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The budget test for BJP: Institutional change that Bengal needs to marshal

A new government inherits constraints but also an opportunity for a fresh start — to spend on capacity rather than consumption, and to repair the state's own institutions

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Budgets are an exercise in arithmetic about what is possible with limited resources but also contain a vision of where the economy should be headed.

This tension is palpable in the new Bengal finance minister's statements about the upcoming budget: its goal of pulling the state out of its fiscal crisis by raising money through central funds, effective scheme utilisation, the sale of idle public land, cheaper debt refinancing, and projects to attract private capital.

He referred to the Marshall Plan, the American aid that rebuilt western Europe after World War II. The analogy is apt but not in the way intended. As a percentage of the GDP of the recipient countries, the Marshall Plan funds averaged only about 2.5 per cent of the national incomes of these countries over the period it was in effect. Its impact came not through obvious channels — investment, imports, infrastructure — but through resolving a political deadlock.

Post-war Europe was trapped in a war of attrition among competing interest groups, each refusing to bear the costs of stabilisation. American aid helped grease the wheels and restart the economic engine but only where market institutions, property rights and entrepreneurial capacity were already in place.

The parallel raises a question: not whether outside resources will flow in, but whether Bengal can break the internal deadlock that has prevented it from using existing resources. The diagnosis is predictable: curb extortion and corruption, unlock land, draw in capital, revive industry, invest in infrastructure and skills.

But what about the underlying issues? Even if budgetary constraints are relaxed by a huge injection of resources, would they be effective or could there be a leaky bucket problem?

Bengal's share of national output has fallen steadily; in per capita real terms its people now earn about 20 per cent less than the typical Indian, and its per-capita income rank among the larger states has slipped.

The signs are visible in the labour market: Bengal's workers earn less than the national average across every employment category and a growing number has responded by leaving the state.

Research on unorganised sector migrants shows that Bengali workers are disproportionately concentrated in construction and capital goods manufacturing at their destinations.

In Kerala, which has a high share of Bengali migrant workers, nearly 70 per cent are in construction, drawn by wages roughly double what the same work pays at home.

The picture is more nuanced with consumption and poverty: rural living standards have held up relatively well, partly because agricultural growth kept food prices low, and rural poverty has generally been lower than the national average. But the same rural cushion helps explain why structural transformation has felt less urgent — even as living standards in urban Bengal stagnated.

The reasons for this are worth exploring. Land, labour, capital and enterprise are interlocked factors of production. Without land that can be assembled, large-scale manufacturing cannot take place; without manufacturing, workers leaving agriculture have nowhere productive to go.

The young men who might have staffed a factory floor instead become the enforcers, the collectors, the foot soldiers of the extortion economy. They are not villains by nature; they are workers whom the productive economy failed to claim. Their presence makes the environment less hospitable to capital, which makes enterprise less viable, which keeps wages low and workers on the margins.

The land constraint illustrates how the interlocking works. When Tata Motors abandoned its Singur Nano plant in 2008, the dominant narrative was political: a populist agitation had driven away investment. But Singur also made visible a deeper structural contradiction — one in the making for decades, which no government was able to resolve.

In fieldwork carried out shortly after Tata's departure, my co-authors and I found something counterintuitive: those most reluctant to accept compensation were not the wealthiest landowners but households whose livelihoods depended most heavily on the land to be acquired.

Land is not merely an income-generating asset — given the lack of non-agricultural employment, it is an insurance policy, a pension plan, and the basis of the only productive activity they know. Cash cannot easily substitute for that.

Underlying the political mobilisation at Singur was the economic insecurity of smallholders for whom selling land meant stepping into an economic void.

Why was that void so deep? The Left Front redistributed land under ceiling laws and registered sharecroppers under Operation Barga, giving them formal security of tenure on land they cultivated but did not own.

Research confirms that the productivity gains from these reforms were real and improved rural living standards. But these reforms also deepened the fragmentation of land in a densely populated state where the fraction of land owned by small and marginal farmers is among the highest in the country.

Land tenancy added legal complications to the already difficult task of assembling fragmented plots, necessary for building a factory. Recent research confirms the broader mechanism: across India, plants in land-intensive industries grow more slowly where land is more fragmented. Given how fragmented Bengal's landholdings are, it is precisely where this brake would press hardest.

The success of land reform had, ironically, made the next stage of development more difficult. With land unavailable for industry, capital stayed away, and workers had nowhere to go but the migration corridor or the informal sector. When an economy cannot offer enough jobs, survival spills onto the pavement. Eviction of hawkers seems an easy way out, but as with past attempts, it is unlikely to succeed — it merely suppresses a symptom.

Weak industrialisation has obvious implications for the state's finances. More than half of the state government's revenue comes from the Centre. Bengal's own tax revenue as a share of GSDP is actually one of the lowest among major states.

The consequence shows up across every fiscal indicator. Outstanding liabilities, interest payments as a fraction of the state's own tax revenue, and the dominance of revenue over capital expenditure place Bengal among the most stressed major states.

Bengal is among the worst performers on capital expenditure — the kind that builds durable assets — and the long pattern of under-investment shows in its infrastructure. It ranks among the poorest major states on per capita electricity availability, a gap that has widened over the last decade, and road density is among the lowest in the country.

Social infrastructure tells the same story — the state has among the fewest doctors at rural primary health centres and hospitals per capita of any major state. Where the state does spend,

the question is whether it is effective. Education shows why how the money is spent matters more than how much is allocated. The picture is more mixed than the spending alone suggests. Bengal's children do reasonably well in the early grades — on reading and basic arithmetic they are at or above the national average — but the advantage fades by the upper grades, where performance in mathematics slips below average.

This middling outcome is despite the heaviest reliance on private coaching in the country: NSS data show Bengal leads every major state, with around 86 per cent of middle school students enrolled, nearly three times the national average, and the highest household spending on coaching. The coaching props up what the schools do not deliver.

The scandal over school appointments makes the point sharply: when posts are filled by connection rather than merit, no increase in funding can undo an undeserving selection.

Bengal's revival faces several binding constraints, but at least a few are within the state's own control: a tax base it has never made the political effort to build, relying on central transfers and informal extraction rather than taxing existing activity, and public institutions that have been allowed to decay.

The question for this budget is not how much is allocated to education, but whether the state is willing to restore the integrity of the institutions through which money flows. These structural problems will not be cured by a better alignment with the Centre.

A new government inherits constraints but also an opportunity for a fresh start — to spend on capacity rather than consumption, and to repair the state's own institutions.

The question this budget must answer is whether Bengal will rebuild the institutions that would make its own Marshall Plan worth having.

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