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Kerala's Second-Generation Development Crisis: Welfare, Fiscal Stress and Productive Transformation within Ecological Limits

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Abstract

Background:

Kerala's new government inherits a second-generation development crisis: high human development without a sufficiently productive, employment-generating and ecologically secure economy. This article argues that the state's remittance-consumption-welfare model has reached its fiscal and structural limits. Using secondary data from the Kerala Economic Review, CAG reports, PRS budget analysis, PLFS, Kerala Migration Survey, and local-government expenditure data, the paper examines the interlinked problems of fiscal stress, educated unemployment, weak agriculture and industry, high cost of governance, remittance dependence, and ecological vulnerability. The analysis is framed through two conceptual lenses: Dutch Disease, to understand how remittance-led consumption may weaken productive sectors, and Doughnut Economics, to argue that Kerala's renewal must protect the social foundation while respecting ecological ceilings. The paper calls for a shift from welfare populism to productive transformation through stronger tax collection, expenditure accountability, targeted welfare, value-chain agriculture, knowledge-intensive industry, responsible tourism, skill-linked migration, care-economy expansion and local governement-

led ecological planning. Welfare must be financed through production and public-value creation, not debt-dependent populism.

Keywords : *Kerala economy; fiscal accountability; productive transformation; educated unemployment; human–wildlife conflict; Doughnut Economics*

1. Introduction

Kerala enters a new political phase with a paradox that has defined the state for decades: high human development without a matching productive economy. The new government inherits not merely an administrative office, but a difficult political economy marked by fiscal stress, educated unemployment, weak agriculture and industry, an ageing population, outward migration, dependence on remittances, and a public expectation of welfare that increasingly exceeds the state's revenue capacity. The challenge before Kerala is therefore not routine governance. It is the deeper task of converting a celebrated social-development model into a sustainable production-and-employment model.

Kerala's problems are different from those of many other Indian states. In large parts of India, the central development challenge continues to be poverty reduction, basic education, health access, infrastructure gaps and agrarian distress in a conventional sense. Kerala's crisis is more complex. It is not a crisis of low literacy, poor health indicators or social backwardness. Rather, it is a second-generation development crisis: an educated society without adequate employment, a welfare-oriented state without sufficient fiscal space, a consumption-driven economy without enough domestic production, and a remittance-supported society without a strong internal engine of growth.

This contradiction is visible across sectors. Agriculture has declined in relative importance and remains constrained by fragmented holdings, high labour costs, low profitability and weak value addition. Industry has not grown enough to absorb Kerala's educated youth, partly because of land constraints, high costs, ecological sensitivity, procedural delays and a long-standing anti-industry perception. The services sector dominates the economy, but much of it is linked to consumption, trade, transport, real estate, tourism, education, health and remittance-induced demand rather than broad-based productive transformation. The Kerala Economic Review 2025 notes the dominance of the services sector in the state's GSDP

structure, while the primary sector contributed only about 8.06% of real GSVA in 2024–25 and agriculture and allied activities only 7.64% (Government of Kerala, 2026).

Kerala also faces a distinctive labour-market contradiction. It produces educated young people, but its economy does not create sufficient high-quality jobs for them. As a result, many young people either migrate, wait for government employment, enter insecure private-sector jobs, or remain outside productive work. This has created a situation where education raises aspirations, but the domestic economy fails to absorb those aspirations. The result is educated unemployment, underemployment, migration pressure and growing frustration among the youth.

The state's fiscal crisis deepens this dilemma. Kerala cannot abandon welfare, because welfare is central to its social achievements and political identity. But welfare becomes fragile when it is not supported by a broad and dynamic productive base. When salaries, pensions, subsidies, interest payments, loss-making public enterprises and routine administrative expenditure consume a large share of public resources, the capacity for productive investment declines. The new government must therefore move from a politics of welfare expansion to a politics of welfare redesign, fiscal discipline and employment-oriented growth.

The central question before Kerala is therefore clear: can the state move beyond a remittance-consumption-welfare model and build a productive, employment-generating and fiscally sustainable economy? This requires a new development compact—one that protects social justice, but also insists on tax efficiency, expenditure accountability, agricultural value addition, industrial renewal, tourism-led employment, skill formation, care-economy development and local-government-led economic planning. Kerala does not need to abandon its model; it needs to complete it.

2. The fiscal question: welfare without productive depth

The most immediate challenge before the new government is fiscal consolidation without social regression. Kerala cannot and should not abandon welfare. Its achievements in health, education, decentralisation and social protection are historically significant. But welfare becomes fiscally fragile when it is not supported by a broad and dynamic productive base.

Kerala's audited 2023–24 accounts show a revenue deficit of Rs.18,140.19 crore (1.58% of GSDP) and a fiscal deficit of Rs.34,258.05 crore (2.99% of GSDP). Kerala's outstanding liabilities were already high, and when off-budget borrowings were included, total liabilities rose to 37.84% of GSDP, exceeding the Kerala Fiscal Responsibility Act ceiling of 33.70% (CAG, 2025a). For 2025–26, PRS estimates the revenue deficit at Rs.27,125 crore (1.9% of GSDP) and the fiscal deficit at Rs.45,039 crore (3.2% of GSDP) (PRS Legislative Research, 2025).

The deeper problem is not the fiscal deficit alone, but the quality of expenditure and borrowing. If borrowing is used to build productive assets, improve infrastructure, raise private investment and enhance employment capacity, debt can be developmental. But if borrowing is increasingly used to finance salaries, pensions, interest payments, routine administration and poorly targeted subsidies, it reduces future fiscal space. The CAG's finding that committed expenditure on salaries, pensions and interest payments reached □92,728.15 crore in 2023–24, while capital expenditure remained only 7.39% to 9.28% of total expenditure during 2019–20 to 2023–24, points to the danger of fiscal rigidity (CAG, 2025a).

This means the new government must move from a politics of entitlement expansion to a politics of fiscal prioritisation. Kerala's welfare promises must be carefully costed, transparently budgeted and linked to measurable social and economic outcomes.

3. Kerala's Dutch disease problem

Kerala's economic structure has long shown features associated with "Dutch disease." The original idea refers to a situation where external income inflows—classically from natural resources—raise domestic consumption, wages and prices, while weakening tradable sectors such as agriculture and manufacturing. In Kerala's case, the external inflow is not oil revenue but remittances, especially from Gulf migration.

Harilal and Joseph (2000) provide an open-economy interpretation of Kerala's stagnation, arguing that the remittance boom contributed to the crisis of commodity-producing sectors through the resource-movement and spending effects associated with Dutch disease. Remittances improved household welfare, housing, education and consumption. But they also contributed to high reservation wages, rising land prices, construction-led growth and

reduced interest in low-return agriculture and labour-intensive manufacturing. Kerala's crisis is therefore not poverty in the conventional sense, but the inability to convert human development and external income into domestic productive capacity.

The Kerala Migration Survey 2023 strengthens this argument: total remittances to Kerala reached Rs.2,16,893 crore in 2023, up from Rs.85,092 crore in 2018, and remittances amounted to 23.2% of NSDP (Rajan, 2024). This reinforces the need to channel remittance wealth into productive investment rather than allowing it to remain mainly consumption- and real-estate-driven.

This is why Kerala has a strange combination: high consumption, high literacy, high social aspiration, high migration, and high educated unemployment. It imports food, labour, construction materials and many manufactured goods, while exporting people. This is not a sustainable long-term model.

4. Educated unemployment: Kerala's most serious social risk

Kerala's unemployment is not primarily a problem of illiteracy or lack of schooling. It is a problem of educated unemployment, skill mismatch and limited high-quality job creation. According to the Periodic Labour Force Survey 2023–24, using the usual-status measure for the 15–29 age group, Kerala's youth unemployment rate was 29.9%, far above the national figure of 10.2%; female youth unemployment was especially high at 47.1%, while male youth unemployment was 19.3% (Ministry of Statistics and Programme Implementation [MoSPI], 2024).

This represents a profound failure of the education–employment transition. Kerala produces educated young people, but its economy does not produce enough suitable jobs for them. Many young people either migrate, wait for government jobs, enter precarious private employment, or remain outside productive work. The problem is sharper for women, because Kerala's education gains have not translated into adequate female labour absorption.

The new government must therefore treat employment as the central organising principle of development policy. Every sectoral policy—industry, agriculture, tourism, health, education, transport, digital economy—must be evaluated by one question: how many decent jobs does it generate, directly and indirectly?

5. Agriculture: from decline to high-value transformation

Kerala cannot return to an old agrarian economy, but it cannot afford to neglect agriculture. Agriculture in Kerala suffers from fragmented holdings, high labour costs, ageing farmers, crop disease, climate vulnerability, weak mechanisation, low profitability and poor value addition. Rice has shrunk in importance, plantations face price volatility, and many farmers survive through mixed livelihood strategies rather than agriculture alone.

The Economic Review 2025 reports that rice constituted only 7.01% of Kerala's total cropped area in 2024–25, while coconut accounted for 30.44%, rubber 21.78% and plantation crops 28.22% (Government of Kerala, 2026). These numbers show that Kerala's agriculture is not merely foodgrain agriculture; it is a plantation, coconut, spice, horticulture, livestock, fisheries and homestead-based economy.

The strategy should therefore be selective, not nostalgic. Kerala should focus on high-value and climate-resilient agriculture: organic spices, coconut-based value chains, rubber-based industries (without affecting ecology), jackfruit and banana processing, medicinal plants, floriculture, aquaculture, dairy, poultry, and urban/peri-urban vegetables. Farmer Producer Organisations, cooperative processing units, cold chains, digital marketing platforms and local-brand certification can improve farmer incomes.

The goal should not be self-sufficiency in everything. It should be income security, food-system resilience and value addition. Kerala's agriculture must move from scattered cultivation to organised value chains. Such a transition also requires reform of agricultural governance itself: public expenditure should be shifted from maintaining excessive establishment structures to strengthening farmer-facing extension, FPOs, cooperatives, value addition, market access and risk reduction.

6. Industry: beyond the old anti-industry image

Kerala's industrial problem is partly structural and partly reputational. The state has high land prices, environmental constraints, high wages, strong unions, dense settlement patterns and a politically active society. These conditions make large land-intensive manufacturing difficult. But Kerala need not imitate Gujarat, Maharashtra or Tamil Nadu. Its industrial future lies in knowledge-intensive, skill-intensive, design-intensive and environmentally compatible sectors.

The appropriate sectors include food processing, marine products, medical devices, Ayurveda and wellness products, electronics assembly, digital services, animation, artificial intelligence services, biotechnology, rubber-based products, coir modernisation, ship repair, logistics, and high-quality MSMEs. Kerala should build industrial clusters around its strengths: Kochi for logistics, marine processing and startups; Thiruvananthapuram for IT, space-linked technology and research; Kozhikode for digital entrepreneurship and trade; Kannur and Kasaragod for agro-processing, handloom and coastal industries; Kottayam and Pathanamthitta for rubber, education and health-linked enterprise.

Unlike Tamil Nadu, which has a deeper manufacturing base to support its fiscal and welfare commitments, Kerala has to build its renewal from a weaker agricultural and industrial foundation, making employment-oriented productive transformation even more urgent.

The state must also reduce procedural delays. A Kerala Investment Facilitation Mission should provide time-bound approvals, dispute resolution, land-pooling mechanisms and district-level industrial facilitation. Environmental regulation must remain strong, but it should be predictable, transparent and technology-enabled.

7. Human–Wildlife Conflict: A Rural Livelihood and Ecological Governance Crisis

A serious issue in Kerala's development debate is the growing human–wildlife conflict, especially in agriculturally important and forest-fringe districts such as Wayanad, Idukki, Palakkad and parts of Pathanamthitta. For many farmers in these regions, agriculture has become increasingly risky not only because of price fluctuations and climate change, but also because of repeated crop destruction by wild elephants, wild boars, monkeys, gaur and other animals. The Kerala State Planning Board has suggested that the issue should be seen not merely as "human–wildlife conflict" but also as an "agroeconomic–wildlife conflict," because crop raids, cattle loss and recurring animal intrusion directly affect farm income, psychological security and the willingness of farmers to continue cultivation; the report also notes that crops such as plantain, coconut, arecanut, coffee, paddy and tubers are commonly affected (Kerala State Planning Board, Agriculture Division, 2022).

This issue has also become a governance challenge. Kerala declared human–animal conflict a "state-specific disaster" in March 2024, and official information placed before Parliament noted that 281 panchayats had been categorised as high human–wildlife conflict-prone areas

(Ministry of Environment, Forest and Climate Change, 2026). This state-specific disaster framing is important because it allows human–wildlife conflict to be treated not merely as a forest-management issue, but as a decentralised disaster-risk, livelihood-protection and local-governance challenge. The seriousness of the problem is reflected in reports that 344 people died in Kerala due to wildlife-related incidents over the past five years, including snakebites and deaths caused by elephants, wild pigs and tigers (The Times of India, 2025). Therefore, this cannot be treated only as a forest department issue. It is a livelihood, public safety, agricultural sustainability and local-governance issue.

The solution must combine ecological sensitivity with farmer protection. Kerala should develop panchayat-level human–wildlife conflict mitigation plans in vulnerable areas, linked to the Doughnut Economics framework: protecting the social foundation of farmers' livelihood and safety while respecting ecological limits and biodiversity. Practical measures should include early-warning systems, well-maintained solar fencing, rapid response teams, crop insurance and prompt compensation, scientific land-use planning, community-based monitoring, removal of invasive species, restoration of forest habitats and promotion of less wildlife-attracting crops in high-risk fringe areas. The Union government's own guidelines recommend hotspot identification, rapid response teams, interdepartmental coordination, quick relief payments and alternate cropping in vulnerable areas (Ministry of Environment, Forest and Climate Change, 2026).

Kerala should not respond through indiscriminate hostility towards wildlife, nor should it ignore the distress of farmers. A humane and scientific model of coexistence is required. If Kerala can integrate local governements, farmers, forest officials, scientists and local communities into a transparent conflict-mitigation framework, it can become a global model for decentralised environmental planning—one that protects both people and nature.

8. Tourism: Kerala's underutilised employment engine

Tourism is one of Kerala's strongest sectors, but it needs a second-generation strategy. The old model—backwaters, beaches, Ayurveda and hill stations—must be expanded into heritage tourism, literary tourism, pilgrimage circuits, responsible tourism, farm tourism, monsoon tourism, medical tourism, coastal cuisine circuits and senior-citizen tourism.

Tourism has one great advantage: it generates employment across skill levels. It creates work for drivers, guides, cooks, homestay owners, artists, farmers, boat operators, health workers, translators, digital marketers and local entrepreneurs. Kerala should connect tourism with local production: every tourist destination should become a market for local food, crafts, performances, farm products and women's enterprises.

However, tourism must be ecologically disciplined. Wayanad, Munnar, Alappuzha, Kumarakom, Fort Kochi and coastal destinations already face pressure. Carrying capacity, waste management, local community participation and climate resilience must become core principles.

9. Environmental limits and the Doughnut Economics lens

Kerala's renewal cannot be framed as growth alone. The state is an ecologically fragile continuum from the Western Ghats to the coastal lowlands, exposed to floods, landslides, coastal erosion, sea-level rise, heat, water stress, waste-management pressures and land-use change. The Kerala State Action Plan on Climate Change 2023–2030 identifies climate vulnerability in agriculture, livestock, coastal fisheries, health, water resources, forests and biodiversity, and calls for coordinated climate action across sectors (Government of Kerala, 2024).

Raworth's Doughnut Economics framework requires development to keep people above a minimum social foundation while ensuring that economic activity does not overshoot ecological ceilings (Raworth, 2017). For Kerala, this means that fiscal recovery, industrial renewal, tourism expansion and infrastructure development must remain within environmental limits. Growth that destroys wetlands, blocks natural drainage, destabilises hill slopes, expands quarrying without safeguards or overloads fragile tourist destinations will only convert today's development into tomorrow's disaster costs.

The new government should therefore introduce mandatory climate-risk, hydrological and biodiversity screening for major infrastructure, tourism, quarrying, hill-area, coastal and urban projects. Local governments should prepare climate budgets, drainage maps, wetland inventories, waste-to-resource systems, disaster-resilient housing plans and eco-restoration projects. The goal is not anti-development; it is safe, just and ecologically bounded development.

10. Higher education and skills: from degrees to capabilities

Kerala's education system has produced literacy, but not enough employability. The state must shift from degree expansion to capability formation. Every university should be linked to local economic clusters. Economics, commerce and management students should work with local governements, MSMEs, cooperatives and startups. Science students should be linked with laboratories, industries and environmental projects. Nursing, health sciences, tourism, logistics, digital skills and elder-care training should be upgraded to global standards.

Kerala's young people are not unemployable; they are under-matched. The state must build finishing schools, apprenticeship systems, paid internships, industry-linked curricula and district skill observatories. Since many Malayali youth will continue to migrate, Kerala should also become a global skill hub, training people for India, the Gulf, Europe, Africa and Southeast Asia. Migration should not be seen as failure; unmanaged migration is the problem. Managed migration with skill certification, worker protection and returnee investment can become a strength.

11. Health, ageing and care economy

Kerala is ageing faster than many Indian states. This is often seen as a burden, but it can also become a new economic sector. The care economy—elder care, home nursing, rehabilitation, palliative care, mental health, physiotherapy, assisted living, geriatric tourism and medical devices—can become a major employment generator.

Kerala already has a reputation in nursing, health care and community health. The government should build a Kerala Care Economy Mission, linking Kudumbashree, local governments, hospitals, nursing institutions, digital health platforms and insurance systems. This will create employment for women, improve elderly dignity and make Kerala a national leader in humane ageing.

12. Fiscal Strategy: Strengthen Tax Collection, Cut Waste, Not Welfare

Kerala's fiscal problem cannot be solved by austerity alone. A blind cut in welfare would damage the social foundation of the Kerala model. The real issue is not whether Kerala should continue welfare, but how welfare should be designed, financed, targeted and audited.

Since the CAG has already flagged Kerala's revenue deficit, high committed expenditure, rising liabilities and off-budget borrowings, the state must distinguish carefully between genuine welfare, untargeted subsidy, salary and pension burden, leakage, loss-making public-sector operations, administrative extravagance and productive investment (CAG, 2025a).

The new government must therefore take tax administration seriously. GST compliance, property tax valuation, motor vehicle taxation, excise revenue, mining and quarrying royalties, tourism-related levies, and arrear recovery must be strengthened through digital monitoring, data matching and stricter enforcement. Revenue mobilisation should not mean harassing ordinary citizens or small traders. It should mean preventing evasion, reducing leakages, recovering arrears and ensuring that those with capacity to pay contribute fairly.

12.1 Need for a White Paper on Public Finance and Accountability

Kerala's new government should publish a comprehensive White Paper on public finance, revenue mobilisation and expenditure accountability within the first year. Such a document should not be framed as a partisan exercise, but as a democratic audit of the state's fiscal position. It should examine tax arrears, revenue leakages, GST compliance gaps, off-budget borrowings, contingent liabilities, public-sector losses, subsidies, consultancy payments, publicity expenditure, administrative extravagance and the quality of capital expenditure. The CAG has already flagged Kerala's widening revenue deficit, high committed expenditure, off-budget borrowings and weak conversion of borrowings into capital assets (CAG, 2025a). PRS has also projected continuing revenue and fiscal deficits for 2025–26 (PRS Legislative Research, 2025). A White Paper would therefore help citizens understand the true fiscal position, identify avoidable waste, improve trust in government, and create a basis for lawful recovery where public money has been misused.

12.2 Reducing the Cost of Governance: From Establishment-Centred to Outcome-Centred Spending

Kerala also needs a serious debate on the rising cost of governance. This should not be misunderstood as an argument for weakening the state. A capable public sector is essential for welfare, regulation, disaster response, decentralisation and social justice. The World Bank's World Development Report 1997 argued that development requires an effective state, but also emphasised that state capability must be matched with functions, accountability and

institutional performance (World Bank, 1997). The issue, therefore, is whether Kerala's expanding administrative apparatus—departments, boards, commissions, missions, public-sector units, ministerial establishments, advisory bodies and multi-tier offices—is producing proportionate public value. International public-administration literature has long warned that bureaucratic systems may tend to expand budgets and organisational size unless disciplined by performance, accountability and citizen outcomes (Niskanen, 1968). Similarly, Hood and Dixon's study of three decades of UK administrative reform cautions that reform claims of "better and cheaper government" must be tested against actual costs, complaints and service outcomes rather than assumed efficiency gains (Hood & Dixon, 2015). At the same time, public services often face rising costs because many government functions are labour-intensive and do not easily achieve productivity gains like manufacturing sectors (Baumol, 1967). Therefore, the answer is not mechanical downsizing, but value-for-money governance. Kerala should construct a long-term "cost of governance" series covering salaries, pensions, administrative overheads, ministerial support systems, boards, commissions, autonomous bodies and local-government administration, and compare this with measurable outcomes in agriculture, employment, public health, education, service delivery and citizen welfare. The CAG's finding that committed expenditure on salaries, pensions and interest payments reached Rs.92,728.15 crore in 2023–24, while capital expenditure remained only 7.39% to 9.28% of total expenditure during 2019–20 to 2023–24, points to the danger of fiscal rigidity (CAG, 2025a). Kerala needs a leaner, digitally enabled and outcome-audited state that spends less on maintaining administrative structures and more on producing citizen-level benefits.

Agriculture provides a concrete illustration of the need for cost-of-governance reform. Narayana's comparative analysis of Kerala, Karnataka and Telangana shows that Kerala has a relatively large administrative apparatus in agriculture despite having a much smaller cultivated area. Using 2019–20 Staff Appendix data, he found that Kerala reported 7,903 employees in the Agriculture Department, compared with 7,775 in Karnataka and 6,292 in Telangana, even though Karnataka and Telangana have much larger cropped areas (Narayana, 2022). More strikingly, one Agriculture Department employee in Kerala attended to only 141 hectares, compared with 778 hectares in Telangana and 1,425 hectares in Karnataka. Narayana also points out that about 57% of Kerala's gross cropped area is under plantation tree crops, many of which are supported by commodity boards and central directorates, raising questions about the functional load of the state Agriculture Department

(Narayana, 2022). This does not mean that agricultural institutions should be dismantled. Rather, establishment expenditure must be evaluated against farmer-level outcomes such as productivity, price realisation, value addition, crop diversification, risk reduction, human–wildlife conflict mitigation and income security. Kerala must move from department-centred spending to farmer-centred, value-chain-oriented and outcome-audited public expenditure.

Narayana's findings also raise a deeper question of administrative rationalisation in a decentralised state. Kerala's decentralisation has transferred substantial functions, funds and functionaries to local governments, but the principle of subsidiarity requires that state-level line departments should correspondingly become leaner and more strategic. Instead, Narayana finds that Kerala had 86% more government employees per lakh population than Karnataka and about 25% more than Telangana, while the Agriculture Department retained a high proportion of clerical, driver, mechanic and support staff categories (Narayana, 2022). The policy implication is not crude retrenchment, but redeployment, digitisation, performance audit and outcome-based staffing. A decentralised Kerala cannot afford both strong local governements and unreformed line departments performing overlapping functions.

Following such a White Paper and cost-of-governance review, expenditure discipline must become a permanent principle of governance. Kerala cannot afford wasteful administrative expenditure, excessive publicity spending, avoidable official extravagance, poorly monitored consultancies, unnecessary foreign travel, or politically driven expenditure that does not create public value. Where past expenditure is found to be irregular, unlawful, personally motivated or in violation of financial rules, accountability and recovery proceedings should follow strictly through due process. This is important not as political revenge, but as fiscal accountability. Public money belongs to the people, and misuse of public money must carry consequences.

The proposed free travel scheme for women in KSRTC buses illustrates the broader dilemma. Affordable mobility for women can improve access to education, employment, health care and public life, but a blanket free-travel scheme in Kerala may not be fiscally wise unless it is transparently costed, directly compensated and integrated with wider transport reform. Unlike some other states where extreme poverty and low female mobility may justify wider universal subsidies, Kerala requires a more targeted approach. A scheme introduced without

proper costing, budgetary compensation, route rationalisation and institutional reform may deepen the financial crisis of KSRTC and add to the state's fiscal burden (The New Indian Express, 2026).

This does not mean that Kerala should reject women's mobility support. Rather, it should avoid converting KSRTC into another fiscally exhausted welfare channel. A better approach would be targeted travel support for students, women workers, caregivers, low-income women, job-seekers and other vulnerable groups. Such support should be backed by direct budgetary compensation to KSRTC, proper passenger data, transparent accounting, fleet modernisation and coordination with private bus operators. Welfare without institutional design becomes populism; welfare with targeting, financing and system reform becomes social investment.

The fiscal strategy should therefore include six measures. First, introduce outcome budgeting for all major welfare schemes. Second, strengthen tax collection and arrear recovery without burdening the poor. Third, reduce wasteful administrative expenditure and subject past discretionary spending to independent audit. Fourth, restructure loss-making public-sector undertakings through professional management and transparent subsidy accounting. Fifth, widen own revenue through better property valuation, tourism levies, user charges for higher-income groups, digital tax administration and non-tax revenue from public assets. Sixth, shift borrowing increasingly towards capital expenditure rather than routine consumption expenditure.

Kerala's citizens are politically mature. If the government honestly explains the fiscal situation and links discipline to better employment, improved public services and protection of the truly vulnerable, there can be public acceptance. The goal should not be to cut welfare, but to redesign welfare so that it remains financially sustainable, socially just and administratively accountable.

13. A Ten-Point Strategy for Kerala's Renewal

The new government should adopt a ten-point renewal programme that moves Kerala from a remittance-supported, welfare-dependent economy to a productive, employment-oriented and fiscally responsible economy.

Kerala's decentralised planning must now be strengthened not only by devolving funds, but also by improving the capacity of panchayats and municipalities to spend allotted funds fully, on time and with measurable outcomes. The Local Self Government Department's plan dashboard for 2025–26, accessed in May 2026, shows an outlay of Rs. 8,452.48 crore and expenditure of Rs.5,586.70 crore, or 66.10 per cent, while the CAG reported that during 2022–23 Rs.1,274.63 crore, or 15.35 per cent, lapsed in Panchayat Raj Institutions and Rs.384.98 crore, or 17.54 per cent, lapsed in Urban Local Governments (CAG, 2025b; Local Self Government Department, 2026). This points to an absorption-capacity problem as much as a resource problem. Kerala should now make panchayat/municipality planning explicitly Doughnut-based: every local plan should secure a social foundation—housing, water, sanitation, care, livelihoods and gender safety—while respecting ecological ceilings such as wetlands, watersheds, coastal zones, biodiversity, waste limits and climate resilience (Raworth, 2017). If local plans combine participatory budgeting, green asset registers, ward-level social and ecological audits and climate budgeting, Kerala can create a new world model in decentralised environmental planning.

i. Employment-first governance: Make decent job creation the central performance indicator of every department, scheme and public investment.

ii. Fiscal responsibility with social justice: Cost every election promise, avoid unfunded populism, strengthen tax collection, reduce arrears and protect only well-designed welfare.

iii. White Paper, cost-of-governance audit and expenditure accountability: Publish a White Paper on public finance, revenue mobilisation, leakages and administrative expenditure; construct a time-series estimate of Kerala's cost of governance; reduce avoidable establishment costs; and recover unlawful spending through due process.

iv. Targeted welfare, not blanket subsidies: Replace universal or politically attractive subsidies with targeted support for students, women workers, caregivers, low-income households, the elderly and other vulnerable groups.

v. Agriculture as value-chain enterprise, food security and ecological protection: Revive Kerala's agriculture by moving from scattered cultivation to organised value chains in coconut, rubber, spices, fisheries, dairy, vegetables, jackfruit, banana and food

processing. This should be supported by Farmer Producer Organisations, cooperatives, Kudumbashree-linked enterprises, local brands, cold chains, agro-processing units and digital marketing platforms. At the same time, human–wildlife conflict in Wayanad, Idukki and other vulnerable districts must be addressed through local government-level mitigation plans, rapid compensation, scientific fencing, crop insurance, habitat restoration and Doughnut-based ecological planning.

vi. Industry and infrastructure within ecological limits: Promote knowledge-intensive and MSME-led industries, but subject major projects to climate-risk, hydrological and biodiversity screening.

vii. Tourism 2.0: Link tourism with local production, culture, cuisine, Ayurveda, responsible ecology, homestays, pilgrimage circuits and women-led enterprises, while respecting carrying capacity.

viii. Skill–migration compact: Train Kerala's youth for local, national and global labour markets, while converting return migration into entrepreneurship, investment and innovation.

ix. Care economy mission: Convert Kerala's ageing population into a new employment opportunity through elder care, home nursing, palliative care, rehabilitation, mental health and assisted-living services.

x. Public-sector and Doughnut-based local-government reform: Restructure loss-making public-sector units, including KSRTC, with professional management and transparent subsidy accounting, while empowering panchayats and municipalities to lead outcome-oriented, climate-sensitive and ecologically responsible local economic planning.

14. Conclusion

Kerala does not need to abandon its model. It needs to complete it. The first phase of the Kerala model gave people education, health, dignity and political voice. The second phase must give them productive employment, entrepreneurial opportunity, fiscal sustainability and ecological security.

The danger before the new government is to mistake electoral victory for economic permission. Populist promises may bring short-term legitimacy, but without productive revival they will deepen fiscal stress. Kerala cannot survive permanently as a remittance-consumption-welfare economy. It must become a knowledge-production-care-tourism-agro-processing economy.

The real task is not to reduce welfare, but to finance welfare through production. Not to reject migration, but to convert migration into skills, investment and returnee enterprise. Not to romanticise agriculture, but to make it profitable. Not to chase heavy industry blindly, but to build industries compatible with Kerala's land, labour and ecology.

Kerala's new government will be judged not by the number of promises it fulfils in the first hundred days, but by whether it can create a new development compact: welfare with productivity, social justice with fiscal realism, human development with employment, and growth within ecological limits. In Doughnut Economics terms, Kerala must remain above the social foundation without breaching its ecological ceiling. That is the hard economics of Kerala's renewal.

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