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The story of social spending :
A revisit to the Kerala model of development - Part II

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Decline of labour-intensive industries

From the 1930s onwards, the labour-intensive industries of Kerala have been facing strong headwinds after a worldwide fall in commodity prices. They triggered a shift of the coir industry from factory towns towards rural areas in search of cheap labour. Reduction of wages and sub-contracting of production to smaller units in the countryside became increasingly common. An inevitable outcome was the rise of labour unrest and militancy.

By the mid-1960s, many large factories of the coir industry had closed. They culminated in a regression of production from factories that derived economies of scale towards petty production units in the countryside, using ancient techniques of production. The unrest and labour militancy that simmered in the coir industry was a compelling reason for subsequent state interventions.

A spate of interventions which sought to regulate wages, working conditions, processing techniques, and prices of coir products and raw materials followed (Indu, 2015). These interventions delayed attempts to modernize the industry and raise productivity and wages therein. Over the past fifty years, total employment in the coir industry of Kerala declined from half a million to just over 50,000. Remnants of the workforce, mostly women, were engaged in spinning coir yarn only (Isaac et al. 1992, p 92).

Similar developments were underway in other labour-intensive industries such as cashew, textiles and plantations. They too necessitated state interventions, leading to take-overs of many large establishments, which were either dysfunctional or abandoned after the spread of industrial unrest. The government tried to promote a reorganization of production through state-owned enterprises and workers' cooperatives. There was a proliferation of industrial establishments in the public sector as critical providers of employment in the aftermath of state interventions to protect the jobs and wages.

The situation in plantations too deteriorated. Despite the presence of well-meaning protectionist legislation, wages and working conditions therein have been withering under the impact of forces beyond the control of the state or the social actors. The number of workers entitled to protection under the Plantation Act declined over the years, as employers tried to minimize the fixed cost of hiring regular workers. Increasingly, they sourced work from contractors or piece-rate workers. Much of the area under plantations got fragmented and pushed down to the domain of smallholdings with a lesser reliance on hired labour. This development was especially true of rubber cultivation (Ramesh, 2010).

As the traditional industries went into decline, many workers got pushed into less remunerative and irregular jobs in the informal sector. The state and the social actors responded to the shrinkage of labour markets with positive policy interventions. A lengthy period of industrial turbulence necessitated impressive conduct of social engineering. The practice of electoral democracy called for accommodating the concerns of all workers, traumatized by the transition in markets.

Empowerment through income transfers

The decline of labour-intensive industries prompted the unions and other social actors to mobilize political support for a "welfare dispensation" towards all workers, adversely affected in the sunset industries. The state demonstrated its concern through mobilizing resources for in critical social sectors such as the public distribution of consumer goods, notably food grains, healthcare, and education. Such spending gathered momentum from the 1970s onwards, as the state government took on a significant share of the budgetary expenditure required for extending primary health and education to the people. Social spending has maintained an upward trend through the subsequent years, though with ups and downs in between (Tsujita 2005, Gayitri 2005, Ramakumar 2008).

A new era of redistributive transfers was in the making, and we already discussed its impact in the preceding columns of this journal. The state interventions through increased public spending on a basket of social services proved to be an essential input to the democratization of services, as they facilitated equitable access to health and education within the state. We discussed some comparative evidence on population growth, sex ratio, birth rate, infant mortality rate, life expectancy and total fertility rate and access to education, human development and quality of life. Kerala occupies top slots in the league tables on social indicators in India. The state's prescience has also had a benign influence on the cost of education and health care both in the public and private sectors. We also took note of the comparatively higher reserve price of labour in Kerala and suggested that higher wages could be indicative of the income mobility acquired by workers. New entrants to the workforce are better endowed to navigate their way into remunerative employment within and outside the state.

A demographic dividend in the state has arrived in two sequential stages of outward migratory flows. The first stage marked a massive outflow of semi-skilled labour to the rest of India and the Gulf countries. Eventually, this flow gave way to a second wave of out-migration by skilled workers. More and more new entrants to the workforce, irrespective of their gender or social status, availed themselves of higher education and were positioned at vantage points on global value chains. In the process, Kerala emerged as a significant source of international skilled labour migration. More than three million workers have acquired mobility into the white-collar service occupations all over the world (Rajan and Zacharia 2019 Annex 1). The remittances they send home are primarily responsible for the high levels of per-capita consumption expenditure, and they contribute to generating a range of economic activities, notably in construction, processing industries and services.

Particular emphasis on institutional safeguards

The welfare dispensation and social spending, as they influenced human development and living standards of Kerala, were underpinned by some institutional safeguards, put in place for the governance of labour markets. Two such institutions deserve special mention: i) A system for prescribing and administering minimum wages, and ii) Welfare funds for channelizing benefits to the workers of traditional industries. The Wage Boards of Kerala prescribe minimum wages in 80 domains of employment, both in agriculture and non-farm sectors, which together account for almost the entire workforce of the state. As a result, there is more uniformity in wages across industries and regions of Kerala. The actual daily wages of workers at the lower end of markets tend to be higher than the minimum wages prescribed for that category (Jose 2018; Usami 2011).

The Welfare Funds, 28 in number, have a total membership of 4.72 million workers. They provide an array of benefits to members including limited retirement pensions, ex-gratia payments on death or disability, support for education and medical care, contingency payments on marriage and maternity, unemployment benefits, and support for housing (Government of Kerala 2019, Vol 2, Appendix 6.4). Perhaps the most commendable expenditure component of the state government is the allocation for monthly pension amounting to Rs. 1400 or more per person paid to a total of 6 million recipients. It comes to a sum of 150 billion rupees a year, also the largest slice of welfare spending by the state (Isaac, 2020).

It bears repetition that the redistributive social spending and the creation of special institutional safeguards for workers at the lower end of markets were the manifestation of a political consensus for an inclusive society, premised on equal opportunities for all in terms of employment and income mobility. The state-initiated transfers helped to set a "minimum reserve price" of labour in relation to a basket of entitlements needed for a dignified life by all people. Such reservation wages have empowered the poor and the disadvantaged to transcend the barriers to their entry into labour markets and to acquire mobility as partners on global value chains. That in itself is a precious achievement the state has derived entirely from social spending.

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