

Wealth Inequality and Financialisation in a Finance Regulated Economy:

The Case of Kerala, India.

C.R.Yadu and B. Satheesha

Most of the recent studies on inequality examine the issue in the context of raging financialisation across the globe. It is widely believed that the unbridled financialisation of the economies has resulted in an upward redistribution of income. However, what will be the nature of inequality under a regime where finance is strictly regulated? This question has rarely been asked in the literature. India with its more or less tight regulation of financial market would be an apt case for such a study. This article is an attempt to understand this question in the spatially specific context of Kerala, the Indian state which has the highest recorded income inequality in the country.

At an intuitive level, inequality in Kerala, over years, might have assumed a ‘U’ shaped transformation. Broadly speaking, there are three phases to the historical evolution of inequality in Kerala. This ‘U’ shape of inequality transformation was brought about by the specific socio-historic and political factors which the state has confronted. In the pre-land reform Kerala, asset ownership was purely determined by the caste system with higher castes having high asset ownership and lower caste being denied of it. This traditional period of high wealth inequality was effectively challenged by the land reform programme which the state had implemented in 1970s. Land reform, along with other social welfare measures, ushered in an era where inequality is significantly reduced. The third phase of inequality in the state starts from the early 1990’s which simultaneously coincide with the neo-liberal economic reforms at the national level and the increasing surge of remittance flows at the state level. This study mainly examines the third stage of inequality in the state in the post 1990’s, based on the available secondary data sources.

This paper is based on All India Debt and Investment Survey (AIDIS) which is a decennial survey carried out by National Sample Survey Office (NSSO). AIDIS gives all India level data on value of assets and incidence of indebtedness of households which can be disaggregated at the state level. The study uses AIDIS 48th (1991-92) and 70th (2013) rounds for analyzing inter-

household wealth distribution. The data is generated by a stratified two stage sampling methodology devised by NSSO. The analytical strategy of the paper is exploratory analysis of AIDIS data pertaining to the state of Kerala. For measuring inter-household inequality in wealth distribution, the study uses alternative measures of inequality rather than entirely depending upon the relative Gini coefficient.

The analysis show that wealth inequality in Kerala stands very high and it has recorded a significant rise post the 1990's. It is a clear case of a 'winner takes it all' situation whereby the privileged class and caste groups in the society has pocketed a significant part of the incremental wealth in the state leaving no perceptible gain for the historically deprived groups. As in the case of other countries, the channel through which inequality has increased is though 'financialisation'. However, this is financialisation of an altogether different kind, viz, 'financialisation of land'.

The mechanics of financialisation of land and rising wealth inequality in the state can be attributed the same factors which triggered high growth rate in the state, viz, neo-liberal reforms and inflow of remittances. The flow of remittances, which accounts for almost 30 per cent of State Domestic Product, is seen to be primarily getting invested in real estate activities which has ultimately resulted in a 'real estate boom'. The argument is that, lacking avenues of investment in the productive sectors of the economy, the remittance income gets channeled towards the land market which in turn fuels the real estate. The investment of remittances in the land market has led to the shooting up in land prices like never before (Joseph and Harilal, 2003). Land has increasingly become a speculative asset and the latest evidences reveal increasing land market activities in the state with its boom and bust cycles (Roy 2013). As far as the impact of neo-liberal economic reforms are concerned, financialisation of land happens by way of dispossessing and indebting the petty producers and traders. The 'dispossessed' sections, lacking gainful employment opportunities in other sectors, take up the role of sellers in the already bouyant land market developed out of the remittance boom. The sale of the small parcels of land which these people own may be either 'distress driven' or 'opportunity driven'. Some may sell their land to pay off debts. Others may sell their land seeing the high value it fetches. In any case, the speculative land market seemed an opportunity for both these sections to gain some economic mobility. The availability of more land for sale would have again fuelled the land

market and the richest sections would have found no time to buy of these lands on sale. This again leads to more financialisation.

The remarkable feature of the wealth inequality in the state is the role of landed wealth. The concentration of wealth in the hands of the richest is associated by an increase in the share of land in their asset portfolio and the decline in the share of the poorest class. Financialisation of land is the channel through which neo-liberalism and remittance inflows affected the wealth distribution in the state. The pertinent question that emerges from the analysis is the social composition of the poorest who do not own asset to any significant level. Which are the classes and castes who are getting pauperized by this process is an important question. Though, this study gives some indications towards this, more investigation needs to be done. However, unless 'redistribution' is brought back on the agenda, the current regime of accumulation will spell doom for Kerala's economically and socially marginalized. Apart from Piketty's (2014) suggestion for a global wealth tax, we would like to highlight the need for a second set of land reforms in Kerala, filling the gaps of the land reform of 1970. The need of the hour is a realization at the policy making level to bring about such a radical reform.