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West Bengal from an External Perspective

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West Bengal : A Fractured Growth Narrative

- **At Independence West Bengal & Kolkata a destination of choice for both Indian and foreign investment**
 - Centre of the erstwhile British empire, ultimate jewel in the crown
 - Seen as a major economic growth pole by the world at large and rest of India
 - A major port with vast hinterland, hub of domestic and international trade
 - A major industrial State based on mining, steel, engineering, textiles, especially jute & other industries

West Bengal : A Fractured Narrative

- **Multiple Shocks Followed**

- Shift of political power to Delhi, a process started in 1911
- Economic policies that hurt eastern India, including West Bengal, e.g., freight equalization policy
- Violent and divisive politics from late sixties onwards, pitting labour against capital in a perceived zero-sum game.

- **Culminated in Capital flight from 1970s onward**

- 'Sudden stop' of capital inflow
- Out flow of existing capital
- Shift of trade and industry out of West Bengal

- **State yet to recover after 40 years**

- Can the fractured growth narrative be restored?

Macroeconomic Profile

- **Population of over 91 million, 7.5% of 1.2 billion Indians**
- **Accounts for about 6.5% of GDP, implying per capita income slightly below all India average**
- **Per capita GSDP of Rs. 55,222 at current prices in 2011-12 compared to all India average of Rs. 61564**
 - At constant 2004-05 prices per capita GSDP of Rs. 38,166 in 2011-12 compared to all India average of Rs. 38,037
- **Trend real growth rate of 6.8% during 2004-05 to 2011-12 compared to all India average of 8.3%**
- **West Bengal per capita income below average and falling further behind relative to all India**

Well Being

- **Income poverty incidence (Tendulkar method) declined from 27% in 2009-10 to about 20% in 2011-12**
 - Slightly better than all India average of 22%
 - 8th poorest State out of 17 General Category States
- **Infant Mortality rank 6th among General Category States**
 - WB: 32 All India: 44
- **Maternal Mortality rank 6th among General Category States**
 - WB: 145 All India: 212
- **Literacy rank 6th among General Category States**
 - WB: 76.3% All India: 73%
- **West Bengal below average in per capita income and growth, but above average social indicators; relative advantage in human development**

Economic Structure

● Agriculture and Allied Activities

- GSDP share fell from 24% in 2004-05 to 17% in 2012-13
- Largest rice producing State in 2012-13 with 14% of total production
- Foodgrain yield 2711 kg/hectare, higher than national average of 2125 kg/hectare
- Recently sharp productivity increase in pulses production
- Cropping intensity rising, 180% in 2011-12
- Many prize varieties of fruits, vegetables and fish (carp, prawn) originate in West Bengal
- **Relative advantage in segments of agriculture & allied activities**

Economic Structure

● Industry

- GSDP share fell from 22% in 2004-05 to 19% in 2012-13, atypical of most States
- Sector dominated by micro, small and medium enterprises
- State has 2nd largest number of enterprises at 37 lakh units, employing 86 lakh persons (4th all India MSME census)
- Average employment per unit less than 3 persons
- Large stock of industrial workers employed in low wage, low productivity MSME units in unorganised sectors.

● Services

- GSDP share has risen further from 54% in 2004-05 to 64% in 2012-13
- As in industry, sector dominated by low wage, low productivity enterprises apart from public services
- Like agriculture, industry and services also appear to be absorbing surplus labour in disguised unemployment.

The Fiscal Road Block

- **One of few States that failed to achieve FRBM target of 3% GSDP fiscal deficit by 2007-08**
 - 13th FC set a modified and easier road map for West Bengal to reach 3% fiscal deficit only by 2013-14
 - Not clear whether even this target will be achieved?
- **One of only a few General Category States with a revenue deficit**
 - West Bengal had largest revenue deficit at 1.6% of GSDP in 2011-12
 - How did this come about?
- **Revenue Side: Own tax revenue lowest among General Category States**
 - Own tax revenue only 4.6% of GSDP, as against all India average of 7% in 2011-12
 - Own non-tax revenue adds only another 0.25% of GSDP
 - Heavily dependant on Central transfers (tax devolution, grants) that now exceed 55% of total revenue
 - Some additional revenue mobilization effort in last two years

The Fiscal Road Block

- **Expenditure Side: Severe squeeze on capital expenditure**
 - Share of interest payment reduced from over 31% in 2004-05 to 22% in 2011-12
 - Made possible by reduction in debt:GSDP ratio from 50% to 38%
 - Despite this consolidation effort committed expenditure (interest+salary+pension) still accounts for 58% of revenue expenditure
 - **Revenue expenditure exceeds 95% of total expenditure**
- **Capital expenditure less than 5% of total expenditure up to 2011-12**
 - Of this capital outlay only 3.6% of total expenditure
 - **This amounts to only 0.5% of GSDP, typically remains below 1%**
 - Some effort to raise this in last two years.

Restoring the robust growth narrative

- **Can West Bengal again become the destination of choice for local and foreign investment?**
- **Leverage inherent strengths of West Bengal to attract investments**
- **Geography: The advantage of location**
 - Kolkata no longer a great port, several superior deep water ports along eastern coast for large ships & tankers
 - But closest air and land access to Nepal, Bhutan, Bangla Desh
 - Also easy air access to Kunming, Yangon, Bangkok
 - **India's gateway to the East**
- **Comparative advantage in agriculture, horticulture and aquaculture**
 - Already doing well in rice and pulses
 - Can exploit prize varieties of fruits, vegetables and fish

Restoring the robust growth narrative

- **Ironically West Bengal's low per capita income a major advantage**
 - Large repository of low cost labour
 - Large labour migration to other States
 - However, skills and productivity low in preponderant MSME units
- **Leveraging this resource requires two pronged strategy**
 - Large investment in skill development to create low cost, high skill workforce
 - Massive investment to eliminate West Bengal's large infrastructure deficit relative to leading States
- **This is where the fiscal road block bites**
 - Private investment a fair whether friend, will only come after infrastructure deficit is removed
 - Public investment key, but where is the money?

ADB & West Bengal

- **ADB now a reliable partner**

- Since 2000 it has now invested over US \$ 1 billion in West Bengal
- Largest external provider of concessional assistance to the State

- **ADB loans focused on key bottlenecks**

- Kolkata urban infrastructure addressed through multiple loans, mostly for water supply, sanitation, sewerage & related housing for the poor
- Roads: West Bengal Corridor Development
- Fiscal Consolidation: Released final tranche of US\$ 400 million loan
- Latter most important: A reform loan designed to help West Bengal strengthen its own finances

- **Apart from money, these loan projects embody best practices in terms of systems and procedures as well as technology**

- Reliable partners notwithstanding, West Bengal must primarily leverage its own financing efforts and initiatives

- **Massive public investment in infrastructure and skill development will attract private investment, restore the growth narrative**

Thank You