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**The Political Economy of Decline of Industry in West Bengal:  
Experiences of a Marxist State Within a Mixed Economy**

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**THE POLITICAL ECONOMY OF DECLINE OF INDUSTRY IN WEST BENGAL:  
EXPERIENCES OF A MARXIST STATE WITHIN A MIXED ECONOMY**

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Over more than six decades following Independence, industry in West Bengal has steadily gone downhill. Usually the Left Front government effectively controlled by the Marxist Communist Party (CPM), that has ruled the state for the past 34 years until its recent defeat in the state assembly elections, is held responsible for the plight of industry in the state. The party and its followers, on the other hand, blame denial of the due share of the state in the central resources by a hostile government at the center for industrial retardation. This paper takes a close look at the available statistical evidence to argue that the main reason for the decline is a direct outcome of poor work culture, political interference, and failure of governance that has resulted in industrial anarchy that scares off private investment in the state. While the Left Front has its share of responsibility, the newly anointed Chief Minister of the State, Mamata Banerjee, has herself contributed generously to fostering and cultivating this chaos by calling wildcat general strikes in her erstwhile role as the ‘one person opposition party’. The only thing that can revive industry in West Bengal is liberating civil administration from the grip of political party bosses.

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Keywords: Center-State Relationship; Trade Unions; Governance.

Note: A Bengali version of the paper entitled “Who Killed Industry?” appeared earlier in the April 17, 2011 issue of *Desh Patrika*. Aimed primarily at the general reader, this article is written to a considerable extent as a political commentary. However, at the core, it remains a research article.

May 23, 2011

## **THE POLITICAL ECONOMY OF DECLINE OF INDUSTRY IN WEST BENGAL EXPERIENCES OF A MARXIST STATE WITHIN A MIXED ECONOMY**

It is well known that after Independence, West Bengal has been lagging increasingly behind many other states of India in the field of industrial production. Nonetheless, the full extent of the decline comes as a shock to most people. Whatever industry developed during the colonial period was located mostly in the coastal parts of the country. A characteristic feature of trade between a colony and the imperial country is that raw materials are exported from and manufactured goods are imported by the colonized nation. It is no surprise that in the immediate aftermath of Independence in 1950-51 73% of the total industrial production in India came from only three coastal provinces; Bombay accounted for 33%, West Bengal 27%, and Madras 12%. Outside of these three, the only other major producer was Uttar Pradesh (UP) accounting for 10% of the total output. It is useful to remember that at that time the present state of Gujarat was a part of the province of Bombay. Therefore, West Bengal was effectively the leader in industrial production. In those days, thousands of people used to work in Calcutta and its suburbs in mills and factories owned by various foreign and domestic companies. The crowded streets and bye lanes of urban West Bengal served as the veins and arteries through which flowed the life blood of industry in the state. Looking at the blighted buildings, crumbling walls, and extinguished chimneys of countless closed down factories in present day West Bengal it is difficult to remember the glory days when they used to be integral parts of a nationwide industrial network.

A clarification is in order at the outset. Under Indian Factories Act, any industrial establishment that employs 10 or more workers and uses electric power must register with the Directorate of Industries. Establishments with 20 or more workers also must register even when no electric power is used. These registered industrial units together constitute the organized sector of Indian industry. A large part of the total industrial output in India is produced in the unorganized sector employing millions of workers. However, industrial units in the unorganized sector are minuscule in size. Industrial development in any country depends on the growth of the organized sector because economies of scale contribute greatly to higher productivity through division of labor and specialization. The primary focus in this paper is on organized industry. Most of the figures pertaining to Industrial production reported here have been computed from the Annual Survey of Industries from different years.

We may compare the present scenario with how things were in 1950-51:

Table 1 Share in Industrial Production and Employment<sup>1</sup> (2007-08)

State	Production	Employment
West Bengal	3.90%	4.90%
Haryana	4.50%	4.90%
Andhra Pradesh	6.60%	10.00%
Karnataka	6.60%	6.90%
Uttar Pradesh	7.00%	7.20%
Tamil Nadu	9.60%	14.80%
Gujarat	16.10%	10.00%
Maharashtra	18.70%	13.00%

At present India, along with China, Brazil, and Russia, is recognized as an emerging industrial power. But, as is obvious, at the sub national level West Bengal has slumped into insignificance as an industrial state. How did West Bengal decline from the glory days of the early post-Independence years to its present state? Different people will explain this decadence in different ways each based on one's own political conviction. Many people will argue that the Central government has always denied the state its due share of the resources. During Indira Gandhi's regime, in particular, the government in Delhi has opposed the Leftist state government in Calcutta on every issue. That is the reason why the state has fallen behind. Others will point their finger towards labor unrest in the factories, protracted strikes, and poor work culture that has driven away investment. There is considerable truth in both lines of reasoning. Neither of the two, however, provides a full explanation of the prolonged decline in industrial production in West Bengal. One must not forget that the Left Front has been in power over the last 30-plus years whereas industry in West Bengal has been going downhill over the past 60 years! Hence, laying all the blame on Communist Party of India (Marxist) (CPM) and its partners in the Front is a simplistic but not an adequate explanation. In reality, various historical events and different trends from different time periods have together brought about such prolonged downfall.

(2)

There is no denying that Partition of India dealt a mortal blow to the Jute industry in West Bengal. While the mills and factories were inside the country bulk of the land producing jute fell across the border. But, at the same time, one finds that massive industrial projects were undertaken in Asansol-Durgapur-

Damodar Valley area under the First Five Year Plan. Logically, the new “Heavy Industries” should make up for the loss inflicted on Jute industry. Indeed, that is exactly how things were shaping at the beginning. That is what the following table shows:

Table 2 Share in Industrial Production and Employment (1955-56)

State	Production	Employment
Madras	8.00%	9.00%
Uttar Pradesh	10.00%	10.00%
West Bengal	24.00%	27.00%
Bombay	31.00%	31.00%

West Bengal’s share in total industrial production shows only a marginal decline when compared with what it was in 1950-51. In fact, the same is true for Bombay as well. As industries develop in other regions of the country, it is only natural that the share of the dominant states will decrease.

Let’s fast forward another decade.

Table 2 Share in Industrial Production and Employment (1966-67)

State	Production	Employment
Uttar Pradesh	7.00%	7.00%
Tamil Nadu	9.00%	9.00%
West Bengal	20.00%	22.00%
Bombay	24.00%	19.00%

Even in 1966-67 West Bengal’s share was not noticeably lower. In general, all the four leading states saw a decrease in their share of total industrial output in the country. Amongst them, the total share of West Bengal and Bombay fell from 55% to 44%.

In the mean time, several things happened that subsequently turned out to be of great significance for industry in the state. The Indo-Pak war in 1965 created a major crisis in the Union Budget greatly reducing developmental outlays by the government. What affected West Bengal most was the reduction in the Railway Budget. The two major industries in the state were Jute and Engineering. Out of the two,

employment was higher in the Engineering industries. A large share of the demand for the products of the Engineering industry came from the Railways. In 1964-65 developmental outlays for the Railways was Rs. 2,753.7 million. This declined to Rs.1, 607 million in 1966-67 and fell further down to Rs. 942.9 million in 1969-70<sup>2</sup>. Bulk of the business of major companies like Jessop, Andrew Yule, Braithwaite, and Burn Standard was to supply parts and components to the Railways. Simultaneously, across the river numerous small factories under corrugated iron sheds in makeshift mud and thatch structures in the byelanes of Howrah would act as sub-contractors of these major companies. A shrinking Railway Budget dealt a major blow to the large and small producers alike.

During the same period, massive crop failure in two successive years led to a sharp increase in the price of food prompting popular unrest against the government. This was particularly pronounced in West Bengal. Riding on the wave of severe political discontent against the incumbent Congress government, the First United Front consisting of a motley assortment of communists as well as centrist parties occupied the seat of government in Writers' Building forming the first non-Congress ministry in the state. While it is true that apart from CPM, CPI, and their other radical partners, the Front did include non-Leftists like Bangla Congress, the Left parties had the dominant voice in shaping government policy. As the saying goes, "Power corrupts, absolute power corrupts absolutely". But what had corrupted the new rulers was their absolute exclusion from power during the past Congress regimes. So far, they had only been delivering fiery speeches exhorting people to strive for lofty revolutionary goals at mass rallies below the Monument on the green turf of the Maidan (Calcutta's own version of Hyde Park). What they did not realize was that governing a state was much harder and far more mundane than fanning the flames of popular discontent. If anything can be regarded as iconic for the First United Front government, it must be the phenomenon of *gherao* (or encirclement). As a major component of labor movement, strikes by workers were already in use. But actively cheered by the incumbent Labor minister, the practice of *gherao* (whereby a manager is physically confined to his office by workers standing guard at the exit) added a new dimension to trade union movement in the state. This heightened level of militancy put not only an individual's property but also his personal freedom at risk prompting the factory owners to worry about the security of their investment in the state.

There was still a one party Congress government in Delhi. Moreover, the Congress party leaders had gained valuable experience from their recently successful effort to topple the Leftist government in Kerala. It was not very difficult for them to wreck the incumbent United Front government in West Bengal and to impose President's Rule thereby ruling the state by proxy from Delhi. In spite of this, West Bengal saw another United Front government after the 1969 elections. In fact, CPM emerged as a much stronger political force after this election. Nevertheless, the Congress government in Delhi succeeded in

toppling the state government one more time. During this period of the two United Fronts West Bengal's share in the total industrial output of the country had fallen significantly. On the other hand, even though Gujarat became a separate state, the share of Maharashtra remained virtually unchanged. The following table bears witness to it.

Table 4 Share in Industrial Production and Employment (1970-71)

State	Production	Employment
Uttar Pradesh	7.30%	7.50%
Gujarat	9.70%	9.10%
Tamil Nadu	10.20%	10.90%
West Bengal	13.50%	16.20%
Maharashtra	24.60%	19.20%

It is beyond dispute that labor trouble at the factories and political unrest throughout the state hurt industry in West Bengal. In 1965 there were 179 strikes and 49 incidents of lockout in factories. In 1970, by comparison, there were 678 strikes and 128 lockouts<sup>3</sup>.

But two things are worth noting at this point. None of the two is directly political. First, the 'freight equalization policy' adopted as a part of the new Industrial Policy of the Central government, ensured uniform prices of essential raw materials like coal, iron, and steel across the country. In consequence, states located near coal and iron ore mines lost the comparative advantage they enjoyed before in the form of lower transportation costs. Among the worst affected states were West Bengal, Bihar, and Orissa. Second, companies needed license from the Central government to set up a new plant. In an effort to promote industry in the backward regions, the government pursued a discriminatory licensing policy against applications from the industrially advanced regions. This made it more difficult to start any new industry in West Bengal compared to many other states.

Many people believe that because of its hostility towards the non-Congress government in power in West Bengal, the Congress government at the Center deliberately discouraged establishment of new industrial units in the state. While such a belief may not be entirely unfounded, statistics show that in respect of the number of new licenses issued West Bengal ranked right behind Maharashtra at the top of the list. Therefore, even if the so called 'step motherly attitude' of the Center did work against the state, it cannot be regarded as a major hurdle for growth of industry in West Bengal.

In 1971 in the aftermath of a decisive victory in the war against Pakistan and formation of the independent state of Bangladesh in what used to be East Pakistan, Indira Gandhi's popularity was at an all time high. Riding on this tidal wave of popular support the Congress party seized back the state of West Bengal with a tally of 216 seats in the Legislative Assembly while CPM's humiliating tally of seats won was only 14. Then came the dark days of mass killing of suspected sympathizers of the Maoists (better known then as Naxalites) in the Kashipur-Baranagar area within Calcutta and the nightmarish period of Emergency imposed by Indira Gandhi in pursuit of her dictatorial ambitions to hang on to power even after her win in the previous election was nullified by a High Court judge (although on technical grounds).

Despite all this, in the 1977 elections held after the Emergency was lifted, a Left Front government came to power in West Bengal. Interestingly, compared to 1972, fate made a 180<sup>o</sup> turn this time. CPM thundered back with 178 seats with the Congress party licking its wounds after winning only 20 seats.

(3)

The Industrial Policy of the Left Front government announced in 1978 gave high priority to small scale and cottage industries in an effort to create employment in industry. Side by side, its stated objective was also to curtail the monopoly power of big business companies (especially the multi-nationals) in the organized sector. The government had to concede that it would not be practicable to eliminate foreign capital from industry altogether. But it declared than no new investment by multi-nationals would be allowed in the state.

One should not forget that the Left Front government was locked in an ongoing battle with the Congress ministry at the Center. Memories of devious machinations by the Congress leadership in Delhi that successfully brought down the Front ministries in the recent past were too fresh for the Front to forget. At the same time the leaders in Delhi had to grudgingly accept that in the changed scenario it would no longer be possible to sabotage the game by moving a few chips. The electoral majority that brought the Front to power practically insulated them from any political mischief designed to bring them down. Mistrust and mutual dislike between the two sides resulted in a continuing stream of bickering and confrontation on every conceivable issue.

Hoping for an industrial rejuvenation in the state, the Front government came up with a four-point demand from the Center: (i) more licenses should be granted for investment in the private sector in the state; (ii) government investment in the public sector should be increased; (iii) fund allocated for development in the state should be increased; and (iv) a host of regulations hindering establishment of

new industries in the state should be relaxed. Jyoti Basu, the incumbent Chief Minister at that time, even made an effort to mobilize non-Congress chief ministers from a number of other states, to put collective pressure on the government at the Center. In the end, nothing came out of it. In any discussion of the deplorable state of industry in West Bengal, leaders of the Left Front invariably lament over the 'step motherly' attitude of the Center. It is true that in many instances many new projects in the state have been delayed due to procrastination at the Center. The thermal power plant at Bakreshwar is a glaring example where the state had to wait seven years for central clearance. But if the Marxists in West Bengal were hated by Delhi, Jayalalitha of Tamil Nadu was no apple of their eyes either! Then, why did industrial development grind to a halt due to a hostile government at the Center only in West Bengal while Tamil Nadu continued to flourish?

There is no statistical evidence to substantiate the claim that the Center has denied the rightful claim of the state in respect of industrial investment<sup>4</sup>. In fact, during the period 1960-69 West Bengal was the recipient of 13.8% of investment in the public sector in the entire country. During the same period Tamil Nadu received 7.7% and Gujarat a paltry 1.2%. During 1970-79 West Bengal's share fell marginally to 10.7% while the combined share of Tamil Nadu and Gujarat was 9.7%. During 1980-89 also West Bengal accounted for 10.5%, Tamil Nadu for 7.3% and Gujarat for 3.6%. It is not true, therefore, that the government at the Center maliciously withheld public sector investment in West Bengal. During 2006-07 Gujarat's share was, indeed, much higher (at 13.8%). But in the same year, West Bengal's share was 10.46%. Thus, even though Gujarat succeeded in attracting considerably more resources for public sector investment from the Center, it was, by no means, at the expense of West Bengal.

The picture is entirely different in the private sector. In the post-liberalization period during the years 1991 through 2003 one third of all applications for investment in the private sector was for Maharashtra and Gujarat. By contrast, West Bengal attracted only 4.73%. If one considers the amount of proposed investment (rather than the number of applications) the share is even lower (at 3.85%). Moreover, while 55% of the planned investment in Gujarat was actually implemented, for West Bengal the percentage of implementation was 35.4%. Over the period August 1991- January 2003, per capita investment in the private sector was Rs. 20,725 in Gujarat compared to Rs. 1952 in West Bengal. That is equivalent to Rs. 16.60 invested in Gujarat for every rupee invested in West Bengal! In 1978 amounts of per capita industrial investment were Rs.670 for India as a whole, Rs. 805 in Gujarat, Rs. 779 in Maharashtra, and Rs.428 in West Bengal. The 1994 figures were Rs. 9,177 All-India, Rs. 22,776 in Gujarat, Rs.12,385 in Maharashtra, and Rs.4,376 in West Bengal. It is obvious that during the Left Front regime, West Bengal has lagged not only behind Maharashtra-Gujarat but also the nation as a whole. Even if one concedes that

hostility on the part of the Central government has hindered industry in West Bengal, there is no denying that private industrialists have shown virtually no interest in starting new business in the state<sup>5</sup>.

(4)

A search for the possible causes of such reluctance on the part of private companies to invest in West Bengal inevitably leads to the turbulent industrial relations in the state as the prime suspect. In many ways, it is only natural. When a revolutionary party comes to power through elections, it faces the dilemma of acting out its conflicting roles as a party and the government. Its political ideology puts it on the side of the workers in what it sees as a class struggle. At the same time, as a democratically elected government it is responsible for the safety and welfare of every resident of the state. The leader is accountable to the party; the government is accountable to the whole population. There cannot be any 'us against them' consideration in day to day governance. The new Left Front government did initially lend support to militant trade unionism in industry. But before long, it began to promote bilateral negotiations between labor and the management avoiding confrontation. In 1977 there were 397 instances of work stoppage due to industrial disputes. Of them 206 were strikes and the remaining 191 were lockouts. By 1980 the total number of major industrial disputes came down to 208 consisting of 78 strikes and 130 lockouts. In fact, in the years that followed, the number of strikes continued to fall. In the year 1991 there were only 21 strikes. By contrast, there were 192 lockouts<sup>6</sup>. As is apparent from the data, this time around the Left Front government did not support militant labor movement the way it did in the past. In fact, while number of strikes continued to fall, the number of lockouts increased steadily over time. This shows that management has been much less flexible than unions in settling disputes. The irony is that labor has become increasingly more vulnerable under the present avowedly pro-labor government. It is hard to believe this. In light of what appears to be an endless stream of processions, meetings, and road blocks, the average person will find it difficult to accept that the workers in mills and factories have become worse off than before. But it would be wrong to conclude that all cases of factory closures and relocation of companies elsewhere in the country are due to labor militancy. There are numerous instances of company failure due to managerial incompetence. Kesoram Cotton Mills and Metal Box are two glaring examples. Hind Motors also seems to be on its last gasp.

In reality, the problem is far more complex and one has to think much more deeply in order to fully comprehend the situation. During the 1980s there was a massive retrenchment of labor in organized

industry all across the country. West Bengal lost 177,000 jobs, Maharashtra lost 100,000, and Gujarat lost 38,000. Following the economic reforms, thousands of industrial jobs were created anew in different states in the 1990s. But while Andhra Pradesh created 366,000 new jobs, Tamil Nadu created 309,000, Maharashtra 227,000, and Karnataka 206,000, only 91,000 new jobs were created in West Bengal. This means that about half of the jobs lost in organized industry in the state were never recovered<sup>7</sup>.

On one hand, the state government gave priority to promoting small and medium enterprises at the expense of large industrial houses. On the other hand, countless factories have either closed down or have laid off a large number of workers. In many cases, these experienced displaced workers have themselves started their own factories in small sheds. These small entrepreneurs have emerged as sub-contractors of the bigger factories from which they had been laid off. As a result numerous small industrial establishments in the unorganized sector have mushroomed in West Bengal – especially in the greater-Calcutta area. In the early 1980s, 60% of the industrial output in the state came from the organized sector and the remaining 40% from the small establishments in the unorganized sector. But from 1995 onwards more than half of the total industrial production in the state came from the unorganized sector. While this has helped towards solving the unemployment problem, overall the economic condition of industrial workers has deteriorated drastically. Many people have lost pension, provident fund, and other retirement benefits. As a result, they have been forced to meekly accept many unfair demands by the management. Even in the organized sector, the labor unions have had to accept downsizing through different voluntary retirement schemes.

Careful observation will reveal that in many cases the primary objective of militant trade unionism has been to fight off a competing union in order to establish the monopoly of a union affiliated with a particular political party<sup>8</sup>. In factories where multiple unions are present, the most militant of them often came up with a totally unrealistic charter of demands that the management could never accept. In doing this, their main objective was to project themselves as the best champions of the interest of the workers thereby drawing away members from the competing unions. But once they emerged as the only surviving union in the factory, these fire breathing union leaders meekly concede the demands made by the management. Ultimately, the much publicized class struggle of CITU (an affiliate of CPM) and other militant unions is against rival unions rather than against the mill and factory owners.

Apart from this, a new trend has started regarding employment in the organized sector<sup>9</sup>. Increasingly, permanent workers are being replaced with temporary and contract workers. In many companies, only 30% or 40% of the total workforce are permanent employees. All others are either temporary workers or are employed through a contractor. The temporary workers are actually directly employed by the

company. But their employment contract clearly specifies that their employment will be terminated on a specified date in the future. In many cases, such workers are rehired. But that is a new employment contract and not a continuation of the previous employment. As a result, they are deprived of labor welfare benefits based on tenure on the job. A worker needs to be continuously employed for at least 100 days before the individual becomes eligible for Employees, Health Insurance. But if employment is terminated before this period as per contract, the employer escapes having to pay its share of the premium for such insurance. Companies save a huge sum of money through this practice. There is another class of workers who are actually employed by some other agency in contract with the company. Although they work on the premises of the company, they get paid by the contracting agency. Needless to say, the company where they actually work has no obligation for these workers. The labor unions in these companies do not fight for any rights or benefits of these contract workers. Their main objective is to look after the interest of their members who are permanent employees of the company. Not only that. The unions fully realize that exploitation of the temporary and contract workers will yield higher profits for the firm and will make it that much easier to extract wage concessions from the management.

In this new environment it is the mill and factory owners who call the shots while the labor unions make compromises. A tally of work stoppages dues to industrial disputes makes it quite clear. In the year 2003 there were 432 instances of work stoppage. Of them 400 were due to lockouts and only 32 due to strikes. One should not forget that during that year there was one industry-wide strike in the Jute industry. The total number of man days lost that year due to strikes was 1,600,000. On the other hand lockouts resulted in a loss of 25,600,000 man days. Over the years 2001-2006 there were 152 strikes and 2,266 lockouts. In the past, unions would come up with a charter of demands over which the two sides would bargain. In the altered scenario, it is the owners who declare a list of demands effectively on a take-it-or-leave-it basis. If the unions disagree, lockout is sure to follow.

In most collective bargaining agreements these days, the management has the upper hand. Here is one example<sup>10</sup>. In 1994 Berger Paints signed a 5-year agreement collectively with the unions covering all of its factories in and around Calcutta. The agreement explicitly spelt out that employment in all positions not directly related to the production and distribution of the products of the company will be phased out over time. When an employee retires or voluntarily leaves, the company would not be obligated to fill the resulting vacancy. Current employees will not get any priority in future recruitments. Dependents or family members of workers will get a priority in hiring only in the case of death of a worker who is in current employment. In numerous other smaller details, the company has been quite aggressive. For example, as per the agreement no worker can refuse to perform any duty that he is assigned. It even goes on to specify that every worker must clean up own work area and the tools after use. Needless to say, the

unions had to accept these terms. This one example should be enough to convince anyone that the days when unions used to dictate terms are over. Hopefully, nobody would still argue that militant trade unionism is the principal reason why private investment has largely shunned the state.

(5)

In 1994 the Left Front government announced a new industrial policy of the state in light of economic liberalization measures adopted by the Center. The main thrust of the earlier industrial policy framed in 1978 was opposition to foreign and multi-national investment. In the new industrial policy the government declared that it would welcome foreign investment and technology, wherever such investment is mutually beneficial. Priority was also given to domestic private investment in industry. Of course, safeguarding industries in the public sector in the interest of social justice and equitable distribution remained its top priority. Private investment was to be allowed in the power sector, which had been off limits in the past. In some important sectors within manufacturing projects were to be launched as public-private joint ventures. Infrastructure development was given high priority. In sum, the Left Front government made a deliberate effort to project itself as a born again ‘business friendly’ government.

Side by side with its new industrial policy announcement, the government launched an all out drive to attract industrial investment from foreign and domestic investors through its newly established West Bengal Industrial Development Corporation. Promotional campaigns were undertaken in collaboration with various Chambers of Commerce and industries. Even a full page ad in *Wall Street Journal*, the ultimate *bourgeoisie* outlet abhorrent to the Left ideologues, was not spared. The Chief Minister looked towards Thailand-Malaysia in search of foreign capital with some success. Mitsubishi and Chatterjee Soros Fund Management from abroad and Tata Group within the country collaborated with the state in a public-private joint venture at the Haldia Petro Chemical Project. Everyone believed that a high tide has finally arrived in the dried up stream of industry in West Bengal. The golden chariot of prosperity will roll in any moment. But before that the Tata’s will come to Singur; the Salim Group will build a fitting International City at Rajarjhat<sup>11</sup>!

In spite of all this fanfare, we find that by 1997-98 West Bengal has fallen even further behind other state in the field of industrial production as shown below:

Table 5 Share in Industrial Production and Employment (1997-98)

State	Production	Employment	State	Production	Employment
West Bengal	5.10%	8.30%	Uttar Pradesh	8.70%	7.70%
Karnataka	5.20%	6.30%	Tamil Nadu	10.00%	12.80%
Andhra Pradesh	5.40%	4.70%	Gujarat	12.90%	8.80%

Madhya Pradesh	6.90%	12.10%	Maharashtra	21.00%	14.80%
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One may argue that a period of only 3-4 years is too short for the beneficial effects of the new industrial policy to become evident. One must wait at least 5-6 years. That it is a fair point. Let's wait a few more years and take stock of the situation in 2001-2.

Table 6 Share in Industrial Production and Employment (2001-02)

State	Production	Employment	State	Production	Employment
West Bengal	4.60%	7.00%	Uttar Pradesh	7.00%	6.60%
Haryana	4.70%	3.70%	Tamil Nadu	9.80%	14.10%
Karnataka	5.70%	6.30%	Gujarat	15.30%	9.20%
Andhra Pradesh	6.60%	11.60%	Maharashtra	18.80%	15.00%

There is nothing to suggest that even 6-7 years after the new policy was introduced things were improving in industry in the state.

In the post-reform period, a license from the Central government is no longer needed for investment in most industries. However, a formal approval of an application for new investment is still required. But even in that respect, restrictions have been greatly relaxed. The following tables show the numbers of application for and actual implementation of new investment over the last two decades.

Table 7 Applications for New Investment and Amounts<sup>12</sup> (1991-2003)

State	Letters of Intent	Proposed Investment (Rs. Million)
Andhra Pradesh	5,875	4,982,040
Gujarat	9,369	7,247,880
Maharashtra	14,411	5,484,260
Tamil Nadu	6,805	2,610,720
West Bengal	4,542	2,915,320

Table 8 Investment Applications actually Implemented (1991-2003)

State	Letters of Intent	Proposed Investment (Rs. Million)	Employment
Andhra Pradesh	813(13.83%)	197780(3.97%)	158,651
Gujarat	1500(16.01%)	819510(11.3%)	211,795
Maharashtra	1445(10.02%)	364740(6.65%)	235,727
Tamil Nadu	530(7.79%)	138310(5.3%)	82,129
West Bengal	663(14.6%)	306920(10.53%)	110,956

As is apparent from Table 7, the number of proposals for investment in West Bengal was even less than half of what it was for Gujarat. In respect of the proposed amount of investment, the state ranked lower than Andhra Pradesh (besides Gujarat and Maharashtra). Of course, what really matters is the number of actually implemented projects rather than the number of proposals. In that respect, West Bengal comes ahead of Tamil Nadu and Andhra Pradesh. About 10.53% of the funds proposed for investment actually materialized. But compared to Gujarat, West Bengal came up short both in respect of funds invested and employment generated.

But why have investors stayed away from the state even though the Left Front went out of its way to roll out a red carpet to welcome the capitalists instead of raising the Red Flag to chase them away? We have already seen that the militant labor unions of the past have been squarely tamed by newly empowered aggressive management. Hence, the root cause must be lying elsewhere. One should never forget that the ultimate goal of business is to make profits. Therefore, location decision across states is largely driven by their relative cost competitiveness. The four broad factors of production are labor, fuel, materials, and capital (consisting of plant and machinery, building and structures, and working capital). The associated items of expenditure are (a) wages and salaries (including benefits), (b) cost of fuel and power, (c) cost of raw material, and (d) depreciation, rent and repair, and amortization and interest costs. There is a popular belief that that compared to other states labor costs much more in West Bengal. This is not entirely correct. In 2006, labor cost (including wages, bonus, provident fund, and other welfare expenses) per worker was Rs. 472.62 in Maharashtra, Rs. 333.86 in Gujarat, Rs. 313.80 in West Bengal, and Rs. 256.53 in Tamil Nadu. Clearly, high cost of labor is not what has deterred investment in West Bengal. Of course, when one takes all items of expenditure (ad not only labor cost) into consideration West Bengal is decidedly at a disadvantage relative to these other states.

Table 9 Production cost (Rs) per Rs 1,000 of Gross Output

(sub-period I: 1976-95)

<b>State\Year</b>	<b>1976-77</b>	<b>1980-81</b>	<b>1985-86</b>	<b>1989-90</b>	<b>1993-94</b>	<b>1994-95</b>
Gujarat	786	860	951	880	845	818
Maharashtra	760	796	846	861	814	820
Tamil Nadu	793	828	889	845	797	827
West Bengal	843	877	925	941	871	883

Table 10 Production cost (Rs) per Rs 1,000 of Gross Output  
(sub-period II: 1999-2009)

State\Year	1999-2000	2002-03	2005-06	2006-07	2008-09
Gujarat	802	840	778	801	810
Maharashtra	751	767	734	728	716
Tamil Nadu	795	822	777	771	791
West Bengal	878	860	607	907	794

Two things can be concluded from tables 9-10. First, in first sub-period, average cost in West

Bengal was comparatively much higher. In that respect, the high cost in Gujarat during 1985-86 is more of an aberration. Second, during the later period, costs were generally lower. Moreover, towards the end West Bengal has become quite competitive with Gujarat and Tamil Nadu. Hence, production cost does not appear to be the reason why the state has failed to attract investment. It is true, indeed, that West Bengal has a slight cost disadvantage. But then, why should investors flock to Gujarat where production is much more costly than in Maharashtra and Tamil Nadu?

(6)

The question of Singur, Tata-Nano, and Mamata Banerjee inevitably arises at this point. Many will argue that the reason why industrialists shy away from West Bengal going in stead to the 'business friendly' state of Gujarat is hardly a mystery. This is how the story goes. The way the populist committee resisted eviction of farmers and tenants from land designated for takeover by the state for the upcoming automobile factor of the Tatas effectively serves as a banner displaying to the nation the chaotic state and the dismal prospect of industry in West Bengal. The resistance committee actively supported by the cadres of the Trinamool Congress and with Mamata Banerjee in charge succeeded to bring all construction activity at the plant site to a standstill for weeks. No investor can hold on indefinitely under such uncertainty. Ratan Tata, the chief of the Tata Group, is an experienced businessman who knows very well when to pull out instead of incurring further loss. At the other end, Narendra Modi, the Chief Minister of Gujarat, is savvy enough to realize what is good for industry in his state. Little wonder that he readily welcomed the Tata Nano project driven out of West Bengal. This popular perception is not entirely false; nor is it entirely true. It is true, for sure, that a prolonged period of unrest and disruption of work at the construction site caused significant loss to the company. The state government never disclosed publicly the details of the subsidy for land and other concessions that were extended to the Tatas. It is not possible, therefore, to accurately estimate how much the company lost. Nor is it possible to figure out, how much, if anything, did the people of West Bengal lose due their untimely departure. But judging by the royal welcome they received from Modi in Gujarat it would appear that the Tatas were generously compensated for any loss they incur for their misadventure at Singur. One can gather from snippets appearing in the media (e.g. Indian Express.com) and other sources<sup>13</sup> that the state government in Gujarat would lend Rs. 97,500 million virtually interest free (at the interest rate of Re 1 per Rs 1,000)

repayable over 20 years. Public land worth Rs 11,000 million would be handed over to them free of any stamp duty and other transfer charges. Payment for the land was to be made in 8 installments at 8% interest. Many knowledgeable people (like Malladi Rama Rao, the editor of *Asian Tribune*) have claimed that the Modi government incurred a loss of Rs 180,000 million in its effort to attract the Tata-Nano project worth Rs 150,00 million to Rs 200,000 million. At the end of the day, the Tatas should actually be grateful to Mamata Banerjee for creating an opportunity for them to pull out of Singur for the greener pastures of Gujarat!

The Tata-Nano incident in Singur is an exception. There are few precedents of companies pulling up their stakes halfway through a major project under construction. Never the less, political turmoil can have grave negative impact on industrialization in a state. But there are two other points that must be emphasized before we talk about political hurdles faced by potential investors. First, efficient production at the factories requires infrastructural development. Inadequate transportation leads to delays in the inflow of materials and delivery of the finished products to the customers. Without sufficient and dependable supply of power, machines remain idle. With frequent breakdown of telephone lines, business operations cannot be carried on. Even when direct production costs are low, lack of infrastructures results in lower profit. A study published a few years back in *Economic and Political Weekly* constructed a physical infrastructure index based on road and rail transportation, irrigation, per capita availability of electricity, and number of telephones per capita<sup>14</sup>. In terms of physical infrastructures, West Bengal ranked 8<sup>th</sup> across the different states in 1970-71. In 1980-81 the state fell one notch to the 9<sup>th</sup> position. But by 1990-91 it had fallen towards the bottom ranking ahead of only one state, Assam. The poor state of infrastructures is a stumbling block on the road to industrial development in the West Bengal. Second, aggravating the problem further is the stifling stranglehold of bureaucratic red tape. In a bold campaign to project its image as 'business friendly', the state government has claimed in pages of glossy brochures and other publicity material that the new 'one window' policy has eliminated the need to run back and forth between a never ending series of counters in government offices in order to launch a new business. But the reality is quite different. Recently World Bank has conducted a comparative study of the difficulty of 'doing business' in a number of cities within India<sup>15</sup>. Among the 17 cities compared, Ludhiana in Punjab came at the top overall followed by Hyderabad in Andhra Pradesh. It is not fair, of course, to compare megacities like Calcutta with much smaller cities like Bhubaneswar in Orissa or Ranchi in Jharkhand. It is much more logical to compare only the metropolitan cities of Gujarat, Maharashtra, Tamil Nadu, and West Bengal. Among these four cities, Ahmadabad stood at the top. Mumbai (Bombay) came next followed by Chennai (Madras). Calcutta came last.

A more detailed explanation should be helpful. In starting up a mid-size business, two of the most important bureaucratic hurdles to cross relate to securing a building permit and registration. For both of these one needs to visit various state government departments and the municipal office in order to ensure that the file keeps moving from one table to the next. States vary in respect of the legal requirements and the number of forms that must be completed. Here is how the major cities compare in terms of the average number of days needed to complete the various formalities:

Days Needed	Ahmadabad	Mumbai	Chennai	Calcutta
Building Permit	55	60	45	90
Occupancy Certificate	21	30	15	30
Power Connection	45	10	45	45
Water/ Sewer Connection	30	30	30	30
Total (days)	144	200	143	258

Note: Many of the documents are secured concurrently. The total days include time required for other documents also.

At the next stage, one needs to file for mutation and other recording at the municipal office. Time required at this stage in the different cities are 40 days in Ahmadabad, 44 days in Mumbai, 48 days in Chennai, and 107 days in Calcutta. It is clear that compared to alternative locations, the red tape still holds back potential investors much more tightly in Calcutta.

(7)

The foregoing sections consider various reasons why industry in West Bengal has gone downhill. None of these factors is either irrelevant or trivial. The Left Front has faced hostility from the government at the Center over the decades of its rule in the state. But there is no convincing evidence to suggest that this has hindered investment in the public sector industries in the state. Militant Trade Unionism did scare the business owners in the initial phase. But things have changed remarkably on the labor front. At present, labor unions are the underdogs taking extra care not to offend the management. Production costs are somewhat higher in West Bengal when compared with Maharashtra, Tamil Nadu, or Gujarat. Bureaucratic delay is longer in the state relative to its competitors. All this is true. But there still remains a missing piece of the puzzle. These factors taken together still fail to adequately explain the precipitous decline in the state's share in the country's total industrial production from 13.5% in 1970-71 to a miserable 3.9% in 2007-8!

A root cause of this sad demise of industry in West Bengal is total administrative failure that has been spreading like cancer steadily robbing the economy and the polity of its vitality. Responsibility for this anarchy rests squarely on the shoulders of all of the political parties in the state. CPM, Trinamool Congress, the Congress Party, even the minor partners of CPM in the Left Front all must share the blame. Every party calls for a 'Bandh' (general strike) at the slightest pretext in order to pursue its own narrow political goals. Just as the pomp and splendor of the Durga Puja in a locality in Calcutta depends on the fund raising ability of its organizers, the scale and size of a 'Bandh' (whether it will be statewide or more localized within a municipal jurisdiction) depends on the political clout of the party promoting the 'Bandh'. In this regard, CPM and Trinamool Congress are the main offenders. Consider CPM first. Every political party has the right to protest on various issues related to the state, the nation, or the world. Holding mass meetings and leading peaceful processions are perfectly legitimate forms of protest against

what the party considers unjust. But no one has the right to disrupt rail, road, and air transportation jeopardizing the normal life of others. What is particularly shameful is that when political rallies are organized by his party blocking traffic in the busy streets of Chowringhee, the Chief Minister feels no qualms to come and address the gathering in spite of the fact that as the executive head of the state he is responsible for maintaining law and order in the city. Obviously, his allegiance is to his party, not to the people of the state. On its part, Trinamool Congress, the chief opposition party in the state, is hardly a model of political restraint! Of late Mamata Banerjee, their fire breathing leader, has eschewed the use of 'Bandh' as a political weapon. This, admittedly, bodes well for the state. But a question remains. Over many years she has resorted to calling 'Bandh's depriving the poor day laborer and others living from hand to mouth of their day's earning. Why did she not care about denying these unfortunate souls of a meager meal at the day's end? Nor did she stop to think how her truculent politics of the street was antagonizing potential investors and prompting them to give West Bengal the widest possible berth. At that time there was no serious possibility of her becoming the Chief Minister and opposing the CPM on every issue was the sole objective of her political existence. But in the altered scenario of 2011 the Chief Minister's position is for her to lose. Naturally, she has to appear more reasonable so that people are not scared away.

Statistics published by the Central Ministry of Labor for the year 2009 show that 6,835,000 man days lost in the year 2008 throughout the nation were unrelated to any industrial dispute. West Bengal alone accounted for 5,854,000 of this national total. This one statistic tells the whole story!

The negative effect of party politics on business and industry in the state is hardly limited to 'Bandh's alone. At present the Party acts like a government by itself. In order to set up a factory or to start a new business, one must appease all the three protagonists – the government, the ruling party, and the opposition party. At the local level, neither the police nor the government executive official has the courage to defy the local party bosses. Because of the necessity to rely on the muscle power supplied by the local units to keep the opposition parties on a leash, the party leaders at the top avoid antagonizing the local ruffians within the party. This is a problem endemic to all of the political parties in the state – CPM and the opposition alike.

This state of anarchy must end if industry and the overall economy of West Bengal are to revive. The only way out of this chaos is to seize back the administration from the clutches of the political parties. Courts have repeatedly and unequivocally ruled that no political party has the right to block traffic for its own political gain thereby stopping the common man from going to work or restraining the vehicle carrying the critically ill to the hospital. But no political party has deferred to this judgment. Morale of the man on the street is so low that when a political party declares a 'Bandh', instead of defying the self-serving party leaders, people mutely accept that as immutable like an act of the providence like a cyclone from the Bay of Bengal!

In the ultimate analysis, failure of governance has turned West Bengal into an industrial wasteland. It is up to the common man to put an end to this anarchy.

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<sup>1</sup> Shares of selected states in total industrial production and employment reported in the various tables have been calculated by the author from data collected from the Annual Survey of Industries for different years.

<sup>2</sup> Reported amounts for developmental expenditure on Railways are from H.L. Chandhok: *India Data Base* Vol. 1 (The Policy Group) p 478.

<sup>3</sup> See Ajitabha Roychaudhuri and Gautam Kumar Basu: "The Decline and Recent Resurgence of the Manufacturing sector of West Bengal: Implications for Pro-Poor Growth from an Institutional Point of View"; *IPPG Discussion Paper* No 10 University of Manchester, UK [www.ippg.org.uk](http://www.ippg.org.uk) Table 9 page 12.

<sup>4</sup> Data reported for investment in the public sector are from Sinha, Aseema. 2003. "Rethinking The Developmental State Model: Divided Leviathan and Subnational Comparisons In India." *Comparative Politics*, Vol. 35, No. 4, page 465 Table 2. Data for 2006-07 are obtained directly from Department of Public Enterprises, Government of India: National Survey of State Level Public Enterprises (2006-7) page 3 Table 3.

<sup>5</sup> Source Sinha, Aseema. 2004. "Ideas, Interests and Institutions in Policy Change in India: A Comparison of West Bengal and Gujarat," in *Regional Reflections: Case Studies of Democracy in Practice*, Rob Jenkins ed., Oxford University Press Table 3.5, page 77. There is a typo in that table. Figures for per capita investment are in Rupees and not in Rs. Million as shown there. See also Sinha, Aseema. 2003. "Rethinking The Developmental State Model: Divided Leviathan and Subnational Comparisons In India." *Comparative Politics*, Vol. 35, No. 4 Page 462, Table 1.

<sup>6</sup> See Ajitabha Roychaudhuri and Gautam Kumar Basu: The Decline and Recent Resurgence of the Manufacturing sector of West Bengal: Implications for Pro-Poor Growth from an Institutional Point of View"; *IPPG Discussion Paper* No 10 University of Manchester, UK [www.ippg.org.uk](http://www.ippg.org.uk) page 17, Table 12.

<sup>7</sup> See Ratna Sen: "The Evolution of Industrial Relations in West Bengal" (2009) [www.ilo.org/india](http://www.ilo.org/india) page 3.

<sup>8</sup> See Deepita Chakravarty & Indranil Bose: "Industrialising West Bengal? : The case of institutional Stickiness"; *IPPG Discussion Paper* No 32, Nov 2009 University of Manchester, UK [www.ippg.org.uk](http://www.ippg.org.uk) page 31.

<sup>9</sup> See Ratna Sen: The Evolution of Industrial Relations in West Bengal (2009) [www.ilo.org/india](http://www.ilo.org/india) page 11.

<sup>10</sup> The following summary of the Union-Management contract at Berger Paints is based on Ratna Sen: "The Evolution of Industrial Relations in West Bengal" (2009) [www.ilo.org/india](http://www.ilo.org/india), p 75.

<sup>11</sup> Singur was the designated site of the Tata Nano automobile factory which had to be abandoned due to political unrest. Rajarhat is a satellite township in the outskirts of Calcutta where the Leftist government planned to build a special economic zone (SEZ). The contract was to go out to the Salim group.

<sup>12</sup> Tables 7 and 8 are based on data published by Department of Industrial Policy and Promotion, Government of India.

<sup>13</sup> See Oct 16, 2008 [indianexpress.com](http://indianexpress.com) on the web. Also see Malladi Rama Rao "From Singur to Sanand, BAD 'M' Haunts TATA'S GOOD 'N'"; *Global Geopolitics Net Sites* Tuesday, October 21, 2008.

<sup>14</sup> Buddhadeb Ghosh and Prabir De. "How Do Different Categories of Infrastructure Affect Development? Evidence from Indian States"; *Economic and Political Weekly*, Vol. 39, No. 42 (Oct. 16-22, 2004), pp. 4645-4657

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<sup>15</sup> Source: <http://www.doingbusiness.org/data/exploreeconomies/india/sub/kolkata/>.