Kerala and the Indian Federal System: Restriction and Response

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ABSTRACT
The Indian federal state of Kerala has long been noted by scholars for its seemingly contradictory pattern of development, commonly referred to as the “Kerala paradox.” The paradox refers to Kerala’s exceptionally high quality of life paired with poverty and economic stagnation across the past half-century. This paper posits that the paradox can be accurately explained via existing theories of parliamentary federalism and basic needs development without paradoxical implications. Moreover, it suggests that India’s asymmetrical, parliamentary federal system has been toxic to the progress of development in Kerala, in spite of the great strides made by the Keralans. It will be argued that the emergence and significance of Kerala’s massive remittance economy is the primary response of the educated Keralans to India’s federal failures.

Even though it is home to the world’s second largest population, India’s lagging development is a reflection of its size, resources, and development policies. Though macro-level economic indicators have displayed moderate gains since the implementation of neoliberal economic policies, quality of life indicators have resisted progress at similar rates. India, however, is also home to an outlier. The subnational state of Kerala near the southern tip of the peninsula experiences ‘Very High’ Human Development Index scores, which puts it on par with many industrialized sovereign states, despite extreme poverty and stagnant economic growth. The contradictory implications of these strange bedfellows have drawn the curiosity of development researchers. Traditionally, countries were not expected to behave in this manner, but Kerala is not a country. As a result, the paradox of the Keralan developmental experience can be understood best within the context of the powerful and centralized Indian federal system. This paper will argue that the Kerala paradox is a failure of the parliamentary federalist approach of national organization in large, diverse states.

Kerala is a constituent federal state, not a
sovereign nation, operating under a different set of rules and restrictions than individual countries. The additional constraints of the federal system of India can explain both why Kerala has excelled in certain areas, yet faltered in others, and why the central government has struggled so greatly to replicate similar results in other states through expansions of its authority. Kerala’s successes and failures have been defined by the struggle between mutually-reinforcing, locally tailored policies and the central government’s powerful abilities to restrict the economic abilities of subnational governments, resulting in a remittance economy based on the temporary migration of labor. Beyond the federal conflict, Kerala owes much of its success to high levels of mass participation and early one-party hegemony, enhancing its ability to provide for citizens’ basic needs despite relatively limited governmental powers at the local level. Ultimately, central government interference has stunted contemporary economic growth by its emphasis on equal development, India’s vast diversity, and prohibitive tax structures.

Literature Review
I. Basic Needs Theory
Before World War II, there was little academic work by researchers on the development of third world nations (Harris 2000). With the rise of newly independent democracies in the former colonies and increase in globalization, increased interest in developmental theory led researchers to explore their transitions to modernity. The overarching normative goal of developmental theory is to increase the standard of living in underdeveloped nations both socially and economically (Birdsall 1993). The early body of work in this area came to be known as modernization theory. This theory focuses on non-industrialized countries following stages of development as did current first-world countries through an emphasis on increased industrial output and macro-level indicators. The five stages were outlined in a landmark work, The Stages of Growth: A Non-Communist Manifesto as traditional society, pre-take off, take off, drive to maturity, and finally an age of high-mass consumption, signifying modernity (Rostow 1960). This theory focused on industrial-scale actors and came to underlie the neoliberal economic theories which rose to prevalence in the 1980’s and 1990’s (Woodcock 1998). Rostow’s theory, in particular, outlines entrepreneurship and the importance of private investment in creating the basis for a modern economy, seeing increases in quality of life as a resultant benefit of industrialization and consumerism. Due to its concentration on macro-level indicators, modernization theory was criticized by dependency theorists who claimed it caused a ‘race to the bottom’ which ultimately undermines the goals of increased living standards. The benefits of living in an industrialized society are greatly jeopardized when the government is most concerned with decreasing labor regulations to curry the favor of foreign investors whose funds are critical according to modernization theory. Despite its criticism, however, dependency theory offered no alternative blueprint to which developing nations could look.

By the 1970’s many scholars felt evidence was insufficient to demonstrate wealth was ‘trickling down’ to individuals as top-down theories like Rostow’s predicted. During this period, a body of work began to emerge around the doctrine of ‘basic needs’ as a possible alternative method of development. The basic needs model focuses on meeting the developmental needs of individuals, as opposed to those of the national government and industries (Woodcock 1998). The primary concerns of the basic needs model are the promotion of education and healthcare (Streeten 1981). Gains in education are considered the most fundamental since they are observed to increase standards of living across the board, even if the educated population does not go on to work in industry. For example, the yields of farmers increase and infant mortality rates of domestic mothers decrease with each additional year of education in developing countries (Birdsall 1993).
The presence of education is therefore theorized to be mutually reinforcing with other goals of development through the increase of general efficiency.

Though basic needs theory seeks to directly raise the standards of living of the average citizen, it is not primarily a welfare concept (Streeten 1981). Basic needs theory seeks to explain means of achieving a sustainable transition to an industrialized society without causing, and to buffer, the negative effects of economic restructuring. The theory presents a primary policy focus, but does not prescribe a specific economic system of development like neo-liberal models. What is required, however, is a strong level of moderation and coordination in developmental goals (Birdsall 1993). The most promising results of the basic needs model result from advancements in primary education, with diminishing returns in secondary and tertiary levels (Psacharopoulos 1994, Ozturk 2001). The application of too much social policy without relevant economic growth can result in overeducation, ironically a problem previously thought only to plague modernized states (Mehta et al. 2010). Ultimately, basic needs theory promises both immediate standard of living increases and a means for sustainable transition to industrialization.

II. Federalism

Federations are a form of political organization characterized by the sharing of powers between distinct national and constituent governments (Elazar 1993). These governments are supposed to work both independently and in conjunction across levels to most effectively govern. Both levels should have jurisdiction in policy areas which directly affect citizens (Watts 1996). Federalism, as a concept, emerged as a means to gain collective stability with the guarantee of some local control, but has been utilized since to effectively, in theory, manage social cleavages in diverse states.

The early federalism envisioned by the founding fathers of the United States was highly philosophical and directly tied to the concept of liberalism (Verney 1995). This sort of federalism was not simply an arrangement of federal power but an integral part of a planned system of checks and balances. Internationally, the concept of federalism evolved greatly over the 19th and 20th centuries as it became recognized as a means to balance the increasing needs of states more than as a philosophy of government. Referred to as post-modern federations, these are systems seen as a means of making government more manageable in large states (Saxena 2012).

States which utilize this form of federalism are fundamentally different from those made of pre-existing territories seeking mutual benefits, like the United States and Switzerland. A branch of these artificial federal structures, such as India and Canada, are known as ‘parliamentary federations’ and suffer from their misalignment with standard federal theory (Verney 1995). This marriage of parliamentary central governing principles coupled with limited regional governance was also studied, as executive federalism, by Watts (1989). The power structures of these two states are focused on the Westminster system, developed in a unitary state, which grants disproportionate amounts of power to the lower houses of parliament. When designed in the 1860’s, this fusion of systems was considered pragmatic; there was no attempt to justify the system on a theoretic rationale (Watts 1989, 2). Overall, this kind of system is noted for its considerably higher prevalence of inter-governmental conflict (Watts 1989, 15). The addition of enhanced authority to the central government hinders the ability of constituent governments to coordinate shared and internal policy matters, often masking coercion as cooperation (Elazar 1993, 194). Although stability within the levels of government is increased by having fewer constituent provinces, parliamentary federalism was developed to attempt the unification of large regions (Watts 1989, 15). This implication is not promising for the success of these typically large, yet highly centralized federal systems.
Further complicating matters for postmodern federations are the increased asymmetries between their constituent compositions. Ronald Watts categorizes these into two groups of de facto and de jure asymmetries (Saxena 2012; Watts 2008). De facto asymmetry has affected all federations and is the result of geographic and historic factors conferring incidental benefits unequally to different constituent regions within a federation. De facto inequalities have been recognized as mostly benign, so long as the inequalities are not heavily concentrated in certain regions (Eazar 1993, 193). De jure asymmetries are distinct political advantages granted by constitutional or other legal means to specific territories. Though by no means all, many de jure asymmetries are the result of an attempt to balance existing de facto asymmetries. De jure inequalities run somewhat contrary to early federalist thought but seem to be beneficial in highly fragmented, multicultural societies (Saxena 2012, 70).

Certain traits, however, better lend themselves to successful resolution of asymmetries. Germany, identified by Watts as an example of executive federalism, provides an excellent example of a successful resolution of deep de facto and de jure asymmetries resultant from its parallel development for much of the twentieth century (Watts 1989, 7). Much of the success of German federalism can be attributed to the maintenance of strong subnational governments, through a trend of decentralization, which are better able to respond to local priorities (Benz 1999, 59). Also, Benz notes that cooperation in policy between the federal levels is strong. Fiscally, a “significant” amount of the tax revenue remains in the ‘Lander’ governments, further enabling the subnational agendas (Benz 1999, 58). None of these beneficial factors to Germany’s asymmetrical federalism are present in India’s parliamentary federalism, the absence of which has caused major problems with Kerala’s attempts at industrialization.

An examination of the Kerala situation with respect to these theories demonstrates the application of a strong basic needs approach which failed to make positive economic growth during its first four decades. Kerala experienced lower State Domestic Product (SDP) growth than its neighbors well until the end of the 1980’s, with the exception of a few years growth in the late 1960’s (Joseph 2010, 49). During the 1970’s and 80’s, in particular, Kerala suffered under a national import substitution industrialization regime which neglected the industrialization of Kerala while simultaneously crippling its historic capacity as a port, due to greatly increased trade restrictions (George 2011, 12). By the early 1990’s Kerala had achieved population literacy and longevity, yet the state remained destitute. It was not until the 1990’s, with the rise of neoliberal policies on the federal level, that Kerala could begin to capitalize domestically on its educated population without turning to the outside world for employment.

The parliamentary federal system of India shaped both Kerala’s basic needs approach through the constitutional distribution of power and its inability to respond to Kerala’s specific needs. The highly centralized nature of the Indian federal system worked against the philosophical checks and balances of early federalist doctrine, causing a lack of the necessary coordination between the levels of government. This left Keralites unable to capitalize on their advantages, resulting in an economy based heavily on the export of labor.

**Consistent, Complementary State Policies**

Relative to other Indian states, Kerala’s ability to consistently outperform the others in its rate of development, most notably in the areas of education and healthcare, is nothing short of amazing. In 1990, India’s largest state, Uttar Pradesh, had roughly 139 million people, but only 735 hospitals. Kerala, only one seventh the size and with 29 million people, was home to 2,053 hospitals (Heitzman and Worden 1996, 102). In 1991, the nation of India reached an average...
male literacy rate of 64.2 and a female rate of 39.2; that same year Kerala achieved universal literacy (Chandran 1994, 514). Despite impressive policy outcomes such as these, Kerala remained remarkably poor. In 1992, were it its own country, it would have ranked as the ninth poorest on the planet (Franke and Chasin 1992). This astounding poverty would seemingly run contrary to basic needs theories, as it apparently helped generate little relevant growth.

Neoliberal economists point to the paradox of Kerala as a failure of well-intentioned, but blind, socialist policies. The promotion of social goals is portrayed as the result of a strong communist coalition utilizing effective mass mobilization to achieve popular demands. These economists have blamed the development of health and education without economic planning as the result of a misguided effort at increasing simple quality of life indicators with little respect to sustainable growth. The argument of ineptitude was supported by claims that an increase in simple literacy, with far less developmental relevance than financial literacy, created relatively little change in economic development (Prete 2013). In reality, the social agenda of Kerala was carefully crafted through three decades of unhampered communist control of the state government in a mutually-reinforcing way, focusing on numerous facets of development (Government of India 2008, 297).

The election of the communist party to the control of Kerala in 1957 was the first peaceful, competitive election of a communist party in history. Rather than change the society through revolutionary means, their focus was on developing a new concept of citizenship through “empowered self-worth to be achieved through active state intervention in critical areas of social life” (Prabhash 2010). The primary focus was to be placed on agriculture and education, followed then by industrialization (Prabhash 2010). Though it was not developed at the time, these are the core targets of the basic needs theory of development. Unable to alter regulations and policy in sectors of industry due to federal limitations, Kerala attempted to promote what change it could through easing tensions between workers and business owners.

The Kerala model, therefore, was designed in an organized fashion, rather than a careless, mob-controlled manner. From the earliest stages, policies were crafted to be “mutually reinforcing,” addressing underlying causes of social issues, rather than attempting to merely alleviate their symptoms (Franke and Chasin 1992). Land reform, among Kerala’s “most thorough and successful” programs, provides an excellent example. These policies were designed to primarily reduce the effects of tenancy and the threat of eviction. These effects are important because they were designed, as with basic needs theory, to break the cyclical poverty which these conditions engendered. A reduction in tenancy reduces the reliance on existing economic elites for shelter and enables initial accumulation of real property. These reforms led to better housing conditions leading to overall improvements in sanitation, making the policies mutually-reinforcing with Kerala’s emphasis on preventative health measures. The reduction in tenancy incentivized the incorporation of former landowners into the growing middle class and state bureaucracy as they sought jobs to replace the income previously obtained through rent. This single policy helped reduce land inequality, carryovers of the caste system, and increase public health (Franke and Chasin 1992). As such, the use of state power by the Keralite government was carefully tailored and cost effective even within the policies themselves. The failure to coordinate economic policy with developmental work is a consequence of the Indian federal system, which prevented economic planning on the part of the states.

Educational goals, in particular, were highly effective and not based on achieving simple literacy, but a four-pronged “functional literacy.” The goals of this approach are based on an ability by the population to read and write; awareness of poverty’s effects; acquisition of functional economic skills; and
recognizes the value of equality, nationalism, and environmental conservation (Chandran 1994, 515). Functional literacy, as implemented by Kerala, was far more than simple reading lessons, but rather the teaching of skills necessary for a citizen to effectively function in a modern economy. Health care policies were no different, operating through principles of efficiency and breadth. The greatest improvements in Kerala were made by investments in preventative measures. Since their inception and to this day, public immunization programs, increased awareness of basic sanitation practices, and improved clean water conditions continue to form the backbone of Kerala’s health policy (Government of Kerala 2013). In a country where diarrheal diseases are the number one cause of child death, public health is more often than not the result of the active promotion of fundamental health and sanitation knowledge rather than a free, comprehensive system of universal medical care (Heitzman and Worden 1996, 16).

Despite the focus on functional literacy and continuing increases in quality of life, the increases in financial literacy failed, until the 1990’s, to produce the macro-level economic gains predicted by development literature. Even after increased rates of growth began, many factors seemed to be worsening. The educated fared the worst in this situation, with young middle class degree-holders waiting upwards of six years before finding a job (Government of India 2008, 99). In 1975, the wait was closer to three years. Job creation in itself was not the issue, as lower sector jobs have grown with the living standards of Kerala. A constant influx of migrants from neighboring Indian states, rather than Keralites, continue to fill these unwanted jobs. Young Keralites, it would seem, refuse to take jobs they see as not producing ample income, due to their already high quality of life. Instead, their needs met, the Keralan system affords them the ability to bide their time until a friend or family member can locate an ideal job. This is the pattern for four-fifths of educated youth who locate employment within Kerala (Government of India 2008, 101). In development literature, this is referred to as overeducation but has been referenced in the context of Kerala as ‘second generation problems’ (George 2011). Unemployment is, therefore, both a social and economic problem, compounded by the constitutional inability of Kerala to coordinate economic policies and the creation of a large body of fiscally literate, and rational economic actors.

Economic growth, healthcare, and education underpin three key ideas in developmental theory for their often mutually reinforcing relationships (Harris 2000, 4). The evolution and efficacy of Indian federalism and public policy can, in many ways, be demonstrated in the experiences of Kerala and the central government in these areas. If Kerala’s successes in its formerly reserved powers of education and healthcare were the result of sound policy rather than culture, the implications of its success would be of great value to basic needs researchers. An analysis may also reveal whether or not the economic pitfalls of the Keralan experience resulted from a lack of policy coordination with social goals to the division of powers. Also relevant in the federal issue is the tendency of the Indian government to favor underprivileged groups. Affirmative action programs are the norm for social policies in India; federal level politics are no different, where de jure asymmetries can potentially hamper the development of a comparatively privileged state.

Central Powers and Unintended Incentives

Though the Indian constitution was ratified in 1949, its current federal structure did not appear until the 1956 States Reorganization Act. This sweeping legislation redrew the boundaries of the states into regions defined by common linguistic traits (Heitzman and Worden 1996, 455). Such organization was a classic application of post-modern federalism, as described by Saxena, as a response to numerous, and deep, ethnic and cultural tensions to promote efficient government across a large territory such as India (2012).
federal system of India, however, also contains heavy elements of a unitary governmental system (Sowani 2012). The enumerated powers reserved for the central government far outnumber those of the states, and it assumes all residual powers as well. The central government, through its existing powers and ease of constitutional amendment, has nearly unlimited ability to interfere with the affairs of states. As a result, as opposed to containing their own identities of statehood, the states of India were designed to act more as secondary levels of administration than placeholders of regional representation (Dholakin 2006, 2).

The Indian constitution split exclusive and shared responsibilities between the national and the constituent levels in such a way that mineral, financial, and international matters were kept for the central government, with the states receiving exclusive responsibility for education, public health, and a limited reservation of taxing rights (Dholakin 2006). India’s constitution, however, is notorious for its ease of change, as has been the government’s willingness to take advantage of it and amend it on numerous occasions. In basic federalist theory, the ability to change a constitution easily is considered negative as it leads to reduced stability (Verney 84, 1995). Unsurprisingly, many of these amendments have altered the distribution of responsibilities between the central and state governments. During the late 1980’s and early 1990’s, the central government began to expand its authority in the development of public health and education (Chandran 1994, 515). Previously reserved for the states, the central government’s increase in its authority was a response to the difficulties individual states, Kerala notwithstanding, had with improving their efficiency of government.

The need for central intervention in basic development policies stems partially from the asymmetrical structures of the federal system, particularly in regard to fiscal matters. The central government retains all of the most lucrative taxing rights, none of which are concurrent, leaving states with only agricultural taxes to support themselves (Sowani 2012). This policy intentionally made the states fiscally weak, in an effort to “stall divisive forces operating in the economy” and prevents states from achieving different stages of development. Unfortunately, the central government was overzealous in its efforts to stall variable growth and limited development overall. As a result, the government succeeded in making its constituent states financially similar only by making them similarly poor. The most profitable tax fields, such as mineral rights and all non-agricultural income, are kept for the central government, increasing its abilities at the expense of regional growth. Consistent with the Indian system’s goal of reducing inequality, this tax structure removes the most beneficial de facto asymmetries from the states.

With no state able to capitalize on its local advantages, deficit spending is and has been the norm by Indian constituent governments, requiring annual payments by the central government to maintain local services. The way in which these payments are structured incentivizes states to invest in areas which will not hamper their ability to receive assistance. As of the 12th Finance Commission, the current central economic plan, these payments are based 62.5% on a state’s income with less than 7.5% determined by the state’s fiscal responsibility (Sowani 2012, 4). As an immediate result, responsible spending is not well incentivized. Neither improvements in education nor the level of healthcare factor into this distribution of funds, meaning improvements in these areas will not decrease federal ‘need.’ With the only taxable local income being agriculture, states have little incentive to promote development of non-agricultural jobs. Such methods of allocation do not incentivize state level governments to focus their already strained budgets and limited influence on increasing income they cannot tax or in areas that may compromise their future payments from the central government via a lesser calculation of ‘need’. This played out in Kerala’s focus on agriculture, an area it could tax for internal revenue. As the majority of Indian states fell behind in development,
the need for greater federal intervention in most states was clear, though such actions met much less success than Kerala managed (Heitzman and Worden 1996, 106).

The setup of the Indian federal system creates a series of incentives which could potentially explain the situation of Kerala. Kerala excelled in the areas of authority, which it either shares with the central government or exercises exclusively, yet faltered in areas where the federal government maintained control. This suggests a competent regional government thwarted by an inefficient federal system. The mismatch between central economic policy and local economic realities is further evidenced by the paradox of having both perennial unemployment as well as constantly unfilled jobs (Government of India 2008, 100). The people of Kerala are the most educated in India; the common decision of the citizens to remain unemployed is not one of an ignorant, irrational public. The jobs available in Kerala are simply unattractive relative to the education of the population, yet the local government remains unable to significantly incentivize the kinds of business most favorable to its unique conditions (Government of India 2008, 101). This mismatch between the job market and prospective employees that the education system continues to generate is a clear example of uncoordinated policy.

Central Planning and Kerala’s Fare

Over the years, the central government made extensive use of its unilateral powers over the national economy. From 1951 onwards, the government attempted to economically develop the nation by means of five year plans (MOSPI 2014, 7.2.1). Shaped by India’s Central Planning Commission, these plans continue to guide the development of national economic policy. The first six plans focused on a modernization theory known as import substitution industrialization (ISI) (George 2011, 12). This is a theory which promotes autarky to develop a self-sufficient industrial base. Across the nation, these plans were ultimately considered problematic as benefits failed to improve the living conditions of the average Indian by the mid 1980’s (MOSPI 2014, 7.3). These plans were not only a failure to most Indians, but were an enormous hindrance to development efforts in Kerala.

Despite its impressive gains in standards of living during the period, Kerala was still among the poorest states in India at the end of the ISI experiment (George 2011, 7). This is directly attributable to the complete mismatch of federal policies to Kerala’s situation. First, the ISI model focused on the expansion of basic and heavy manufacturing jobs (MOSPI 2014, 7.2.6). Kerala had almost no mineral resources to mine and its industrial base accordingly failed to develop in a meaningful way. The investments of the federal government negatively contributed to this relative to other states. While Tamil Nadu and Andhra Pradesh received roughly 7% each of the total industrialization funds, Kerala was granted a mere 2.4%. Second, agriculture, Kerala’s primary industry from natural resources, did not receive subsidies nor trade protection as did manufactured goods. Third, high tariffs and trade restrictions made Kerala’s historically beneficial port capacity more of a liability (George 2011, 12). Fourth, value freezes on the rupee severely reduced the value of remittances after conversion rates (George 2011, 12). As such, during this period where Kerala was able to make most of its gains in standard of living, it was substantially disadvantaged by the economic policies of the federal government.

During the late 1980’s and early 1990’s there was a large shift in the central government’s economic policy (MOSPI 2014, 7.2.5). Though the shift was not tailored to Kerala’s needs, the state significantly benefited from the new policies of liberalization. The combination of Kerala’s basic needs development and the increase in economic activity during this period created rapid growth. The main improvements between the liberalization of the 1990’s and the current period came through the development
of the secondary and tertiary sectors (George 2011, 8). Despite the rise in these industries, Kerala’s largest single form of income remains remittances, accounting for one fifth of the state’s income in the late 2000’s (George 2011, 15). Although this figure represents a proportional drop from the remittances received in the late 1990’s, it is still the largest single source of the state’s income. This massive influx of remittances for a single state accounts for roughly 20% of all remittances going into the country of India as a whole (George 2011, 15). The impact of remittances in Kerala cannot be understated, as they have functioned as a crutch for its overeducated population for decades.

**Remittances as a Response**

For all its successes in contrast to other Indian states, relative benefits provide little comfort to the poorest Keralites, who live with the hard reality of a three to six year employment hunt. While the safety net, supplemented by family contributions, is sufficient to bide time for the upper and middle classes to find the employment citizens in these classes are looking for, lacking the supplemental support lower classes are not afforded as great a domestic opportunity. Living in a region with low demand for educated labor and high supply, Keralites have responded to the international labor market as a solution to high local unemployment. Since the 1970’s, many non-resident Keralites have found consistent work in the nearby Persian Gulf (Kannan and Hari 2002, 7). The remittances sent home by these groups have played no small part in maintaining the quality of life Kerala continues to enjoy, comprising a significant portion of their income. This number reached a high point during the 1997-1998 fiscal year, when they accounted for twenty-four percent of Kerala’s income (Kannan and Hari 2002, 5).

Remittance income has uniquely beneficial effects in Kerala when compared to domestic sources, both individual and national. First, remittances dwarf the receipt of international aid, which is doled out through the central government’s planning commissions, whose distributions impact Kerala far less than the average, undeveloped states which require more need (Ratha 2013). Second, research indicates that remittance money is spent more efficiently than domestic income because it is received on the condition that it is spent on the household as a whole (Barry and Overland 2010, 1083). Since these remittances are sent between individuals within familial networks for altruistic purposes, it is simple for the sending party to discover squandered remittance funds and withhold additional payment. More often than not these funds are disproportionately represented in investments in human capital, such as the healthcare and education of children (Government of India 2008, 32). Third, remittances are known as “counter-cycle financial flows” and actually increase during periods of economic downturn in the home country (Ratha 2013). This effect in particular helps fill the void of a weakened domestic industrial base. Fourth, health standards are also positively reinforced by returning migrants who bring back non-monetary benefits, such as an increased expectation and awareness of first-world sanitation practices (Ratha 2013). These effects of remittances are, luckily for Keralites, mutually reinforcing with existing state policies, filling in crucial gaps in economic development while domestic industries gradually begin to find footing.

The successful integration of remittances into the Kerala model of development is not the universally typical results of these payments. In El Salvador, remittances also play a large part in home finances, so much that remittances have caused the prices of food to rise accordingly essentially necessitating a family member abroad. The spending of remittances in El Salvador is also less efficient, consisting of almost 80% of spending on perishable consumer goods instead of investments in human capital (Gammage 2007). Kerala has managed to avoid this trap of complete remittance dependence through the fiscal literacy of its educated citizenry.
and the availability of basic needs, food foremost among them, at fixed prices (Franke and Chasin 1992). The Kerala State Civil Supplies Corporation, which provides these goods and prices, was unsurprisingly created in 1974, at the beginning of the Kerala Gulf Diaspora, as the growth of the emigration economy is called (Government of Kerala 2014). Where neoliberal economics limited the beneficial impact of remittances in El Salvador, the liberalization of trade policies in India actually increased their potential, allowing a greater flow of currency due to decreased trade barriers (Kannan and Hari 2002, 5). Remittances are thus untaxed, and as a result bring their collective benefits entirely to the home region, rather than being spread across the nation.

Although they can hardly be described as a state policy, the impacts of remittances in Kerala have staved off the potentially negative consequences of its relative lack of economic growth. This effect may not have been planned, but the beneficial effects of remittances aligned well with the strengths and shortcomings of the Kerala system as well as its geographic position. The presence of remittances helps to mitigate the negative effects of ‘brain drain’ in several positive ways, even enabling beneficial capitalization on an otherwise negative phenomenon (Barry and Overland 2010, 1984). The temporary absence of emigrated workers from Kerala reduces the strain on the local system of fixed prices and public resources. These workers finding employment abroad incentivizes continued investment in human capital, even in the presence of a poor domestic job market. Remittance income is ‘free’ in that no local resources are truly foregone in exchange for the income, even in terms of opportunity cost, as highly educated Keralites are willing to wait for high-paying domestic job openings.

Conclusions

Contrary to criticisms that Kerala is paradoxical, its case applies well to existing standard models of basic needs development and federalist theory. Kerala implemented an effective basic needs program without coordination with the central government. While the successes in health and education greatly increased standards of living of Kerala’s citizens, they also created an overeducated population. Due to the state’s inability to alter economic policy in a manner favoring its overeducated population, the citizens resorted to seeking work abroad. Federally, while the economic policies ran counter to the needs of Kerala, its comparatively advanced standards of living and early positive de facto asymmetries made it of little concern to the central government. The negative impact of this situation was increased by the parliamentary federalist nature of the government, which made policy coordination nigh impossible. Had Kerala and India been able to work more closely together to implement policy, both the economic development of Kerala and the humanitarian goals of the Indian government would have been significantly furthered during their first half-century.

Unfortunately for Keralites, as well as other Indian citizens, this lack of symmetry is a product of the Indian federal system working precisely as it was designed to. The asymmetrical and unitary natures of the Indian system are the primary causes of the inability to coordinate, and both are written into its brand of federalism. These two factors hindered the states’ ability to exercise what powers they were granted. There existed an inability to coordinate because the central government had no great interest or responsibility to do so. This is an example of the contradictory nature of India’s federal system. Kerala is therefore neither a failure of basic needs development nor a suggestion that this approach is incompatible with neoliberal market concepts. Instead, the Kerala paradox is a failure of the parliamentary federal system of government.

India is simply far too large and diverse, in both its geography and people, for such a centralized system. The sheer vastness of its domain makes unitary government difficult at best and nigh impossible when
benefited from the relaxed restrictions on foreign sources of income due to neoliberal economic policies, allowing Keralites to even better compensate for the inadequacy of their federal system.

In all, Kerala’s success and struggles are the result of a contradictory federalist system. In attempting to limit regional autonomy the Indian federal system has developed a system that works against the ability of motivated states to better themselves. Meanwhile, its policies of central control have been so ineffective that states under its guidance are far below Kerala’s development levels. The parliamentary federalist approach has thus been largely ineffective. Unable to provide for less developed states, despite making them the targets of the federal asymmetry, nor supplement the achievements of more developed states, the Indian government has effectively worked against its goals of modernization. As a result, the experience of Kerala is not a paradox of developmental theory but a vindication of existing criticisms against parliamentary federalist theory. Had the central government been more open to the basic needs approach of Kerala in terms of policy cooperation, it would have been better able to not only incorporate the needs of Kerala, but to also apply Keralan strategies to other Indian states. Ultimately, despite assertions by modernization theorists that Kerala is a developmental failure, it has been rather successful in spite of its limitations with its people having far higher standards of living than those in other areas of India despite a highly restrictive Indian federal system.
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