

Kerala, 23 January 2021, Susan E. Cozzens

The budget for Kerala for 2021-22 is a bold document, laying out a distinctive pathway towards shared prosperity in a changing global economy. Kerala has long been a model for human-centered development; this document continues that commitment. The foundation of Kerala's social cohesion has been its investment in the health and education of its people. This new stage of development is possible because of that investment.

Nonetheless, the comments on the budget offered in this symposium have raised key questions. Kerala for what? Kerala for whom? Whose knowledge will count? Can Kerala continue to sustain "proactive equality" and build a Knowledge Economy?

These questions are critical because of what we know about the dynamics of inequality in high-technology development. High-technology development produces high-skill, high-wage jobs; this is inherent in its design. Typically, the number of such jobs is small in relation to overall employment. In countries with low general levels of education, most people do not have access to those jobs because they are not prepared for them. Fortunately, that would not be the case in Kerala. The people who hold the high-wage jobs are able to support the service economy around them – laundry, retail, food, transportation services, etc. These are typically low-wage jobs. Thus the high-technology economy adds fewer jobs towards the top of the income scale and more at the bottom; this increases inequality.¹

Inequality is already rising very fast in Kerala. While its human-centric commitments give it among the lowest levels of poverty among Indian states, it has the highest level of inequality. Inequality increased by ten Gini points over the period 1994 to 2005, quite a remarkable increase seldom seen in the world statistics. These Gini numbers are consumption-based; increases in income and wealth inequality are probably even more dramatic.

There are some key elements in the Knowledge Economy strategy for Kerala that will help to protect social cohesion in the face of these income and wealth dynamics. The commitment to preventing a Digital Divide is one. Additionally, and perhaps surprisingly, the expectation that Knowledge Economy work will often be done from home is another, in ways that might not be immediately apparent. When people can do their high-wage jobs on a distributed basis, they will also support local businesses with their spending. Neighborhoods can maintain a mixed-income, mixed-use character. Mixed-income neighborhoods make it easier to maintain high-quality public schools for everyone; high-income families are less likely to flee into private schools and low-income families have access to the education that underpins social mobility. Children from different kinds of households go to school together, know each other, and are more likely to participate as equals in "the democratic project of Kerala." I am sure from everything I have heard today that Kerala does not want to bifurcate.

In building a distinctively Keralan Knowledge Economy, some other lessons from the state's history are important to keep in mind. Local, craft knowledge has long been a font of innovation in Kerala, like the knowledge of farming and fishing. This will not only be important in bottom-up innovation in the

¹ When there are a lot of high-wage jobs, an additional problem emerges: housing prices rise because the high-wage earners can afford them. Low-wage earners, however, can be pushed out of the housing market under these conditions. Hopefully, Kerala is far from this situation.

informal economy of the state, but also needs to be combined with more formal knowledge. Innovation that is suited to a broad range of economic circumstances is generated best when people solve problems using expert and local knowledge together. Kerala's egalitarian social environment should be rich soil for this type of growth.

The massive investment in infrastructure that appears in the budget can also be the site of distinctive innovations. For example, Kerala's water supply is under stress, in ways that other regions are also experiencing. Inventing and implementing ways to address such challenges could be marketed elsewhere by Kerala-based enterprises. Likewise with innovations in energy, health, and transportation that are suited to Kerala's conditions. These can result in products that can be exported to markets that European and American firms do not understand, along with the approach of adapting them locally through local knowledge and experience.

Through all these steps forward in shared innovation and shared prosperity, wealth will accumulate. It is essential to "the democratic project" of Kerala to keep the wealthy in. On the one hand, Kerala's leaders should keep a close watch on tax structures, to make sure that the new wealth that accumulates is shared back into the kinds of investments in people that have made Kerala fertile ground for a Knowledge Society. On the other, leaders need to exhibit the attitudes and mutual respect that will hold the community together.

My best wishes to you in forging this unique way forward.