above the national average since 2000. With population growth approaching near-zero, GDP growth translated into a relatively higher per capita income growth compared with the north Indian states. Far from being 'overwhelmingly poor', as Franke and Chasin called it twenty-five years earlier, Kerala had an average income between 50 and 80 per cent higher than the Indian average in the 2010s and comparable to most middle-income countries. In this respect, it was not unique anymore. It was part of a growth resurgence in greater south India, including Tamil Nadu, Karnataka and Telangana, if not Andhra Pradesh. All four states registered GDP growth rates double or more than the Indian average in the 2010s.

How credibly have scholars explained the growth resurgence?

An Unexplained Puzzle

One strand in the scholarship on the state's trajectory, which had once made heavy intellectual investment in the Kerala Model, almost overlooks the growth resurgence. Jean Drèze and Amartya Sen, whose writings have had a deep impact on the debate, acknowledge the turnaround and explain it with reference to social development: '[T]he improvement of living conditions in the state has not only continued but even accelerated, with help from rapid economic growth, which in turn has been assisted by the state's focus on elementary education and other basic capabilities.'¹¹ Other experts repeat

¹¹ Jean Drèze and Amartya Sen, *An Uncertain Glory: India and Its Contradictions* (Princeton: Princeton University Press, 2013), 70.

this sentiment: ‘High public spending on social sectors ... provides a positive thrust to economic growth.’¹²

This is not credible. This is not what Figure 1.1 tells us. These bland claims do not say how easier access to primary schools and longer lives translate into economic growth. There is no obvious connection between the cause and the effect because economic growth stems from skilling and investment, not the ability to read and write. The claims say nothing about the huge shifts in patterns of market participation that lie behind skilling and revival of private investment. Nor does it answer why, if there was a direct relationship between basic capability and economic growth, Kerala fell behind in economic growth in the 1980s after fifty years of staying ahead in social development. Why did it not experience a growth resurgence much earlier? And, if India did relatively better than Kerala in social development, why did India not register even higher income growth?

Other scholars more focused on specific themes rather than the deep roots of development have discussed these trends, with partial success. The emergence of interstate inequality since the economic reforms of the 1990s has preoccupied Indian economists for some time. Many studies measured convergence and divergence among Indian states and discussed what the results tell us about sources of economic growth in general.¹³ These investigations miss the trees for the wood. The reader drowns in details of measurement procedures to notice the distinct patterns of change in the states. Any general claim about reasons for statistical convergence or divergence requires a sense of how comparable the states are. That issue is hardly discussed.

Of the region-bound scholarships, one strand offers many lessons relevant to the present project, one that studies international migration and demographic change. This strand took off in the late 1980s mainly to document and explain the migration of large numbers of Malayali people to

¹² Jayan Jose Thomas, ‘The Achievements and Challenges of the Kerala “Model”’, *India Forum*, <https://www.theindiaforum.in/article/achievements-challenges-kerala-model> (accessed 1 February 2024).

¹³ For a selection of these studies, see Dipankar Dasgupta, Pradip Maiti, Robin Mukherjee, Subrata Sarkar and Subhendu Chakrabarti, ‘Growth and Interstate Disparities in India’, *Economic and Political Weekly* 35, no. 27 (2000): 2413–22; Amaresh Dubey, ‘Intra-State Disparities in Gujarat, Haryana, Kerala, Orissa and Punjab’, *Economic and Political Weekly* 44, nos. 26/27 (2009): 224–30.

the Persian Gulf states. Over the next three decades, the literature matured, taking on more ambitious tasks like assessing the impact of mass migration for work on regional and urban economies and families and exploring the interconnection between human development, demographic shifts, gender inequality and international migration. These are ingredients in our story. Nevertheless, seen as an economic history, the scholarship is insufficient. It does not say much about the growth resurgence, its prehistory and its origin.

A cluster of writings published in the last twenty years addressed the growth turnaround, if tentatively. A first attempt to reread the recent times happened in a 2005 symposium on Kerala in the *Economic and Political Weekly*. P. D. Jeromi said that a state notoriously unfriendly to private investors became more friendly in the early 2000s. The earlier sentiment was, according to this analysis, a reaction to the exploitative nature of foreign capitalists in the region in the princely state days.¹⁴ There is no evidence that the average Malayali thought badly of plantation owners or commodity traders from Britain. Certainly, the princes did not think that way. If capital as such was evil, why did the sentiment change?

K. P. Kannan's reading of a possible turnaround was more substantial but not too dissimilar.¹⁵ A statistical study of growth and inequality published in 2016 observed that there was a growth acceleration with rising inequality, and that both tendencies were 'new'. However, to drive that point, it is necessary to engage fully with history, that is, to show what this was a change from, which was beyond the scope of the paper.¹⁶ In perhaps the most comprehensive overview of the turnaround so far, a recent article by Kannan suggests that the remittances consolidated investment in human capital, and that the turnaround did owe to a reintegration of the region's economy with the world economy.¹⁷ We agree and use this thesis in the book. Kannan's reference point, however, was not the state's own long-term historical trajectory, but the Kerala Model of development.

¹⁴ P. D. Jeromi, 'Economic Reforms in Kerala', *Economic and Political Weekly* 40, no. 30 (2005): 3267–77.

¹⁵ K. P. Kannan, 'Kerala's Turnaround in Growth: Role of Social Development, Remittances and Reform', *Economic and Political Weekly* 40, no. 6 (2005): 548–54.

¹⁶ A. P. Sreeraj and Vamsi Vakulabharanam, 'High Growth and Rising Inequality in Kerala since the 1980s', *Oxford Development Studies* 44, no. 4 (2016): 367–83.

¹⁷ K. P. Kannan, 'Kerala "Model" of Development Revisited: A Sixty-Year Assessment of Successes and Failures', *Indian Economic Journal* 71, no. 1 (2023): 120–51.

That leaves us with a rich and insufficiently explored question. Can we have one story that can explain both the long stagnation and the recent acceleration in GDP growth? In this book, we do that by stressing four big agents of change: a history of globalisation, resource endowments, distinct demographics and distinct politics.

Globalisation and Resource Endowments

This region of India had forged deep connections with West Asia, Europe and the rest of India through trade, migration and foreign investment centuries before the modern era. A long coastline with relatively easy access to the Arabian Sea ports and, via these, to Europe was one of the geographical advantages. Many seaboard areas in India developed a commercial heritage. Something else marked this region as an attractive trading zone.

Whereas most of India is monsoon tropical, that is, has a long dry and often extremely hot summer and a short and intense rainy period due to the actions of the monsoons, Kerala has a more temperate semi-equatorial climate. Tropical heat and aridity are missing, or weak, in most parts of it. The southwest monsoon makes landfall on these coasts bringing in exceptionally heavy rain. Combined with a mountainous geography along its eastern borders, the monsoon and moderate summers make for a unique natural resource situation. With far more water per head than the rest of India, rice is grown almost everywhere. Indeed, until the early twentieth century, the region exported some rice. Although agricultural land is not abundant, the region has long been relatively free from famines and droughts.

Foreign merchants who came to trade on these coasts valued the cheap subsistence and the low cost of food and water. The climate, soil and the vast patches of saltwater marshes sustained natural coconut groves. The extensive forests in the east were a source of herbs and spices. In the nineteenth century, forests were cleared for plantations. The British East India Company, which had its main bases further up north on the western coast, could access timber for its ships only in the forests of Kerala. Starting with trade, the region diversified into plantations and processed natural resources in the nineteenth century. Foreign enterprise was prominent in British Malabar and independent Travancore, trading in processed natural resources like tea, spices, coir rope and cashew.