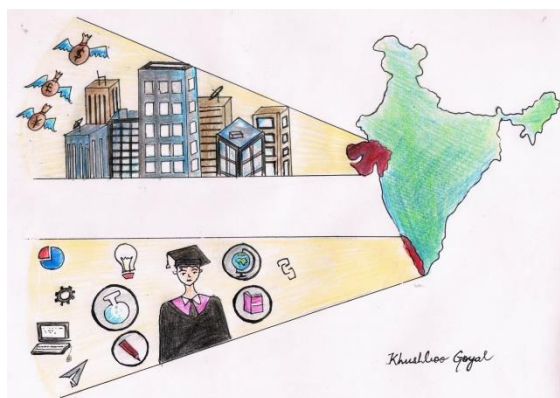


Two States and Their Idiosyncratic Growth Path

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Summary

An extremely well written and comprehensive paper on the different approaches undertaken by the two most contrasting states of India, Kerala and Gujarat and a detailed breakdown of where each of these fairs better and where they lack. Well quantified and substantiated, although the length of the given paper might be an issue, it is remarkable. The author has also given an all-round perspective to the reader, be it from an overall growth POV, a per capita income POV or even a gender neutral POV. References and grammar have absolutely no problems, so not even a single change was required to be made.



Introduction

Economic development is the process by which a nation improves the economic, political and social well-being of its people. In a multilevel federal democracy, a state often represents a middle level between the central government and the local bodies. Within broad constraints, different state governments in India have been following their own specific development strategies (Dholakia, 1994). After the economic reforms, states had greater autonomy to follow their own socio-economic agenda.

Kerala and Gujarat adopted distinct strategies for development. Kerala model focused on desirable social changes to bring about economic growth while Gujarat model tries to bag desirable social changes through sound economic growth. Both models are entirely dissimilar in terms of approach towards development. Both models were lauded for their achievements and were criticized for the drawbacks.

The objective of the paper is to identify the distinct features of models of development adopted by Gujarat and Kerala and contrasting their respective achievements in socio-economic sectors.

The first two sections of the paper discuss in brief the models of development adopted by the two states. The sections, thereafter, compare the respective achievements of the states. Further, it talks briefly about the existence of the paradoxes in these models, followed by the conclusion of the paper.

Gujarat Model of Development

Development strategy in Gujarat State has been very clear and unambiguous ever since its inception in 1960 in according a high priority to industrialisation. Gujarat has followed “an open door” policy with regard to the factor mobility. The endeavour of the Gujarat government has all along been to provide as far as possible the most conducive environment to promote business and industry in the state irrespective of who provide and own them. Efforts made by Gujarat government during the nineties to promote the private sector in the state. It followed the following policies (Sengupta, 1996):

(1) Providing tax and cost related incentives

In the industrial policy of Gujarat State during the nineties, the major instrument used by the state until recently was reduction, exemption or deferment of sales tax by the new business and industry to encourage them to locate in the state. Gujarat's Industrial and Agro Industries Policies, 2000 have attempted to provide cost related incentives to the private sector by increasing subsidies in various forms (interest subsidy, R&D subsidy, land provision, capital subsidy). There was no change in the basic theory of State government that was, first to provide direct productive activity rather than creating social overhead capital. Most of these state subsidies are offered to the Small Scale Industries (SSI) as they create major employment opportunities outside agriculture. It also abolished Octroi in May 2001, which was a major barrier on free movement of goods leading to adverse impact on resource allocation and efficiency.

(2) Provision of infrastructure and input supplies

In the second half of the nineties, there have been major liberalisation initiatives in Gujarat in terms of providing infrastructural support and input supplies to the productive units in the state. Following certain recommendations from the report of the Gujarat State Finance Commission (1994), major *reforms in the power sector* were initiated around 1995-96. The power sector was opened up to private sector but without tackling the issue of inefficiencies in administration of electricity board. With captive power policy and independent power projects (IPP), Gujarat became a power surplus state from being a power shortage state. Gujarat Electricity Regulatory Commission (GERC) was formed in 2000, to monitor the functioning of both Gujarat Electricity Board and IPPs and is empowered to take pricing and investment decisions in the power sector. In the other infrastructural sectors like ports and roads, the private participation is now encouraged.

Gujarat is not doing very well in terms of *social infrastructure*. Though it showed moderate performance in primary education, secondary and tertiary education systems are weak. Similarly, healthcare also needs to be addressed. Good health care facilities are available in the state at a high at cost but only selectively.

(3) Granting approvals and clearances for industries

To promote industrial activity in the state, separate incentive scheme including speedy approval has been introduced. At the district level, it is the District Industries Centre (DIC) with principal objective of establishing the DIC is to provide all assistance under one roof to the entrepreneurs engaged in different types of industries and to those proposing to

establish small and cottage industries in the district (Government of Gujarat, 1999). To ensure better co-ordination among various agencies working in the district, a Single Window Industries Follow-up Team (SWIFT) is constituted in 1996-97 in each district.

For larger units, states in India have a limited role. After liberalisation in this sector, approvals are needed only for the 6 groups of strategic industries. The DICs and the Office of the Industries Commissioner at the state level assist these large industries in getting what they want. DICs also perform the task of follow-up and monitoring their progress.

(4) Restoring the market forces in the land market in the state

Another major liberalisation initiative is the abolition of the urban land ceiling in the state from April 1999 to restore the legitimacy of the transactions in the land market in the urban areas. It also amended the Town Planning Act in 1999, which now requires the buyer of the barren and undeveloped land under the urban development authorities of different metropolitan areas to keep or surrender 50% of the land for various infrastructure developments. The purpose of this amendment was to avoid excess cost and disputes in the matters of providing the required infrastructure in future as well as make the users pay for the cost of infrastructure. In the matter relating to making the land available to industries, the unique measure taken by the Gujarat government in 1997 is to grant permission to convert agricultural land to non-agricultural (NA) uses up to the limit of 10 hectares almost automatically. This cuts down the elaborate process and delays in obtaining the NA permission for land.

Kerala Model of Development

Kerala's achievement of high human capabilities with relatively low levels of

income, industrialisation and employment has been a major topic of discussion in Development Economics, ever since the publication of *Poverty, Unemployment and Development Policy: A Case Study of Selected Issues with Reference to Kerala* by the Centre for Development Studies (CDS), Thiruvananthapuram in 1975.

The Kerala model has been defined as:

1. A set of high material quality-of-life indicators coinciding with low per-capita incomes, both distributed across nearly the entire population of Kerala.
2. A set of wealth and resource redistribution programmes that have largely brought about the high material quality-of-life indicators.
3. High levels of political participation and activism among ordinary people along with substantial numbers of dedicated leaders at all levels. Kerala's mass activism and committed cadre were able to function within a largely democratic structure, which their activism has served to reinforce.

THE "OLD" KERALA MODEL

Kerala exceeded other states in terms of social development from the time of independence. Since then much more progress have been achieved through state interventions comprising of welfare policies such as effective public distribution of food, systematic expansion of public health and education facilities and effectual land reforms.

Comprehensive *land reform* and other redistributive programmes were implemented by the state government. The elimination of absentee landlords and the return of land to the tiller was the key feature of the land reform programme. The most notable part of the land reform and redistributive programme was the right given to the tenants of the households to retain full ownership of their dwellings plus full title to one-tenth of an acre of the house-compound land. State government

introduced Agricultural Workers Reform Act in the 1970s that provided permanency for labourers attached to the farms, a provident fund and old age pensions and a minimum wage which is the highest in India.

The state government spent large amounts of the state budget for primary and secondary education, health care, immunisation, agricultural credits and housing targeted at poor citizens of the state. Establishment of fair-price or 'ration shops' through which essential staples were made available at subsidised rates. School lunch and feeding programmes have also helped to improve the nutritional standards of young children.

The people of Kerala are more politically active than the rest of the country. People are highly sensitive and actively participating in election campaigning, voting etc. This peculiarity of higher political activism among people helped the state to bring many changes in the economic and social developmental aspects of the state.

These achievements on social indicator did not get translated into economic performance. Overemphasize on redistribution and welfare policies resulted in scarcity of financial resources which threatened the sustainability of the old Kerala model.

THE "NEW" KERALA MODEL

During 1990s, greater attention was given to productive needs and democratic decentralisation. It took the directive policy of decentralisation more seriously and decided to allocate 34-40% of its annual budget to new development projects designed by local bodies. The decentralised and democratic planning gave people's participation a greater role. The new model relied on the similar basic principle of development through public action by a responsible state and popular participation. But, unlike old model the policies shifted from welfare to

participatory growth and from top-down intervention to bottom up planning.

New participatory initiatives try to overcome class conflict and party politics at local level by emphasizing joint productive interests and building mediating bodies in which different interest groups are represented.

At the onset of 1996, planning explicitly aimed at increasing production and productivity in agriculture, alleviating ecological problem, improving quality of social infrastructure and gender inequality.

The challenge to accelerate industrialisation and to develop the power sector remain in the realm of state and central government (Isaac and Harilal, 1997)

The new strategies adopted seem to have contributed to higher growth rates of 6-7% in 1990s (Franke and Chasin, 2000). Thus the new Kerala model pursued objectives of productive development, social improvement and environmental sustainability.

COMPARISON OF ACHIEVEMENTS

1. NSDP

As shown in figure 1, Gujarat has been ahead of Kerala in terms of net state domestic product especially after the reforms of 1991. In 2013-14, NSDP (at current price) of Gujarat was Rs. 651916 crores which is almost twice of Kerala which was Rs. 351245 crores. But there is only a marginal difference in terms of NSDP per capita of the two states which is Rs.106831 in Gujarat and Rs.103820 in Kerala indicating a more inclusive nature of development in Kerala as compared to Gujarat.

2. INFRASTRUCTURE

Infrastructure development plays a major role in economic development of any region. Sound infrastructure encourages private investment and hence increases employment opportunities.

POWER GENERATION: The following table shows the total installed capacity in both the states as on 31st march, 2015 (in percentage). Gujarat through the reforms became a power surplus state with the highest electricity generation capacity through thermal power. The Kerala power sector is being congested presently by some serious hurdles such as inadequate production, over dependence on hydro power still and less dependence on renewable resources. Gujarat was able to diversify to renewable sources of power generation, while mere 1.24% of Kerala's installed capacity was from it.

PUBLIC ROAD NETWORK: Kerala has a huge road network of 243,374 km with per capita availability of 73 meters road length (KSPB, 2014). While the total road length in Gujarat in 2012-13 except non-plan, community, urban and project roads is 78,558 km with the per capita availability of mere 12.3 m (DES, 2015). The length of state highways in Gujarat is clearly in front of Kerala with per capita availability of 30.65 cm while it is even lower than half of it in Kerala. In major district roads Kerala had clearly advantage with the per capita availability of 822.73 cm length while it was mere 338.93 in Gujarat implying better rural road network in Kerala.

3. SOCIAL INDICATORS

EDUCATION INDICATORS: Phenomenal educational outcomes played key role in Kerala Model. As shown in the table below that Kerala has advantage in all major education indicators such as literacy, dropout and schooling. While Kerala is at first among Indian states and

union territories in adult literacy with 93.91%, Gujarat is far behind at 18th with 79.31% but well above the national average of 74% in 2011. Though Kerala had a greater level of education in 1961 and both the states showed an approximately equal increase in adult literacy but it was more gender equal in Kerala. Women's education has played important role in declining the mortality rates and enable women to take better charge of their lives. Also Kerala has a very low dropout ratio as compared to Gujarat.

HEALTH OUTCOMES: Kerala ranks first in India in all major health indicators such as life expectancy at birth (total, male and female), infant mortality rate, maternal mortality rate, fertility rate and birth rate. Life expectancy of Kerala which is 74.8 years in 2013 is much better than that of Gujarat where it is and comparable to that of US which is 77 years. Another achievement of Kerala model was the population control.

PARADOX IN ACHIEVEMENTS

With the brief analysis of achievements of both the models, let us look at the some of the paradox that exist in their respective achievements.

The biggest paradox in the achievements of Gujarat and Kerala is in terms of poverty and unemployment rate. According to NSSO 68th round, Kerala has the lowest poverty ratio of 7.05% in 2011-12, but with highest unemployment rate (98/1000) amongst the states. Unemployment problem in Kerala is largely a problem of the educated population More than one-fourth of the rural educated and one-fifth of the urban educated were unemployed in the State. On the other hand Gujarat has the lowest unemployment rate but very high poverty rate but lower than the national ratio of 21.92% as per Tendulkar methodology.

Another contrasting aspect is the *crime rate against women and suicidal deaths* in the two states. Kerala praised for its women centred development have a considerable higher crime rate against women than Gujarat. Education has not brought with it the social enlightenment it should have. The state consumes the highest amount of alcohol per capita. Behind the natural beauty is a tale of despair, alcoholism, wife battering and suicides.

Mental strength better judged by suicide rate shows the strength of development models also. Kerala blessed with top level health and education standards was at 27th among the Indian states and 32nd among states/union territories with the suicide rate of 23.9 during 2014 while Gujarat with the suicide rate of 11.7 little above the national average of 10.6 was at 15th among states.

Conclusion

‘One Economics, Many Recipes’ the title of the book by economist Dani Rodrik clearly suggests that there can be various ways to reach the final goal of development. The process of policy reforms at the state level assumes significance in providing a conducive environment for socio-economic development of the region. The paper tries to analyse the contradictory models of development implemented by Gujarat and Kerala.

Gujarat focused on providing the ‘direct productive activity’ rather than creating a social overhead capital. Kerala tried to

bring about desirable social change even with low income levels. Although Gujarat is ahead of Kerala in terms of economic performance, yet, Kerala has social indicators that are comparable with that of developed nations.

Along with these achievements there also exist interesting paradoxes. Despite having low unemployment rates, Gujarat has high poverty rate which is reverse in the case of Kerala implying more inclusive approach to growth. Though, Kerala has excellent social indicators, but, it failed in providing equality between men and women. The problem of crimes against women and high level of educated unemployment highlights the loopholes that exist in the model of development. Gujarat, with low crime rates, is considered a prosperous and safe state.

There have been debates between two eminent Indian economists, Amartya Sen and Jagdish Bhagwati over the issue of how development can be appropriated and what approach should be followed by the entire nation. Sen believes that capability development can lead to long term economic prosperity, while Bhagwati prefers Gujarat model with focus on achieving economic growth first leading to development of social infrastructure later. Both the models have acquired acclamations and subjected to some criticisms. Therefore, it is important to mix the correct ingredients from both the models to cook perfect the meal of economic development.

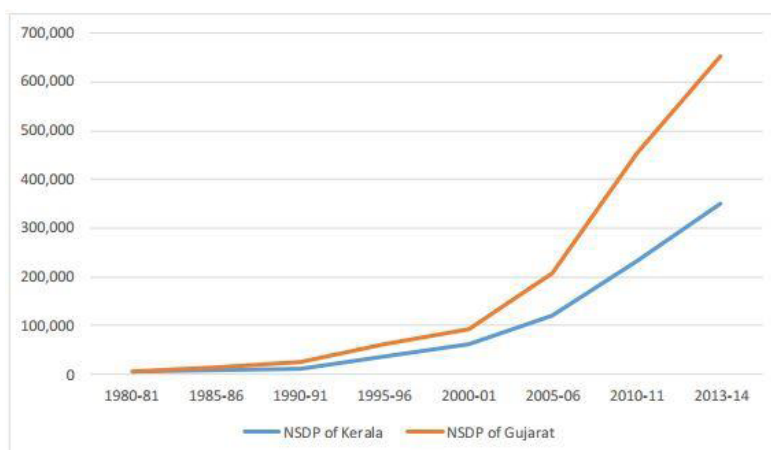


Figure 1: NSDP of Gujarat and Kerala (at current prices) in Rs. Crores Source: Economic Survey

Table 1: Total installed electricity capacity in Kerala & Gujarat as on 31.03.2015 (in %)

Fuel	Percentage		
	Kerala (2836 MW)	Gujarat (40950 MW)	India (278734 MW)
Thermal	25.35	75.25	69.6
Hydro	73.41	11.68	15.2
Nuclear	0	1.73	2.1
Renewable resources	1.24	11.34	13.1
Total	100	100	100

Source: Kerala economic review 2015 & Socio-economic review of Gujarat

Note: Figures in brackets show total production capacity in mega watt

Table 2: Education indicators

Education Indicators	Kerala		Gujarat		India	
	I	II	I	II	I	II
Adult literacy	55.08	93.91(1)	39.33	79.31(18)	12.95	74.04
Female literacy	45.56	91.98(1)	24.73	70.73(20)	5.05	65.46
Male literacy	64.89	96.02(2)	53.00	87.23(15)	19.75	82.14
Dropout ratio	-	0.27	-	6.91	-	-

Source: Census India 2011, Kerala economic review, socio economic review of Gujarat

Table 3: Health indicators

Health indicator	Kerala		Gujarat		India
	1991	2013	1991	2013	2013
Life expectancy	70.6	74.8	n.a	68.2	67.5
Life expectancy (female)	72	77.8	64.4	70.5	69.3
Life expectancy (male)	69	71.8	62.4	66.0	65.8
Infant mortality/1000 live births	17	12	69	36	40
Maternal mortality/lakh live births	133	81	389	148	212
Fertility rate	n.a	1.8	3.1	2.3	2.3
Birth rate (per 1000 population)	19.8	14.7	27.5	20.8	21.4
Death rate (per 1000 population)	5.8	6.9	8.5	6.5	7.0

Source: Economic Survey 2015, Kerala economic review, Socio-economic review of Gujarat

Table 4: Poverty and unemployment (in 2011-12)

Category		Kerala	Gujarat	All India
Poverty	Rate	7.05	16.63	21.92
	Rank	1	14	-
Unempt	Rate*	98 (41, 232)	7 (6,7)	29 (26,39)
	Rank	26	1	-

Source: National Sample Survey Office 68th Round & Planning Commission 2013

Note: * Unemployment rate per 1000 (male-female unemployment in brackets)

Table 5: Crime against women during 2013

Category	Kerala	Gujarat	All states	All India
Crime rate	62.43	42.63	50.86	52.24
Rank	22	15	-	-

Source: National Crime Records Bureau report 'Crime in India 2013

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