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The Decline and Recent Resurgence of the Manufacturing Sector of West Bengal: Implications for Pro-Poor Growth from an Institutional Point of View^A

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1. INTRODUCTION

State-business relations and the question of pro-poor growth have assumed considerable significance in recent times for a variety of reasons: firstly, almost zero growth in formal-sector employment in the industrial sector has severely burdened the already over populated agrarian sector; secondly, a continuous shift from manufacturing-sector to service-sector might have marked the emergence of post-industrial societies, but transition has also resulted in an apparent polarization within their socio-economic structure; thirdly, such polarization and inequality have further been exacerbated by the decline of state welfare activities. It seems that the policy of re-industrialization, and re-emphasis on manufacturing assumed importance as the probable response to certain critical conditions – such as increasing inequality, massive poverty, rising unemployment and declining quality of life for a large number of people – and so the crucial question: can the state in post-colonial societies play a significant role in the processes of economic development as it did historically in the development of the now-advanced countries (Polyani, 1957; Gerschenkron, 1962), while simultaneously projecting its image as pro-people and pro-poor (Basu, 1991)?

In this paper, we intend to concentrate on the role of the leftist government in the Eastern State of West Bengal, in initiating the processes of reinventing the manufacturing sector and either continuing or discontinuing policies towards pro-poor growth (by pro-poor growth we understand a process of growth where the poverty ratio declines along with a decline in income inequality and a rise in per capita income). The paper will try to provide reasons for the apparent puzzle, why change in government attitudes in West Bengal might have reduced (relative) poverty, but has been unable to generate sufficiently strong growth-impetus in order to keep West Bengal at the top of the table in terms of per capita income.

During the colonial period, West Bengal was one of the leading states in terms of industrial output and employment a trend which continued uninterrupted until the mid 1960s, when West Bengal started losing its prominence with in the industrial sector of India. The state witnessed two spells of left-dominated coalition government in 1967 and 1969 which ushered in labour militancy on a grand scale and after five years of non-leftist government – which included the period of emergency during 1975 to 1977 – West Bengal witnessed the return of the leftists in 1977, continuing, uninterrupted, to date. During the period from 1967 to the end of the 1990s, the state witnessed a steady decline of the manufacturing sector: but since 2000, a resurgence has been taking place. It has been argued that 'West Bengal accounted from only 3.8 per cent of the total number of industrial entrepreneurs' memoranda (earlier given by letters of intent) implemented in India between 1992 and 1999. Between 2000 and 2004, its share increased to 12.2 per cent next only to Gujarat (14.3 per cent) and Maharashtra (12.9 per cent).' (Sengupta, 2006–07, pp.78)

Thus the obvious question is: what is the role of left-politics in the dynamics of the manufacturing industries in West Bengal? This raises certain serious issues, such as:

- How does this change take place?
- How does the left initiate a policy which appears to be pro-business?
- Is there any trade-off between such a pro-investment policy and pro-poor growth in a left dominated state like West Bengal?

Given these issues, the central objective of this paper can be stated thus: to enquire into the inter-relationship between the government and business and how it affects the initial decline, subsequent growth and apparent 'resurgence' of manufacturing industries in the state of West Bengal; and how and whether such policies can reconcile the interests of capital, and the requirements of growth, without ignoring the pro-poor commitment of the government. We intend to concentrate on the institutional dynamics which paved the way for such transitions and the theoretical positions pertaining to this central objective are analyzed.

Section 2, which gives a conceptual framework to define the scope of our work by identifying the terms 'institutions' and 'organizations'; it also defines what a good state-business relation really means. In Section 3, we have identified the research questions, which further clarified the meaning and legitimacy of a state-business relationship in the context an Indian state, namely West Bengal and will also explain why a complete middle-level theory is difficult to build up from a single case study, stressing at the same time, the usefulness of extending the methodology to other states in India. Section 4 provides a snapshot of West Bengal's economics and politics.

Section 5 is a longitudinal analysis of West Bengal's state-business relationship in terms of the manufacturing sector and highlights the first phase (1965–77) as a period where the economy was under various types of controls and the politics in West Bengal revolved around entitling the working class. Analysis has identified the causes of industrial decline in this phase as being due to central government policies of reducing public investment and freight equalization of important mineral products. The second phase (1977–1991) highlighted the political stability of the state alongside a sense of insecurity on the part of business, leading to stunted growth of the organized sector industries and this in turn led to the growth of a small and unorganized sector dominated industrialization. The third phase (1991–2005) is a period where economic reform and liberalization was the dominant theme which led to political changes as well coalition-style politics instead of single party rule at the centre. This is a period where the state was trying to support the market in order to create better business climate. The study also highlights that

a reversal in the state-business relationship seems to be taking shape from 2000 onwards.

Section 6 relates to the evolution of the manufacturing sector and its relationship to urban poverty, given that rural poverty in West Bengal had one of the most spectacular falls due to its successful agrarian policies. The study finds that urban poverty did decline due to small-sector led development, but West Bengal fell behind compared to India as a whole since the small sector is not efficient in terms of productivity.

The climate of economic reform and competition among states has led to the renewed interest of business groups in investing in West Bengal along with a reorientation of left front government. However, this renewed interest has presented the government with new challenges, the foremost being the issue of land acquisition and the resulting tensions of unemployment amongst peasants. Equally important is the possibility of rising inequality between the small and unorganized sector and the large scale organized sector. The paper prepares the ground for possible future research in this direction which methodologically is rich enough to be extended to middle level theorization.

2. A CONCEPTUAL FRAMEWORK TO UNDERSTAND THE THEORY OF INSTITUTIONS

Decisions regarding investment or disinvestment are essentially guided by economic considerations – but such decisions also take place within the broader canvass of certain institutional frameworks. North defines institutions and organizations as follows:

'Institutions are the rules of the game of a society or more formally are the humanly-devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behavior, and self imposed codes of conduct), and the enforcement characteristics of both. Organizations are the players: groups of individuals bound by a common purpose to achieve objectives. They include political bodies (political parties, the senate, a city council, a regulatory agency); economic bodies (firms, trade unions, family farms, co-operatives); social bodies (churches, clubs, athletic associations); and educational bodies (schools, colleges, vocational training centers)... The continuous interaction of institutions and organizations in the economic setting of scarcity and hence competition is the key to institutional change.' (Published in 'The New Institutional Economics and Development' and available at www.econ.iastate.edu/tesfatsi/NewInstE.North.pdf)

One of the basic assumptions of the institutionalist perspective is that politics matters – as one scholar points out 'political processes were at the core of the construction of institutions.' (Fligston, 2001, pp.120) Based on Adrian Leftwich's paper (2006), we intend to look into the processes of decline and resurgence of manufacturing industries in West Bengal: firstly, to ascertain how politics have contributed to the evolution of the inter-relationship between the Left regime and industrial sector in West Bengal since the mid-1960s; and secondly, to examine how policy frameworks developed and implemented by the Government of West Bengal tend to establish linkages between the industrial development of the state and pro-poor growth and with what consequences. An effort will also be made to apply the institutional theory to the West Bengal context and assess how it affects what Leftwich has described as 'the politics of effective pro-poor growth'.

In a discussion of political economy, institutions and policy appear inter alia, making it difficult at times to differentiate between the two. It has been argued that economic institutions have a variety of definitions. In fact, economic institutions can have any one or the other characteristics:

- a. institutions are durable systems, evolved out of social rules and interactions
- b. it is self-policed or policed by some external authority
- c. it is repeated human interactions based on rules, enforcement characteristics of rules and norms of behaviour
- d. a set of rules to facilitate co-ordination
(as quoted in Wiggins and Davis, 2006).

Wiggins and Davis (2006) go on to explain that economic institutions are constitutional and thus change only infrequently (a point stressed by Leftwich [2006] as well). They empower the state to adopt certain policies – for example, a country which binds itself to WTO creates a changed institution, which then leads to change in tariff policies. Thus according to the authors, in the narrow sense, economic institutions facilitate the following important functions:

- establish and Protect property rights
- facilitate transactions
- permit smooth economic cooperation and transactions

All of the above, by definition, ensure contracts are honoured and transaction costs are minimized. Also, it is recognized that though in many cases institutions are set up by the government and in many other cases they formed by repeated interactions among individuals; in any case, institutions are like public goods in that they are non-rival and jointly consumed by all.

In the light of the above, one needs to evaluate those institutions that promotes, to use a term used by Harriss (2006), benign collaboration between state and business. By this one understands transparency, credibility, reciprocity and trust in the transactions between state and business. Such benign collaboration

is expected to result in growth of output and employment in the important productive sectors of the economy. This might vary from economy to economy, but must be objectively judged in terms of the available data. The state-business relationship discussed here will emphasize those rules and regulations along with the relevant organizations that reduce transaction costs, contrasting them with those which increase transaction costs by reducing trust, credibility and transparency between state and business. As we will show, property rights and contract enforcement were not major issues here, although contracts in the labour market had different dimensions and did suffer from disruptions.

Leftwich has identified two levels of politics – one is the contextual or institutional level which provides the basic ‘rules of the game’; the second level is the reality where ‘political conflict is played out’. We believe that both these levels constantly interact with each other, with changes constantly taking place at both levels. Institutions in any third world society are always in constant flux: agents tend to make or unmake changes in the institutions, and in the process they also change themselves. The purpose of our project is to identify those interactions and see how they produce political outcomes to deal with economic exigencies. The policy implication of this paper lies in the question of whether and how two actors, likely to have two different world views, can ensure developmental goals for developing countries. As far as the theoretical relevance is concerned, this paper may offer more fruitful insights into the ongoing debate on the structure-agent problem, (or institution-organization relationship).

3. IDENTIFYING RESEARCH QUESTIONS AND METHODOLOGY

E R Tufts argued that ‘the single most important determinant of variations in macroeconomic performance... is the location on the left-right spectrum of the governing party.’ (1978, pp.104) It is true that this statement has been made with reference to advanced industrialized countries, but it contains the message that the governing parties and/or government play a major role in shaping economic policies and outcomes. While making this observation, one must keep in mind three major contemporary theoretical viewpoints in political science: libertarianism, communitarianism and what can be described as, in the absence of a better terminology, ‘pragmatic leftism’.

If libertarianism emphasizes a minimalist state and intends to dispose of a redistributive state, communitarianism adopts a centre-of-the-left approach whereby market-based inequalities have to be reduced, not only as a necessity but as a ‘matter of fundamental moral principles. The realist pragmatic left probably recognizes the support inevitability of the market, but simultaneously continues to emphasize minimization of inequality through the maintenance of what can be described as the safety-net.’ (White, 2003 – our emphasis)

In this paper, we intend to focus on the relations between the Left Front government and business groups vis-à-vis the decline and resurgence of the manufacturing sector in West Bengal; and to discover whether and how is it feasible to ensure a smooth government-business relationship which is consistent with the supposed historic egalitarian aims of the left. We also want to explore the resurgence of the manufacturing sector as a means to pro-poor growth and a pro-business climate.

It may be noted that institutions and organizations are not necessarily static, what is important is to identify the constant interaction between organization and institutions and the resultant dynamics of change – more frequently seen in the composition of organizations and policies than in the institutions themselves. Thus one must clearly identify the institutions and organizations, and their interactions, to understand the institutional dynamics. How does one relate government-business relationships within the institutional framework?

Industrialization is both a policy and a process. It is a policy in the sense that the business groups in a given society, based on its calculations of the market conditions, government regulations and societal conditions, decide either in favour of or against such a move. It is a process in the sense that business groups, in its venture towards industrialization, tend to constantly interact with various organizations such as the government, trade unions, economic organizations and also the members of the civil society – in fact, economy itself is ‘embedded in civil society.’ (Moran, 2006, pp.144) The government and business groups are organizations in the sense that both of them apparently function in an ‘autonomous’ fashion – theoretically speaking, if one operates within the institutional framework of ‘market’, the other is concerned with establishing the rules of the game through which differences would be managed and stability would be ensured.

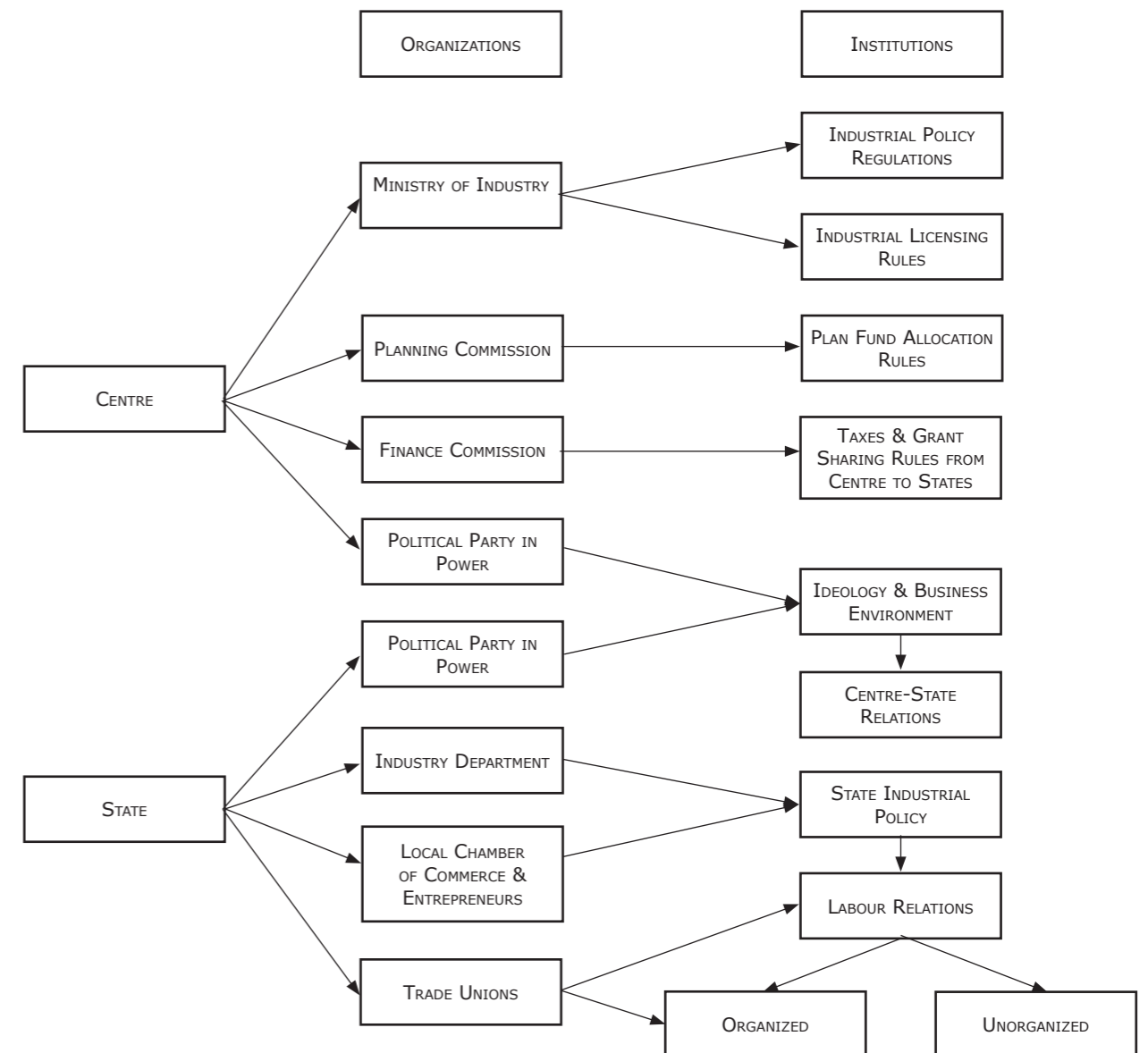
Such ‘autonomy’ is more myth than reality. If the business groups appear to be more privileged in taking investment decisions towards industrialization, the government is responsible for bringing together various actors, to be affected by such industrialization processes, within a complex policy framework. Thus if the business groups look forward to an investment-friendly, politically-stable government, the government also keeps an eye on the economic performance of the business groups and their overall effects on society as these are closely linked with the electoral success of the parties that form the government.

Consequently, interactions between government and business are highly complex in the sense that on one hand, the government tends to provide a politico-legal framework within which business organizations have to formulate and implement their policies towards industrialization; on the other hand, business groups are also very critical of the government as failure to bring investment and create a healthy atmosphere for such investment, may seriously challenge the credibility of the government itself. The

crucial question becomes whether, how and to what extent is it possible to the balance popular nature of government and the profit-maximization motive of the business organizations? This question becomes more important in view of the fact that unless investment results in poverty reduction and ensures pro-poor growth, the government may be confronted by a legitimacy crisis.

Two points are to be noted: throughout this paper, we shall be using the term ‘government’, rather than ‘state’, in order to accept the constitutional provision that ‘India, that is Bharat, shall be a Union of States (Article 1 of Constitution of India)’; the ‘state’ here will not be used in a typical Weberian sense. Accordingly, as one of the federating units of India, West Bengal is just one of the states in India. Secondly, we shall be concentrating only on West Bengal – as such our study can be described as an analysis based on case study method. Those who are concerned with theory-building efforts agree that it is very difficult to generalize on the basis of case study method. A middle level generalization is possible only on the basis of a combination of ‘most similar system design’ and ‘most dissimilar system design’. Our present study is an in-depth analysis of West Bengal in the field of government-business relations – it is possible to extend this methodology and introduce variations across India and generate middle level theory on ‘state-business relations’. Keeping Harriss’s methodology (2006) in mind, we have introduced a longitudinal analysis to explore the ‘benign relationship’ between business and a government essentially orientated toward the left.

Fig 1: Institutional Framework for State Business Relationship In West Bengal, India



Broadly speaking, we can identify three major actors or players who play important roles in the industrialization processes of the state – the Government of West Bengal, which includes both legislative and executive wings; the business community; and the organized working class. We call them 'organizations' as they are characterized by 'recognized principles of sovereignty', 'exclusiveness' and 'command structures' of their own (Leftwich, 1986 and 2006). However, they are constrained in their activities by the institutional framework, that is, the rules, norms and conventions, within which they are expected to operate. We describe the Government of West Bengal (in this context, represented mainly by the industry department) as an organization, because as a unit within the federal or 'quasi-federal' structure of the Indian State, it can be described as a 'tenant' (Little, 2003, pp. 28) – it functions within the limitations of the Constitution of India, and can even be dissolved by the Union Government in case of non-compliance – for a detailed analysis of the problem of control, see Rao and Singh, (chapters 4 and 5, 2005) – this institutional-organizational focus is explained with in the context of our discussion in Figure 1.

In the above scheme, there is a clear distinction between central and state institutions since India has a federal set up. The central organizations, as shown above, are responsible for framing some important country-wide rules and to a large extent for enforcing these rules. As we will discuss, the centre-state relations are also largely determined by the actions of these organizations. However, the centre-state relationship is also influenced significantly by the ideology of the political parties who rule both in the centre and in the respective states. On the other hand, organizations of the state are also responsible for a credible and trustworthy state-business atmosphere. In the schematic figure above, all the players who shape and are shaped by the economic events, have been mentioned and will appear in the discussion at the appropriate places.

The discussion is divided into three interdependent phases, according to the chronological periods 1965–77 (Phase I), 1977–1991 (Phase II) and 1991–2005 (Phase III). There is also a section on the movement of poverty ratios and industrialization in West Bengal. The phases are overlapping in the first and the last years for the sake of continuity and in each phase, an effort is made to identify the relevant institutions and policies shaping the dynamics of the manufacturing/industrial sector in West Bengal. The methodology is data analysis to identify a) relevant organizations; b) relevant rules and policies defining the institutions; c) the character and sectors of the manufacturing industry; d) the elements determining the dynamics of change and e) the impact of these dynamics on poverty and inequality. The discussion is based on both theory and empirics and is aimed at providing some generalization in order that this may be used for comparative purposes with other cases from different countries.

4. A BIRD'S-EYE VIEW OF THE ECONOMY AND POLITICS IN WEST BENGAL AN INDIAN CONTEXT

This section provides a summary view of the characteristics and performance of the West Bengal economy, and its politics, compared to the average figures for India its purpose being to initiate readers to the topic. The tables are carefully chosen, since similar data will appear in a number of places (the first table gives the structure of the national income in West Bengal and its relative position vis-à-vis India's average for per capita income for selected years; we have chosen the relative per capita income figures to exhibit relative performance of the state instead of growth rates).

Table 1: Structure of National and State products: Comparison of West Bengal and All India

Year	Share of Agriculture (%)		Share of Manufacturing (%)		Share of Unorganized Sector in Manufacturing (%)		Ratio of per Capita NSDP of WB with per Capita NDP of India
	WB	IND	WB	IND	WB	IND	
1980–81	28	37	21	15	42	45	1.02
1990–91	28	30	18	16	45	38	0.86
2000–01	27	24	13	14	61	38	0.96
2003–04	23	22	11	14	65	36	0.97

Source: National Accounts Statistics, published by Central Statistical Organisation (CSO). Part of the data was collected from www.indiastat.com, which publishes the original data.

Note: NSDP= Net State Domestic Product, NDP= Net Domestic Product

Table 2: Share of Unregistered Sector In Total Manufacturing Employment
Year

Name of States	1989–90	1994–95	2000–01
Maharashtra	67.3	64.57	71.7
Gujarat	70.07	69.85	66.4
Tamil Nadu	78	71.2	75.19
Karnataka	81.3	79.6	81.08
Andhra Pradesh	79.39	70.4	78.4
Uttar Pradesh	86.5	88.39	90.9
West Bengal	89.2	85.38	91.15
All India	81.12	78.25	82.28

Source :

1. Report on Directory Manufacturing Establishment Survey 1989-90
2. NSS Report Nos 396/2 Vol.I , 433 (51/2.2/1) , 477(56/2.2/1) (NSS= National Sample Survey)

Let us discuss tables 1 and 2 together, as we can see, the structure of West Bengal economy is very similar to what we find for India as a whole. A notable feature, however, is that the share of manufacturing sector in West Bengal is lower since it is the services sector, including the construction sector, which plays a more important role for the state compared to India as a whole. Growth rates for India and West Bengal have moved somewhat in tandem in the latter periods, especially in the nineties, since the per capita income in West Bengal has stayed close to the Indian figure. However, the performance of the West Bengal economy as a whole lagged behind the Indian performance in the 1980s – the per capita relative income dipping during that period. The other noteworthy aspect is the preponderance of unregistered manufacturing activity in West Bengal compared to India as a whole, where unregistered means not registered with the Directorate of Industry of the respective states; a phenomenon which really picked up from the late 1990s, when the rest of India was showing increased activities under the registered or organized sector. We will have occasions to discuss this from an institutional-failure perspective later in the paper.

Table 3 gives some idea about the productivity in the unorganized sector in West Bengal vis-à-vis some other high performing states in India – comparable data could only be compiled from the 1990s and is given below.

Table 3: Per Enterprise Gross Value Added in Urban Unorganized Manufacturing Sector (in Rs)

States	1994–95	2000–01
Maharashtra	86,295	100,166
West Bengal	34,344	43,826
Tamil Nadu	43,280	59,194
Gujarat	62,270	108,232
Uttar Pradesh	33,479	49,436
Punjab	58,585	100,458
Andhra Pradesh	25,874	42,239
All India	47,496	65,863

Source: NSS report No. 434 and 477.

As table 3 shows, West Bengal not only has a higher share of unorganized sector activities, but per-enterprise value-added is considerably lower than some of the high performance states and the Indian average. Obviously this translates into the observation that this sector absorbs a very high proportion of the working population in West Bengal, but return from their activities is low. This certainly highlights the number of poor people in the state vis-à-vis the rest of the country. It also implies that the number of poor in the state may be low due to possible earnings from informal activities, but equally the number of wealthy people may also be comparatively lower in the state than in India overall.

To complete the picture, let us look at the relative position of the registered manufacturing sector of West Bengal vis-à-vis the rest of India illustrated in table 4.

Table 4: Structure of Industry of West Bengal in Indian Perspective- Percentage Share in the Registered Sector

INDUSTRY	1959	1966	1970	1980	1990	2001
Textile (Jute and Cotton)	14	13	12	4	3	2
Apparel	15	18	12	5	4	1
Tanning	9	9	7	15	9	10
Chemicals	19	17	14	7	5	4
Basic metals	74	29	24	14	11	9
Metal products	30	25	21	10	7	5
transport(railways)	33	45	41	10	6	6
Electrical machinery	31	22	17	9	7	6
Non-electrical Machinery	20	18	13	8	6	6

Source: Annual Survey of Industries, time series data published by CSO.

Note: The figures for Transport are not comparable as up to 1970 – there were only Railways; after that the change in definition brought the whole transport sector in picture.

Any discussion of state-business relations has more resonance when one talks about large scale organized industry. West Bengal had very strong links with some of the crucial industries – basic metals, metal products, transport, especially railway equipment, and electrical machinery – from the fifties up to the mid sixties. The decline in all of these industries is significant. One must note that industrial classification system changed three times during the period, making comparative pictures difficult and misleading at times – for example in the case of transport, from the earlier data up to 1970, showed railways specifically, but afterwards is the transport sector as a whole. Despite such changes in definition, the rapid decline of organized sector activities in West Bengal throughout the last forty years is an inescapable fact. This will have a significant bearing on an institutional analysis of state-business relations since the unorganized sector, by self-choice, largely remained outside the enforcement of rules and regulations by the government. One needs to analyze the political economy of such major changes in West Bengal's manufacturing industry in order to understand the underlying institutions and organizations; this also will pave the way for an analysis of the possible avenues of a turn-around for the West Bengal economy.

From a political perspective, does this imply advantage to the Communist Party in the state, whose ideology is certainly to empower the masses? Let us look at table 5 for election results in West Bengal over a number of years.

Table 5: Election Results in West Bengal

Year	Seats Contested	Seats Won	Percentage of Total Votes Polled	Percentage of Votes in Seats Contested
1967	CPI (M) – 135 INC – 280	CPI (M) – 43 INC – 127	CPI (M) – 18.11 INC – 41.13	CPI (M) – 36.14 INC – 41.13
1969	CPI (M) – 97 INC – 280	CPI (M) – 80 INC – 55	CPI (M) – 19.97 INC – 41.12	CPI (M) – 54.12 INC – 41.32
1972	CPI (M) – 208 INC – 238	CPI (M) – 14 INC – 216	CPI (M) – 27.45 INC – 49.08	CPI (M) – 35.92 INC – 58.35
1977	CPI (M) – 224 INC – 290	CPI (M) – 178 INC – 20	CPI (M) – 35.46 INC – 23.02	CPI (M) – 46.23 INC – 23.29
1982	CPI (M) – 209 INC – 250	CPI (M) – 174 INC – 49	CPI (M) – 38.49 INC – 35.73	CPI (M) – 53.77 INC – 42.08
1987	CPI (M) – 213 INC – 294	CPI (M) – 187 INC – 40	CPI (M) – 39.31 INC – 41.83	CPI (M) – 53.64 INC – 41.83
1991	CPI (M) – 213 INC – 284	CPI (M) – 189 INC – 43	CPI (M) – 36.87 INC – 35.12	CPI (M) – 49.98 INC – 36.25
1996	CPI (M) – 217 INC – 288	CPI (M) – 157 INC – 82	CPI (M) – 37.92 INC – 39.45	CPI (M) – 50.48 INC – 40.21
2001	CPI (M) – 211 INC – 60 AITC – 226	CPI (M) – 143 INC – 26 AITC – 60	CPI (M) – 36.59 INC – 7.98 AITC – 30.66	CPI (M) – 49.96 INC – 39.70 AITC – 39.42
2006	CPI (M) – 212 INC – 262 AITC – 257	CPI (M) – 176 INC – 21 AITC – 30	CPI (M) – 37.13 INC – 14.71 AITC – 26.64	CPI (M) – 50.83 INC – 16.51 AITC – 30.30

Source: Election Commission of India - Highlights of Elections.

Note: Only Major parties are shown. CPI(M) is Communist Party of India (Marxist), INC is the Indian National Congress and AITC is the breakaway Congress named All India Trinamool Congress, which is the major opposition party since 2001.

One should read table 5 carefully. The main Communist Party in West Bengal, abbreviated as CPI(M), is part of a coalition of left minded political parties. Although it has an overwhelming majority within the left front, since 2001 it has contested a lesser number of seats than its main opposition party in West Bengal, namely Indian National Congress (INC) and the breakaway faction All India Trinamool Congress (AITC) – thus in terms of percentage of total votes polled, it sometimes lags behind INC and INC-AITC combined, but in terms of percentage of votes polled in seats contested CPI(M) shows a figure of almost 50 per cent for the last six elections. This clearly shows strong support for the communists in the seats where they contested, despite the fact that overall, there was strong support for the opposition also – though this did not result in a high number of winning seats in the election. This suggests, given electoral politics, an ideological compromise on the part of the ruling parties in order to win over those in the opposite political spectrum.

5. A PHASE-BY-PHASE ANALYSIS OF THE INTERACTION OF INSTITUTIONS AND ORGANIZATIONS IN SHAPING MANUFACTURING ACTIVITY IN WEST BENGAL

As discussed in the earlier sections, we have adopted a longitudinal analysis to capture the dynamics of the state-business relationship in West Bengal. This is necessitated by the fact that state politics and the business environment changed over different periods, responding to economic and political developments.

5.1 Phase I (Period: 1965–1977) The Economics of Control and the Politics of Entitlement

This phase is important from a political theory perspective for a couple of reasons, however from a political development perspective, the year 1967 is most important – this year experienced an apparent breakdown of the institutional framework within which the various organizations were expected to operate. The Government of India tended to control the behavioral patterns of the various subsystems, something that can be inferred from the following: first, in the general election of 1967, one-party dominance gave way to multi-party rule in several Indian states meaning that new rules of the game would have to be formulated. Secondly, in the same year, the Supreme Court of India delivered a historic judgment in the Golaknath case proclaiming right to property as enshrined in the Constitution of India as inalienable, indivisible and immune to appropriation by the state. This Lockean position vis-à-vis private property gave a serious blow to the concept of redistributive justice, as championed by the Indian state. Thirdly, what might have been overlooked by several scholars the fact that the Indian state resorted to an annual plan system, thereby giving up – however temporarily – the concept of the five-year plan. It perhaps could not be viewed as an example of institutional breakdown, but it was undoubtedly a reflection of massive economic crisis the Indian state had been confronting.

The state of West Bengal ushered in a new era when a non-Congress ministry dominated by the Left, came to power. From 1967 to the present day, the political history of West Bengal appears to be a story of polarization between the Left and non-Left forces with the non-Left becoming marginalized, though not a spent force, while the Left has given up its militant strategies of the 1960s and the 1970s and embraced a policy which could be described as orientated to the Realist Left.

West Bengal had the eminent position in the industrial map of India at the time of independence, as Timberg (1973) has stated, West Bengal had about 20 per cent of Indian industry at the time of independence with about a 10 per cent share of population. The figures are approximations, but what is undisputedly true is the dominance of West Bengal in the industrial sector of India. The following comparison of the engineering industry between Bombay and West Bengal, at the time of independence, gives some idea of the industrial scenario in West Bengal:

Table 6: Factory Workers Employed in Engineering Industry in Bombay and West Bengal, 1948

Item	Bombay	West Bengal
Electrical Engineering	1927	6081
Ship Building & Engineering	5180	19,049
Railway Workshop	530	12,193
General Engineering	18,272	47,315
Total	54,798	1,07,495

Source: *The Indian Labour Yearbook, 1948–49*, pp.372–78, as reproduced in Thomas (2006).

From this position of great eminence, it is well-known now that West Bengal's manufacturing sector declined in importance over a long period of time. One needs to have some idea about the nature of industries which were important in West Bengal during the period of this study, so we have reproduced the following table to illustrate the important industries during this period.

Table 7: The Types of Industries with Employment in West Bengal, 1961–1975

Industries	1961		1965		1967		1970		1972		1975	
	No.	Emp	No.	Emp	No.	Emp	No.	Emp	No.	Emp	No.	Emp
Tea	282	27,136	288	26,055	285	25,513	276	27,922	272	27,088	265	26,442
Cotton textiles	78	48,074	140	47,357	164	49,036	182	42,656	250	48,679	241	55,209
Jute Mills	88	201,510	84	258,943	81	231,595	76	224,621	73	236,717	74	243,191
Chemical Products	221	23,219	275	25,873	272	25,748	280	27,554	318	30,490	334	30,393
Iron & Steel	5	32,752	5	30,168	6	32,315	6	37,822	5	40,059	4	40,577
Engineering Industries	1661	253,965	2421	328,319	2586	314,014	2544	297,771	2603	308,633	2587	317,827
Total	4311	718,000	5643	880,000	5658	832,000	5612	809,000	5611	831,000	5626	839,000

Source: Labour in West Bengal, Government of West Bengal, various issues.

Note: No. above denotes number of Registered Factories and emp. denotes Average Daily employment.

Table 7 clearly shows the dominance of two industries in for the phase under discussion: 1) the jute industry is an old one and has provided substantial employment in West Bengal; it may have suffered after partition, but was still a significant source of income for many. 2) The Engineering sector is composed of a variety of industries, however, this industry developed an umbilical relationship with the Railways sector in India (BCCI, 1971). Most engineering units grew up in the district of Howrah, the sister city of Calcutta across the river Ganges, they were small, ancillary producers to some of the big engineering firms, all dependent on orders from the railways. Some of these are well known names like Jessops, Burn and Standard, Braithwaite, Andrew Yule, originally British companies, which went to Indian managing-agents after independence and finally to Indian majority ownership – the volume compiled by the Bengal Chambers of Commerce and Industry (BCCI) in 1971 highlights this dependence with examples – an arrangement which certainly forms one of the core relationships in this phase.

As table 7 illustrates, employment did not either rise or fall dramatically in any of the years highlight, but what should not escape a scrutinizing eye is the fact that employment in the jute and engineering industries fell in the period between 1967 and 1970, which also brought decline in the number of operating factories in both industries. This period is interesting because from 1967 to 1969, for the first time, left parties captured the government in West Bengal. This does not mean any immediate catastrophe for a mixed economy going through the path of democracy, but as the next tables highlight, there was some important qualitative changes in the economy of the state which should be analytically studied.

Table 8: Share of West Bengal in the Ex Factory Value of Industrial Output in India (in Percentage)

1960–61	1964–65	1967–68	1969–70	1973–74	1975–76
20.5	19.7	16.4	14.4	12.8	11.5

Source: *Economic Review*, Government of West Bengal, various years

Note: The years are overlapping since it is according to financial year in India, for example, April 1 of 1960 to March 31, 1961.

As table 8 shows, West Bengal's contribution to the ex-factory value of industrial output fell from about 20 per cent (as it was during the time of independence) to a mere 11.5 per cent in 1975–76. However, one should not miss the fact that the real decline occurred in the period 1967 to 1970, again, pointing to the left coalition government in power during that period. It all builds up to a possible conclusion of communists stunting the growth of the private sector, the next table perhaps adding fuel to the fire.

Table 9: Strikes and Lockouts in Factories in the state of West Bengal, 1965–1975

Nature of Industrial Disputes	N U M B E R S					
	1965	1967	1969	1970	1971	1975
Strikes	179	N.A.	N.A.	678	N.A.	111
Lockouts	49	N.A.	N.A.	128	N.A.	166
Total	228	447	894	806	340	277

Source: *Economic Review*, Government of West Bengal, various years

Note: The term 'N.A.' denotes Not Available.

Table 9 clearly shows a rapid rise in the incidence of industrial disputes in the period of left rule during 1966–1970. Detailed data is not available from government sources, but the jump in the number of strikes from 179 in 1965 to 678 in 1970 speaks for itself. One must note that in Indian terminology, strike is an action on the part of trade unions (presumably recognized by labour legislation) while lockout is an action by the management of a firm. After the brief interregnum of left rule, the number of industrial disputes certainly declined, which lead to a common belief that the main reason behind the industrial decline of West Bengal is the spurt in industrial disputes, mainly at the behest of left trade unions closely allied to the government during 1967–70 (for example, Timberg, 1973 and Guruswamy, 2005). In fact, one of the favourite themes of research was the 'Capital Flight' from the state of West Bengal to other states during the 1970s. As Pederson (2001) has written 'most industries in West Bengal were old and controlled by outsiders (namely foreigners and Indian industrialists originating from other parts of the country) that did not have distinct incentives for acting on behalf of state's interests' (pp. 649); continuing 'the short-lived experiment 1967–70 with militant United Front governments that initiated mass actions by the industrial working class probably reinforced this trend.' (pp. 649) This is echoed in Timberg's (1973) article which adds 'the fact that firms without such branches elsewhere, especially those owned by Bengalis themselves, have been the first to move out suggests that the results of the wave of strikes, rather than the footloose-ness of West Bengal's capital, was indeed decisive.' (pp. 89)

The above will be analyzed somewhat indirectly, as capital flight is a difficult concept to be empirically established, but the logic, although quite forceful, somewhat catches the 'pollution at the end of the pipe' without establishing very conclusively the source of it, we will go into this aspect in greater details with the help of some additional tables: the following table illustrates public investment during the Annual Plan period, 1966–69 (in comparison to the years just preceding and following), particularly on the railways. This data is important since it shows the sudden reduction of state investment in the economy, leaving a number of sectors in a demand-deficiency crisis. This spells catastrophe in the context of our previous discussion where we have spoken about the heavy dependence of engineering industries on the railways in West Bengal, large or small alike. With engineering being, in turn, the mainstay of industrial employment in West Bengal, this has an important bearing upon industrial development.

Table 10: Net Domestic Capital Formation (NDCF) in Public Sector by Industry of Use, Gross Domestic Capital Formation (GDCF) and GDP at market prices (at current prices) in Rupees Crores

	1963–64	1966–67	1968–69	1972–73	1974–75	1976–77
Agriculture, etc.	146 (10.46)	179 (11.13)	225 (17.41)	423 (16.50)	462 (12.47)	860 (13.95)
Manufacturing Registered	226	444	295	395	1041	1138
Electricity, Gas & Water Supply	260 (18.64)	283 (17.60)	79 (6.11)	418 (16.31)	518 (13.98)	1003 (16.27)
Railways	278 (19.93)	143 (8.89)	80 (6.19)	144 (5.62)	75 (2.03)	29 (0.47)
Total NDCF in Public Sector	1395	1608	1292	2563	3704	6163
Total GDCF in Public Sector	1744	2209	2259	3875	5753	8822
GDP at Market Prices	22482	31305	38823	53947	77479	89739
GDCF at Public Sector as a Percent of GDP	7.7	7.1	5.8	7.2	7.4	9.8
GDCF at Private Sector as Percent of GDP	7.8	9.5	8.6	9.0	10.9	9.3

Source: National Accounts Statistics, Back Series (1950–51 to 1992–93), Central Statistical Organization, Ministry of Statistics & Programme Implementation (MOSPI), Government of India and Economic Survey, Government of India, 2004–05

Note: a) Indian Unit of 1 crore = 10 million b) Figures in the parentheses are percentage to total NDCF

Table 10 highlights the story of government investment in general and in the railways in particular. It is clear that the Annual Plans, which were mainly consequences of the Indo-Pakistan war and droughts in the mid sixties, reduced state involvement in productive investments. There was a drop in Gross Domestic Capital Form (GDCF) in the public sector during this period, compared to GDCF in the private sector, with the major brunt of this falling on the railways sector, whose percentage of investment in the total Net

Domestic Capital Form (NDCF) in the public sector dropped from 19.9 per cent in 1963–64 to 6.19 per cent in 1968–69. At this time, the railways were entirely a government enterprise, but gave orders to the private sector as well, ranging from building wagons to fitting the coaches with various electrical and non-electrical equipment. As we tried to illustrate earlier, West Bengal was the biggest beneficiary of this system; West Bengal's engineering industry survived to a large extent on these railway orders (BCCI, 1971) and as highlighted by Raychaudhuri and Chatterjee (1998), West Bengal's engineering industries did not go for massive production in consumer goods industries (except partly in case of items like electric lamps and fans), which would have depended on market volatility. Instead, they went for more secured production for the railways, which was totally dependent on public sector investment in the railways.

So to reiterate, the Indian economy was philosophically embedded to the Feldman-Mahalanobis Planning strategy during the period from the mid-fifties to mid-sixties, which stresses the long-term benefits of investing heavily in the basic and capital goods industries. The two wars, especially the India-Pakistan war in 1965 and severe drought for two consecutive years from 1965–67 forced the central government in India to temporarily abandon the five year plans and go for annual planning, which led to a general cut in government investment and hence to a recessionary situation. (Ahluwalia, 1985) The impact of recession was felt at different levels by the states: it is obvious that West Bengal felt it dearly in the manufacturing sector.

Let us move to the other most contentious subject in this phase: the system of Industrial Licensing, which prevailed very strongly in this period. The main purpose of Industrial Licensing is nicely summed up by the report of the Hazari Committee (1967), which investigated the pitfalls of the industrial licensing system:

The main objectives of the Industries Act (that is, industrial licensing) were to:

1) Provide for government control over the location, expansion and setting up of private industrial undertakings with a view inter alia to channel the investments into the desired directions, promote balanced regional development, protect small and cottage industries and prevent concentration of ownership and control to the common detriment;

2) Take over or transfer the management of those undertakings which are being conducted in a manner detrimental to the industry or the public investment; and

3) Set up development councils one for each major industry, to act as some kind of industrial planning and development organizations. (Section 19.1 of the report)

The above objectives, in the initial phase of the development of an economy which suffers from foreign exchange and capital goods scarcity, are quite understandable, but at the same time, it might give rise to rent seeking – in fact two successive committees, known as the Hazari (1967) and Dutta (1969) committees, which investigated the industrial licensing system in details, spoke of its abuse by large, private, industrial groups. It also highlighted the possible failure of the bureaucracy to perform its duty in this regard. The present work does not intend to delve deeply into the licensing issues per se, but to highlight the link to West Bengal's industrial development in the phase under consideration.

Table 11: Industrial Licenses Issued to Different States in India, 1965–76

Year State	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
AP	24	19	11	4	6	13	37	30	29	61	61	51
GU	39	33	29	23	16	39	66	57	78	89	97	83
TN	59	29	18	7	12	36	51	36	64	99	141	61
MH	134	109	100	66	80	112	162	131	183	265	255	143
PH	24	31	16	14	7	39	45	52	44	107	109	52
WB	64	42	48	34	62	46	81	54	47	107	74	56
BI	61	53	23	12	7	22	24	18	9	24	15	17
OR	5	8	2	2	3	4	7	4	0	12	10	7

Source: *Economic Review*, Government of West Bengal, various years.

Note: The abbreviations for the states are as follows- AP = Andhra Pradesh, GU = Gujarat, TN = Tamil Nadu, MH = Maharashtra, PH = Punjab & Haryana combined, WB = West Bengal, BI = Bihar, OR = Orissa.

Unfortunately, the data in table 11, as published by the Ministry of Industry, does not distinguish whether it is the demand for licenses or the actual licenses issued which is at variance with the demand, so it is not possible to directly answer the question regarding intention of industrialists and the actual granting of licenses based on demand. However, the pattern shows that West Bengal, which received the second largest number of licenses up to 1970, was only overtaken by Gujarat and later by Tamil Nadu after 1970, when West Bengal still occupied the third and then the fourth spots consistently; though it is true that the number of industrial licenses issued to West Bengal fluctuated, but that is more or less an all-India trend.

Let us quote Pederson (2001), who gives one point of view on the trend in the industrial licensing pictured above:

'The failure to attract sufficient new investments from Indian and Foreign sources was apparent in the granting of investment licenses from the central government... Apart from a few exceptional years West Bengal... continued to experience a steady decline in its share of investment licenses issued by the central government... While it is not possible to say to what extent the decline in industrial licenses and financial support was a result of a deliberate policy of discrimination by central government – as claimed by the CPI (M) (Communist Party of India Marxist) – or if it simply reflected the lack of investor interest in the state.' (pp. 652–653)

This is one strand of thought that is widely shared by political parties (not necessarily the Marxists alone), academics and media persons. One highly acclaimed book written by a well known journalist makes the following comment: 'the centre has not applied the same yardstick to Maharashtra in the matter of industrial licenses.' (Roy, 1971, pp. 85) The idea is that the industrial licensing system is a tool in the hands of big business who influenced the central bureaucracy to 'dance to their tune', but that West Bengal did not get favour from them, as another quote from Roy suggests:

'Speaking at the New Delhi Press Club in June last year, B.M.Birla (One of the topmost Marwari industrialists in India operating mainly from West Bengal- italics authors) held the Government of India mainly responsible for the lack of growth of industries in West Bengal. The Government, he said, would not give licenses to West Bengal on the plea that the state was already industrially developed.' (1971, pp. 85)

Perhaps, viewed from the rest of India, the more general perspective of the misuse of industrial licensing by big business is readily acceptable, but the hue and cry from within the state of West Bengal does not find too many takers outside the state.

To complete the picture, we should mention, inter alia, the role of the Freight Equalization Policy, pursued from the Industrial Policy statement of the Indian Government in 1956. As labeled by the Hazari Committee, this is something like a postage stamp rate for important raw materials like steel and coal for the whole of India. So, no matter where they are produced, they will be sold at the same price across India since this goes well with the so-called industrialization strategy of Mahalanobis so faithfully pursued by Indian planners in the 1950s to the mid 1960s. This, in a sense, distorts the comparative advantage of certain regions, since it is the Eastern region of West Bengal, Bihar and Orissa, who were deprived of their locational advantage being close to mineral extraction points. So, does the licensing procedure abet this trend of denying states their true comparative advantage?

While one can certainly speak against the freight equalization policy as being a distortionary regulation, the same may not be said for the industrial licensing policy. Although, one may talk against the industrial policy as a regulation which was mired in bureaucratic red tapism and bungling (Sinha, 2006), the same may not be said about discriminating against one particular state for being under left domination for some years. At least for the period under study, 1965–77, West Bengal seems to be lagging behind only Maharashtra, Gujarat and later Tamil Nadu, in terms of the grant of industrial licenses. Despite displaying a negative trend during the periods when the left dominated United Front government came to power, overall, not much discrimination can be discerned from the data itself. It is not entirely unexpected that some companies will try to relocate, if they had face intense labour disputes, like Phillips India, but that the state was well endowed in skilled manpower and indigenous capital of the business community, called Marwaris, could not be denied. (Timberg, 1979) Moreover, the government in West Bengal, despite lending official support to labour militancy in many cases, never effectively nullified property rights. So, perhaps, the East Indian sister states of West Bengal, namely, Bihar and Orissa, may smell foul-play in the whole system of industrial licensing, but the same surely does not apply to the state of West Bengal.

From a political theory standpoint, the first phase can be described as characterized by the 'politics of entitlement', the non-Congress governments which came to power from 1967 to 1972, though not always as a consolidated force, were keen on pursuing pro-worker politics both on political and ideological grounds – to them, the working class, were after all entitled to a fair deal; though in fact, the efforts of the non-Congress governments to work within the existing conciliatory and bargaining mechanisms did not produce the desired outcome – that is the government had failed to balance the interests of the working class. This ultimately led to the politics of gheraos which frightened the capitalist class, and led, in turn, to flight of capital from the state. It seems that the Government of West Bengal had failed to use what has been described by John Rawls as, 'the pure procedural justice to handle the contingencies of particular situations.' (Rawls, 1971, pp. 274–275) Thus question is: is it the failure of the Government of West Bengal to act in accordance with the principles of justice noting that a decline in manufacturing industries had taken place? In fact, it seemed that the new Government had been trying to understand the reality – that is, whether the working class could be a true revolutionary force, but, in the process, it ignored one major institutional constraint, that is, that the government is also responsible for protecting private property. Is it true that the period 1972–1977 saw the formation of Congress Government in West Bengal – but the proclamation of emergency in 1975 throughout India, its authoritarian rule, and subordination of the Fundamental Rights to Directive Principles of State Policy through the 42nd Amendment generated no sense of fairness either among the working class nor the big business groups?

Overall, the story of discrimination in industrial licensing or labour militancy does not seem to be

the root cause of industrial decline of West Bengal in this. Rather, the decline in public investment, especially the railways; the distortionary freight equalization rule; and the declaration of 'Plan' holidays really triggered the crisis. As is well known, in times of crisis, one factor snowballs into another, and so though labour militancy, and the consequent 'capital flight', became important determinants of the lack of industrial investment in West Bengal, they were consequences rather than causes of the fallout from the withdrawal of the centre from infrastructure-sphere, after 1965.

Does the above denote major institutional lacunae or failure somewhere? Let us first identify the institutions and the major policies in the first phase below:

Major organizations: a) Central Planning Commission (in charge of Five Year Plans); b) Central Ministry of Industry (in charge of industrial licenses); c) Central Leftist Trade Unions (responsible for workers bargaining); d) Left Political parties in West Bengal (came to power for the first time during 1967 to 1970); e) Bengal Chamber of Commerce and Industries (the leading business association in West Bengal).

Major Rules/Policies and Actions: a) Five Year Plan 'Holidays' during 1966–1969; b) licensing rules to bring Regional Balance in private industrial investment; c) Freight Equalisation Policy for Coal, Iron, Steel and Cement from 1956, nullifying locational-cost disadvantage; d) major industrial disputes in West Bengal, led by the Trade Unions; e) maintenance of property rights in West Bengal despite left domination in government.

So what does the balance sheet in this period show? Let us briefly highlight the pros and cons of this issue:

1. The most important institutional failure which affected West Bengal's manufacture adversely is the institutional failure in terms of plan holidays during 1966–69. Since the five year plans formed the backbone of the basic and capital goods industries in the planned economy of India, the retreat from this planning process on the part of the central government was a body-blow to the industries which depended on it.

2. The second most important distortion in the system is the Freight Equalization Policy, formulated by the Ministry of Industry in 1956, which goes against the efficient resource allocation and harms the states which produce the important raw materials for the industries. Although this cannot be held to be a necessary condition for the decline of the manufacturing industries in West Bengal, the knock-on effect.

3. The Industrial Licensing policy, another brainchild of the planners in India and controlled by the Ministry of Industry, failed in its primary goal of dispersing the concentration of industries from only the industrially developed states. At the same time, as discussed by others (Srinivasan, 2006; Ahluwalia, 2002; Rangarajan, 2005; Sinha, 2006), it certainly led to increased beaurocracy, delays and possibly corruption, all leading to higher transaction costs for business; but, as we argued above, this cannot be very conclusively established as an important factor for industrial retrogression in West Bengal. West Bengal, which was comparatively more industrially developed, still had a large share of industries in the first few years of licensing, next only to Maharashtra and Gujarat. Then other factors started to impact on the industrial dynamics of West Bengal and factors stunting West Bengal's industrial growth moved in tandem, making it very difficult to disentangle the true causes.

4. The sudden spurt of industrial disputes, mainly led by government-backed and left-party sponsored trade unions between the years 1967–70, certainly sent a wrong signal to potential investors, but as we have tried to illustrate earlier, the spurt in labour militancy was a response to the weak economic situation in the period. It is wrong to say labour militancy caused the situation, rather that it was a response which became more irresponsible as the industrial decline went from bad to worse.

5. The role of the business association was somewhat in tandem with that of the state government as far as licensing is concerned. It was not licensing as it is that bothered them, but the allocation of foreign exchange to buy imported raw materials. The allocation was made by the Ministry of Industry in New Delhi after getting the nod from Director General of Technical Development (DGTD) and the Bengal Chamber of Commerce and Industries (BCCI), the leading business association in West Bengal, cried foul in this allocation as is reflected in the 1971 book. The question is whether the BCCI had done enough to foster better state-business relations? So far as the Central Government is concerned, it is hard to say how effective a role they had played, but they were very vocal concerning the militant trade unionism which came with the left dominated united front government from 1967–70.

6. Despite supporting the labour militancy, the major leftist party – namely Communist Party of India (Marxist) or CPI (M) – distanced themselves from the radical segment within their party, which broke away to form the Communist Party of India (Marxist-Leninist) or CPI(M-L). The latter certainly wanted a revolution in the Chinese style, appropriating private property in favour of farmers and workers. However, the partner in the ruling coalition CPI (M) did not support such a view and protected private property rights.

Thus, in a nutshell, we can describe Phase I the of development of manufacturing industry in West Bengal to be governed by both some institutional failure and some shortcomings of the state: this certainly increased the transaction costs of the firms willing to carry out business in West Bengal. At the same time, property rights were not seriously questioned in the manufacturing sector, but the role of Central Government is not beyond criticism – when especially, from the point of view of West Bengal, the plan 'holidays' simply suggest extremely myopic vision.

5.2 Phase II (Period: 1977–1991) The Era of Economic Uncertainty and Political Stability

The choice of the years for Phase II is somewhat deliberate, being the period right after the imposition of an 'emergency' in India, which somewhat adversely affected the ruling party in power both in India and West Bengal, namely the Congress party. Phase II may be described as an era of uncertainty for the business community in West Bengal, the apparent reasons being as follows: first, the right to property: as described in the Constitution of India as portrayed in the chapter on Fundamental Rights through the Constitution (forty-fourth) Amendment Act, 1978, incorporated as a legal right in the Constitution under Article 300a; an undoubtedly significant change. Second, this constitutional change might have appeared to be more significant in the context of West Bengal as the Left Front became a politically significant factor at the central level. Third, the massive majority which the Left Front secured in the four elections during this period made it politically difficult for any ruling party at the centre to bring any charges relating to the breakdown of the constitutional machinery in the state – a charge which had been brought against the non-Congress ministries, when President's rule was imposed no less than two times during the earlier phase. Fourth, industry appears in List I of the Seventh Schedule, which is essentially within the jurisdiction of the state, and given the past record of militancy, alongside the ideological commitment of the Left, it should not be considered unusual for investors to shy away.

The Left, on the other hand, showed political maturity in dealing with this question of uncertainty. Despite being critical of constitutional framework within which centre-state relations had to operate, it was confident of initiating pro-poor growth at a modest level. The leadership constantly reminded the masses that no drastic change would be feasible given the constitutional framework, but every effort would be made to pursue sustained pro-poor policies with strong emphasis on the continuation, creation and establishment of institutions for consultations. It did, however, usher in a massive agrarian reform programme; and, in order to ensure an institutional environment supportive of sustained agrarian reform, the new government introduced massive decentralization measures. The Panchayati Raj Act 1973, which was passed during the Congress Rule, provided the legal foundation of a new, but long wished-for, institutional framework for the successful implementation of the Left's agrarian reform. What is interesting is that these institutions went on to become major mechanisms for conflict resolution in rural areas. Despite the absence of adequate empirical data, it would not be wrong to argue that Panchayati Raj institutions played a significant role in making the society cohesive and inclusive. A second interesting phenomenon of this agrarian reform was that it resulted in 'expansion of non-agricultural activities' and 'a substantial growth of small scale unorganized sector manufacturing and service activity in rural areas of West Bengal over the 1990's such that manufacturing output in the state as a whole increased nearly by 7% per annum... despite near stagnation in the organized sector.' (West Bengal Human Development Report 2004, pp. 37)

Leftwitsch has identified two different approaches to study institutional dynamics in rational choice institutionalism and sociological institutionalism: where the former emphasizes rational strategy on the part of the actors to deal with the institutional structure, the latter highlights, amongst other agent-structure relations. Based on these two theoretical positions, we can raise the following questions: first, to what extent the Left Front Government conscious of the constraints within which it would have to function and opt for alternative choices to pursue their goal of remaining in power? Second, how did the Left Front Government try to maintain its 'autonomy' within the structure? Is it possible for a micro-unit like state government to opt for the alternative and bring about changes in the institutional framework? In the 1977 general elections, the left parties came to power with a massive majority, with CPI (M) cornering most of the seats. The first thing to note in this phase is the number of industrial disputes: table 12 describes the nature and incidence of industrial disputes.

Table 12: Industrial Disputes in West Bengal, 1977–1991

Industrial Disputes	1976	1977	1978	1979	1980	1985	1987	1989	1991
Strikes	129	206	172	146	78	39	39	16	21
Lockout	152	191	199	144	130	165	197	207	192
Total	281	397	371	290	208	204	236	223	213

Source: *Economic Review*, Government of West Bengal, Various years

This table is interesting, when one compares it to table 9, presented earlier. First, the number of disputes looks remarkably low compared to the first flush of leftism in the state government in the late sixties, it may be said that the leftists in West Bengal may have acquired a much more 'realistic' attitude – reflected in some other actions discussed later – the left trade unions sensibly reacted to the declining industrial production scenario in the organized sector and not vice versa. Second, although there was a rash of strikes after 1975, the incidence of lockouts greatly outnumbered the strikes, for the latter years, which implies a defensive left trade unionism and a much more aggressive stance of the owners of capital. This certainly indicates that the industrialists were giving an unambiguous signal with their unhappiness about the state of affairs in West Bengal and as can be inferred, West Bengal's share in the

Ex Factory value of output continued to fall unabatedly. Table 13 gives the exact position of West Bengal from 1977:

Table 13: Percentage Share of West Bengal in the Ex Factory Value of Industrial Output in India, 1977 to 1991

	1977-78	1980-81	1985-86	1987-88	1989-90	1990-91
Shares	10.5	9.8	7.9	7.2	6.1	6.0

Source: *Economic Review*, Government of West Bengal, Various Years

However, the falling share of industrial output did not change the character of employment generation in the different industries of West Bengal. One must remember that this data shows the output of organized industries which are registered with the inspector of factories – there exists a number of units which are beyond the purview of this – which we will discuss in due course.

Table 14: The Types of Industries with Employment in West Bengal, 1977-1990

Industries (selected)	1977		1980		1983		1986		1989		1990	
	No.	Emp.	No.	Emp.	No.	Emp.	No.	Emp.	No.	Emp.	No.	Emp.
Tea	261	23,840	266	26,606	269	25,988	273	26,612	275	25,651	278	24,923
Cotton Textiles	255	52,161	275	55,206	284	55,096	293	55,930	305	46,166	305	45,815
Jute Mills	74	230,187	73	244,052	74	237,759	77	242,900	78	264,602	78	222,214
Chemical Products	350	31,485	390	34,201	446	35,365	501	35,961	517	36,024	533	34,147
Iron & Steel	4	40,632	4	41,328	4	57,445	N/A		N/A		N/A	
Engineering Industries	2663	318,439	2971	334,738	3359	353,318	3667	350,766	4063	361,784	4149	360,610
Total	5837	826,000	6421	875,000	7324	832,000	8064	901,000	8764	887,000	8960	881,000

Source: *Labour in West Bengal*, Government of West Bengal, various issues.

Note: No. above denotes number of Registered Factories and emp. denotes Average Daily employment. Also, data for Iron & Steel industry was not given separately after 1984.

Table 14 shows a similar pattern of employment in the organized factory sector in West Bengal throughout the 1980s compared to the 1970s. The point to note is the rapid proliferation of the chemical factories, along with small scale engineering units, throughout the state, but with concentration in and around Calcutta Metropolitan city. The interesting thing is that despite the recessionary trend and labour militancy in the 1970s, engineering industries were able to grow unabated, perhaps with some structural change, in terms of the size of the enterprises. Another interesting feature is that it took West Bengal almost ten years to reach the same employment figure in these industries as there was in 1965; the number of registered units grew more than one and half times in 1990 compared to 1965, but average daily employment only increased by 32,000. This clearly shows that the large units gradually dissipated and that the skilled workers employed in those units opened shops in the neighbourhood, carrying on either subcontracted business – from medium and some large industries – or independently. (Raychaudhuri and Chatterjee, 1998; Raychaudhuri, 2006) This provided employment no doubt, but prevented the local industry to grow and compete at the national level, mainly due to poor quality, bad after sales service and untimely delivery. (Chatterjee and Raychaudhuri, 1996)

As hinted before, there appeared a clear trend towards the proliferation of small scale units in West Bengal's manufacturing industry, after the setback of the 1960s, however, small scale units did not come under the purview of industrial licensing. In India, there are various definitions of small-scale industries: while some use employment criterion – defining small manufacturing sector as consisting of units employing up to a specified number of workers (say 0-20 persons or 0-50 persons or 0-500 persons) – the official definition of small-scale industry uses investment – units having investment in fixed capital up to a specified limit; though the maximum limit for investment for investment has been raised several times. As table 15, taken from Raychaudhuri and Sarkar (2005), illustrates:

Table 15: Investment ceiling for Plant and Machinery (in Rs lakhs) for Small-Scale Industries in India

YEARS	INVESTMENT CEILING (Rs. lakhs)
1966	7.5
1975	10
1980	20
1985	35
1991	60
1997	300
1999	100

Source: A. Raychaudhuri and S. Sarkar (2005), 'The Pattern of Growth of Small-Scale Industries In West Bengal: An Analysis', in A. Raychaudhuri and T.K.Das eds. *West Bengal Economy: Some Contemporary Issues*. Delhi: Allied Publishers.

Note: Indian Rupees 1 lakh = 0.1 million

In this there are two categories of industries: one requires registration with the Director of Industries in the respective states – units which use more than 10 workers with electric power or more than 20 workers without electric power – the rest are tiny units which need not register themselves. As we will show, the unregistered small scale sector happens to be the majority in West Bengal, which negates the need for licensing, although, they can by no means they can be said to be a substitute for the industrial licensing system.

Below we reproduce the number of industrial licenses issued to different states in this period alongside data about letter of intent (LOI), which essentially is the response to the application that the prospective entrepreneur has to make to the Secretariat of Industrial Approvals (SIA) to enable 'the entrepreneur to apply for other clearances such as land, power and capital goods... or an import license (if applicable). After receiving various clearances, the entrepreneur applies for what is known as the Conversion of an LOI to an Industrial License (CIL or IL).' (Sinha, 2006, pp. 68-69) – the purpose of giving a separate item for LOI is to get an idea of whether big, organized-sector industries were at all interested in investing in West Bengal – if LOI is low, blaming the licensing regulation as being a major cause for industrial retrogression in West Bengal, does not make sense.

Table 16: Letter of Intent (LOI) and Industrial Licenses (IL) Issued to Different States in India, 1977-91

Year/State	1977		1980		1983		1986		1989		1991	
	LOI	IL	LOI	IL	LOI	IL	LOI	IL	LOI	IL	LOI	IL
AP	29	27	78	42	79	63	111	40	103	37	58	12
GU	84	60	148	85	115	115	105	86	133	49	101	34
TN	22	32	45	37	68	76	104	61	119	44	68	28
MH	135	150	175	107	155	171	173	96	198	72	173	54
PH	31	46	29	38	113	228	104	73	119	29	64	21
WB	41	40	55	23	45	71	42	21	33	14	28	3
BI	12	16	19	4	30	9	18	9	15	5	7	5
OR	9	2	14	8	25	14	17	12	24	4	12	6

Source: *Economic Review*, Government of West Bengal, various years.

Note: The abbreviations for the states are as follows- AP = Andhra Pradesh, GU = Gujarat, TN = Tamil Nadu, MH = Maharashtra, PH = Punjab & Haryana combined, WB = West Bengal, BI = Bihar, OR = Orissa.

Table 16 (where the LOI and LI figures do not match and if LI is higher than LOI, it means some backlog got cleared), shows, again, that the western states of Maharashtra and Gujarat, the southern states of Tamil Nadu (previously Madras) and Andhra Pradesh and the northern states of Punjab and Haryana attracted industrialists most. If one compares the conversion rates of LOI into LI, West Bengal fares comparatively well, although exact conversion rates are not available, it is just that the industrialists did not show much interest in setting up their units in West Bengal. Is this due to labour militancy or something else? We saw clearly that the incidence of strike had significantly reduced in the period under study, indeed, the industrialists had shown more likely to withdraw since lockout rates have shown a significant rise. There must be something else which worked against West Bengal.

Sinha (2006) gives a very vivid account of the problem as it existed during this phase, with examples to prove the point that although Gujarat had a very corrupt administration – West Bengal was just the opposite – transaction costs in West Bengal finally turns out to be much higher. This is because in a corrupt regime, bribes (in the examples, it varied between 5 to 8 per cent of total project cost in the case of Gujarat) act as speed money, which once paid, makes things move very quickly; not only that,

state machinery in Gujarat was informed and active in helping the prospective investors. The case for West Bengal was just the opposite, the state officials were neither informed or co-operative, making a risk-averse, long-term investor shy of investing in that state. It is also not out of place to mention here that the statement of Industrial Policy, published in 1978 (right after the left front government coming to power in 1977), clearly spoke of encouraging small enterprises and the public sector in place of Indian 'Big Business' and foreign capital. (Pederson, 2001, pp. 649–650) So it is natural that the West Bengal government would be apathetic to inviting large industrial houses into the state.

This is, however, but one half of the story. Transaction costs depend on other factors also – with one such factor certainly being the state of infrastructure as emphasized by a group of noted economists (Banerjee et al, 2002 among others), who argue that 'a recent joint study by the World Bank and CII based on data from over a thousand firms, provides some support for the view that low profitability is the key problem in West Bengal, rather than labour militancy.' In addition, they say 'Instead of labour relations, the report (World Bank and CII) goes on to cite over-regulation, poor infrastructure and lack of skills as the most important problems faced by the poor industrial climate states.' In support of the above, one can cite the detailed calculations of Ghosh and De (2004), which shows West Bengal's rank among all the states falling from 9 in 1981–82 to 17 in 1991–92 in terms of physical infrastructure, whereas in terms of social infrastructure it has maintained its rank at 10 in the same period (pp. 4,648). The authors have taken physical infrastructure to include rail, plus road route per square Km of area; gross area irrigated as a proportion to gross cropped area; per capita consumption of electricity; and telephone mainlines per 10,000 population. In social infrastructure, they have included a literacy rate, infant mortality rate and people living in concrete structure (pucca) houses.

At this point, one may refer to the discussion in Rodrick and Subramanian (2004) that the pro-business shift in the central government in India in the 1980s was reflected in those states where the political party in power was aligned with the central government: thus states aligned with the centre reaped the maximum benefit of this attitudinal change. However, West Bengal certainly does not fit into this scheme of things. This is undoubtedly one side of the story, but at the same time one needs to reiterate our earlier descriptions of a maturing, pragmatic, leftist government in West Bengal on one hand, and the poor state of the infrastructure of West Bengal on the other. So, even if the decline in labour militancy gave a positive signal to the industrialists, the neglect of infrastructural investment deterred them perhaps even more strongly; and although one cannot deny the positive impact of the change in attitude of the national government and states aligned to them, one needs to give the complementary factors – like infrastructural investment – equal importance in order to make a considered judgement on growth in the manufacturing sector in the Indian states (a point which appears prominently in the celebrated article of Banerjee et al, 2002).

Given the above discussion, it is natural that transaction costs of business will be high. It is true that in terms of direct side payments monetarily, West Bengal is at the bottom, but in real terms – delays in sanctioning projects, slow movement of files in government departments, congestion on roads and railways, poor power distribution especially in the districts and bad telecommunication facilities – West Bengal tops the list and hence this situation may best be described as a colossal institutional failure.

This discussion would be incomplete if we do not touch upon another related issue, from 1977, through strong memoranda to the Finance Commission, a constitutional body which look after the distribution of tax revenues and transfers between centre and state governments, the government of West Bengal had tried to draw attention to the anomalous problem of federalism in India (Datta, 2005). The idea was that unless there was equitable distribution of the taxes collected by central government, but generated within the geographic boundaries of the different states, then the public sector would not be strengthened as desired by the industrial policy statement of the West Bengal government, mentioned above. In one of earliest memorandum on centre-state relations, published 1 December 1977, the state of West Bengal demanded that 75 per cent of total central resource should be distributed to the states and not just the proceeds of some selected taxes collected by the centre. (Datta, 2005, pp. 456) The main demand of the West Bengal government was to give a much greater share to the states, although at the same time the memorandum also wanted a strong centre. Note, the centre also transferred money for Five Year Plan projects through the Planning Commission which, incidentally, was not a constitutional body, but was created by an act of Parliament in 1950. The total transfer, from all sources, by centre to the states actually fell from 42.12 per cent of gross revenue receipts in 1979–80 to 35.96 per cent in 1984–85 before recovering to 39.71 per cent in 1990–91. (Report of Twelfth Finance Commission, GOI, 2004, pp. 375) So the figure of 75% as demanded by the West Bengal government in the late 1970s is really a far cry from reality and simply was to put centre under pressure to raise its own resources. This tussle between centre and state, especially in the context of a state government not aligned with the party in power in the centre, might be an additional factor in the differential performance of states as claimed by Rodrick and Subramanian (2004).

The net result of the new industrial policy pursued by the left front government is an industrialization which promoted small scale industries in the state. Table 17, already quoted earlier, tells the story of West Bengal compared to other states in India.

Table 17: The Share of Small Scale industries in total employment West Bengal and India

Name of states	1989–90
Maharashtra	67.3
Gujarat	70.07
Tamil Nadu	78
Karnataka	81.3
Andhra Pradesh	79.39
Uttar Pradesh	86.5
West Bengal	89.2
All India	81.12

Source: A.Raychaudhuri and S.Sarkar (2005) 'The Small-Scale Industries in West Bengal: a Focus on Employment and Sickness' in J. Roy and A. Raychaudhuri, eds. *Development Challenges*. Delhi: Allied Publishers.

As table 17 shows, and will be relevant to discussion in the next phase, by the end of the 1990s West Bengal had turned into a small-scale, production-dominated economy, most of these units were unregistered, thereby posing serious issues regarding social security of those who were employed. It is well known that the leftist Trade Unions laboured with the organized, large-scale, union workers, but their presence among the unorganized sector workers was pitiable, raising serious questions about the efficiency of Trade Unionism in West Bengal in addressing issues of poverty and social vulnerability. One may question what prevented the Trade Unions from organizing the unorganized workers? It is more historical that Trade Unions traditionally provide support to organized sector labour: the very description 'unorganized-sector' gives credence to the idea that they were largely individual scattered self employed units with very little to demand from the government – and hence not specifically interested in the collective bargaining theories of having labour unions and employers around the table.

So, now we are in a position to understand the role of institutions and policy in this phase:

The organizations – Central Ministry of Industry (Responsible for Industrial Licensing); Finance Commission (Constitutional body responsible for allocation of mainly tax resources collected by Centre among states); Government of West Bengal (responsible for state industrial policy); Planning Commission (responsible for plan allocation for Central projects); Central Trade Unions and Left parties as explained for Phase I.

The Rules/Policies and Actions – Industrial Licensing rules and Letter of Intent;

Devolution rules of Central resources to states; the industrial policy of the state of West Bengal.

In this phase, it is much easier to explain the impediments to industrial revival for West Bengal:

1. Central leftist Trade Unions showed remarkable maturity after their initial exuberance right after the left front came to power in 1977. However, the attitude of the industrialists was more aggressive as can be seen from the incidence of lockouts in this phase. Note, the change in the role of Trade Unions from a militant outfit to a sensible labour organization is a response to declining industrial production in the registered sector of West Bengal.

2. The massive growth of small scale industries in West Bengal, mostly unregistered, solved the employment problem, but raised serious questions regarding social security. It may be a blessing in disguise that the trade unions did not hamper the growth of small scale sector, but this also shows the failure of trade unions to protect the unorganized sector employees (a nice account is given by Venkata Raman, 1999). Perhaps, the largely self-employment dominated, small-scale, unorganized units were not interested in collective bargaining models with labour unions and employers as the two parties in the fray.

3. High transaction costs for doing business in West Bengal are clearly due to several institutional failures – the most glaring of which is the complete apathy of West Bengal's government to big business due to CPI (M)'s ideological compulsions and secondly, the complete neglect of basic infrastructure by the leftist government still busy criticizing capitalists in the market setting. The government of West Bengal could not realize the importance of infrastructure in ensuring smooth state business relations for a better future for the coming generations. This is a dimension which needs to be added as a necessary condition to the Rodrick-Subramanian thesis of alignment of political parties at centre and state as a necessary condition for the changed pro-business regime to take off.

4. Finance Commission, although a constitutional body, was somewhat over-shadowed by the Planning Commission, a non-constitutional but Act of Parliament-enabled body, due to the emphasis on planning throughout the seventies and eighties. Thus, despite strong demand, mainly of the West Bengal government to raise the resources to be distributed to the state, the Finance Commission was not innovative. This certainly put pressure on the resources of the state, which appears more frequently in the next phase of our analysis. After all, the leftist state pursuing a public-sector-led revival would soon encounter trouble with industry. This is especially contentious for West Bengal, where the political party in power was not aligned to the party in power at the centre, leading perhaps to asymmetric attitudinal changes towards business, reflected in the differential growth performance shown in Rodrick and Subramanian (2004); but

this should not be construed as a blanket approval to the state policies at any time.

The above creates the background to move into Phase III of our analysis, which certainly will be qualitatively different, given that India started major reforms in its industrial policies after the economic reforms which truly started in 1991.

5.3 Phase III (period: 1991–2005) The Economics and Politics of Reform

This phase is qualitatively different because the government of India started its much acclaimed economic reform in 1991, the main message was to encourage market economy to work more prominently in the economy which was under the dictates of economic planning for about forty years. One of the major segments of this reform was the revamped Industrial Policy Statement of the Indian government in July 1991. This policy is important to our discussion as it removed the need for industrial licensing for most of the large industries. Close on the heels of this, in January 1992, the government abolished the Freight Equalization Policies, which certainly discriminated against the functioning of any market economy. So in quick succession, the government of India took away two major points of criticism from the government of West Bengal and despite initial rhetoric against the new industrial policy, which allowed the investors free choice and allowed foreign companies to Indian soil more easily, the government of West Bengal was soon reconciled to the evolving reality of global and local politics. (Pederson, 2001)

From the political angle, in this phase the politics of reform tends to introduce a new phase of state-business relationships in West Bengal. This period has two different features: first, the government of India changed its vacillating attitude and embraced the policies of liberalization, privatization and globalization. The government of West Bengal realized that West Bengal, which was at one point of time was the front-ranking industrial state, had slipped much behind and in 1985 it had been contributing only 8 per cent of the total industrial output of the country. The government also realized that the withdrawal of the state from its welfare activities might have serious consequences for its pro-poor policy; it was in this context that the Left Front Government adopted an industrial policy in 1994. Secondly, India had entered into an era of coalition politics; the Left continued to play an important political role either as an opposition or as an ally of the ruling party at the centre. It should be noted that prior to the general election of 2004, the Centre experienced three coalition governments – the Janata Rule (1977–1979), National Front (1989–1991) and United Front (1996–1998), but all of them were non-Congress governments, and as such the Left had been confronted by little or no credibility problems in supporting these governments. However, the 2004 election produced a different outcome, whereby the Left found itself both in an enviable and a difficult position: enviable in the sense that Congress would have to depend on the Left for its survival and as such the Left could play a significant role in the policy-making process; difficult as Congress could reject some of its radical demands as it knew that the Left could hardly withdraw its support given the likely revival of communal tensions in the country. In fact, as Francine Frankel (2005, pp.786–787), has pointed out, 'The Common Minimum Programme of the Congress-led United Progressive Alliance reflects the understanding of the secular parties of relationship between defeating 'obscurantist and fundamentalist elements who seek to disturb social amity and peace, and the growth of the economy at 7–8 percent a year over a decade or more in a manner that provides greater equality of opportunity and education and generates employment for farmers, farm labourers and workers particularly in the unorganized sector', though as far as economic reforms are concerned, the two dominant political parties – that is Congress and the BJP – had little or no differences at all. Under these circumstances, the Left had little option but to be realist. Simultaneously, despite the contested nature and role of the state, liberalization policies and the opening up of the economies required state intervention. Apart from that, it also required reform of the property-rights system by 'strengthening the incentives for private investment and by divesting or reforming state enterprises.' (Haggard, 1997, pp. 122) Given the end of the license regime in India, which was also responsible for bitter conflict between the Central Government and the Government of West Bengal in the past – and the changing political equation between Congress and the Left, as reflected in the formation of the United Progressive Alliance (UPA) – the business community had little option but to be friendly towards the Left Front Government in the state. However, the possibility of resurgence of manufacturing in the organized sector and an overdependence on land of a large number of people in West Bengal, who constitute major vote-bank of the Left Front, has raised several dilemmas which can be described as: collective action dilemma; dilemmas arising out of distributional conflict; and dilemmas arising out of 'problems of time-horizon and capability'.

We have already mentioned that the Left Front Government had announced a new industrial policy in September 1994, which we will briefly quote from (as given in GOI, 2007) since it is interesting reading when put alongside the policy statement of the late eighties:

1. The state government welcomes foreign technology and investment as may be appropriate, and mutually advantageous.
2. The Government recognizes the key role and importance of the private sector in providing accelerated growth.
3. Improvement and upgrading of industrial infrastructure is indispensable for accelerated growth of industries... the government proposes to undertake projects for development of industrial infrastructure through the private joint sector also, whenever feasible.
4. The government has also identified certain thrust areas for special attention. These are: petrochemicals

and downstream industries, electronics and information technology, iron, steel, metallurgical and engineering, textiles, leather and leather products, food processing, medicinal plants, rubber, palm oil and tea, manufacture of basic drugs, chemicals and pharmaceuticals, minerals and mine based industries, gems, jewellery and promotion of tourism and tourism related activities

Close to this announcement, government of West Bengal strengthened the single window facility for the industrialists, called 'Shilpabandhu' under the West Bengal Industrial Development Corporation (WBIDC). The government also installed one of the influential CPI (M) members of Parliament at the helm of WBIDC to co-ordinate the activities – an obvious effort to smooth liaison among government, industrialists and the main political party. The government had already announced a number of tax concessions pursuant to its incentives schemes in the economic budget of 1993–94, a scheme which continues to date, with some modifications over the years, with notably more incentives given to disperse the industries away from the Calcutta metropolitan city. (GOI, 1997)

Interesting policy shifts continued from the beginning of the period, the Confederation of Indian Industries (CII), one of the apex bodies of industrialists, commissioned a report on West Bengal, known as the Arthur D. Little report, in 1995 which rued the lack of strong partnership among business, labour and government along with bad infrastructure as major reasons for industrialists' apathy towards the state. (Pedersen, 2001) WBIDC commissioned another report by another multinational consultant, Price Waterhouse Associates, which concurred with the Little report about the potential sectors, but painted a more promising picture about the future of industries in West Bengal (ibid.). The government of West Bengal and the main political party had to tread the new path very carefully, stressing the need to defend the interests of the working class in the face of globalization. In this phase one of the major industries, encouraged by the government, is petro-chemicals and the government succeeded in bringing one Japanese multinational, Mitsubishi Chemicals, to be a partner in the Haldia Petrochemical project; in recent periods the Tata Motors and the Salim Group of Indonesia have also promised huge investment in automobile, and real estate and infrastructure, respectively.

Is there a Resurgence?

The West Bengal government is emphatic in its official line that West Bengal is experiencing a new 'dawn' for industry, the annual official statement on the state of the economy from the West Bengal government is the *Economic Review*, which in 1995–96 identified several reasons for the resurgence:

- a) Significant growth of agricultural production created a market for industrial investment.
- b) Long term political stability of the state where the left front has been ruling continuously for the last 30 years.
- c) Better power situation in the state, such that the state can boast as the only 'adequate power available state' in India.
- d) New Industrial Policy removed some misgivings about state government's attitude to industrialists.
- e) Transaction costs for delays in approving proposal is considerably reduced by the one window 'shilpabandhu' facility of West Bengal Industrial Development Corporation (WBIDC).

As proof of resurgence, the West Bengal government cites the following statistics from industrial projects implemented as summarized in Table 18:

Table 18: Industrial Projects Implemented

Year	Investment	Projects Implemented (In Rs millions)
1977–1981	1737.6	
1982–1988	7740.1	
1991–2001	197752.0	
2002–2005	86400.5	

Source: *Economic Review*, 1989–90, 2001–02, 2005–06

The data and official arguments in support of a resurgence is quite credible in itself and got more of a boost when a whole new scheme of incentives were announced in 2000, replacing the old schemes of 1993 and 1999. The new scheme, apart from subsidies for capital costs, interest etc. for industrial dispersal, added the clause for special incentives to mega projects having investment exceeding Rs. 250 crores. The nature of these incentives was deliberately kept flexible with an eye to attracting big national and multinational companies. The incentive scheme states the following for mega projects (Vide Government of West Bengal Department of Commerce and Industries notification No. 91-CH/H/4F-54/2000, as given to the Government of India [2007]):

- 'Notwithstanding anything contained any where in the Scheme the State Govt. may consider granting special package of incentives under this Scheme to a Mega Project having due regard to the characteristics of the project, case by case basis, in the following areas:
- i. size of investment,
 - ii. special nature of the industry,
 - iii. employment potentiality
 - iv. down-stream effect of the industry,

- v. ancillarization effect of the industry,
- vi. export potentiality.'

Thus, the above scheme gives a wide spectrum for large scale investment in the state – especially the downstream and ancillary industries, which were given special emphasis perhaps keeping in mind the widespread presence of the small sector in the economy of West Bengal.

The projects implemented brought substantial investment to the state, as shown above, and there appears to be a structural break in the inflow of such investment after the 1990s which saw a spurt in such investment. However, although the transparency and credibility in government transactions with business in the state changed for the better, there still remains problems regarding transaction costs for business being high on account of other institutional failure, which we will now explore.

The new statistics which the Secretariat of Industrial Approvals (SIA), mentioned earlier, have released a number of industrial proposals in different states of India up to 1991. After 1991, industries which are exempt from industrial licensing (almost all except hazardous and nationally important industries like defence related industries), have to file an Industrial Entrepreneur Memoranda (IEM) with SIA; and upon commencement of production, they have to send monthly production data to SIA, which show implementation of the IEM. The data in Table 19, available on the SIA website at www.dipp.gov.in, shows the relative positions of the state of West Bengal under post-reform period.

Table 19: IEM during the period August 1991 – October 2006 (in Rs Crores)

States	IEM Implemented		IEM Proposed	
	Number	Investment Amount	Number	Investment Amount
Gujarat	1,121	68,810	8,242	352,601
Maharashtra	961	29,106	12,451	290,855
Andhra Pradesh	507	14,525	4,734	199,113
Tamil Nadu	438	9,638	5,798	139,930
Orissa	52	1,843	1,026	166,877
West Bengal	475	28,963	3,844	85,968
Total	6,383	239,788	68,127	2,214,820

Source: SIA statistics in the DIPP, Ministry of India, GOI website www.dipp.gov.in

From Table 19, it is clear that West Bengal's performance is perhaps the best in terms of implementation. In fact, only Gujarat and Maharashtra dominate West Bengal in terms of Investment proposals implemented. This certainly speaks of a resurgence of large scale investment in West Bengal in this phase, responding to the changing attitude and the resultant policies of the government and political party in power in West Bengal. At the same time, it is a matter of concern why so few IEMs are finally being implemented and in terms of the amount of investment proposals West Bengal lags behind many states, even behind the erstwhile poor neighbour Orissa. So, in the event of massive efforts by the government to clear the proposals, West Bengal needs to think seriously about how to attract the investors into the economy.

One reason we cited earlier for relative unattractiveness of West Bengal as an investment destination is the poor state of the infrastructure of the state. The study we quoted before, namely by Ghosh and De (2004), does not sound any more promising. West Bengal's position in terms of physical infrastructure remained the same in 1997–98 as in 1991–92 at 17 and ditto for the social infrastructure at 10. A study done for the planning commission for West Bengal found that the infrastructure index created with the help of 15 infrastructural variables did not show economies of scale with reference to nominal or real state domestic products during 1991–2000 (Raychaudhuri, 2005); so, just the expansion of infrastructure will not do the job – what is needed is good quality of the same which would promote efficiency.

One issue which came to the forefront in the last phase is the tussle between centre and West Bengal about the question of resource transfer from the Finance and Planning Commissions. The rhetoric here changed along with other policies (Datta, 2005), but what came out in the process is quite alarming. The government of West Bengal was unequivocal about maintenance of the public sector industries and was against declaring them 'sick', but, government finance in this period showed almost bankruptcy of the state exchequer. We present the following data to highlight the issue:

Table 20: Debt and Interest Burden of States

States	Total debt/GSDP 1997–98	Total liabilities/Revenue receipts		Interest payments/revenue receipts	
		1990–91	1998–99	1990–91	1998–99
Gujarat	16.27	184.37	145.66	14.12	19.46
Maharashtra	12.08	113.23	143.42	11.18	18.59
Andhra Pradesh	20.82	126.11	167.64	11.78	19.90
Tamil Nadu	15.55	108.12	137.31	9.08	15.03
Orissa	37.96	208.74	330.63	16.80	32.60
West Bengal	22.97	191.53	304.86	15.46	31.82

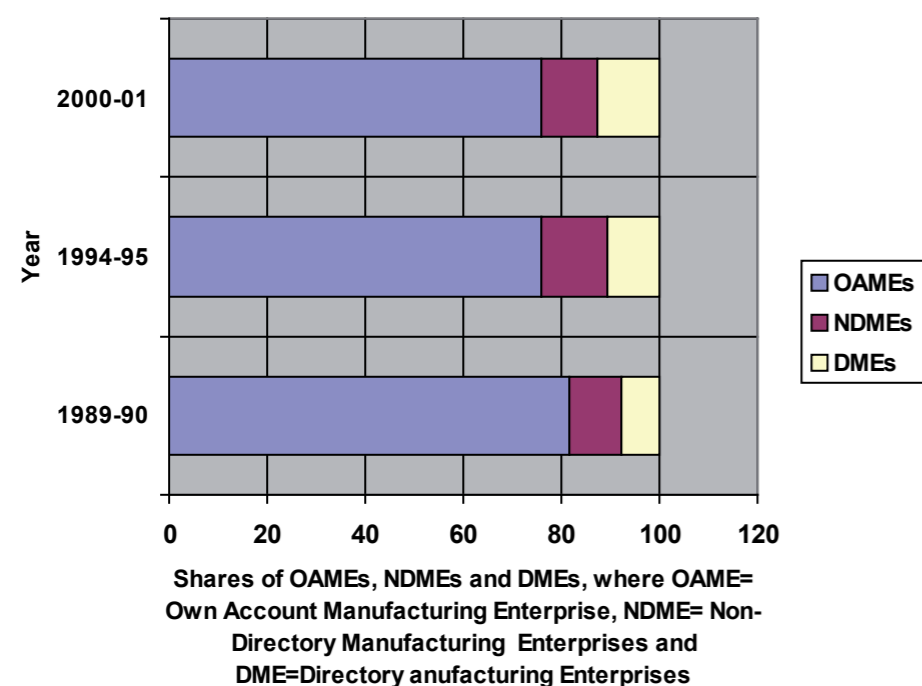
Source: M. Anand, A. Bagchi and T.K. Sen (2004), 'Fiscal Discipline at the State Level' in E.M. Favaro and A. Lahiri eds., *Fiscal Policy and Sustainable Growth in India*. Delhi: Oxford University Press, pp. 82.

As table 20 shows, the state of West Bengal is really in a precarious state of resource management, the main reason behind being a very low collection of taxes, but rapid rise in revenue expenditure in wages and salaries to the government employees. This has to be corrected before the state can credibly commit itself to public sector investment and it seems lately things are improving, but one needs some long term trend to see the true reversal.

The government of West Bengal had stressed upon one more aspect in this phase: a method of tripartite settlement in case of industrial disputes. This is a system where the government labour department, trade unions and employers sit down together several times in order to keep the unit going – a welcome departure from the habit of declaring either a strike or a lockout which caused innumerable loss of labour days in the state. Despite this, the latest data by the labour bureau states that overall strike and lockout in India has declined by 4 per cent but the contribution of West Bengal alone in total strikes and lockout is 60 per cent (Press release on October 30, 2006 at www.pib.nic.in) – so, the government of West Bengal and the left political parties should think more seriously about the root problems behind such dismal statistics, despite going for a rational tripartite solution approach.

Once more, we have to emphasize that the importance of small-scale unorganized sector enterprises continued unabated in West Bengal in this phase also – refer to table 1 and 2 in section 2 above. In the case of the Indian data, the reports of the National Sample Survey Organization (NSSO), have classified small scale unorganized enterprises into three categories – OAMEs, NDMEs and DMEs: Own Account Manufacturing Enterprises (OAMEs) refer to those manufacturing enterprises that are run without any hired worker employed on a fairly regular basis; Non Directory Manufacturing Establishments (NDMEs) are those, which employ less than six workers (household and hired workers taken together); and Directory Manufacturing Establishments (DMEs) refer to the manufacturing enterprises which employ six or more workers (household and hired workers taken together). The notable feature of this sector is the predominance of the OAME sector over the period. Although the share of this fell slightly, it still represents the overwhelming character of the unorganized manufacturing sector in West Bengal, as illustrated in figure 2:

Fig 2: Percentage Shares of Different Enterprises(OAMEs,NDMEs and DMEs) in Employment Generated in the Unregistered Manufacturing Sector of West Bengal



The reason for emphasizing the above characteristic is to reiterate what had been said for the earlier phase – that this sector hardly needs any collective bargaining model to solve industrial relations problems. The trade unions do not have a natural breeding ground among these workers for the simple reason that the state rarely comes to the aid of this sector (Raychaudhuri and Sarkar, 2006) and those who are self-employed have nothing to bargain for in an organized manner – the unorganized character of their production often precludes the use of infrastructural facilities legally, so that these activities remain in the shadow of legal system and have very little incentives to come to the open. Thus, trade unions do not flourish in this sector for both lack of demand and supply for them. However, the same is not true for some of the services like transport, where the operators unite to extract better fare structures from the local authorities.

So, what exactly are the roles of institutions and policy in this phase? Let us summarize below:

The organizations – Ministry of Industry (industrial license etc.); WBIDC (the all powerful state industrial development corporation in West Bengal); Government of India; and Government of West Bengal (responsible for sharing the ideas of Economic Reform)

The Rules/Policies and Actions – Abolition of Industrial License rules and the system of IEM; Abolition of Freight Equalization policy; New Industrial Policy at Centre and State; Tripartite Solution Method for Industrial disputes in state; Pressure to Correct the Fiscal Imbalance at the State level.

From the descriptions above we may conclude as follows:

1. Institutional Changes occurred in the sense that the government of India abolished some old rules and regulations, like licensing and freight equalization, as a part of economic reform etc. – the West Bengal government followed suit. At least, some of the distortions preventing industrial investment in the state are gone.

2. Poor rate of implementation of industrial investment proposals is definitely an institutional failure on the part of centre. The West Bengal state performed better in the implementation, but not in the sphere of attracting new investment proposals.

3. The problem of infrastructure continues: the state talks about private-public partnership, but that is only going to appear in the future. Until the end of last century, the quantity and quality of infrastructure was poor.

4. The government and the political parties in power have shown maturity in talking about tripartite settlement of disputes, but as long as the problem of infrastructure, as well as the poor resource position of the state, continues, things will not improve quickly.

5. Unfortunately, not much is heard about the social security of the unorganized sector which is an institutional failure on several fronts. This is noteworthy given the preponderance of this sector in West Bengal and the progressive talks of left trade unions throughout the history of labour movement in India.

As has been made clear, trade unions as an organization, do not grow in this sector due to the absence of both demand for and supply of them.

6. The trend towards some resurgence of manufacturing is observable – mainly on account more transparency and efficiency in state-business relations – but more is needed to make it a significant change.

6. IMPACT ON POVERTY ON THE MANUFACTURING SECTOR'S DYNAMICS IN WEST BENGAL

The discussion so far has brought the issue of employment and unorganized sector to the forefront, but the direct impact of such institutions and organizations on poverty also need some attention. Since it is now well documented that West Bengal succeeded in reducing rural poverty by agricultural reform and decentralization (Raychaudhuri, 2004), let us concentrate on urban poverty which is at centre stage where all the players in this discussion have specific roles. The urban poverty ratio, which shows the number of people below the official poverty line in urban areas of the state, is shown in table 21:

Table 21: Urban Poverty Ratio (PR in Percentage), Poverty Line (PL in Rs) and Gini Ratio

States	1983-84	1993-94	1999-2000	2004-05 (MRP)
Andhra Pradesh	PR – 36.3 PL – 106.43 Gini – 33.25	PR – 38.33 PL – 278.14 Gini – 32.31	PR – 26.63 PL – 457.4	PR – 20.7 PL – 542.89 Gini – 37.43
Gujarat	PR – 39.14 PL – 123.22 Gini – 28.58	PR – 27.89 PL – 297.22 Gini – 29.08	PR – 15.59 PL – 474.41	PR – 10.1 PL – 541.16 Gini – 30.98
Maharashtra	PR – 40.26 PL – 126.47 Gini – 34.86	PR – 35.15 PL – 328.56 Gini – 35.69	PR – 26.81 PL – 539.71	PR – 29.0 PL – 665.90 Gini – 37.77
Punjab	PR – 23.79 PL – 101.03 Gini – 34.53	PR – 11.35 PL – 253.61 Gini – 28.02	PR – 5.75 PL – 388.15	PR – 3.80 PL – 466.16 Gini – 40.17
Tamil Nadu	PR – 46.96 PL – 120.3 Gini – 35.32	PR – 39.77 PL – 296.63 Gini – 34.74	PR – 22.11 PL – 475.6	PR – 18.80 PL – 547.42 Gini – 35.84
West Bengal	PR – 32.32 PL – 105.91 Gini – 33.78	PR – 22.41 PL – 247.53 Gini – 33.77	PR – 14.86 PL – 409.22	PR – 11.20 PL – 449.32 Gini – 38.33
All India	PR – 40.79 PL – 115.65 Gini – 34.06	PR – 32.36 PL – 281.35 Gini – 34.31	PR – 23.62 PL – 454.11	PR – 21.70 PL – 538.60 Gini – 37.51

Source: Savita Sharma, 'Poverty estimates in India: Some key Issues', ERD Working Paper No. 51, ADB, Manila, May 2004 and PIB note, May 2007 for 2004-05 and S. Mahendra Dev and C. Ravi, 'Poverty and Inequality: All India and States, 1983-2005', *Economic and Political Weekly*, February 10, 2007.

Note: Poverty Line is calculated on a consumption basket in 1973-74 prices, upgraded according to current prices. Poverty Ratio is really a head-count value. MRP = Mixed Reference Period where households recounted their expenditure for 30 and 7 days for food while 365 days for clothing, footwear, medical, education and other durable goods

What does table 21 reveal? It shows that West Bengal reduced its urban poverty faster between 1983-2005 than India as a whole and more than some other competing states like Maharashtra and Andhra Pradesh, although as shown by Dev and Ravi (2007, below), in the sub-period 2000-5, this trend is reversed. Simultaneously, urban inequality in West Bengal has gone up by an annual compound growth rate of 1.16 per cent between 1993-4 to 2004-05 in contrast to the all-India rise of 0.81 per cent. At the same time, as we have shown in the bird's eye view section, West Bengal's per capita income has fallen behind the all-India average and secondly, West Bengal's unorganized sector is inefficient compared to other states (Tables 1 and 3 above, respectively). West Bengal also witnessed a rapid rise in service sector employment some of which is skill intensive like IT and IT enabled services (Table 1 above). The above implies that: the unorganized sector prevented the growth of open unemployment, thereby reducing the proliferation of poverty among urban people, but at the same time, low-value added per enterprise in this sector could not give enough growth impetus so West Bengal lagged behind the rest of India in terms of per capita income –also, the growth of skill intensive service sector might have lead to a rise in urban inequality.

So it may safely be said that the growth of the large-scale manufacturing industry, which uses modern, efficient, state of the art technology, is crucial in alleviating poverty as well as raising the standard of living for the masses. The advantage of having large-scale manufacturing is that it not only creates direct employment for a large number of people but it also creates ancillary activities both downstream and

upstream, which in turn creates indirect employment. However, one must pay due attention to rising urban inequality which needs further deconstruction and analysis. This may be due to the rapid growth of skill intensive service sector – such as IT and IT enabled services – but further research is needed to ground it as a hypothesis. Thus the resurgence of West Bengal manufacturing has to be viewed in these terms and one needs to reiterate that large-scale manufacturing should not be at the expense of small and medium industries, but should rather be promoted as a complementary manufacturing activity. In this sense, the efforts of the West Bengal government to bring Tata motors, Salim group, Reliance and others in, are steps in the right direction, however, there might be implications in terms of transaction costs.

7. CONCLUSIONS AND THE WAY FORWARD

The above discussion clearly points towards a significant change of policies and attitudes by the Left in West Bengal towards business over the decades. In this paper, we have tried to separately understand the dynamics of changes of organizations and institutions as mediated by changes in policies; the study is based on longitudinal analysis, which could capture a variety of political and economic realities. As we have tried to highlight, the politics and economic reforms did play an important role, as, as a result the state and business had to depend on each other for a mutually fruitful existence. We have mentioned some of the plausible, as well as credible arguments, behind the possible 'resurgence' of large scale manufacturing sector in West Bengal and at the same time, we highlighted that small-sector-led industrial development in West Bengal in the last three decades pulled more people out of urban poverty, but could not prevent West Bengal from falling behind in performance compared to the Indian average.

However, we need to mention two important events which shaped the economics and politics during the last phase, but did not have the opportunity to emphasize in the earlier arguments.

The first is that the agricultural production in West Bengal, of which cereals are an important part, did not exhibit the same rosy picture as it did during the 1980s.

Table 22: Simple Growth Rates (in percentage) of Cereal Production index in West Bengal (Base 1981–82 = 100)

1990–91 over 1985–86	27.3
1995–96 over 1990–91	14.8
2000–01 over 1995–96	6.35
2004–05 over 2000–01	17.8

Source: Calculated from *Economic Review*, Government of West Bengal, 2005–06

The purpose of presenting table 22 is to focus on the fact that cereal production declined significantly in the decade of the 1990s, compared to the 1980s; cereal production is also important for the welfare of the poorer sections of the society. So, on the whole, the success which the state of West Bengal had attained in the eighties in the field of agriculture could not be sustained and given the preponderance of the rural population in West Bengal as well as the rural mass base of the left political parties, this was obviously a cause of concern. It is, thus, not entirely a surprising move on the part of the left front to put renewed stress on industrialization, taking advantage of the reform process in the Indian economy.

The second major event the change in the outlook of the major communist parties, especially those in China: the following is a quote from an interview published in the web based India daily (www.indiadaily.com, 27 August 2005), given by West Bengal's chief minister Mr. Buddhadeb Bhattacharya in Indonesia:

'You see, communists. We can't speak anymore about old dogmas. The world is changing. We are also changing. Look at China. The situation is completely different if you compare it to before 1978. The Chinese realize that their position in the world has changed. So, they changed their policies accordingly. Deng Xiaoping used to say "We learn truth from the facts, not from books." We learned from our experiences in India and abroad.'

This really sums up the change in the 'mind set' of the CPM in West Bengal, with the process being further emphasized in the article 'Socialism in the Era of Globalization', written by one of the leading CPM members, Sitaram Yechury (in CPM's theoretical quarterly *The Marxist*, 2004):

'In China today, what is being sought is to attain the conformity between the levels of productive forces and the relations of production under socialism. The advanced socialist production relations cannot be sustainable at lower levels of productive forces. A prolonged period of low levels of productive forces would give rise to a major contradiction between the daily expanding material and cultural needs of the people under socialism and backward productive forces. The Chinese Communist Party (CPC) has concluded that if this contradiction remains unresolved, then socialism itself in China would be under threat.' (pp. 11)

The above quotations are a reflection of the changing ideology of the CPI(M) in India. Under the influence of this, the Left Front in West Bengal, led by CPI(M), was changing its dogmatic position of keeping the private sector, including the foreign enterprises, away from the state too. China, and the story of Chinese Communist Party, also influenced the communists in West Bengal, the party in West Bengal realized that dogma was not going to feed the millions – that one needs jump on the bandwagon

of grabbing as much investment as one can in a regime of relaxing controls and regulations, the fear being that opportunities missed once may be missed for ever.

The state-business relationship in recent years, quite predictably, has become more cordial. The government, through its one-window facility in WBIDC, is trying to compete with other successful states in attracting more investments – it may be a race to the bottom, but the changed ideology in the party has made the state-business relationship more inter-dependent.

Meanwhile, India has brought in a new tax regime in Value Added Tax (VAT) which is a changed institution. It has been realized that under the new regime, more production implies more tax revenue and thus the race to attract new producers has become only more intense. West Bengal is playing almost the role of a latecomer who is fighting to grab whatever is feasible under the situation, but does this mean that transaction costs have really come down? As we explained earlier, it not only depends on transparent and trustworthy transactions between state and business, it also depends on complementary factors like infrastructure and in the latter West Bengal still has a long way to go.

More recently, new dimensions of transaction costs have come to the surface, in the form of land acquisition for industry. West Bengal's population density is three times that of India and the situation of under-developed infrastructure, industrial dispersal is far away; more industries will tend to clamour for land in already densely populated areas which are already intensely cultivated arise, thus the possibility of forcible land seizure under legal provisions of acquiring land for public purposes arises, which naturally brings resistance from the peasants, who are likely to lose their property rights over land and were headed towards an uncertain future.

The above, again, is one form of transaction cost: the government does a cost benefit analysis in terms of fair compensation to land losers, rent of leased out land to industrialists and tax revenue, but most often the implicit transaction costs – in terms of peasant resistance and the consequent turmoil, delays and lost opportunity for industries and society at large – are missed out. The recent events regarding land acquisition at Singur for Tata motors and Nadigram for SEZ in West Bengal are good examples of this. This transaction cost should be taken into account to understand the future direction of state-business relations in West Bengal, but such a study is yet to be undertaken.

A similar issue is the possible rising inequality between the unorganized small-scale sector and the organized large-scale sector. What is unclear is the possible ways to promote synergy between the small- and large-scale sectors. The problem really lies in finding out the exact role the government can play as a guarantor and mediator in forming contracts between the two sectors, which will promote linkage between the two. State-business relations hardly look into this issue, but this is not only a problem which West Bengal faces, but an almost universal one, which needs a proper analysis blending political analysis with the contract theory of economics. (Raychaudhuri, 2006)

Politically speaking, one may ask the question how could the relationship between the Left and business groups be made friendly and co-operative without damaging the possibility of pro-poor growth? It should be noted that reform must be viewed as a process of coalition building – it involves institution-building through which beneficiaries can get incentives to organize themselves and make representations to the political authority (here refer to the confidence-building measures of the government). Simultaneously, successful reform can be facilitated through participation of the losers as well. The left has one disadvantage and one advantage in reconciling the interests of the 'losers' and beneficiaries in the processes of reform: given its ideological commitment, it cannot resort to the coercive machineries of the state, as it would raise serious questions about the legitimacy of the government; the advantage being that the Left has strong ties with the workers which might help them to take reform measures through discussion and persuasion. In fact, political mobilization and establishing ties with the probable 'losers' becomes a critical component in moving from one equilibrium to another. The Left in West Bengal has played an interesting role in two different ways: first, the Left, which has historically mobilized supporters around anti-capitalist or anti-oligarchic protests, is now the initiator of reforms and secondly, none of the major political parties in West Bengal have been opposing the requirements of industrialization and development. The Left has performed two functions efficiently and effectively: on the one hand, they have successfully extended their appeal beyond their 'core constituencies' and demonstrated their 'capacity for moderation'; and on the other hand, their linkages with the groups which could be disadvantaged by reform probably has made it easier to gain and negotiate agreements, tacit or formal, that permit reforms to move ahead. Thus the capability of the Left to reach beyond the core constituencies, and the capacity for moderation and linkages with constituencies make the Left acceptable in a broader politico-economic spectrum and a capable agent for bringing about changes in the attitude of the business community in general.

Regarding lessons learnt for middle level theorization, the following observations are worth noting:

The first is the importance of centre-state relations in creating a favourable business environment in a federal state. The finding is that central (or federal) control or policies can negate the comparative advantage of business in a state despite best efforts of the state government. The second is that ideology at a political level may put the state against private business under certain regimes, but the learning process brings moderation in such conflicts and brings about a much soothing private investment climate. Accordingly the welfare of the poorer sections may be the dominant policy, perhaps tilting the balance against capital, but the government gradually moves towards such policies which tends to bring a balance among the different stakeholders in the society – namely, workers, business and farmers – creating a more

congenial atmosphere to business ventures. Lastly, economic reform and the process of globalization put a welfare state face to face with large scale profit-orientated big business, both domestic and foreign. This creates additional tensions and hence newer transaction costs like uncertainty, foregone costs, unequal opportunities between big and small businesses etc. The government has to innovate and experiment with strategies to minimize these additional dimensions, which in turn need more research and case studies.

Overall, the story of state-business relationships in West Bengal is really like a saga – unfolding slowly over time. There are many turns and twists, but it is possible to rationalize each move. Future research has to concentrate on (1) new contradictions between industry and agriculture, leading to changing definitions of transaction costs, which will encompass not only uncertainty but also foregone costs associated with industrialization and (2) the possible role of the state in ensuring a proper synergy between large-scale organized and small-scale unorganized sectors through innovations in contract theory, which will moderate the unequalizing tendencies in the society. What is also needed is a comparison of West Bengal's story with more cases from India and other developing countries to develop a middle level theoretical generalization, in order to see similarities and differences from a wide cross section of countries, who are all striving to develop under different politico-economic circumstances.

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