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Industrialising West Bengal?: The case of institutional stickiness

Despite the pursuit of similar industrial policies during the post 1990s, Indian states have revealed divergent outcomes in industrial growth. Such divergence suggests different levels of policy implementation which is itself a resultant of the interplay of formal and informal institutions, historically shaped. We try to explain this divergence in the context of the evolution of state-business relations in West Bengal (WB), a coastal state in Eastern India, and unique among Indian states not only by virtue of being ruled by an uninterrupted Leftist regime for the last thirty-two years¹, but also by having witnessed a turnaround of sorts in its outlook towards private capital within this period. We narrow down to the last thirty years thus, and concentrate on the manufacturing sector alone.

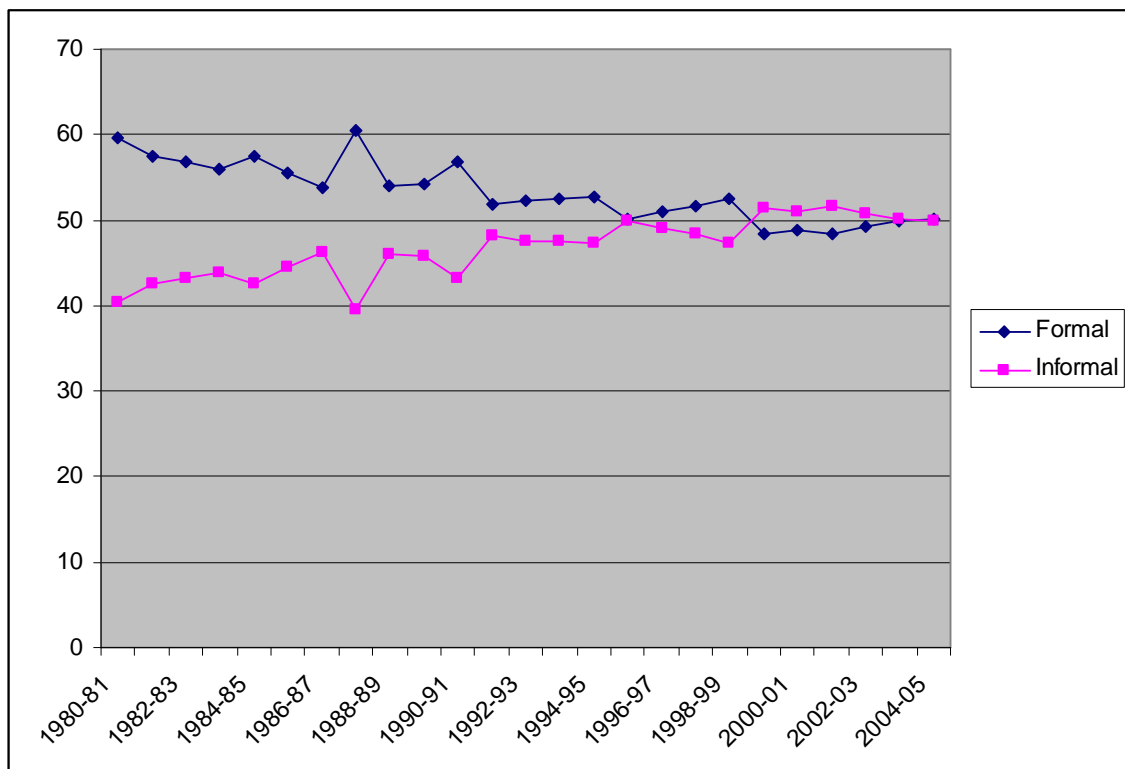
Though industrially advanced at independence, two sets of central government policies - freight equalisation for coal and steel and emphasis on import-substitution- dealt a heavy blow to Bengal's industry. This was aggravated by the confrontationist strategy on part of the state -followed since the beginning of Congress rule and carried on by the Left Front Government (LFG) - which prevented it from lobbying pragmatically to obtain licenses and industrial investment. Further deterrents emerged in the form of a radical trade unionism backed by leftist intellectual support, and central government disinvestment in the infrastructure sector in the mid-1960s, which badly hit WB's engineering industry and precipitated large-scale unemployment in formal²

¹ 1977 till date.

² The formal manufacturing sector broadly comprises of the public sector and the incorporated private sector. All remaining manufacturing activities fall in the informal territory. While in a typically developing economy, the informal manufacturing provides employment to the majority, and contributes significantly to the output of this sector, no government regulations are applicable to these activities. Hence, 'informal' sector as against the 'formal' manufacturing generally refers to the unregulated economic activities characterised by low level of organisation and typically low rates of wage.

manufacturing in the state. WB's manufacturing firms tended to get locked in a low productivity- low wage segment of the spectrum of products dominated by the small firms largely in the informal sector. Consequently, informal manufacturing in the state emerged as an important sector.

The percentage share of the formal and informal manufacturing³ in WB (at 1993-94 prices)



Source: National Accounts Statistics (NAS), WB

The expansion of informal manufacturing continued unabated during Left rule since 1977 mainly for two reasons. First, implementation of agrarian reforms followed by decentralisation helped generate effective demand for non-agricultural goods produced mainly in the village manufacturing units in the informal sector. Second, as a result of prolonged neglect of basic infrastructure, large units gradually decelerated and the skilled workers employed therein opened shops in the neighbourhood, carrying on

³ NAS represents data in terms of 'registered and unregistered' sectors more or less with the same meaning as 'formal and informal' sectors.

businesses either subcontracted - from medium and some large industries - or independently, fuelling further growth of the informal sector.

During the end of 1980s as a result of the decline in the traditional industries such as jute, cotton and engineering in WB, workers in large numbers were losing jobs. Alternative job prospects were bleak as no new industrial initiatives were emerging in the formal sector. Consequently, it was argued that the trade unions lost their strength; the number of strikes declined, the number of lockouts increased. At this juncture the already-liberalising Indian economy took a more specific turn towards dismantling of the License Raj and opening up to the world market in a significant way. The ruling party and the government of WB could see the positive implications of these changes for buttressing the cause of industrialisation in the state. This thinking was reinforced by the LFG's realisation of its increasing alienation from the urban voters, faced with growing unemployment. Under these circumstances the chambers of Commerce could convince the LFG to take up the cause of industrialisation.

The resultant industrial policy of 1994-95, the first for WB, professed to make WB a worthy destination for industrial investment by improving infrastructure and simplifying regulatory processes. Despite this, and an apparently tamed workforce, not much improvement took place in the performance of formal manufacturing in recent years. Simultaneously one notices the continued importance of the informal sector, even to the extent of its domination over the formal sector lately. This domination of the informal sector, in relation to output is indeed unique to WB.

In exploring the somewhat contradictory behaviour between policy and performance, our research shows that the physical infrastructure is still wanting particularly in the domains of power, water and, ports. In a densely-populated, highly fertile agrarian state like WB there is no clear and consistent thinking about a land bank to facilitate industry, which has momentous implications for the future of industrialisation in the state. While the regulatory regime has been simplified to a great extent on paper, in practice its secret presence at lower levels of the bureaucracy frustrates the emergence of a benign relationship between state and business. In fact regulation hazards turned out to be a major reason behind small firms desiring to operate from the informal sector. Further, infrastructural inadequacy, particularly power shortage, is

a major reason leading large-scale units not to expand their capacity but farm out to the informal sector.

Political interference continues to retard development of infrastructure in WB as efforts at such upgradation are thwarted by infighting within and among political parties, patronising vested interests and seeking to ensure contracts for their own clients. Besides, the entire domain of policy-making and implementation has become complicated. Previously, the businesses had to negotiate with the government and vice versa. Presently, the businesses have to negotiate with the government, the party and also with the Opposition. The omnipresent phenomenon of the institution of 'party' seems to have encroached upon administrative spheres increasingly often paralysing administration and incapacitating it for action. The increasing tension between formal governance and informal party control is affecting the credibility of the government.

Turning to the other dimension of the problem, our research prompts us to strongly suspect the apparently docile character of organised labour and their unions. In the guise of cooperative behaviour, organised labour in the state is showing an extreme path dependency arising out of uncertainty in the prospect of future gains. True, the '*gherao*' culture, which terrorised managers in the sixties and seventies, is no longer in evidence. Management in many firms confirm that militancy in the bargaining process reduced significantly as the patronage from the state leadership in favour of pressure tactics is now unavailable. However, the unions still bargain quite adamantly for higher wages, although not insistent on filling up vacancies or making the contract workers⁴ permanent. Till the abolition of the licensing policies, the state and the ruling party were indifferent to the ground realities of industrial relations and improving work ethic at the shop floor. But in the changed scenario, the senior trade union leaders are seeking to improve the work ethic among permanent workers of the manufacturing units. But the management feel that the permanent workers have got habituated not to work and work only on 'overtime' payment, which in Bengal, virtually means extra payment without extra hours of work. While senior leaders at the state level ask cadres and unit-level leaders to cooperate with the management at the shop floor, the workers resist passively. The management inform about the tremendous increase of

⁴ Contract labourers are not employed on a permanent basis and therefore do not come under labour laws of the formal sector. These labourers are sometimes employed through a contractor for a specific job for a stipulated time period. Alternatively, they can be employed directly, may not be even for a stipulated period, paid on a daily basis and doing all sorts of unskilled manual jobs; they are also called 'casuals'. The wage rate for contract workers is significantly lower than that of unskilled permanent workers.

absenteeism among permanent workers in recent years. Can the permanent workers, accustomed to wages without work, start working sincerely at the instance of the party whip? Nowadays the management seldom have to encounter a written charter of demands; what they have to face is some kind of continuous indirect pressure, which is a serious deterrent to new investment in the state.

Consequently management is weary of technology-intensive investments that can lead to human asset specificity and in turn costly haggling. We detect an implicit understanding between entrepreneurs, organised labour and their unions. It seems that the state has also played a passive role in this regard. This particular outcome has serious implications for the perpetuating informalisation in the state. This is all the more due to easy availability of unorganised cheap labour and an old practice of farming out production to the small units in the state. Management informalise production in more than one way by employing contract workers and farming out production. Trade unions also recognise the fact that to retain power in a situation of decline, informalisation to an extent is beneficial. On the one hand, they have succeeded in achieving higher wages even in the absence of corresponding productivity gains for a small group of insiders (permanent workers); on the other, they have been able to develop a typical patron-client relationship with the contract workers.

Clearly the right institutions for creating a more enabling environment for organised industry do not seem to exist in the state. Not only do they not exist, but also their growth or emergence is frustrated by an overarching institution –the multi-layered party- which seems to widen its domain increasingly. While large firms do seem to confirm certain changes in operation, which may give the impression of WB being an investor-friendly destination, these changes are neither sufficient (because vital problems like inadequacy of infrastructure and absence of work ethic remain) nor pervasive (relatively small and medium scale firms feel discriminated against and unable to cope with bureaucratic hurdles).

But the question remains that, given the Stalinist character of the ruling party in the state and its mass organs (trade union in this case), why a strong party whip could not implement the policy changes as it did with regard to land reform and decentralisation during the early years of the LFG?

Having been in power for so long the ruling party or its mass organs are no longer monolithic. There thus exists a multi-layered power structure in the state where each local unit of the party wields enormous power over the local people through 'management of illegalities' on the one hand and promotion of 'clientelism' on the other. The party has encroached upon every sphere thwarting smooth transactions. Even if the top leadership wants the cadres to change their behaviour, unless the cadres see the prospect of immediate gains, it is unlikely for them to behave in a 'non-sticky' fashion. Furthermore, when the LFG implemented its earlier programmes of land reforms and decentralisation, howsoever successfully, the power structure within the party had not got fractured. The leadership at the top is at present not as united as it was during the earlier policy-implementation years. Intra-party and inter-party differences are surfacing increasingly and eroding both the strength of the government and the people's perception about the government's seriousness and ability to execute its own decisions. This is in contrast to China where not only is there no opposition, but also where there is unified party control over policy making. It is unlikely that the party cadres in WB would fail to note these dissensions and not use them to their advantage.

While the obvious policy implications are improvement in infrastructure, reduction of regulatory hazards, creation of land bank and improvement of work ethic, one understands that none of these is possible if the nature of the existing institutions does not change. It is essential to alter the outlook of the ruling party and the coalition and also of the opposition. It is not desirable that the soft liners within the party try to initiate change for facilitating industrial investments in the state by any means: giving incentives which amounts to illegalities with harmful implications for the poor. This strategy will alienate, as it did, the state from its people whose support is essential to take a major step forward in the direction of industrialisation. The state should try to minimise the political interference in administrative matters and let the administrative institutions work independently.

Finally, the state should pay attention towards improving the quality of labour through improvement of the education base in general, particularly technical education. In these regards, the state has failed miserably. This will help reduce the dependence on the age-old more-skilled permanent workers, and create a suitable alternative in the form of a pool of skilled workers for whom wage can be tied to productivity. But in

order for all this to happen, it is imperative to have immense political will, which can hardly be taken for granted.

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IPPG: The IPPG Programme is the shorthand name for the inter-disciplinary Research Programme Consortium on Improving Institutions for Pro-Poor Growth. The DFID-funded IPPG supports innovative scholarly research, and seeks to influence development policy and practice that contributes to the UN Millennium Development Goals (MDGs). IPPG Programme partners are based in South Asia, Sub-Saharan Africa and Latin America. IPPG funds research projects across all these regions.

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