

# Economic Growth, Structural Transformation and Incidence of Poverty: Evidence from Kerala Economy

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## Abstract

*In this paper, the emphasis is given to discussing the association between the growth rate and poverty reduction in Kerala. Kerala has become one of the states registering a high growth rate in the country. Kerala has undergone a structural change in growth and structural changes bear its effects on poverty and unemployment. In other words, poverty could be regarded as a declining function of the growth and structural change of an economy. Kerala, to a greater extent, stands testimony to this hypothesis. It is obvious that Kerala has registered remarkable progress in the growth rate of State Gross Domestic Product (SGDP) and the per capita income compared to other states in India. Compared to the past record of the State in the fifties, sixties, and seventies, the growth in production and service sectors in recent times has been more commendable. It is also found that the high growth that Kerala achieved in recent times has led to a commensurate decline in her poverty ratio compared to the all India levels and other states in India.*

**Keywords:** Kerala model, SGDP, Trickle-Down effect, Wage schemes, Poverty ratio, Structural transformation, Structure of employment, Economic Growth

## Introduction

The literature on poverty in India is endowed with a controversy surrounding whether growth is a prerequisite for addressing the issue of poverty or not (OECD, 2004). Some economists argue that economic growth does indeed reduce the extent of poverty (Dahlquist, 2013). Nevertheless, economists generally believe that growth strategies laced with redistributive principles have the inherent capability to root out the malaise of poverty without any direct attempts to tackle it. Indisputably, it could be said that this view, often called the ‘trickle down’ strategy, sounds more convincing and theoretically plausible (Basu & Mallick, 2008). In contrast to this, some economists, notably Amartya Sen, having voiced their doubts regarding the speed with which poverty could be addressed using the ‘trickle down’ strategy, support the view that instead of waiting for the ‘trickle down’ effect to happen, strategies and schemes that directly target poverty need to be devised (Gill, 2013). In fact, the latter has been found to be more favorable with the political leadership in the country as it catches votes much quicker than the former. This political leniency towards the schemes that directly target poverty has found an immense place in the policy framework in India (GoI, 2004). Even in recent elections, such direct transfers of cash policies played by political parties have proved to be successful in winning the electoral battle (Bhaskar, 2019). In this background, the present paper intends to look into the linkage dynamics between growth and poverty using the experience of the Kerala economy. The paper is structured as follows:

the following division throws light on the theoretical underpinning of the poverty-growth debate in India, followed by the analysis of poverty and State Gross Domestic Product in the state, elaborating on how both these relate with each other.

### **Theoretical Underpinnings**

Although exact theories dwelling on the various gamut of poverty have rarely been developed, many theories of growth and development appear to be touching upon things that elucidate the causes and magnitude of poverty in a systematic way. Two poles apart theoretical expositions in this context could be found in the arguments of Trickle-down Effect and the Wage-employment argument. First, we may spell some lights on these theoretical positions, albeit they deal with the core issue of how to reduce poverty rather than how it is created. The 'Trickle down' approach simply preaches the position that growth needs to be accelerated to bend upon the issue of poverty (Pettinger, 2017). The perceived benefits of growth would percolate down to the lower strata of the society, thereby striking at the core problem of poverty much more effectively than direct poverty alleviation programmes would do. On the other hand, the supporters of Wage and Asset-based programmes argue that trickle down takes longer time to have its effect on reducing poverty. Therefore, for an urgent and immediate solution to the problem of poverty, it is better to carve out specially designed programmes to transfer income to the hands of poor and downtrodden so as to reduce the intensity of poverty (Jafar, 2015). In fact, this latter view has been endorsed by the political pundits in the country. As a resonance of this endorsement, India has witnessed the implementation of many such programmes, mainly on the events of national importance such as the Independence day. It is interesting to note that many programmes which have been introduced in recent times are nothing but the replica of earlier programmes, and in fact, many programmes are nothing but old wine in new bottles (ET Burea, 2019). These populist policies have enormously helped parties to garner votes, although from the strict sense of economics, they hardly find any place in the theoretical realms (Patnaik, 2019).

### **Has Growth Scaled Down the Poverty Ratio?**

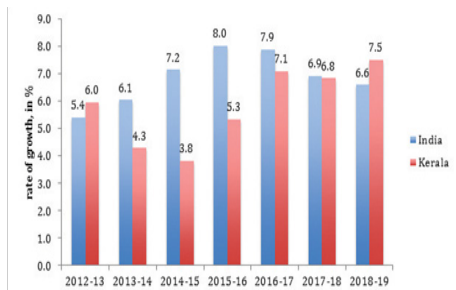
Data tell us a very different story, in fact. Significant reductions in poverty have been registered in India since 1991, the year that heralded the beginning of a new and different economic regime in India (Dev, 2016). Till 1991, policies in India were rich in poverty alleviation schemes, creating rural assets thereby generating employment being the prime element of such schemes. Those days had no perceptible growth in the domestic product of the country. Yet, India chipped in enormous money to douse the flames of poverty. For instance, the popular estimation of the average annual growth rate of Indian domestic product for the first three decades of post-independent India badly stood at a meager 3.5 percent which is called the famous (infamous) Hindu Rate of Growth (Bhagwat, 2013). Thereafter, after lurking for a while, India made a turnaround in her GDP growth with the onset of neo-liberal economic policies in 1991. In fact, it must be reiterated here that the journey of growth trajectory had begun in the mid-eighties itself. Amazingly, the mid-eighties showed the wall reading of a possible decline in poverty ratio, with the acceleration in the growth rate of domestic product and the concomitant decline in the headcount ratio. This unequivocally evidences the negative association between the growth rate and the poverty rate, which of course, moves along with the celebrated argument of the 'trickle-down' approach.

### **Growth Story of Kerala Economy**

In this paper, the emphasis is given to discussing the association between the growth rate and poverty reduction in the state of Kerala. The reason for taking Kerala as a case in point stems out of the fact that Kerala has distinguished herself from her counterparts in the country on various counts, including its envious advancement in the sphere of social sector indices like education and health status (Foundation, 1994). These social status improvements had even been accomplished in her early stages of development after the formation of the State, that too without significant improvement in the growth rate of the state domestic product. This paradox that is high social sector advancement sans commensurate economic growth has come to be celebrated as 'Kerala

Model' in the development literature (Nandeesh, 2014). Despite certain doubts that have been raised in connection with the sustainability of the 'Kerala Model', the Model as such has withstood all attacks against it, proving itself that it still remains to be an important replicable development strategy for those nations and states who are still at an infancy stage as far as their social sector indices are concerned (Chandran, 2020). For instance, in India, states like Bihar whose social sector indices continue to be poor can easily emulate the Kerala model of development to restructure its social sector in such a way that it will bring forth an engine of growth for the State in the years to come (Tandon, 2020). The sustainability issues that the Kerala model had to encounter in the eighties no longer exist now, especially in the light of the recent upward trend that the Stage has registered in respect of the State Gross Domestic Product (SGDP). Today, Kerala has become one of the states registering a high growth rate in the country (Balan, 2020). In 2012-13, Kerala registered a growth rate of SGDP to the tune of 6 percent whereas the GDP growth rate of India was pegged at 5.4 percent. But from 2013-14 to 2017-18, compared to India's growth rate, Kerala's growth rate had been slightly low. Further, it is interesting to note that in 2017-18 and 2018-19, Kerala's growth rate outweighed the Indian growth rate (Figure 1).

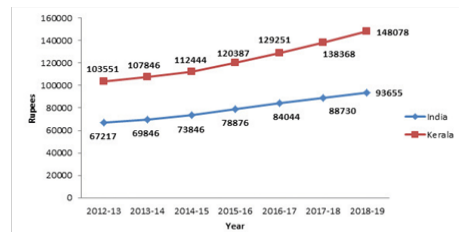
**Figure 1: Growth Rate of Kerala**



**Source:** Economic Review, SPB, GoK

This mixed trend in growth rate has not been observed in the case of per capita income. The per capita income of an average Keralite has well been above the per capita income of India (Figure 2). Nevertheless, it is true that some of the emerging environmental related and health sector issues have cast some doubts and become areas that require constant attention from the part of the policy makers.

**Figure 2: Per capita Income Growth Rate: Kerala and India**

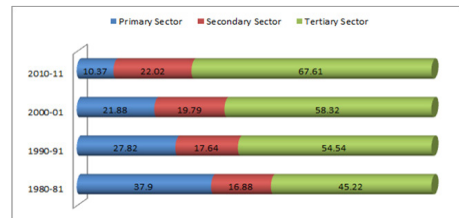


**Source:** Economic Review, SPB, GoK

### Structural Changes in Kerala Economy

Every economy undergoes structural changes as it passes through different stages of economic growth. Growth sans structural changes is a rarity to the core, and on account of this, to understand the quality of growth that an economy undergoes, it is inevitable to glance through the structural changes as well. By structural change, in simple parlance, we mean changes in the contribution of different sectors to the GDP of the economy (Sanitha & Singla, 2016).

**Figure 3: Structural Change in GSDP of Kerala**



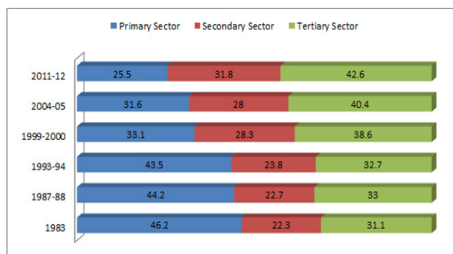
**Source:** Various issues of Economic Review by the State Planning Board of Kerala

Structural changes normally happen in a sequence in the sense that as the economy progresses, the contribution from the primary sector dwindles and that from the manufacturing and service sector gets enhanced. Kerala too has undergone this structural change as is evident from figure 1.

In 1980-81, 37.9 percent of SGDP in Kerala was contributed by the Primary sector, whereas its share declined to 10.37 percent in 2010-11. On the other hand, the expanding tertiary sector's share increased from 45.22 percent in 1980-81 to 67.61 percent in 2010-11. But, it is curious to note that the share of the secondary sector or the manufacturing sector did not undergo any remarkable change. Its share marginally increased from 16.88 percent in 1980-81 to only 22.02 percent in 2010-11. The industrial

backwardness of Kerala could be cited as a reason for the marginal increase in the share of the secondary sector to the SGDP of Kerala. What comes as it may, it is true that the secondary sector's contribution to Kerala's SGDP has remained almost steady over the years (Jeromi, 2003). Not only does contribution from the primary sector fall due to structural change, but also capital and labor movement away from the primary sector to other expanding sectors (Mcgregor & Verspagen, 2016). In this context, it is disheartening to point out that these structural changes that the SGDP of Kerala has experienced do not seem to have been reflected in the employment structure of the State. As figure 4 speaks out, still the primary sector offers employment to a considerable number of people in Kerala. In 1983, 46.2 percent of people in Kerala found themselves in the Primary sector for occupation whereas, in 2011-12, it only declined to 25.5 percent. On the other hand, the Tertiary Sector's share in employment increased although not considerably, from 31.1 percent in 1983 to 42.6 percent in 2011-12. At the same time, it is interesting to note that the share of the Secondary Sector in employment in Kerala increased from 22.3 percent in 1983 to 31.8 percent in 2011-12. Remember that this increase in the employment share had been achieved by the Secondary Sector without any remarkable increase in its share in SGDP of the State.

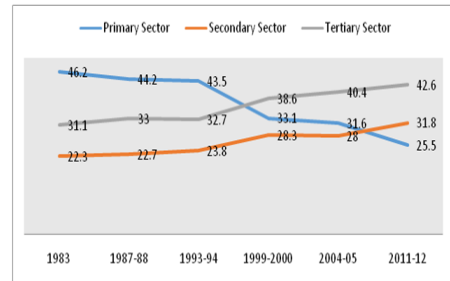
**Figure 4: Structural Change in Employment in Kerala**



Source: Economic Review-2016, SPB, GoK

To sum up, Kerala has undergone expected changes in its employment structure although far from being satisfactory. As is evident from Figure 5, the share of primary sector in employment in Kerala has been declining since 1993-94 while there has been an increase in the share of both the Secondary and Tertiary sectors.

**Figure 5: Structural Change in Employment-Trend**



Source: Economic Review-2016, SPB, GoK

### Indicators of Poverty in Kerala

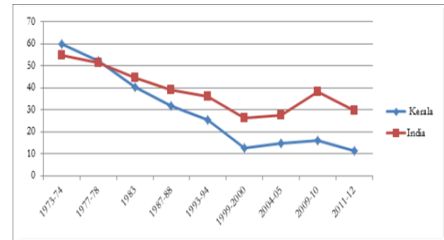
Now we come to the question of the impact of this growth and structural change on the incidence of poverty in Kerala. As discussed in the foregoing part of this paper, growth and structural change bear its effects on poverty and unemployment. In other words, poverty could be regarded as a declining function of the growth and structural change of an economy. Kerala, to a greater extent, stands testimony to this hypothesis. Looking at the proportion of poor in Kerala compared to that of India, we find that poverty levels have been declining in the State since 1977-78 (Figure 6). It needs to be remembered that before 1977-78, poverty incidence in Kerala had been much higher compared to that of India. For instance, in 1973-74, Kerala had 59.74 percent of people living below the poverty line, while India had only 54.88. But by 1977-78, poverty in Kerala declined to 52.22 percent that is almost a 7 percent reduction, whereas poverty in India declined only by 3 percent, that is from 54.88 to 51.32 percent. Further, it is worthwhile to note that in 2011-12, the proportion of poor in Kerala stood at 11.3 percent, whereas the same for India was 29.5 percent (Table 1).

### Concluding Remarks

Thus it is obvious that Kerala has registered remarkable progress in the growth rate of State Gross Domestic Product (SGDP) and the per capita income compared to other states in India. Compared to the past record of the State in fifties, sixties, and seventies, the growth in productive and service sectors in recent times has been more commendable. The intention of this paper was to relate this growth with the incidence of poverty in Kerala and to see

whether the growth by itself has translated into a perceptible decline in the proportion of poor or not. Unsurprisingly, it is found that the high growth that Kerala achieved in recent times has led to a commensurate decline in her poverty ratio compared to all India levels and other states in India.

**Figure 6: Proportion of Poor in India and in Kerala, 1973-74 to 2011-12, in percent**



Source: Economic Review-2016, SPB, GoK

**Table 1: Poverty (Proportion of Poor) in Kerala and India from 1973-74 to 2011-12**

Year	Kerala			India		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	59.19	62.74	59.74	56.44	49.01	54.88
1977-78	51.48	55.62	52.22	53.07	45.24	51.32
1983	39.03	45.68	40.42	45.65	40.79	44.48
1987-88	29.1	40.33	31.79	39.09	38.29	38.86
1993-94	25.76	24.55	25.43	37.27	32.36	35.97
1999-2000	9.38	20.27	12.72	27.09	23.62	26.1
2004-05	13.2	20.2	15	28.3	25.7	27.5
2009-10*	9.7	23.7	16	39.6	35.1	38.2
2011-12*	7.3	15.3	11.3	30.9	26.4	29.5

Source: Economic Review-2019, State Planning Board, Government of Kerala

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