VIKÀSÀRTH

DEVELOPMENT AND THE ECONOMY

Rebuilding Kerala Economy: Time for a Paradigm Shift?

March 22-23, 2019

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New Economic Thinking

A two-day round table discussion on ‘Rebuilding Kerala Economy: Time for a Paradigm Shift’ organised by CPPR Centre for Comparative Studies in collaboration with Institute for New Economic Thinking (INET) was held on March 22–23, 2019 at Rivera Suites, Kochi. The discussion focused on various issues faced by the Kerala economy and stressed the need for policy changes to address these issues.

Speakers:

- **Mr Paul Antony IAS** (Rtd), Former Chief Secretary, Government of Kerala
- **Dr B A Prakash**, Chairman, Fifth State Finance Commission, Government of Kerala
- **Dr Jose Sebastian**, Associate Professor (Rtd), Gulati Institute of Finance and Taxation
- **Dr Shaijumon C S**, Associate Professor, Indian Institute of Space Science and Technology
- **Dr Martin Patrick**, Chief Economist, CPPR
- **Dr Christy Fernandez IAS** (Rtd), Chairman, KSIDC
- **Dr Saji Gopinath**, CEO, Startup Mission
- **Dr Pulapre Balakrishnan**, Professor, Ashoka University
- **Mr Alex Thomas**, MD, Tierra Foods
- **Mrs Anisha Cheriyan**, Director of Chemmanur Academy & Systems Pvt Ltd
- **Dr Ramankutty V**, Professor Emeritus, Achutha Menon Centre for Health Studies
- **Dr Paul Peter**, RMO, Kuttanad
- **Mr A P M Mohammed Hanish** IAS, MD, Kochi Metro Rail Limited
- **Mr M P Joseph IAS (Rtd),** Former Advisor to Government, Labour Reforms, Industrial Relations
- **Dr V Santhakumar**, Professor, Azim Premji University
- **Dr Subash S**, Associate Professor, IIT Madras

The conference had four thematic sessions:

- The deteriorating fiscal health of Kerala: How the state can achieve fiscal discipline?
- Why Kerala lags behind in employment generation?
- How to address second-generation issues in health and education?
- State Public Sector Undertakings (PSUs): role and significance in the 21st century?

Proceedings of the Round Table:

- The keynote address urged the need for Kerala to outlive the old rhetoric and get realistic about its economic priorities.
- During 2011–19, when other states spent on an average of 32 per cent on infrastructural development, Kerala spent only 16 per cent.

- We should create an ecosystem for the private sector to generate jobs, instead of the government creating more jobs.
- There is a need to improve ease of doing business and simplification of clearances.
- Economic activity should happen in the state which will allow people to come and invest, which in turn will help in more job creation.
- Public Sector Undertakings (PSUs) in the state need a turn around. There should be restrictions on the funds flowing to underperforming PSUs. The loss-making units should be disinvested in a speedy manner.
- Public-Private Partnership (PPP) is the way forward for Kerala. The success of Public Distribution System (PDS) in the state is the best example in this regard.
- Kerala's Local Self Government institutions need empowerment to move beyond regulation in order to create and sustain industries and jobs.

The round table focused on the following themes:

The deteriorating fiscal health of Kerala: How the state can achieve fiscal discipline?

- The state will move to fiscal collapse by 2021. There will be default of payments on salaries, pensions and loan repayment obligation by 2021.
- Reduce non-plan expenditure by controlling the expense on salaries, pensions, interest payments, unnecessary administrative expenses and fiscal extravagance.
- Liquor and lottery constitute around 34 per cent of the total revenue receipts of the state. The poorer section in Kerala is the main consumers of these items and bear more burden with respect to resource mobilisation in the state.
- The expenditure pattern of the government shows that the Malabar region receives the least share of the total expenditure.
- The potential for tax revenue collection in Kerala is very high and it needs to be utilised for the improvement of fiscal position of the state.
- Kerala Infrastructure Investment Fund Board (KIIFB) can be a burden on the exchequer if the money mobilised is not spent properly. The fund mobilised through KIIFB should be used only for capital expenditure.

Why Kerala lags behind in employment generation?

- Kerala has focused primarily on improving the literacy rates. Now, the focus should shift to skill development. There is a lack of linkage between the academia and industry, which is important for focusing on skill development.
- It cannot be said that Kerala is not an entrepreneurial state. When we look at the old private banks in the country, it could be seen that most of them come from Kerala.
- The employment opportunities in the state are not matching the aspiration levels of its people.
- Kerala started investing in the education sector way before other states by setting up the best nursing colleges, ITIs, polytechnics and teacher training institutes. But the state did not have industries or hospitals to employ them, which in turn encouraged

their migration to other states/countries. Remittance is the product of what we actually invested in education.

- Though the state was much ahead of other states in investing in the education sector during the 1950s and 1960s, it failed to do so during the 1980s and 1990s. For instance, Kerala lagged behind other states in terms of computer education.
- Entrepreneurship should be considered as a skill like any other skills.
- The laws in Kerala are conducive for women enterprises but the patriarchal society is preventing women from participating in labour market.
- The issue is not whether we are pro-labour or pro-capital, it is whether we are pro-economic activity or pro-production.
- Historically, the emphasis has not been so much on economy as welfare.
- There is a need for discourse on how to make Kerala an attractive site for investors to do production.

How to address second-generation issues in health and education?

- Kerala is stuck in the double whammy of high levels of both communicable and non-communicable diseases.
- In Kerala, one in three adults has high blood pressure and one in five has diabetes.
- The state is stuck in a low mortality and high morbidity paradigm.
- One of the major contributing factors of communicable diseases is the environmental degradation that is happening in the state.
- There is a misconception, especially in Kerala, that only if we spend more we get better treatment.
- There is a need to educate people in Kerala on the healthcare system as they are in a state of confusion and do not know where they should go even for a small headache.
- The small hospitals in the state should be protected as they are giving maximum healthcare, especially in the rural area.
- India is the diabetes capital of the world and Kerala is the diabetes capital of India. The concept of leisure, stressful blue collar jobs and refined food diets are leading to an overshoot in the daily requirements of calories.
- Kerala is spoilt by the paradox of choice. The state has 6–7 healthcare systems which follow different principles and methods making it difficult to regulate them.
- Kerala failed in fulfilling students' aspirations in meeting the global standards for higher education.
- The students should evaluate the courses and the result should be put in public domain. It is a global practice which Kerala has been reluctant to take up. But, such a system can bring in a great transformation in the education system.
- Increase in access to education has come at a high cost. Engineering colleges in the state have taken up large tracts of land in densely populated areas, but they are producing poor quality students who are not even able to complete the course.

State Public Sector Undertakings (PSUs): role and significance in the 21st century

- PSUs are important when there is no risk appetite or entrepreneurship. Creation of PSUs was important during the 1970s since Kerala did not have the risk appetite.
- The loss made by PSUs in Kerala was six times more than the profits made by them, when the total investment in PSUs stands at ₹30,000 crore.
- Except in narrow areas, the role of PSUs is redundant.
- No PSUs should be run for employment generation.
- Privatisation might not be suitable for all kinds of public sector industries. An example is the electricity sector which failed to attract private investment.
- There are public sectors in India that produce high quality services like higher education. They set standards and guidelines for the private sector organisations in the industry.
- PPP is a good idea but we should be careful with sectors that make either of the sides vulnerable.
- The best and commonly used method for privatisation is to sell the shares to the public, but this is not proving to be effective in India. In order to resolve this issue, innovative ideas can be adopted and examples can be taken out from the German and Italian disinvestment models.
- At the national level, coalition compulsions have forced multiple governments from not undertaking privatisation. This has led to about 60 per cent gap in the targeted and achieved disinvestment level.
- PSUs cannot be done away with in the social sector. The best example is the national health scheme that survived in the United Kingdom despite the era of Thatcher's privatisation.
- Disinvestment cannot be the panacea for all that is wrong with PSUs.
- Private capital investment will happen only when PSUs have valuable assets.
- Some of the PSUs are surviving on life support, outliving their purpose, being inefficient and often parasitic.