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The Impact of Collective Action on Economic Development: Empirical Evidence from Kerala, India

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Summary. — Public participation is generally assumed to be a necessary if not fundamental condition for development. Most studies do not, however, question the kind and level of collective action that would be desirable. This paper provides a novel empirical analysis of the impact of collective action on economic development using data for South India. The paper models collective action as endogenous to economic development and distinguishes between its static and dynamic properties. The results show that while excessive activism may harm state income, collective action in the context of responsible bargaining systems may contribute toward increased economic development.

Key words — collective action, economic development, time series, panel data, Kerala, India

1. INTRODUCTION

Collective action is typically understood as a concerted effort by individuals or groups to attain certain objectives (see Tarrow, 2003). This is the view adopted in public economics (see Esping-Andersen, 1990; Olson, 1971), work on the action of labor unions (see Freeman & Medoff, 1984), interest group theories (Buchanan & Tullock, 1962), research on common resource management (see Meinzen-Dick & Di Gregorio, 2004), work on collective violence (e.g., McAdam, 1982; Tilly, 1993, 2003), theories of democracy formation (e.g., Przeworski, 1985) and recent research on public action if there is development (Drèze & Sen, 1991). In particular, the participation of the poor in the process of development is viewed by many as an essential element of successful development strategies (Ahmad, Drèze, Hills, & Sen, 1991; Drèze, Sen, & Hussain, 1995; World Bank, 2001). Participation in social and political decisions provides individuals with a sense of value and identity and is an important means to voice the needs of vulnerable population groups. However, the development literature rarely asks what type or what level of participation is desirable, and very little work exists that establishes empirically the impact of public participation and collective action on economic development. [1] In particular, there is an absence of empirical evidence on whether that impact is direct or whether it depends on specific transmission mechanisms,

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what the static and dynamic properties of those mechanisms are and whether collective actions act as an external shock to the economy or are endogenous to the process of economic development. This paper addresses these gaps in the literature using empirical evidence from South India. The paper compares and contrasts two concrete forms of collective action (industrial strikes and politically motivated riots) used as forms of public activism to exert political pressure. The paper revisits the "development model" of the south Indian state of Kerala and asks whether and how collective actions affect the development of poor economies.

The choice of Kerala as a case study was motivated by the unique characteristics of its development strategy, where thanks to the actions of organized public demands, high levels of social development coexist with very low incomes. This paper builds on the large literature on Kerala's "development model" (Franke & Chasin, 1992; Gulati, 1990; Heller, 2000; Kannan, 1995; Oommen, 1993; Pillai, 1994; Ramachandran, 1997). In addition, the paper contributes to the literature on the impact of collective action and participation on development (e.g., Ahmad *et al.*, 1991; Meinzen-Dick & Di Gregorio, 2004; World Bank, 2001), by providing a rigorous empirical analysis of important endogenous, dynamic characteristics of collective action.

Public participation and collective action are likely to be influenced by the process of economic development of each given society. At the same time, forms of collective action will affect the way governments respond to population demands which, in turn, will impact on the type of development policies implemented (see Esping-Andersen, 1990; Olson, 1971; Przeworski, 1985; Tarrow, 2003; Tilly, 2003). We have empirically tested this endogeneity assumption for Kerala and India with positive results. We also distinguish between static and dynamic impacts of collective action. Depending on their intensity, some forms of collective action may have immediate negative or positive effects on the economy. Immediate negative effects include, for instance, the destruction of private or public property, increases in economic uncertainty and in the risk of private investment (Alesina & Perotti, 1996). Immediate positive effects can take place when governments respond to population demands by conceding social subsidies to the poor as a form of pursuing electoral advantages (see Esping-Andersen, 1990). These effects may change with time. Initial negative effects may, in the long term, lead to increases in aggregate national income if collective actions result in considerable economic gains for a significant number of disadvantaged individuals (Esping-Andersen, 1990; Gurr, 1970; Tilly, 1993). Similarly, immediate positive effects can be offset in the long term if forms of collective action cause excessive turmoil and persistent high levels of socio-economic instability (see Freeman & Medoff, 1984). We found evidence for divergence between static and dynamic effects of collective action in Kerala and India.

The paper is organized as follows. Section 2 briefly reviews the main characteristics of Kerala's development process over the last three decades. Section 3 discusses the role and evolution of organized collective movements in Kerala and their impact on state income since the early 1970s. In Section 4, we analyze empirically the relationship between collective action and Kerala's economic development, using time-series analysis techniques. This empirical analysis is based on state-level data on various types of organized collective actions discussed in Section 2. Collective action is modeled as endogenous to the process of economic growth in Kerala and the endogeneity assumption is explicitly tested. In Section 5, the results for Kerala are compared with those for a panel of 14 major Indian states. The results of this comparative analysis provide important insights into the relationship between collective action and economic development in poor economies. They suggest that in the presence of well functioning and responsible bargaining systems, some forms of collective action may have an important endogenous role to play in the reduction of poverty and the promotion of economic growth. Section 6 summarizes the evidence and concludes the paper.

2. KERALA'S "MODEL OF DEVELOPMENT"

The state of Kerala, in South India, has occupied an eminent position in the development debate since the early 1970s due to its singular development strategy. Unlike most developing economies, Kerala's policy makers followed a