

Of service to the State: Bengal should prioritise high-skill services, sidestep constraints that make manufacturing difficult

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Synopsis

West Bengal's new budget prioritizes job creation, but the path through manufacturing faces significant hurdles like fragmented land and infrastructure challenges. Experts suggest a services-led growth strategy, leveraging the state's skilled workforce and diaspora. This approach, focusing on connectivity and supportive regulation, can build a non-farm economy, eventually making industrialization more viable by offering alternatives to land ownership.



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Building up an appetite

London/New York: Last week's West Bengal budget, the new BJP government's first, puts industrial revival back at the centre of the state's economic debate. The priority is clear: generating productive employment. The disagreement is about how to get there. A common assumption is that the route runs through manufacturing. Global trends, and conditions specific to India and to Bengal, make it worth asking whether that is the right path to lead with.

Globally, manufacturing is no longer a job-creating engine it once was. It has grown skill- and capital-intensive. Even where it succeeds, it creates far fewer jobs than it did for earlier industrialisers. India has felt this directly. Organised manufacturing has largely been stagnant, and where it has expanded, it did so with rising capital intensity, and output growth has not reliably translated into jobs.

India's recent growth has, instead, been strikingly services-heavy. Services now make up about 55% of GVA and around 30% of employment, and the sector has grown at roughly 8% a year over the past decade. States that have grown fastest over the past decade and a half - Karnataka and Telangana - have leaned on services, not factories.

Beyond global forces, Bengal has reasons of its own to be cautious about leading with manufacturing - and the failed Tata car project at Singur made them visible. Its land is among the most fragmented in India, making a contiguous industrial plot costly and contested to assemble from hundreds of smallholdings.

The same fragmentation slows the infrastructure a factory economy needs. Laying a road, like assembling a site, means negotiating with dozens of owners, and the state's road density is among the country's lowest. This also feeds the land and tenancy disputes, which contribute to Bengal's courts being among the most congested in India.

Smallholders resist selling because they have nowhere else to go, and no way to turn a cash payment into a productive alternative life. That exit barrier was, ironically, raised by the state's own agricultural success. Land reform made staying viable and leaving costly, and put a brake on the next transition. This is a structural constraint that runs deeper than any single government's choices.

The right response is to let these structural constraints guide the choice of strategy, rather than the hammer-and-tongs approach that sank the Singur initiative.

While Bengal is capital-poor and land-constrained, it is skill-rich. This is the reverse of the usual development problem, where skill, along with capital, is one of the scarcest resources. The Bengali diaspora is heavily concentrated in high-skill services worldwide: medicine, technology, finance and academia. It reflects a long investment in educational institutions that still carry reputational weight. The talent pipeline still exists, but it drains out of the state rather than flourishing within it, and schools that once fed it are visibly weakening.

High-skill services can utilise this advantage and sidestep some of the constraints that make manufacturing difficult. They are land-light. A software or biotech campus, or a hospital, needs a fraction of the land a petrochemical plant or car factory does. So, the holdout problem becomes manageable. They lean less on heavy infrastructure than on reliable power and fast internet. This is not second best. It is an industrial strategy that acknowledges the baseline conditions, rather than conjuring them away by force.

However, skill-intensive services - software, finance, business processing - employ a thin sliver of the highly educated, and absorb little of the large labour force. A Kolkata version of a Bengaluru campus, by itself, would do little for construction workers now leaving for Kerala. The answer lies in the linkages a cluster sets off.

Its direct production linkages may be weak. But its consumption linkages are not. A concentration of middle-class incomes pulls in labour-absorbing services - retail, transport, care, construction - that employ workers across the skill ladder. India's own experience supports this. Much of its recent growth has come less from the celebrated IT and outsourcing sectors than from rising productivity in everyday consumer services produced for local markets.

A strategy built on skills must also rebuild the institutions that produce them. And, here, services and education reinforce each other in a way manufacturing and education do not. Service clusters need skilled workers. Skilling needs functioning universities. Universities need functioning schools. The strategy, thus, generates its own demand for the institutional repair the sector needs.

Data on private tuition illustrates the size of the gap. Around 86% of Bengal's middle-school students take private coaching - nearly 3x the national average - and household spending on it is the highest among major states, even as government-school enrolment remains high. That is educational ambition compensating for what public schools have failed to deliver.

What does this ask of the state? Targeted investment in connectivity - broadband, reliable power, better roads, airport and transport capacity - is the essential public input, and it is within reach even under fiscal stress because it is far cheaper than the heavy infrastructure manufacturing demands.

The policy signal must be clear: make it genuinely easy to start and run firms in IT, analytics, finance, design, healthcare, higher education and research. Regulation must treat enterprise as a partner rather than a source of extraction - a matter of political will, not budget. The hardest requirements are institutional: merit-based appointments in universities and schools.

This is the long-run case, and it answers the question Singur posed. Bengal need not choose between protecting its smallholders and enabling its growth. In the right order, one creates conditions for the other. The goal - a modern economy that employs its people - has not changed. What has changed is the route.

A services-led phase lowers that exit barrier from the other side, building the non-farm economy that gives people somewhere to go. In time, that is also what could bring the industrial bus back to the stop. Manufacturing becomes feasible not because the constraints were forced open, but because growth in services let people leave the land by choice.

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