Industrialising West Bengal? : The case of institutional stickiness

Deepita Chakravarty & Indranil Bose

Discussion Paper Series
Thirty Two
November 2009

IPPG Discussion Papers
available at
www.ippg.org.uk

IPPG Programme Office, IDPM, School of Environment & Development
University of Manchester, Arthur Lewis Building, 2.023, Oxford Road
Manchester M13 9PL; Telephone 0161 306 6438; ippg@manchester.ac.uk
www.ippg.org.uk

Paper prepared for the DFID-funded Research Programme, Institutions and Pro-Poor Growth (IPPG). The authors are grateful to DFID for the funding that made this research possible. The views expressed in this paper are entirely those of the author and in no way represent either the official policy of DFID or the policy of any other part of the UK Government.

CONTENTS

ABSRACT

While there is a clear policy shift towards large-scale industrialisation in the state of West Bengal (WB) during the early 1990s, not much improvement can be discerned in the performance of the manufacturing output. Moreover, contrary to the Indian experience, more than half of the manufacturing output is still produced by small initiatives in the unorganised sector. We argue that it is the peculiarity of institutional behaviour that determines the policy outcomes in the state. The rigidities in the political as well as the economic institutions in the state are prompting us to look at WB as a classic case of "institutional stickiness" leading to "path dependency". Clearly the right institutions for creating a more enabling environment for industry do not seem to exist. Not only do they not exist, but also their growth or emergence is frustrated by an overarching institution – 'the party' which seems to keep encroaching upon every sphere. All this results in a veritable decline of organised manufacturing alongside a corresponding growth of the unorganised sector in the state. Apart from secondary sources this paper is based on information collected from some selected stakeholders: business associations, firms, trade unions and bureaucrats.

1 INTRODUCTION

That the rates of growth across Indian states started diverging more in the 1990s over the 1980s is accepted even by the sympathisers of the reform. The highest rates of industrial growth were observed in the states of Andhra Pradesh and Gujrat which grew at more than 10 percent per annum. In contrast, Indian states of Assam, Orissa, Madhya Pradesh and WB grew at 3 percent or less per annum. However, despite increasing convergence of the industrial policies of all the Indian states since the early 1990s (Kohli, 2004), their performances have been rather divergent. This paper tries to address this question in the context of WB, unique among Indian states not only by virtue of being ruled by an uninterrupted Leftist regime for the last thirty-two years[1], but also by having witnessed a turnaround of sorts in its outlook towards private capital within this period. In understanding state-business relations in WB, we are therefore focusing primarily on the last thirty years. We concentrate on the manufacturing sector alone which was the primary focus of the liberalisation reform in India since the 1980s (Sen, 2009).

The divergences in policy performance suggest differential levels of policy implementation. However, the success of policy implementation does not depend only on the political will of the state. The structure of the economy determined by the existing institutions often turns out to be crucial in deciding levels of implementation of a new policy (Munro, 1995, Rodrich et al, 2003). These institutions are, in turn, determined by the specific historical processes of a particular economy.

In this paper while we incorporate some ideas from the transaction-cost paradigm to explain the behaviour of different agents of production, we trace the evolution of state-business relations mainly in the light of historical institutionalism. This approach, as Leftwich (2009) indicates, treats human beings as non-neutral agents who will not respond automatically or immediately to changes in the incentive structures: people are everywhere embedded deeply in long-standing cultural, social and political institutional patterns. It may be relevant to mention what Herbert Simon (1951) reminds us: workers are not passive agents of production as assumed by neo-classical economic analysis.

We therefore look at the institutional aspects, both formal and informal. Our findings suggest that it is the peculiarity of institutional behaviour that determines the policy

[1] 1977 till date

outcomes in WB. The rigidities in political as well as economic institutions in the state are prompting us to look at WB as a classic case of "institutional stickiness" leading to "path dependency" and resulting in the decline of organised[2] manufacturing alongside a corresponding proliferation of small-scale activities in the unorganised sector of the state.

We follow a descriptive analytic style to present our findings supplemented by quantitative information as and when required. The strength of the paper lies in the pragmatic way it relates some empirical findings to the relevant theoretical ideas. The paper is organised in five sections. Section 2 deals with the issues of policy and performance. This section helps us in identifying the research questions which we deal with on the basis of primary data. Sections three and four present the findings of the paper and section five concludes.

The paper is based on both secondary and primary data. The secondary data sources used are the following: Annual Survey of Industries, Population Census, National Accounts Statistics and National Sample Survey. These secondary sources apart, we have collected primary information from different stake holders of the process such as the business associations, bureaucrats, trade unions of different affiliations and business firms. We have followed a purposive sampling procedure for selecting the respondents in different categories. While in the case of other respondents we had to largely depend on their availability, for the firm survey we could follow a relatively more structured sample frame (see A1 for elucidation on sampling methodology). The primary survey has been conducted mainly in two phases: during December –January, 2008 and during March-April-May, 2009.

2 POLICY AND PERFORMANCE: MANUFACTURING SECTOR OF WB IN THE CONTEXT OF A MORE LIBERAL ECONOMIC REGIME

At the time of Independence, WB, industrially advanced at that time, inherited mainly export-oriented old processing industries most of which had been controlled by the British before the Second World War. In the 1930s most of these industries had gone through a recession, and net investment by the firms controlling them had slowed down or disappeared altogether. After the war, along with Independence came the dislocations of

[2] The 'organised' sector broadly comprises of the public sector and the incorporated private sector of the economy. All remaining economic activities fall in the unorganised territory. While in a typically developing economy, the unorganised sector provides employment to the majority and contributes significantly to the output, no governmental regulations are applicable to this sector. Hence, 'unorganised' sector, as against 'organized', generally refers to the unregulated economic activities (Harris-White et al, 2007). As is usual in the literature, we have also used the words 'organized' and 'formal' interchangeably and in contrast to the 'unorganised' or 'informal' sector.

Partition that severely affected the trade links between East and West Bengal. As a result, the most important industries in this region, jute and tea, were badly hit. Another important difficulty that cropped up for Bengal industry during this period was associated with the transfer of ownership from British hands to not-so-competent native entrepreneurs. This was not the case in the other important industrial belt of Bombay during this time (Bagchi,1972) .

In Bombay, textile industry was mainly inward-looking and managed mostly under indigenous entrepreneurship, which was conspicuous by its absence in Bengal. In Bengal the regional social and political elite, far removed from productive activities in both agricultural and urban sectors, were transplanted into the urban radicalised milieu of Bengal after acquiring western education, access to governmental professions and middle-class status (Sinha, 2005). These elite remained at the forefront of a modern cultural renaissance and nationalist fervor in Bengal and the seeds of leftism found in them their most fertile soil. Such ideas contributed towards shaping particular political institutions like trade unions in a certain way that turned out to be significant for the development of industry in the state.

After Independence, problems of Bengal large-scale industry were aggravated by two sets of central government policies: freight equalisation for coal and steel, and the overwhelming emphasis on import substitution which completely overlooked the problems faced by the jute industry, a highly labour-intensive one in Bengal (Bagchi, 1998). Apart from these direct consequences of the policy changes on the manufacturing sector of Bengal which resulted in industrial decline in the state, there were a few strategic lapses also on part of the state leadership.

An antipathy between Bengal and Delhi is noticeable from the beginning. Kohli (2009) observes that the traditional ambivalence of the Bengali bhadrolok towards Gandhi manifested itself as a belief that Congress and Delhi did not have Bengal's interest at heart, a belief that was reinforced by a sense of regional nationalism. This ethos of distrust and suspicion towards the centre led to a confrontationist strategy on part of the state and prevented it from lobbying pragmatically to obtain licenses and industrial investment. Although spurred by a different ideology and routed differently, this confrontationist strategy continued with the Left Front Government (LFG) contributing to the drastic decline in the number of new licenses for big business (Sinha, 2005).

Along with these, a radical trade unionism backed by leftist intellectual support, mentioned earlier, brought in a militant frictional atmosphere in the industrial arena of Bengal which scared away new private investment to a significant extent. Moreover, by the mid-1960s consequent to central government disinvestment[3] in the infrastructure sector, WB engineering industry, which had developed an increasing dependence on the railways was also badly hit. This created large-scale unemployment in the organised manufacturing in the state (Raychoudhuri et al, 2007). In this context, WB 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 unorganised sector. Large-scale entrepreneurs started farming out production to the small scale units in general and unorganised sector in particular. Thus they could avoid the militant trade unionism while simultaneously grabbing the incentives enjoyed by the small firms (Banerjee et al., 1999; Bagchi, 1982; 1998). Consequently unorganised manufacturing in the state emerged as an important sector.

2.1 The question of policy during the LF regime

Against this backdrop of industrial decline, the LFG comes to power in 1977. To begin with the LFG took up the important agrarian reforms programme already initiated by the Congress. Subsequently, backed by Panchayat Raj Act of 1973, it introduced significant decentralisation measures in rural areas. These programmes did improve rural income and helped generate effective demand for non-agricultural goods produced mainly in the village manufacturing units in the unorganised sector (Human development Report, 2004) reinforcing the increasing importance of unorganised manufacturing in the state. While all this was happening, large-scale organised manufacturing was nearly reaching stagnation.

To boost industrialisation, the LFG claimed to have given top priority to electricity generation and infrastructure development. State initiatives regarding power generation and petrochemicals did not meet with the cooperation desired from the center. In fact, the LFG

[3] This had happened as a consequence of Indo-Pakistan war and droughts in the mid sixties (Alhuwalia, 1985).

alleges that it took the central government seven years to sanction the thermal power station at Bakreswar. Given the requirement of Central endorsement in setting up large and medium-scale industries, the government had no option but to look up to the Centre (TOSB,2006). But it is interesting to note that states with ruling political parties other than Congress could lobby successfully to get things done more easily than WB (Sinha, 2005). Moreover, ideologically it was difficult for the CPIM- led LFG to show a great commitment towards big industry, especially private capital. As a result of prolonged neglect of basic infrastructure, large units gradually decelerated and the skilled workers employed therein opened shops in the neighborhood, carrying on businesses either subcontracted - from medium and some large industries – or independently (Duttachoudhuri, 1995). According to veteran trade unionists of both Howrah and Durgapur region a large number of these small units were operating from the unorganised sector. This resulted in poor quality, bad after sales service and untimely delivery, thwarting the competitiveness of local industry and its growth. Between 1984 and 2001, industrial capital investment in WB increased only fourfold, while it grew more than seven times for the rest of India (TOSB, 2006).

During the end of the 1980s, as a result of the decline in traditional industries such as jute, cotton and engineering in the state workers in large numbers were losing jobs. Alternative job prospects were bleak as no new industrial initiatives were coming up in the organised sector for reasons mentioned above. It has been argued that consequently, the working class became vulnerable in the hands of the industrialists; trade unions agreed to terms of settlements in the 80s which in the past would have been unthinkable (Dasgupta, 1998). The significant decline in the number of strikes since the left government assumed office and the spectacular rise in the number of lockouts, when all the states show a decline in both, do give support to the vulnerability hypothesis. There was another serious implication of this decline in industry in the state. The LFG was getting increasingly alienated from the urban population. The continuous defeat in the urban areas especially in Kolkata made it clear that the government is getting alienated from the urban middle class particularly the unemployed educated youth aspiring for industrial jobs (Chakraborty, 2008).

In this context the already liberalising Indian economy took a more specific turn towards an altered macro-economic regime involving dismantling of the license Raj and opening up of the Indian economy to the world market in a significant way. Initially, these more market-oriented changes were viewed skeptically by the LFG as being largely dictated by the IMF and the World Bank (TOSB, 2006). But soon the liberal line of the ruling party and the state could see the positive implications of the abolition of licenses on the one hand and removal of the Freight Equalisation policy on the other for industrial development in the state. This line of positive thinking was reinforced by the LFG's realisation of its increasing alienation from the urban voters.

During this time the Chambers of Commerce thus succeeded in drawing the LFG's attention to the changed scenario and in convincing its top-line that there was actually no alternative to industrialisation. Earlier it was commonplace for Union Ministers of Commerce to take business delegations to foreign countries for wooing investment. State governments in different parts of India were now seen to take such initiatives, and even compete for attracting both foreign and Indian investors. It needs to be mentioned here that the then CM, Jyoti Basu, in fact, in several public speeches talked about the necessity of industrialisation in the state since the inception of the LFG.

The government's seriousness in promoting industrialisation was noticeable towards the last phase of LF rule under Jyoti Basu. This change of stance manifested in an Industrial Policy, the first by any Government of WB, on 23rd.September, 1994, which proclaimed: 'The Government of WB has formulated a liberal and investor-friendly industrial policy to change the industrial scenario in the state. The WB Government's own proposals for an alternative economic policy call for a statement of policy by the Government of WB on the vital issues of industrial development, rehabilitation of sick units and generation of employment opportunities and protection of the legitimate interests of labour.' 1994-95 therefore emerges as a critical juncture in the evolution of State-Business relations in WB.

The salient features of the Industrial Policy of 1994-95 suggest the altered role envisaged by the state government: (a) Welcoming foreign technology and investment, as may be appropriate or mutually advantageous. (b) While not undermining the roles of the Government and the Public Sector in ensuring social justice and balanced growth, it highlights the key role of the private sector in providing accelerated growth. In the context of the changes in the policies of the Government of India, the need for meeting the increased demand for power and the constraints on the budgetary resources, the State Government would also welcome private sector investment in power generation. (c) Along with the Public and Private sectors, the State Government looks upon the joint and assisted sectors as effective instruments for mobilising necessary resources and expertise in important areas of economic activity. (d) Improvement and up-gradation of industrial infrastructure is indispensable for accelerated growth of industries. (e) Other areas are improvement in roads, communications and development of Growth Centres. These programmes would require massive investments in projects for the development of industrial infrastructure through the Government or through the private and joint sectors, wherever feasible.

In keeping with this pro-industrialisation drive, the LFG appointed Somnath Chatterjee, the main leader in Parliament, as Chairman of the WB Industrial Development Corporation (WBIDC) to look after business interests in the state. Indeed, officials and politicians focused on changing the reputation of the LF by signaling its seriousness in pursuing reforms. Having long dismissed the mainstream press as 'bourgeois', Chatterjee began courting the media, giving numerous interviews in which he argued explicitly that the credibility problem required WB to undertake larger and stronger reforms (Sinha, 2005:83). However, an overnight change in the mind-set could not be taken for granted. An ex- Executive Director of the WBIDC recalls: when we went and informed the Chairman about the profit of WBIDC, his immediate reaction was – 'does this befit a governmental organisation?'

To prop up the industrialisation-drive, the LFG organised a Conference in 1999 on 'Destination WB' where the McKenzie Advisory Council made a presentation on the competitive advantages and potentials for industrialisation in WB. Certain sectors were particularly highlighted: infrastructure, petrochemicals, ancillary industries, agro-based industries. Further, to attract and facilitate investment, simplification of procedures, reduction of regulations and red-tape were also contemplated: the single-window-system was envisaged as a necessary first step.

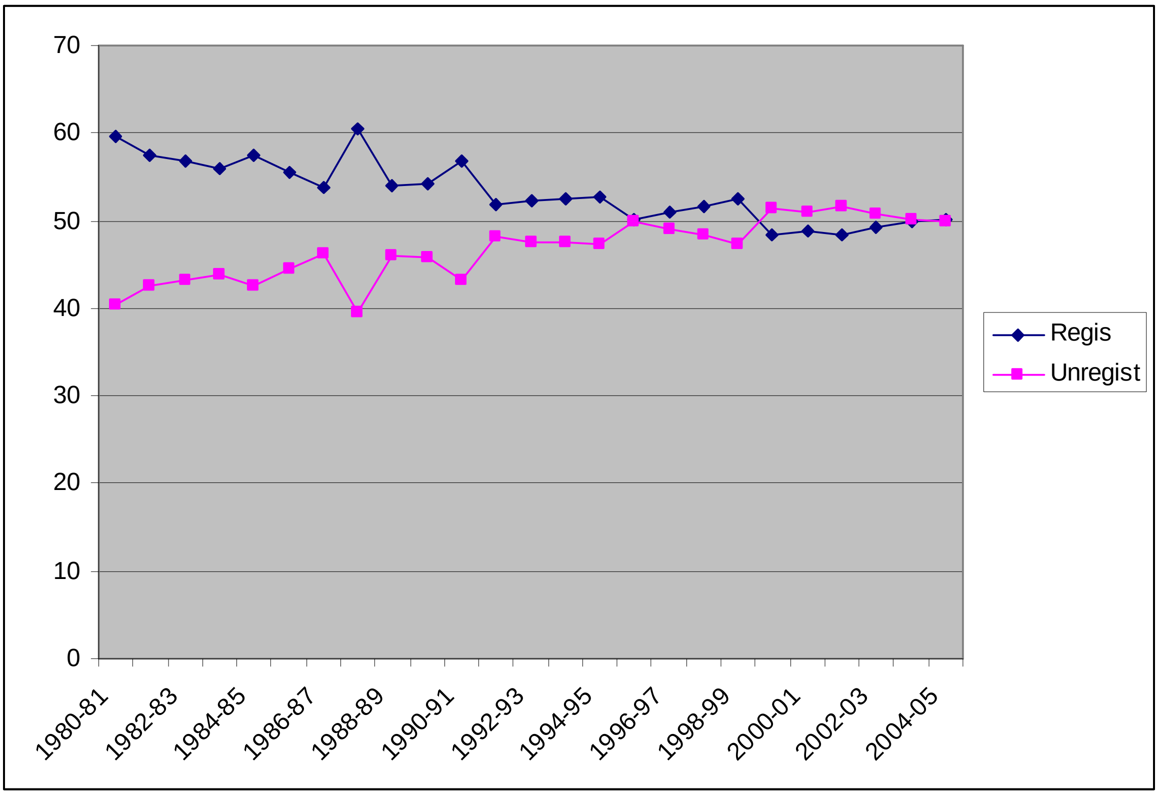
As the reins of the LFG passed on to Buddhadev Bhattacharjee in 2001 through a smooth transition, the cause of industrial revitalisation in WB seemed buttressed. The new CM took business delegations to Thailand, South-East Asia, Italy and also interacted with entrepreneurs within India, exploring possibilities for industrial investment in the state. WB by virtue of its strategic location was suitably poised to complement the Central government's 'Look East' policy for boosting trade with East Asian countries and effectively function as India's gateway to the Asia-Pacific region. The construction of various industrial parks were envisaged and some are already under way: 'rubber park' at Domjur, a park for ‘tannery and leather industries’ at Bantala, an ‘apparel park’ for textiles and hosiery at Howrah and others..

While in case of other states the change is almost a continuation of earlier policies with added emphasis, the case of WB represents a complete turn-around. In order to understand the implications of this, we divide the period spanning last three decades into pre and post new industrial policy regimes in the state: late 1970s to 1994-95 and 1995-96 till date respectively. It is important to note here that while the LFG was devising this pro-industrial policy, a few dissenting voices within the ruling coalition were audible, which dissensions were absent during the implementation of the other major policies under the LFG earlier.

2.2. The question of performance

A vulnerable workforce, as was claimed in the case of WB, generally creates favourable conditions in the economy for renewed investment prospects. Moreover, with the changes in the policy regime at the centre since early 1990s followed by changes proposed in the new industrial policy of the state, it was expected that there would be a boost in the investment scenario of the state. But a few changes apart, the trend of predominance of the unorganised sector continues over the years. According to Figure I, since the mid 1990s unorganised manufacturing, in fact, has been contributing almost as much as the organised sector and lately even more. Moreover, the rate of growth of organised manufacturing is consistently lower than that of unorganised manufacturing both in the post as well as in the pre new-industrial-policy regimes of the state. However, the magnitude of the growth rate in the organised manufacturing has increased in the second period (A2). The relative decline of the organised sector in the case of WB becomes striking when we see how the state’s position deteriorates with respect to the country as a whole during the last three decades when only the organised factory sector is considered (A3). In the year 2004-05 WB stands at the 7th position in terms of manufacturing output considering all states in India. This position remains the same if we look at the organised manufacturing as well. However, the position of the state improves significantly to the 3rd if we consider the unorganised manufacturing alone.

Figure 1: Percentage share (at 1993-94 prices) of the registered and unregistered[4] manufacturing in total manufacturing output of WB during 1980-81 to 2004-05



Source: *National Account Statistics*, WB

In the employment front the importance of the unorganised sector also accentuates over the last three decades. In 2001 only around 13 percent of the workforce was engaged in organised manufacturing (A 4). The significant decline in the absolute number of employment over the last few decades, particularly in the post new-industrial-policy era in the factory sector of manufacturing (A5) can surely be taken as one of the sources from where employees enter the unorganised domain as casuals[5].

The domination, and increasingly, by unorganised manufacturing in employment is not unique to WB. What is unique is the domination of unorganised over the organised sector in

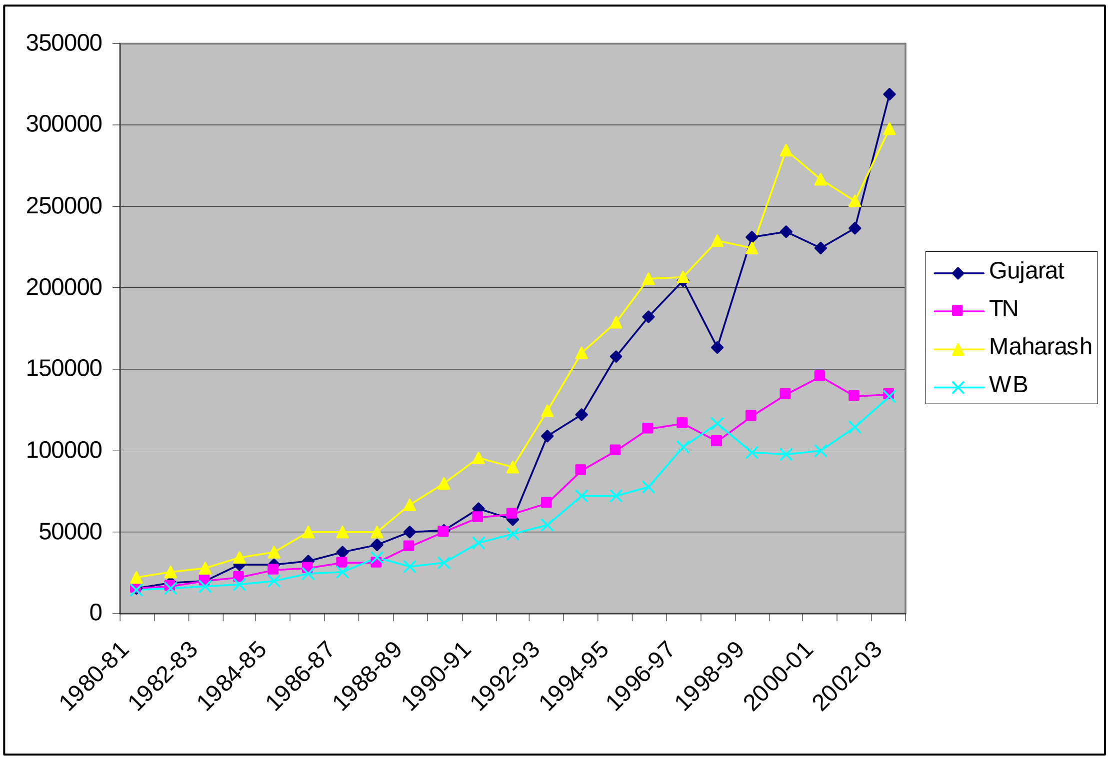
[4] NAS represents this data in terms of 'registered and unregistered' sectors, more or less with the same meaning as 'organized and unorganised' sectors.
[5] 'Casuals' or 'Contract labourers' are not employed on a permanent basis and therefore do not come under labour laws of the formal sector. These 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. The wage rate for these contract workers is significantly lower than that of unskilled permanent workers

relation to output. This is surprising, given the notable changes in the attitudes of the state towards large industry since the early 1990s as manifested in policies for curtailing regulations and developing infrastructure. Data on Industrial Entrepreneur's Memoranda (IEM) suggest that the number of industrialists showing interest in the state is significantly low not only compared to some of the industrially advanced states but also a few relatively new ones. Disturbingly, the proposed investments are also notably smaller in dimension. Is this attributable to poor policy implementation? Or is it a deeper problem like lack of political will? However, it needs to be noted here that a number of institutional changes were initiated in order to facilitate new investment, such as the single window facility called Shilpa Bandhu, described earlier. Some new large investments also did flow in from the Mitsubishi, Jai Balaji and Jindal Groups. This probably explains the increase, though marginal, in the rate of growth of organised manufacturing in the state in the post 1994-95 period.

A related study by Roychoudhuri et al in 2007, argues that the main reason for WB's failure to attract large investment is poor infrastructure and related inability of the state to improve it over time. The physical infrastructure development index calculated by Ghosh et al in 2004 indicates a sharp decline in the comparative ranking of WB in India – from 9th in 1981-82 to 17th. in 1991-92 .This index considered transport facility, gross irrigated area, per capita consumption of electricity and telephone main line. In this respect the northern states of Punjab, Haryana and all the southern states except Kerla show a much better prospect compared to WB. This information matches well with the entrepreneur's persistent willingness to prefer some states over others as revealed by IEM data. This is aggravated by the inadequacy of social infrastructure such as poor quality of labour arising out of lack of education, particularly technical education. This dismal plight of WB's social infrastructure is widely known today.

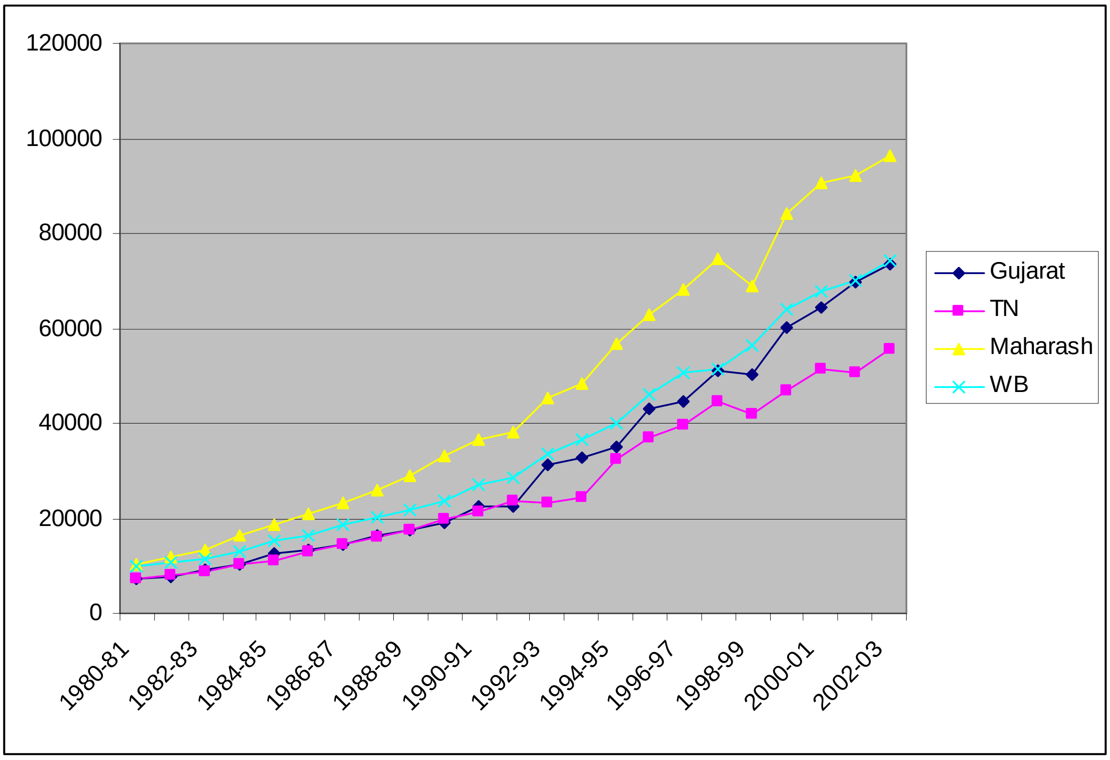
Do labour productivity figures suggest further clues?

Figure 2: The levels of Labour productivity in the four states: 1980/81 to 2002/03



The level of labour productivity remained the lowest in the organised manufacturing sector of WB compared to the industrially-more-advanced states of Maharashtra, Gujarat and Tamil Nadu over the last three decades (Fig 2). The labour-productivity levels were quite close for all the four states till the mid-1980s. In fact, the real divergence came only in the early 1990s placing Maharashtra and Gujarat much ahead of WB and also TN. This is most probably because of the better utilisation of liberalisation policies by the states of Maharashtra and Gujarat. However we find that workers in WB's organised manufacturing are getting relatively better wage rates compared to others (Figure 3) except in Maharashtra.

Figure 3: The levels of emolument rates in the four states: 1980/81 to 2002/03



Indeed, it is interesting that when the growth rate of productivity declines in the post-1994-95 era, the wage rate actually increases. Moreover, the rate of decline in the wage share to net value added shows an insignificant trend in the period after the new industrial policy regime. This is happening when there was a perceptibly sharp decline in the rate of growth of employment in the factory sector of manufacturing of negative order with the second period showing as low as (-) 7.19 percent per annum (A 6). We wonder to what extent the organised workforce in the state has been rendered vulnerable as claimed by others. We try to address these apparently contradictory trends along with the increasing emergence of the unorganised sector with the help of primary data in following sections.

Labour productivity, among other things, depends directly on the production technology. While it is difficult to characterise the technological status of production processes, one possible way is to look at the real fixed asset formation per worker. In the formal or organised sector real fixed assets per worker in the late 80s in WB was lower than both Maharashtra and Gujarat but higher than Tamilnadu. While the picture remained unchanged in the mid 1990s, by the early 2000 Tamilnadu also surpassed WB. In fact, there is a deceleration of real fixed assets per worker in WB in the year 2000-01 over 1994-95 (Marjit et al, 2009). This indicates that in terms of technological modernisation WB manufacturing was not competing well with the industrially more developed states. It is worth mentioning here that none of the states shows decline in the per capita fixed assets.

The labour productivity in the unorganised manufacturing in the state is not only lower than the Indian average but also lower than industrially-more-developed states as revealed from the NSS rounds on the unorganised sector. Incidentally, there is an increase in the real fixed assets per worker in unorganised manufacturing of the state, though WB remains consistently at the bottom and significantly lower than the national average in this regard in recent years. The increase in capital intensity in production is difficult to explain considering the continuous large-scale influx of people into the unorganised sector in recent years. This may well be a result of under-reporting of human beings working on the same machine[6]. Further, the latest round of NSS on employment unemployment (2004-05) shows the lowest wage rates prevailing in WB in both rural and urban casual labour markets. Is it then the cheapest labour that is dragging the output to the unorganised sector in this state? This also opens up the possibility of using contract/casual labour within the organised sector and farming out production to the unorganised ones. This, in turn, is likely to lead to expansion of outputs in unorganised manufacturing.

3 BUSINESS IN RELATION TO THE STATE: THEN AND NOW

We now attempt to evaluate the question of policy implementation in view of the not- so-significant improvement in large-scale manufacturing on the one hand and flourishing unorganised sector activities on the other. We begin with the perceptions of the bureaucrats and the business associations and then move on to the business firms.

Apex business organisations like Bengal Chamber of Commerce and Industries (BCCI), Indian Chamber of Commerce (ICC), and Confederation of Indian Industries (CII) confirm

[6] In the unorganised manufacturing it is often found that a large number of people working on the same machine at different times especially if the machine is placed at home or the workshop is adjacent to the household.

the altered pro-business stance of the LFG in the post 1994-95 period. However, they highlight serious lack in policy- implementation on part of the government particularly in infrastructure, land procurement and labour which might have deterred big businesses from getting attracted to the state. Interestingly, our suspicion about the docility of the organised workforce arising out of the vulnerable conditions seems reinforced. Some occasional references apart, we deal with the labour issues in the next section. The business associations feel that physical infrastructure, especially Electricity and Ports, must improve significantly to ensure long-term sustainable industrial growth in WB. The greatest constraint still is infrastructure alongside a poor work culture. Despite the general perception that WB is a power-surplus state, the quality of power needs to improve, alongside significant augmentation in power-supply capacity and massive improvements in transmission and distribution systems. In respect to ports, proper infrastructure needs to be developed in Kolkata and Haldia dock complexes. Inland container yards need development and strengthening at Shiliguri and Jalpaiguri. Business organisations also focus the need for a greener and cleaner state capital -Kolkata.

Unlike the apex business organisations, small scale enterprises' associations remain disillusioned with the present disposition of the government. The Secretary of the Federation of Small And Medium scale Industries (FOSMI) observes that not much has happened to them despite the talked-about pro-business orientation in governmental policy. The greatest hurdle continues to be the incredible volume of paperwork and bureaucratic formalities required to start a small-scale unit. The Durgapur small entrepreneur's association mentioned that this is primarily why small firms invariably hesitate to register themselves under the Factories' Act (1948) and try to operate from the unorganised sector.

Interactions with business organisations revealed a more fundamental problem of analytical significance. Previously, businesses had to negotiate with the government and vice versa. Presently, the businesses have to negotiate with the government, the party and with the Opposition. The omnipresent phenomenon of the institution of 'party' seems to have encroached upon administrative spheres increasingly. However, it may be misleading to equate 'party' with the CPI(M). Of course, by virtue of an efficient structure of discipline and command, and a more systematic procedure of training of cadres, the CPI(M) has been able to penetrate and control every institution in every locality that it dominates. But where it is unable to do so, other parties behave much the same way (See Chatterjee, 2009 in the context of rural Bengal). Business associations feel that for healthy state-business relations, the Government must detach itself from the Party for all issues, except for broad policy decisions, and there should be a consensus between the government and the party on all major political and economic decisions as it happened in the case of Gujarat (Sinha, 2005). In the case of WB, the party seems to have stretched everywhere, so much so that the administration has often been paralysed or incapacitated for action. Several accounts by bureaucrats indicate this increasing tension between formal governance and informal party control as eroding the credibility of the government. This overarching presence of the party means a corresponding shrinking, if not disappearance, of other institutions because people seem to believe that formal mechanisms like police or law courts , do not really matter for the latter are expensive, time-consuming and corrupt. This has been possible through the 'political management of illegalities' (Chatterjee, 2009).

Such political interference continues to retard infrastructural development in WB. A senior bureaucrat informs that serious mismatch between demand and supply in respect of electricity is attributable to the low PLF (Plant Load Factor) of most plants which have not been sufficiently upgraded. Efforts at such upgradation are thwarted by infighting within and among political parties patronising various vested interests and seeking to ensure contracts for their own clients. Incidentally, the decision of the government to construct four towers for electricity generation at Rajarhat could not be implemented for the last two years on account of rivalries and clashes between political parties.   Following is an illustrative case of how the alleged 'management of illegalities' can frustrate the adequacy of infrastructure- in this case, development of ports.

In February, 2002 a shipping company operating in eastern India contracted with Calcutta Port Trust for operating a tug at Haldia Port. The technical aspects of the tug's operation like scale of manning were decided by the Director General of Shipping, Government of India. But when operations were to commence, Ram Seth (name changed), a local goon and prominent henchman of the CPI(M), had his men stop all operations. He demanded that his men, irrespective of their skills, would have to be employed on the vessel. The Police was not willing to take complaints about Ram Seth or his gang, unless the Port officials approached them; the Port officials were unwilling to go to the Police because Ram Seth was a veritable muscleman with political clout; the company ultimately reached Writers' Building whereafter the Chief Secretary of the Government of WB asked the District Magistrate to arrange a meeting of all involved and reconcile the problem. At the meeting Ram Seth demanded the Port officials to give it in writing that never again will the Port appoint a private company for such operations, which the Operations Manager of the Port declined, and ultimately the District Magistrate sent his report to the government explaining his inability to solve a 'political problem' administratively. Recently (2009) again Haldia Port was paralysed for ten days because labour from Ram Seth's pool squatted across all entry points blocking access to the port. This has crucial repercussions given that an industry's selection of a site around Haldia invariably considers the proximity and use of the Haldia Port, for supply of raw materials or distribution of products.

Further, a member firm of FOSMI had purchased a plot of land for setting up a plant, but soon after the boundary wall was erected, musclemen from the local CPI(M) district committee objected that its permission was not taken and all work was stopped. Ultimately this industrialist was able to sell off the land to a prospective buyer, who has been able to set up his project (probably by lavishing benefits on the local Party bodies).This brings us to the vexatious issue of land acquisition in WB. The opinion is widely expressed by business associations that land acquisition for industrialisation is a major problem for the state, because land records are antiquated or unavailable. There is no 'land bank'. It is ironical that a government ruling for over thirty years has not done any resource analysis in this respect. In the aftermath of the Tata pullout of the Nano project from Singur, considered to be amongst the most fertile areas in the state, senior bureaucrats and business organisations feel that the state government must chalk out suitable rehabilitation packages for those losing land due to acquisition, before going ahead full steam and handing over land to the industry houses. Many opined that 'there ought to have been more consultation all through the process'.

Consultation was necessary not only between the government and the stakeholders but also within the ruling party and the ruling coalition. The differences regarding land acquisition between the chief minister and some colleagues of his own cabinet are well known: Rezzak Mollah, Minister for Land and Land Reforms, observes: 'The land issue is a diabetes debilitating the LFG today. The entire process of land acquisition of our government is flawed'. Kshiti Goswami of RSP (Revolutionary Socialist Party), a constituent of the LFG, comments "We also are victims of the partycracy of the CPI-M, numerous decisions have been taken while keeping us in the dark…" He adds: "If the CPI(M) is serious about industrialisation, why is there no initiative to revive the numerous factories on the two banks of the Ganges that remain shut?" Such intra-party and inter-party differences are eroding the strength of the government. This is in contrast to China where not only is there no opposition, but also where there is unified party control over policy making. In WB such increasing dissensions at various levels is affecting governance and eroding public perception about the government's seriousness and ability to execute its own decisions. Such dissensions were absent during the implementation of land reforms and decentralisation, which had enhanced its credibility as a pro-people government.

The problems emanating from non-existence of a land-bank are aggravated by inconsistency, if not absence of any clear policy on land use on part of the government. An ex- Executive Director of WBIDC recalls: ' …In 2005 when the LFG was already firm on its pro-business stance, and there was huge demand for industrial land, two projects involving about 300 acres were sent back, because the then practice was that for all projects involving more than 99 acres, cabinet approval would be necessary. Fourteen months later, in May 2006, the cabinet passed again a resolution approving in principle acquisition of land up to 35,000 acres'. All this seems to reinforce that the government is unthinking, unsure, vacillating and unable to speak in one voice.

Explaining turmoils over land acquisition, another bureaucrat offers a comprehensive view: When the need for industrialisation was seriously felt the LFG sought to initiate policy changes (discussed earlier). However given the lack of working class discipline and infrastructure, mere policy changes wouldn't suffice. The government therefore tried to play a behind-the-curtain game: take land from cultivators by flexing political muscles and woo industrialists to invest by offering them land at throw-away prices. As Chandra (2008) observes: "…the cash-strapped LFG through its parastatals has been profiteering from land transactions. The maverick CPI(M) WB Transportation Minister, Subhas Chakroborty has publicly flayed his own government for running a land speculation business, acquiring land at throwaway prices from farmers and selling it at a premium."(p. 44). This strategy of the CPI(M) backfired in two ways: First, the whole issue of 'land grabbing' received wide criticisms, with CPI(M) leaders including the CM repeatedly trying (in vain ?) to reassure the people that nobody would lose land for development. Second, a fear psychosis developed among the farmers that their land is no longer secure, which fear perhaps reinforces the growing popular distrust against the Left Front government.

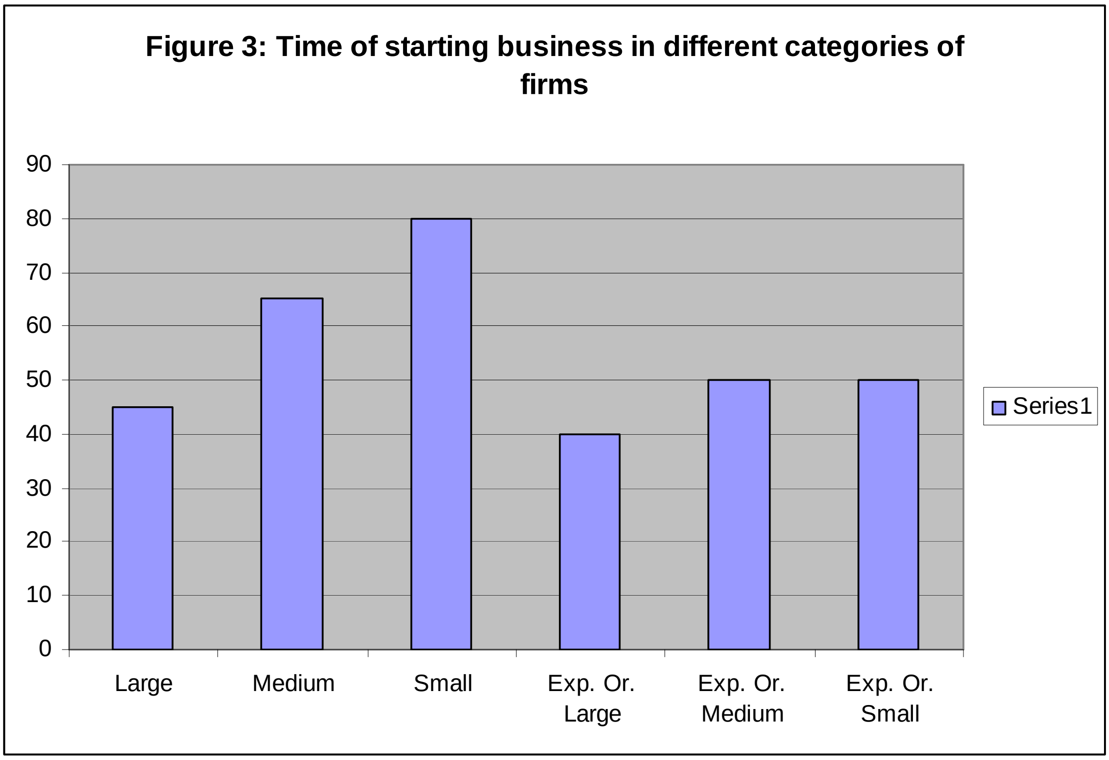
Additionally, some bureaucrats comment that bureaucracy is not a monolithic institution that acts in unison, rightly or wrongly. There are multiple levels in the bureaucracy, and in the absence of coordination of efforts and purpose, every move of the government is likely to be frustrated. 'The Big Picture is clearly missing with all the ministries'. This problem of lack of coordination among multiple levels of bureaucracy has been highlighted by business organisations also who feel that industrial growth in WB is thwarted by antiquated processes and time-consuming bureaucratic hurdles often backed by the local party. We discuss this further in the context of the firms' perceptions.

3.1 How do the firms look at the changes?

None of the large firms surveyed is found to take a definite position on the question of infrastructural development of the state. However, it was also found that none of these firms depend much on the state for the provision of electricity. Incidentally, according to retired management personnel it is often because of the excessive cost of power that led to farming out production to the labour-intensive unorganised outlets both in Durgapur and Howrah. It is illuminating that all the large firms surveyed either had, or expressed keenness to set up more advanced production units outside the state. But the primary reason cited for establishing new units outside the state was troubled industrial relations. Moreover, they also shared the apprehension expressed by other respondents on the issue of land acquisition. But, they did appreciate the improvements in the road conditions in recent years.

While medium and small firms share the opinion about the improvement of roads, they are clearly critical about power and water facilities. The ones based outside the metropolis even mentioned no improvement at all in the sphere of availability of power and water. Consequently, many of these firms desire to set up units outside the state. On the whole, it appears that while, of late, roads have improved in the state , the claim of improvement in power situation by the government (Economic Review, 2007-08), is confined to the metropolis and only to large firms (if at all) outside the metropolis. In the case of land, the small and medium units allege that the state invariably favours the large houses. It looks like a case of 'elite capture' of scarce public resources (see Bardhan et al. 2006).

Since the establishment of the single-window-procedure for industry, it has been claimed by the government that the necessary hazards pertaining to obtaining clearance for a proposed initiative have been reduced significantly. However, the World Bank, 2008 study in this regard reports that as late as 2006, procedures in Kolkata take the longest of 83 days to complete.



Source: Field data collected during December-January, 2008-09

All types of firms in our sample took less time to start business compared to that reported by the World Bank study for all Kolkata-based firms (Figure 4). But all firms in our sample are well–performing ones. It has been argued that well performing businesses are always in a stronger position to establish informal connection with the state elites and extract favours

(Qureshi et al, 2008). All the firms especially the large and the medium ones maintain that the time required to start a new initiative was much longer during the early 1990s. Figure 4 also suggests that large firms in the sample generally can start business quicker than the medium and small units irrespective of the market orientation. Small firms face numerous hazards even today to set up a business as also mentioned by their associations reported earlier. However, linkage with the export market seems to come handy for overriding regulational hazards in general. But none of the small units in our sample is a direct exporter. They are linked either to the large/ influential manufacturers or to export houses based in big cities in India. Therefore it may not be true that market orientation on its own can make the real difference in manipulating state support.

Large firms often lobby with the government directly without moving the business associations. Incidentally, none of the large units express any dissatisfaction about the government's efforts to eradicate rigidities in the system. Table 1 reveals that senior management in small firms even in 2008-09 have to spend around 30 to 45 percent time in a year in dealing with the state and interestingly, this has not changed over a period of five years. Apart from the regulatory hazards, small firms need to deal with the state institutions for infrastructural facilities such as land,

Table 1: State regulations and the firm

Farm size	Separate employee for dealing with the government	Percentage of senior management's time spent for dealing with the government on an average per size group per year		Frequency of inspection by the state govt. officials on an average per size group per year	
		2003-04	2008-09	2003-04	2008-09
Large	Firm I, Firm J, Firm K, Firm H	Not applicable	Not applicable	1.2	.75
Medium	Firm A	Between 25 to 40	Between 20 to 30	1.5	1
Small	None of the small firms have a	Between 30 to 45	Between 30 to 45	Two to three visits	Two to three visits

	separate employee				

Source: Same as above.

electricity, water and institutional credit. However, this is not the case with the highly export-oriented ones. In the case of export –oriented small firms often the large units involved in subcontracting, arrange for the credit for production or give the necessary raw material. That the small firms need to spend much time on dealing with the regulatory bodies is also corroborated by the fact that the small firms report the highest number of annual inspection visits over a period of five years (Table 1). Table 1 also suggests that each of the large firms has a separate managerial staff to deal with the state. Medium firms too have to spend significant management time but there is a clear decrease recently. Regarding the frequency of inspection visits by the labour department and pollution control bodies, there is a visible decline in both the large and medium group firms. Incidentally, during this time one finds substantial increase in the use of contract labour employed at a rate lower than the stipulated minimum wages of the relevant sectors (Table 2)[7]. This carries a hint of collusive behavior between the state and the big business. This is supported by the independent trade unionists who pointed out the uncalled-for relaxations by the state government in respect of pollution control measures in the case of large businesses. This is corroborated by the increasing number of sponge-iron-producing units in the state by influential business groups like Jai Balaji. Sponge-iron is known for its damaging effects on environment and people (Nagaric Manch, 2009). Can we call it good SBR? It seems that in order to compensate for some serious lacunae related to infrastructure and labour issues, the state is trying to go overboard even to the extent of illegalities.

The presence of a fulltime managerial staff to deal with the government in the large firms even in recent years, and substantial management time still required to deal with the state in the cases of medium and small firms, don't necessarily suggest hassle-free dealings. Moreover, inspection visits have also not decreased in the small firms. On probing we found that intrusion of the institution of a multi-layered party is playing its own tricks. The individual firms mentioned that they needed to deal with different levels of state administration separately. With the same political party in power for a very long time it is no

[7] It is interesting to note here that there is a huge disparity in percentage of contract labour sed as reported in the ASI and the primary information collected from sample firms. The same finding is reported in Maity et al., 2009, on the basis of a much larger sample.

longer a 'homogenous state' nor a homogeneous party. The state has emerged as a multi-level, non-monolithic one, disaggregated across several local power centres, nourished over all these years. In fact, firm A opined that, "People at the top may have the right inclination. But nothing will happen unless one can crack the network of cadres and local leaders who have over the years taken up prominent positions within local communities and who have both financial and political clout". Policy change in favour of big business at the top for broader political achievements, do not seem to be readily accepted by local powers for it probably disturbs the existing rent- seeking behaviour giving rise to uncertainty about their immediate gains. This is an indication of institutional stickiness ensuing from a clash of long-term and immediate interests of different levels of political elites.

As Leftwich (2009; 8) observes:

"…once an institutional choice/decision has been made or formed and sustained/consolidated over time, it sets the pattern and gets 'locked in' and associated with increasing returns (certainly for those who benefit from the institutional arrangements and have the power to maintain them)."

Bureaucratic hassles usually lead to emergence of speed money in the economic system. Sinha (2005) argues that as against Gujarat the existence of speed money is hardly found in the case of WB. As a result it takes the longest time for a business to get started in the state of WB. In course of our primary survey we tried to probe this question.

While offering gifts or paying some money to the local government officials and the local party leaders by firms is not really a stray incident in WB, it is difficult to reach any conclusion about the effectiveness of the practice from the information revealed by the sample firms. However, one can imagine that firms will not keep paying officials without reason. Small bribes work especially well when the outlook between the local level and the top differs. When the larger hazards of getting permissions have become easy to handle and the hurdle basically lies in operationalising it, it is natural for the businesses to get things moving by shedding a little money here and there. This finding perhaps reinforces the thesis of sustained management of illegalities highlighted by Chatterjee (2009).

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 power remain) nor pervasive (relatively small and medium scale firms feel discriminated against and unable to cope with bureaucratic hurdles). Infrastructural lacunae and unchanging regulational hazards, aggravated by political interference, seem to impel firms to operate from the unorganised sector or farm out production to the unorganised sector so as to curtail costs, rather than expand the scale of production.

4 INSTITUTIONAL STICKINESS: THE CASE OF TRADE UNION BEHAVIOUR

We now turn to the labour issues pending to be addressed. How far can the 'vulnerable workforce' be a factor in determining the non-performance of large-scale industry giving way to the unorganised sector? Recent research (Pages et al. 2006) highlights that the use of contract labour is increasing in organised manufacturing the country over. WB is no exception. In the context of uncertain market conditions, management find it increasingly easier to adjust their production plans by retaining a small core of permanent workers alongside a large number of contract workers under highly flexible conditions of work and lower wage-cost (Majumdar et al, 2008). Table 2 indicates not only a very high share of contract employment in the sample firms but also an increase in the share within a short span of two years. The increase is the sharpest in firm K, categorised 'large'.

When asked, the management maintained that in the years 2007-08 and 2008-09 a large number of permanent employees retired through the voluntary retirement scheme and the firm never filled those vacancies as they could conveniently transfer production responsibilities to easily available contract/casual workers at much lower wages. These findings corroborate the macro trends reported before. Some of the workers of the older firms surveyed maintained that the practice of not filling up of the permanent workers' positions in the organised manufacturing units started since the early 1980s. Few new permanent jobs have been created in the worker's category in recent years. Moreover, frequent declaration of lockouts in different sectors, mainly jute, led to the absolute decline in the organised workforce in the state.

Table 2: Percentage of Contract/casual labour in the sample firms

	With some export share in their sales			Totally domestic market oriented		
	Firms	Percentage of contract labour		Firms	Percentage of contract labour	
		2005-06	2007-08		2005-2006	2007-2008
Large Firms	Firm J: 15 percent export share	NA	51	Firm H	NA	40
	Firm K: 25 percent export share	47	59	Firm I	NA	42
Medium Firms	Firm A: 40 percent export share	91	92	Firm L	NA	42
	Firm E: 15 percent export share	85	87	Firm M	NA	46
Small Firms	Firm B: 60 percent export share	NA	90	Firm F	93	95
	Firm C: 65 percent export share	98	100	Firm G	NA	90
	Firm D: 65 percent export share	100	100			

Source: Field survey, conducted during December, 2008 and January, 2009.

Note: "NA" refers to not available. Only blue collar workers have been considered.

Our field data also suggests that the majority of the large and medium firms farm out their production considerably. Firm A stands at the top in this regard. Kolkata-based and highly profit-making, this firm is a boutique cum manufacturer-exporter of traditional Bengal weaves. Around 60 percent of its products is acquired from numerous weavers spread across villages of Bengal (Table 3). In fact, two of our small-scale textile units, B and C, based in Shantipur/ Phulia region are direct suppliers of Firm A. Farming out production is easier than in other sectors as numerous skilled weavers in this craft are available in clusters of interior Bengal. When asked how trade unions react to this work organisation especially as Firm A is Kolkata-based, management responded that it was successful in keeping trade unions at bay since its inception in 1997, particularly through a strategy of keeping the number of permanent workers as low as possible. The altered stance of the ruling party in not being as supportive of its trade union organ since the mid 1990s helped in this regard.

Table 3: Percentage share of production farmed out by the sample firms

	With some export share in their sales		Totally domestic market oriented	
	Firms	Percentage of production farmed out	Firms	Percentage of production farmed out
Large Firms	Firm J: 15 percent export share	Around 25	Firm H	Information not available
	Firm K: 25 percent export share	Around 20	Firm I	Information not available
Medium Firms	Firm A: 40 percent export share	Around 60	Firm L	Between 10 to 15
	Firm E: 15 percent export share	Information not available	Firm M	Does not reveal information
Small Firms	Firm B: 60 percent export share	Around 10	Firm F	Does not farm out
	Firm C: 65 percent export share	Does not farm out	Firm G	Does not farm out

	Firm D: 65 percent export share	Does not farm out		

Source: Same as Table 2.

While ancillerisation as against vertical integration has a long tradition in Bengal industry, particularly in engineering and transport, organised large-scale purchase of traditional Bengal weaves especially for exports is a feature which came along with the liberalisation policies of the 1990s. Moreover, improvement in road conditions in the post-1994-95 period helped reach distant villages and tap unexplored possibilities. In fact, textiles hold the highest percentage share in the value added of WB's manufacturing in both organised and unorganised sectors, and that too is increasing (data refer to *ASI* and the *NSS* Reports on Unorganised Manufacturing). It is pertinent to mention that the elasticity of unorganised sector output is as high as 1.2 with respect to the organised sector during 1980-81 to 2004-05. However, the elasticity is higher in the first half till 1994-95 compared to the second. The reason may lie in the fact that quite a few large trading firms now acquire products directly from the unorganised producers for export purposes. It is worth noting here that a number of retired management personnel from different firms inform that the amount of production farmed out is much more than what firms have reported (Table 3).

How do the trade unions look at these facts? This question assumes particular relevance as it was found that even the contract workers were members of the same unions. How is it possible that the larger firms could increasingly farm out a substantial amount of production when their production capacity was not 100 percent utilised? Does this mean that the workers' unions have become so weak as to accept the situation passively? And this seems facilitated by the changed attitude of the state in favour of business at present. But, then, why is it not possible to get the work done by the permanent workers by utilising existing capacity of the firm? Is it then the lack of infrastructure again that decides the outcome or is it something more?

All the large firms indicated that while all other aspects of regulation improved in the state, the question of labour rigidity remains the same when it comes to the shop floor. This is interesting as Ramaswamy (1999) notes: "Ascendancy to political power appears to remove the last vestiges of radicalism from Marxist unions. CITU has undergone a veritable metamorphosis in Bengal since 1977 when their party came to power. The new policy of moderation and responsibility received formal blessing from party and union ideologues in a union conference in 1980. The '*gherao*' which terrorised managers in the sixties and seventies is no longer in evidence. The number of strikes have declined sharply." (p.5). Primary survey revealed that in some of the older firms the peak of militancy was encountered when CITU decided to capture a plant. Their typical style was to insist upon a set of impossible demands and whip up violence in order to scare the management, the other trade unions and the people in the locality. In this process they often had their way. However, the methods of CITU were quite different where they operated alone untroubled by other unions. There they appeared to be more amenable to reason.

According to the management the 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 but are not insistent on filling up vacancies or making the contract workers permanent. Obviously the trade unions prioritise insiders' interests (permanent workers') over the outsiders' (non-permanent workers). Firm level workers and the unit level leaders understand that if the management can reduce the production cost by way of hiring contract workers or farming out production partly to the unorganised sector, it is easier to bargain for better wages. This finding is corroborative of our macro observations and does question the hypothesis of 'vulnerability of organised workers' directly. Further, in order to be confirmed, a worker needs to work on contract or casual basis in a firm. Trade unions play a very important role in this process of confirmation. According to management the union leaders understand that it is, thus, easier to control the workers as long as they are on the contract/casual basis. Incidentally, Sarkar (2006) argues that people in WB depend on the political parties in a fundamental way for their livelihoods. It is their vulnerability which compels them to do so. Further, an independent trade union leader mentioned that in some cases the permanent workers (and the unit level leaders) themselves practice subcontracting with the existing contract labourers and do some other business during the office hours, safeguarded by the representative union. As the contract/ casual labourers are also union members, the question of union membership and membership levy does not pose a real problem for the union as contractualisation perpetuates[8].

The management maintain that the union leaders always resist any work load increase even for a short while under emergency especially in the private firms. Though the contracts between the permanent workers and the management is always a written one it is difficult to make it complete in every sense considering all contingencies explicitly (Hart et al. 1987). The permanent workers often take advantage of this incompleteness. Consequently management of all large firms mention that they are weary of taking the permanent workers in confidence to promote technical modernisation of a large-scale. Technological modernisation can lead to human asset specific conditions and in turn to costly haggling (see Chakravarty,2002) especially in the context of an institutional failure where workers' union fail to work as a governance structure facilitating transaction between the workers and the management (see Williamson, 1985).

Till the abolition of the licensing policies, the state and the ruling party were indifferent to the ground reality of industrial relations and improving work ethic at the shop floor. But in the changed scenario the senior CITU leaders are seeking to improve the work ethic among permanent workers of the manufacturing units. But the management feel that permanent workers have got habituated not to work and work only on overtime payment. In Bengal, 'overtime' virtually meant extra payment without extra hours of work. Now while senior leaders at the state level ask cadres and unit-level leaders to cooperate with the management at the shop floor, the workers passively resist. The management inform tremendous increase of 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? The CITU state leadership as well as the ruling party and the government made the traditional mistake of assuming the workers as 'passive agents' of production as pointed out by Simon way back in 1951. Let us remember that all the large units surveyed, either have, or are establishing, units outside the state. They feel that it is

[8] There is usually no difference in the membership levy for the permanent and non permanent workers and moreover, the levy is just a paltry sum of Rs 1 or so for the larger central trade unions like CITU (Mr. Veeraiah, CITU general secretary, Andhrha Pradesh in an interview with the authors on 10-06-09 in Hyderabad.

not viable to establish a technologically-more-advanced unit in the state because of the passive resistance from the permanent workers.

It may be pertinent to note here that some business associations are highlighting a new kind of trade union activity, which is in some sense a departure from the earlier prevalent and orthodox 'gherao culture': At present labour believes in exerting a new kind of indirect or surreptitious pressure; the contemporary motto appears to be 'go slow on work'. The management often do not even have the discretion to reject an application for leave. Nowadays the management seldom have to encounter a written charter of demands, what it has to face is some kind of continuous indirect pressure, which is a serious deterrent to new investment in the state.

However, a basic question remains: why did a highly centralised party like CPIM or its mass organisation CITU let the unit level workers behave this way for so long? First, the union leaders cannot put pressure on the firm level units as there is ample chance of losing support and consequently the vote bank. Recent political experience suggests that the CPIM is in no position to risk its number of votes. Three decades of central control over the rank and file has significantly diminished. The local trade unionists of CITU or the local party leaders have started behaving as independent institutions. They wield much power in the areas directly under them. So, the unit level representative unions have enormous hold over the contract/casual labourers. The management of the large units, irrespective of market-orientation, maintained that they could not recruit contract workers directly. Moreover, according to some independent trade unionists and ex-employees, the unions also play a role in determining the renewal of the contracts for these workers. Further, working in close association with the local party, the trade union leaders often help the retrenched workers to get a rickshaw or an auto rickshaw licence or even a job as helper in the construction sector. A patron-client relationship thus develops especially with proliferation of jobless workers. Incidentally, CITU has the largest membership in the construction sector which is basically unorganised. In another context, Bardhan et al (2009) showed how this patron-client relationship helps CPIM to remain in power in rural Bengal till recently.

There is a second related reason. A retired personal manager of Firm K notes that the large-scale retrenchment of the organised workers in the state and the increasing number of lockouts have created a distrust about the CITU leadership among the workers. This may partly explain why Trinamul Congress has started gaining strength in both urban and rural areas since mid-1990s. In Durgapur and in some areas of Howrah industrial region, the status of representative trade union is enjoyed by the Trinamul Congress in quite a few firms. The picture in the sample firms goes a long way to support this fact (A7). This was unthinkable during the 1980s or even early 1990s. Consequently the intra-union rivalry has increased significantly. This emergence of a formidable opposition union weakens the control of both the unions and sheer disagreement between rival unions thwarts production.

Finally, it needs to be mentioned that though there is a clear change in the policy stance of the state including labour issues which has also been endorsed by the respondents in our sample, the top leadership of the CPIM does not display a consensus in all matters. The contradictory statements regarding 'bandh' or strikes by the CM and the state party secretary is an illustration. The same is true about the open argument regarding land acquisition issues discussed before. The differences of opinion within the CPIM, between the CPIM party organisation and the government, and among different constituent parties within the LF regarding industrialisation issues have surfaced quite often in recent years. The party cadres cannot fail to note this lack of consensus at the higher levels and use it to their advantage. Given this situation the management maximises its gains by increasing the informalisation practices leading to a burgeoning of unorganised activities in the state.

5 Conclusion

The industrial policy of 1994-95 professes 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 has taken place in the performance of the organised manufacturing in recent years. Till very recently, the typically small entrepreneurs in the unorganised sector were producing more than half of the state's manufacturing output, endorsing the trend that set in during the 1960s, and which is at odds with the overall Indian experience.

In exploring the somewhat contradictory behaviour between policy and performance we found that the physical infrastructure was still wanting particularly in the domains of power, water and, ports. In a densely-populated, highly fertile agrarian state 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 we found its secret presence at lower levels of the bureaucracy frustrating 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 unorganised sector. Further, infrastructural inadequacies, particularly power shortage, could be a major reason leading large-scale units not to expand their capacity but farm out to the unorganised sector. The business associations at every level are unable to sort out these issues.

Our findings also lead us to strongly suspect the apparently docile character of organised labour and their unions. In the guise of cooperative behavior, a consequence of the dictates of the top, organised labour in the state is showing an extreme path dependency arising out of uncertainty in the prospect of future gains. 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 contact 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.

But the question remains that, given the Stalinist character of the ruling party in the state and its mass organ (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?

We find that having been in power for a long time 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 weilds 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 land-reform and decentralisation programmes , 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. It is unlikely that the cadres would miss this point and not use it to their advantage. It is also important to remember that of late the almost voiceless opposition is becoming increasingly stronger, thereby making the situation in the state even more complex.

REFERENCES

Bagchi, Amiya Kumar (1972) *Private Investment in India 1900-1939* (Orient Longman), New Delhi.

Bagchi, Amiya K.(1998), 'Studies on the Economy of WB since Independence.' *Economic and Political Weekly*, 33 (47 & 48): 2973-2978.

Banerjee, Nirmala, and Millie Nihila. (1999), 'Business Organization in the Leather Industries of Calcutta and Chennai' In Economy and Organization: Indian Institutions under Neoliberal Regime, ed. Amiya K. Bagchi, 147-187. New Delhi, Sage Pulications.

Bardhan, P and Dilip Mookherjee (2006), 'Pro-poor targeting and accountability of local governments of WB', *Journal of Development Economics*, 79, 303-327.

Bardhan,P.,Mitra,S.,Mookherjee,D.,Sarkar,A.(2009) 'Local Democracy and Clientelism : Implications for Political Stability in Rural WB' (Mumbai, *Economic and Political Weekly*, February 28)

Besley, T, and Robin Burgess. (2004), 'Can Labour Regulations Hinder Economic Performance? Evidence from India.', *Quarterly Journal of Economics*, 119(1): 91-134.

Chakroborty, Bidyut (2008) Indian Politics and Society since Independence- Events, Processes and Ideology (Abingdon, Routledge)

Chakravarty, Deepita. (2002), 'Work organization and employment contracts: technological modernization in textile firms', *Economic and Political Weekly*, 37(8): 743-749.

Chatterjee, Partha (2009) ' The Coming Crisis in WB' (Mumbai, Economic and Political Weekly, February 28)

Chandra, Nirmal (2008) 'Tata Motors in Singur: A step towards industrialisation or pauperisation', *Economic and Political Weekly*, 44(50), 36-51.

Dasgupta, Sreemanta.(1998), 'WB and Industry: A Regional Perspective.' *Economic and Political Weekly*, 33 (47 & 48): 3049-3060.

Datta Chaudhuri, D. (1995), 'Problems of the Electronic Industry in WB: A Case Study.' In New Technology and the Workers' Response, ed. Amiya K. Bagchi, 145-166. New Delhi: Sage Publications.

Fallon, P, and Lucas, R.E.B. (1993), 'Job Security Regulations and the Dynamic Demand for Labour in India and Zimbabwe.' *Journal of Development Economics*, 40: 241-75.

Hart, Oliver and Bengt Holmstrom (1987): 'The Theory of Contracts' in Truman F Bewley (ed.) *Advances in Economic Theory: Fifth World Congress*, Econometric Society Monographs, Cambridge University Press, Cambridge.

Harris-White, Barbara. (2007), ' From Monet to Mondrian: Characterizing Informal Activity in Field Research and Simulation Models.' In Trade Liberalization and India's Informal

Economy, eds. Barbara Harris-White and Anushree Sinha, 15-41. New Delhi: Oxford University Press.

Kohli, Atul (2009) *Democracy and Development in India – From Socialism to Pro-Business* (New Delhi, Oxford University Press)

Leftwich A (2009) *Analysing the Politics of State-BusinessRelations: A Methodological concept note on the historical institutionalist approach*, IPPG Discussion Paper, UK. IPPG Research Programme.

Majumdar, D, and S. Sarkar. (2008), Globalization*,* Labour Markets and Inequality in India. New Delhi: Routledge.

Nagaric Mancha (2009), *Sponge Iron Pollution: An enquiry,* (in Bangla*)*, Kolkata.

Pages, C., and T Roy. (2006), ' Regulation, Enforcement and Adjudication in Indian Labour Markets: Historical Perspectives, Recent Changes and Way Forward.' Washington D.C: The World Bank.

Ramaswamy, E.A. 1999. *Labour Management Relations in Practice*. New Delhi: Oxford University Press.

Raychaudhuri, Ajitabha, and Gautam K. Basu. 2007. "The Decline and Recent Resurgence of the Manufacturing Sector of WB: Implications for Pro-Poor Growth from an Institutional Point of View." IPPG Discussion Paper 10.

Rodrik, D. and Subramanian,A. (2004) 'From Hindu Growth to Productivity Surge:The Mystery of the Indian Growth Transition', *Working Paper Series of the National Bureau of Economic Research (10376)*, Cambridge, Massachusetts.

Sarkar,Abhirup (2006) 'Political Economy of WB- A Puzzle and a Hypothesis' (Mumbai, *Economic and Political Weekly*, January 28)

Sen, Kunal (2009) 'Industrial Growth in Post-Reform India : Geography or Institutions?' (U.K., IPPG Briefing Note) at: www.ippg.org.uk

Simon, Herbert. 1951. "A formal theory of the employment relationship." *Econometrica*, 19(3): 293-305.

Sinha, Aseema (2005) *The Regional Roots of Developmental Politics in India- A Divided Leviathan* (Bloomington, Indiana University Press)

Tathya O Sanskriti Bibhag (TOSB), Paschim Bango Sarkar (2006) *Amra Choli Samukhpane-Bam Front Sarkar* (Kolkata, Basumati Corporation Ltd.)

Williamson, O.E. 1985, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting.* New York: The Free Press.

APPENDICES

A1 Sampling methodology

We have tried to get information through semi-structured interviews with different stakeholders such as bureaucrats, business houses/firms and business associations. We have also tried to interact with representatives of different trade unions and in some cases even with the workers. In order to choose the respondents we have followed a purposive sampling method. The usual practice, however, is to go for random sampling. Random sampling with limited resources (people, time, money etc.) is particularly difficult and has a significant tradeoff with the quality of information. Moreover, random sampling is called for when one is interested in making estimates or inferences valid for a population from which the sample is drawn. Instead we suggest a shift in favour of a purposive sampling in order to decide the number of respondents under each category (see Rudra,1989 for a very comprehensive view on this).

Keeping the idea of purposive sampling in mind we decided to talk to the bureaucrats in the Ministry of Commerce and Industry of the government of West Bengal and some of the Members of the State Planning Board. We did also talk to a few retired bureaucrats of the same department (or related departments) to get the contrasting views before and after the new economic policy of the state. We have covered all the leading business associations in the state representing large scale as well as the medium and the small scale industries. However, we could not always decide the person we would have liked to talk to. It was all decided by the availability of the respondents.

For choosing the business houses or firms we could go by a relatively more structured manner. We concentrated on the organised manufacturing only. The problem we had in hand was to (a) classify the sectors and then to (b) classify the firms.

(a) Annual Survey of Industries (ASI) classifies the sectors under manufacturing at the two digit, three digit and in some cases even at the four digit level. We took up the relatively broader classification following the two digit level. The sectors were classified first on the basis of labour intensity per unit of output and then on the basis of total factor productivity. This was done in order to get sufficient contrasts. For the sake of convenience we considered only the latest year. The degree of labour intensity had been classified into high (H) and low (L) taking the state manufacturing sector average labour intensity as the dividing bar. Similar procedure had been followed for deciding the levels of productivity of different sectors (high, low) as well.. This two way classification gave us a fourfold classification of all the sectors such as HH, HL, LH and LL. From these four fold classifications we chose only those sectors which constituted at least five per cent of the total manufacturing net value added of the state. Thus the sectors chosen were Basic metals, Machine tools, textiles including jute and chemicals and non metallic minerals.

(a) Secondly, we could collect a somewhat workable list of firms in different sectors from the WBIDC. We tried to select firms of different sizes and with different market orientations as both of these factors were likely to influence the state specific SBRs. However, most of the time it was based on the availability of firms who were ready to share information. Altogether 13 firms were selected from the above mentioned sectors: 4 large, 4 medium and 5 small. The following table summarises the basic data about the selected firms in our sample. However, finally the sector specific effect was difficult to determine. But the size and market orientation did suggest some important clues.

The sampling procedure and the selected firms

	Total Factor Productivity	
	Higher Than the State Average (H)	Lower than the State Average (L)
Labour/ Capital ratio Higher than the state average (H)	(a)Textiles: Percentage share in the NVA:19.86 Number of firms selected: 4 Size: three small, one medium (b) Machine tools: Percentage share in the NVA:4 Number of firms: 3, Size: two small, one medium.	The percentage shares of the sectors in this category in the net value added of the total manufacturing were negligible.

Labour/ capital ratio Lower than the state average (L)	Non Metallic minerals: Cement: Percentage share in the NVA:4Number of firms: 2 Size: Large	(a) Basic Metal Percentage share in the NVA: 15.66 Number of firms: one Size: large (b) Chemicals Percentage share in the NVA: 18.09 Number of firms: 3 Size: one large, two medium.

A2: Trend rate of growth of Manufacturing in WB during 1980/81 to 2004/05

Year	Manufacturing	Registered Manufacturing	Unregistered Manufacturing
1980-81 to 2004-05	5.78* (0.27)	5.00* (0.30)	6.68* (0.26)
1980-81 to 1994-95	4.35* (0.59)	3.57* (0.71)	5.31* (0.51)
1995-96 to 2004-05	4.62* (0.25)	4.24* (0.40)	5.01* (0.37)

Source: National Accounts Statistics, West Bengal

A3: Percentage share of ex-factory value of industrial output in West Bengal in the context of the country as a whole

Year	Percentage share of WB
1980-81	9.8
1990-91	6.0
1995-96	4.7
2000-01	4.2
2002-03	4.3
2004-05	4.3

Source: CSO, Govt. of India

A4: Percentage share of the unorganised sector in the total manufacturing employment of the state

Year	Percentage share of the unorganised sector
1981-82	65.98
1991-92	78.06
2001-02	87.30

Source: Population Census and *ASI*

A5: Trend rate of growth of factory sector employment in WB

(per cent per annum)

Years	Employment
1980-81 to 2004-05	-2.10*(-7.24)
1980-81 to 1994-95	-2.02* (-6.30)
1995-96 to 2002-03	-7.19* (-6.91)

Source: ASI

Note: t-values are given in the parentheses.

A6: Trend rates of growth (per cent per annum) of some selected variables in West Bengal manufacturing before and after the New Industrial Policy of the state in 1994-95

Variables	!980-81 to 1994-95	1995-96 to 2002-03
Employment	- 2.02*(-6.30)	- 7.19* (6.91)
Labour productivity	5.56* (7.37)	1.70 (0.87)
Wage rate	3.86* (12.66)	4.13* (10.17)
Wages to nva	- 1.7* (-2.76)	2.47 (1.15)

Source: *ASI.*

Note: * indicates statistical significance at 5 per cent level. t-values are given in the parentheses.

A7: Incidence of Trade Unionism in the Sample Firms

Firm type	No Union	One dominant union	More than one dominant union
Large export market oriented			Firm J: CITU, INTUC Firm K: Trinamul Congress, CITU
Large domestic market oriented		Firm I: CITU	Firm H: CITU, Trinamul Congress
Medium export market oriented	Firm A, Firm E		
Medium domestic market oriented		Firm L: CITU	Firm M: CITU, Trinamool Congress
Small export market oriented	Firm B, Firm C, Firm D		
Small domestic market oriented	Firm G	Firm F: Trinamul Congress	

Source: Same as Table 4.