
INDIA'S INDUSTRIAL DILEMMAS IN WEST BENGAL

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Industrial development in the Indian state of West Bengal is of interest from at least three different perspectives that all have important theoretical and policy-oriented implications. The first perspective derives from the fact that this particular state has been ruled for more than 20 years by a political party claiming a Marxist allegiance, the Communist Party of India (Marxist) (CPI [M]). Over the course of these two decades, such parties have become increasingly rare. They are regarded by many as representing a long gone past rather than symbolizing the future as once assumed. Moreover, the party has repeatedly— in 1982, 1987, 1991, and 1996— been reelected to office through open and democratic elections.

The CPI (M)'s remarkable political success alone makes it worthwhile to investigate to see what can be learned about the conditions and prospects of the government's progressive policies in the economic sphere. What's more, most writings on West Bengal have focused on the government's reform policies in the rural areas. Extensive debates have been conducted over the government's past performance and its future prospects in that sphere. In contrast, there has been much less debate over the government's performance in the industrial sector despite the fact that industrial development would seem to be of critical importance for a Marxist government claiming to represent the interests of the proletariat.

A second perspective on industry in West Bengal comes from the debate on the prospects for industrial growth in developing countries, including the discussion on the lessons to be learned from the— until recently— highly successful East Asian countries. A particularly promising theoretical contribu-

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tion to this debate has come from the work of Peter Evans. In his celebrated book, *Embedded Autonomy*, he points to the close (embedded) but still distant (autonomous) relationship between governments and business—state and industry—as the key condition for successful industrial transformation.¹ At the end of his volume, Evans asks the question whether embedded autonomy can be built around ties to other social groups than business.² Citing the examples of Austria with its strong labor movement and the Communist-led Indian state Kerala, Evans concludes that while an industrial transformation requires close links to a class of industrialists, “mobilization of subordinate groups can serve as [a] substitute for the exogenously created weakness of elites that was so important for the balance of autonomy and embeddedness in the East Asian case.”³ From this theoretical perspective, the questions then arise as to whether West Bengal, with its traditionally highly mobilized industrial working class closely linked to the ruling political party, represents a case of embedded autonomy and, if so, what have been its industrial results?

A third important perspective arises from the change to a more liberal economic regime in the larger Indian Union. In 1991, the national government initiated a process of economic liberalization that has fundamentally changed the nature of the country's political economy. Continued by successive governments, this policy has done away with most of the central government's regulations of the private industrial sector and thus by default enlarged the scope for industrial policies at the state level. As a result, many state governments have made new industrial policy initiatives. This has resulted in intense competition for new investments including those from abroad, which now arrive in much larger quantities. It is an important question for India's future as to what the long-term implications of these developments will be for the regional distribution of economic growth and the social and political tensions that may accompany any major accentuation of past and present imbalances. The specific problem for West Bengal and its government today is, how will the state manage to cope with this new competitive environment? How does a state government secure its industrial future in a substantially more market-oriented environment, and will the new situation characterized by less political interference from a traditionally hostile central government provide a foundation for renewed industrial growth?

The three perspectives include considerations along two theoretical dimensions: those of state-market and state-society relations. The first perspective deals with how progressive governments inimical to both (the larger) state and the market should position themselves; the second deals squarely with

1. Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

2. *Ibid.*, p. 228.

3. *Ibid.*, p. 246.

state-society interaction in industrial development; while the third combines the two in asking the question of how the local state should link up with society and markets in order to prosper in the new market-oriented environment.

In what follows, I will portray the industrial policies pursued by the West Bengal state government since its coming to power in 1977 to well into the 1990s and contrast those policies with the actual industrial development in the period. Three sub-periods are of interest here. The first is the long period from 1977 to 1991 in which the government most of the time faced a politically hostile central government armed with policy instruments provided for under a strongly state-directed economic strategy. The second sub-period is the brief one from 1991 to 1994 during which economic liberalization was initiated at the national level while the state government continued its previous policy. The third period is from 1994 to the present day, a period when the West Bengal government announced a new, more activist industrial policy with the explicit goal of taking advantage of the new liberalized policy environment.

On the basis of this empirical investigation, I return to the three perspectives outlined above in order to discuss what can be learned from the West Bengal experience and what the broader implications are for both theory and policy.

Travails of a Leftist Local Government: West Bengal since 1977

The elections to the local Assembly in West Bengal in June 1977 came in the wake of the lifting of the State of Emergency imposed by Indira Gandhi two years earlier. The elections provided the first opportunity for leftist forces in the state to test their popular backing in a situation free of the political repression that had characterized the state, not only during the all-India Emergency but even since the dismissal in 1970 of the second of two United Front coalition governments. The result of the 1977 election was a clear victory for the CPI (M) and its Left Front partners, a collection of 10 small parties. The Left Front government replaced one led by the other major political force in West Bengal, the Congress Party. When seen from the perspective of past electoral trends, the victory hardly seems surprising. For instance, the CPI (M)-led electoral fronts had secured around 35% of votes in the previous two elections and had won elections in 1967 and 1969 that resulted in United Front governments in the state. However, it was apparent that the CPI (M) and its coalition partners were not fully prepared for assuming political power so shortly after their semi-illegality during the Emergency.

Although it can be argued that the state had been in economic decline ever since the capital of British India was moved from Calcutta to New Delhi in

1912, the partition of British India also dealt a severe blow to the economy of the state. Accordingly, the Left Front government inherited from the Congress Party a state that had been in continuous economic decline since Independence. In the industrial sector in particular, West Bengal had lost its prominent position to other Indian states, especially to states in the western (Maharashtra, Gujarat) and southern (Tamil Nadu) part of the country.

The reason for this decline could be found in the consequences of a particular economic structure and its associated class structure, combined with an economic policy by the central government that had systematically disfavored the state as a location for new industrial activities. In the highly state-controlled economic strategy adopted by the Indian government, most industrial investments required a license issued by the central government. This meant that being able to influence the government's policies became an important precondition for industrial growth. 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 that state's interests. This placed West Bengal's government in a difficult position in the competition for industrial investments. Many industrialists accordingly located their new investments outside the state because of an industrial policy by the central government that favored those locations. The short-lived experiment 1967–70 with militant United Front governments that initiated mass actions by the industrial working class probably reinforced this trend. Industrialists thus argued that the flight of capital from West Bengal was caused precisely by labor militancy.

Given this historical experience, the new Left Front government chose a cautious strategy for industrial renewal. Its industrial policy published in early 1978 stated the overall goals thus:

The major goals of the Left Front Government over the long run should be: (a) reverse the trend toward industrial stagnation, (b) arresting the growth of unemployment and providing for increased employment in the industrial as well as agricultural sectors, (c) encouraging the growth of small and cottage industries, (d) lessening the stranglehold of the monopoly houses and multinational firms on the economy of the State, (e) encouragement of indigenous technology and industrial self-reliance, (f) the gradual expansion of the public sector, and (g) increasing the control of the actual producers, that is, the workers, over the industrial sector.⁴

The basic idea behind the strategy was to encourage industrial growth based upon small enterprises and the public sector in an attempt to reduce the economic power of big business—Indian and foreign—with the ultimate aim

4. Government of West Bengal (GWB), *Statement on Industrial Policy* (Calcutta: GWB, 1978), p. 1.

of strengthening the working class through growing employment and a larger influence on the factory floor. Consequently, the militant wording in the statement was directed against the large and, in particular, foreign enterprises. At the same time, the statement acknowledged the important economic role of these enterprises. It claimed that “[i]t is not possible to leave out altogether the multinational corporations and the big industrial houses in the immediate period.” The statement then added: “There can be no question of allowing new multinational units to come in.”⁵

The official rhetoric was, however, to a considerable extent softened by West Bengal's chief minister, Jyoti Basu, who, on several occasions both before and after the policy statement was issued, assured the local business community and potential foreign investors that the government's policy would not discriminate against investments from any source and indeed would welcome them. Supplementing this softer line, the government adopted a reconciliatory or so-called responsible policy with regard to industrial labor. Support for what it deemed to be the legitimate demands of industrial workers and the use of methods of collective bargaining in cases of industrial disputes became key ingredients in the government's strategy. The West Bengal government also emphasized that only in cases of extreme provocation would the government support workers resorting to strikes.

However, the main activity the Left Front government pursued in its attempt to revive industrial growth was concentrated on influencing the policy of the central government. Through frequent appeals for positive treatment of private investment proposals, more public sector investments, easier access to financial support, and other matters of central government regulation, the West Bengal government lobbied hard for a better deal. Moreover, in an attempt to win allies among other state governments, the Left Front agitated for a restructuring of center-state relations that would give more powers to the states.⁶ Nothing of this produced results in the form of significant changes in the policies of shifting central governments or any changes whatsoever in the federal structure of India. Whenever the industrial stagnation of the state was discussed, the standard explanation given by the Left Front government and the CPI (M) became the purported discrimination West Bengal suffered from the central authorities in New Delhi.

Developments in the industrial sector that occurred in the years after the Left Front government came to power did not give many grounds for optimism regarding the desired revival of industrial growth and expansion of employment opportunities. On the contrary, all available evidence shows a

5. *Ibid.*, p. 3.

6. *GWB, A Memorandum on Center-State Relations* (Calcutta: *GWB*, 1977); and *idem.*, *Statement on Center-State Relations* (Calcutta: *GWB*, 1983).

continuation of industrial decline in the state. West Bengal's share of registered factory production in India declined from the already low 10% when the new government took over to less than 6% in the early 1990s (see Figure 1). This must be compared to the situation at Independence, when West Bengal accounted for close to 30% of factory production in India.⁷ Employment in factories, mines, and tea plantations continued to stagnate, as did employment in the agencies of the central government located in the state (see Figure 2).

Employment in factories increased slightly in the late 1970s but stagnated thereafter. The only significant increase in employment opportunities took place within the agencies of the state government, where more than 100,000 new jobs were created. As a consequence, public sector employment surpassed that in the private sector. However, both sectors are counted only as part of the organized sector, namely as activities under regular supervision of the authorities. The small-scale sector and the various informal sector activities experienced an increase in job opportunities, but not on a scale sufficient to lessen the state's severe unemployment problems. The real wages of industrial workers declined, in particular since the mid-1980s, possibly as a result of pressures from stagnating job opportunities.⁸

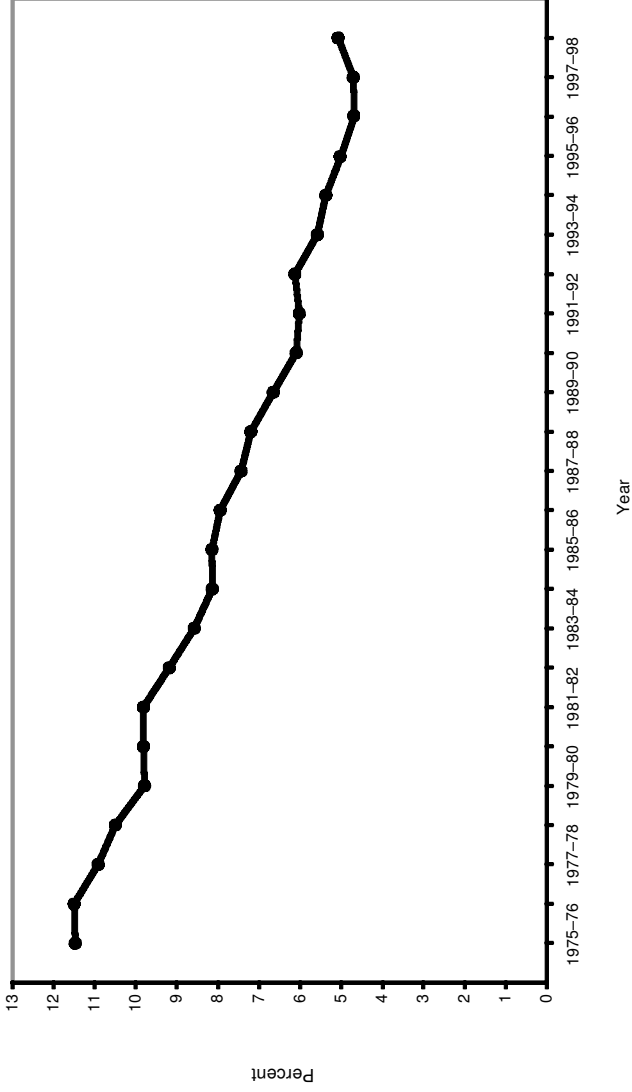
The overall industrial stagnation also prevented any significant structural change in the industrial sector. The only major change was the substantial decline in the jute industry's share of manufacturing output from 15% in 1979–80 to 7% in 1997–98—a continuation of a historical trend. All other major industries more or less kept their relative position within the industrial landscape of West Bengal. Those industries that did expand their share of the local industry (especially in the chemicals and beverages sectors) barely managed to keep their share of all-India production. As a result of the stagnation—and contrary to what happened in most other states—the share of manufacturing in the state's domestic product steadily declined.

The failure to attract sufficient new investments from Indian and foreign sources was apparent in the granting of investment licenses from the central government. As Figure 3 shows, apart from a few exceptional years West Bengal under the Left Front government continued to experience a steady decline in its share of investment licenses issued by the central government. This decline was even sharper than that in the state's share of industrial production. A similar picture of declining support can be found in the allocation

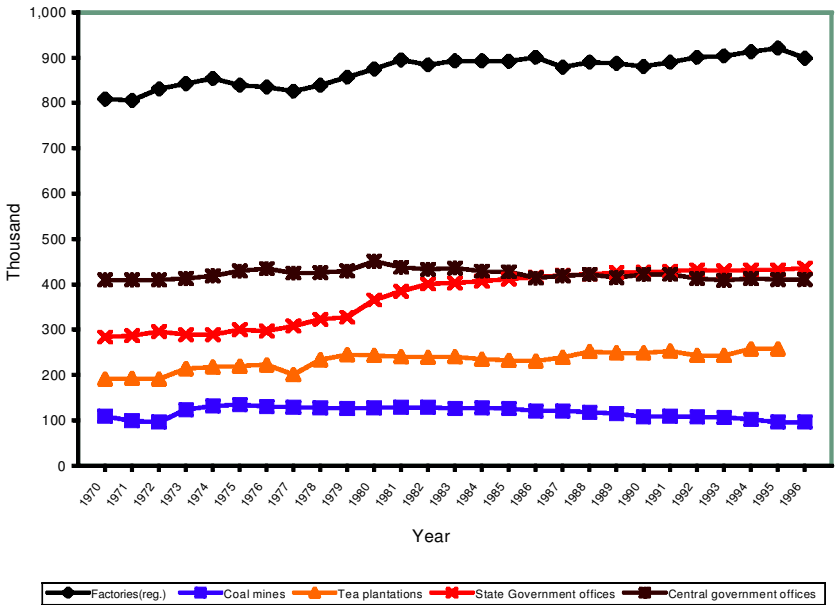
7. Debdas Banerjee, "Industrial Stagnation in Eastern India: A Statistical Investigation," *Economic and Political Weekly (EPW)* 17:8–9 (1982), pp. 286–98, 334–40.

8. No authoritative measure of real wages was easily available at the time of writing. My own calculations based on partial information from the West Bengal government's annual *Economic Review* show a stagnation in real wages during the early 1980s and a substantial decline since 1986.

FIGURE 1 West Bengal's Share of All-India Factory Output, 1974/75-1997/98



SOURCE: *GWB, Economic Review* (Calcutta: *GWB*, relevant years 1979-80 and 1998-99).

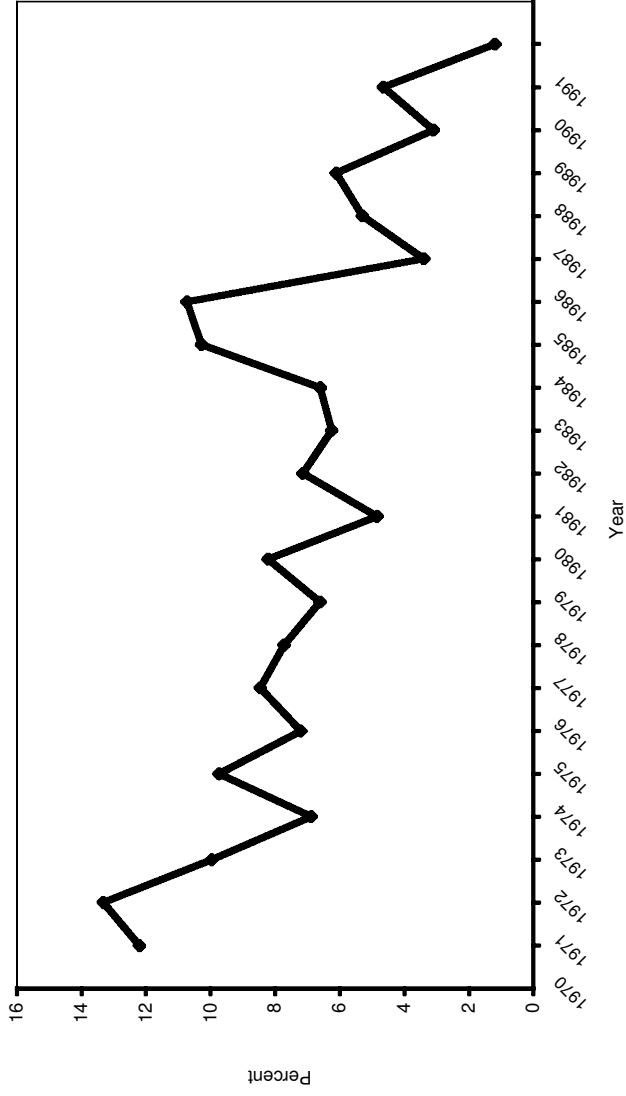
FIGURE 2 *West Bengal: Employment in Important Sectors, 1970–1995/97*

SOURCE: Ibid.

of financial resources for industrial development offered by the all-India financial institutions. 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 the central government—as claimed by the CPI (M)—or if it simply reflected the lack of investor interest in the state, it seems clear that labor militancy there could no longer provide an easy explanation for the lack of industrial investments.

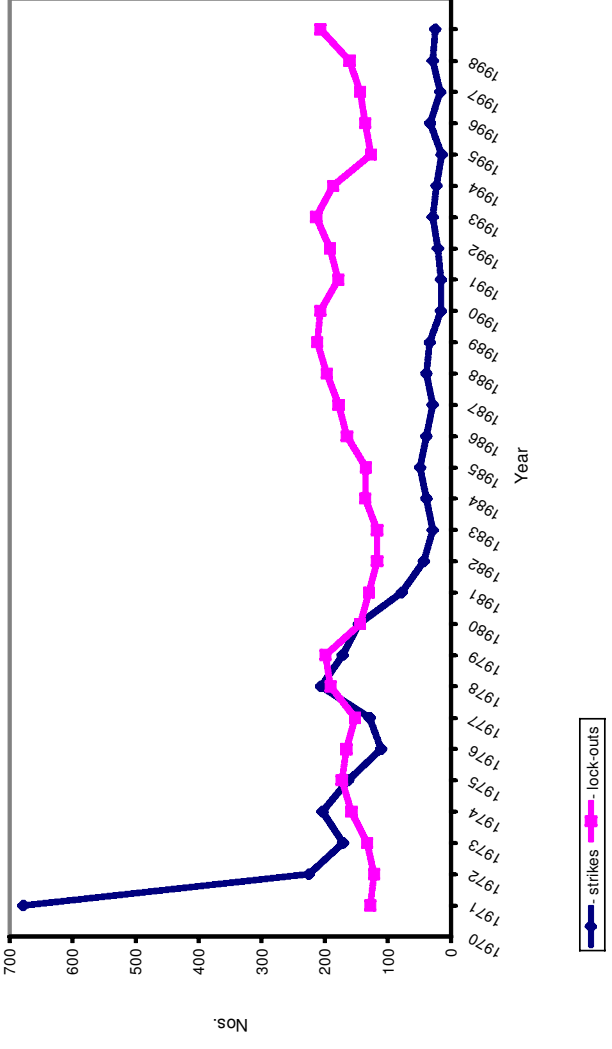
As is evident from Figure 4, the situation on the labor front improved considerably seen from an investor's point of view. The number of strikes declined dramatically, reducing the annual number of per capita workdays lost on this account. Instead, employers seem to have taken the lead as initiators of industrial strife. Lockouts increased slightly in numbers and significantly in terms of workdays lost. While West Bengal today still has the most conflict-prone industrial sector among Indian states, accounting for 30%–40% of

FIGURE 3 West Bengal's Share of Industrial Licenses, 1970-1991



SOURCE: Ibid.

FIGURE 4 *Industrial Disputes, 1970-1998*



SOURCE: Ibid.
NOTE: Data for 1997 and 1998 are provisional.

workdays lost in industrial disputes in the country, labor militancy no longer seems to be its main cause.

The stagnation of the industrial sector was also evident in the growing number of so-called sick industries in the state. Sick industries are industrial undertakings that have incurred losses for a sufficiently long time so that the central government takes action. West Bengal has had a large share of sick industries in India. The enterprises owned by the state government have also earned the dubious record of incurring losses larger than any other group of state-owned enterprises, except those in Uttar Pradesh.⁹

By the early 1990s—after more than 13 years of Left Front rule—it was evident that a sense of fatigue had set in. In various reviews of its own performance, the Left Front government repeatedly emphasized that the unfair policies of the central government caused the weak performance in industrial production and employment. Instead, the government correctly stressed its improved performance with regard to agricultural growth, land reforms, and rural development in general. Measured by electoral success, the government could also comfort itself by knowing that it received the backing from a substantial part of the electorate.

The Left Front's electoral performance, however, took place against the backdrop of an improved showing by the Congress Party, which became the largest single vote-getting party in the state. The Left Front coalition captured around 50% of all votes in the four elections after it came to power. In 1982, it received 50.7%. In 1987, the Left Front's performance increased to 51.1%. In 1991, the Left Front received 49.0% of the vote, while in 1996 it received 49.3%. In contrast, during the 1987 election, the Congress Party became the largest single party with over 41.4% of total votes, compared to the CPI (M)'s showing with 39.3%.¹⁰

It became clear that as long as the Left Front coalition stayed intact, it could easily defeat the Congress Party given the simple majority ballot system. A more serious long-term electoral challenge for the Left Front government, though, was the declining support it had been receiving from the industrial working class since the mid-1980s. In most urban-industrial constituencies, the Left Front suffered significant losses in the 1987 assembly election. This decline in electoral support continued into the 1990s.¹¹

9. T. L. Sankar, R. K. Mishra, and R. Nandagopal, "State Level Public Enterprises in India: An Overview," *EPW* 29:35 (1994), Table 7.

10. Prasanta Sen Gupta, "Politics in West Bengal," *Asian Survey* 29:9 (September 1989), p. 886.

11. See election results in *ibid.* See also Ranajit Das Gupta, "1998 Elections in West Bengal," *EPW* 33:19 (1998), pp. 1113–18.

The Impact of the New Economic Policy

It was in this situation of industrial deadlock that the central government introduced changes to its economic strategy in July 1991. The newly elected Congress Party government headed by Prime Minister Narasimha Rao decided in the face of an acute balance of payment crisis to initiate a major reorientation of the economic strategy in collaboration with the International Monetary Fund (IMF) and the World Bank. The New Economic Policy (NEP) included a short-term economic stabilization program as well as a long-term policy of structural adjustment. The stabilization program consisted of an immediate devaluation of the Indian rupee followed by a gradual shift to a system of currency convertibility with the aim of stabilizing the external economic accounts. In addition, the government took measures to reduce the mounting fiscal deficit through a reduction in government subsidies and other expenses. The structural adjustment part of the NEP consisted of dismantling the system of industrial licensing, except for a few selected industries; trade liberalization; and reforms of the public sector including partial privatization. The government also lifted existing restrictions on investments from the large industrial houses and gradually liberalized its policy of regulating foreign direct investments. After decades of protectionism most of the Indian economy was now open for investments from transnational corporations.

From the viewpoint of West Bengal, a significant policy change came when the central government in January 1992 abolished its scheme equalizing domestic freight rates for iron and steel. The scheme had been introduced in 1956 and effectively eroded the cost preferences that engineering industries in West Bengal had because of their proximity to the large steel mills in Eastern India. The scheme's abolishment had been one of the longest standing demands from all West Bengal governments, whether led by the Congress Party or by Left parties.

One immediate result of the central government's new policies was a substantial increase in the flow of foreign investments into the country. Combined with the abolishment of the central government's control over industrial investments, this meant that state governments found themselves in an entirely new situation characterized by strong competition for domestic and foreign investments alike. Instead of seeking to influence politicians and bureaucrats in New Delhi, chief ministers and other prominent local politicians stepped up efforts to market their particular state to potential investors. These included domestic industrialists, wealthy Indians living abroad (the so-called Non-Resident Indians or NRIs), and foreign companies.

The dramatic nature of the policy changes also led to initially strong reactions from diverse groups. Opposition parties on the right and left criticized

the policy, and new citizen groups were established with the sole purpose of analyzing and (most often) denouncing the new policy.

The Left Front Government under the NEP

The reaction to the NEP by the Left Front government in West Bengal and its dominant constituency, the CPI (M), was filled with ambivalence. In its electoral rhetoric, the CPI (M) argued vehemently against the general thrust of the new policies. Trade unions affiliated with the party made their opposition to the policy manifest through an attempted general strike in September 1993, but the strike became effective only in a few places. West Bengal was one such place, because of support from the Left Front government.

The CPI (M)'s denunciation of the NEP was consistent with its reactions to the 1981 IMF loan agreement and the steps toward economic liberalization the Rajiv Gandhi government took in the mid-1980s. During those earlier events, West Bengal's Left Front government reacted by mobilizing intellectuals, mainly economists, in a public denunciation of the liberalization policy. For instance, in 1981 the government published a selection of critical comments from leading economists on the IMF agreement. Later in 1985, the West Bengal government invited a group of economists to issue a statement against Rajiv Gandhi's proposed policy changes.¹² However, a few months before the 1993 strike, the Left Front government had indirectly acknowledged in its *Economic Review* for the year 1992–93 that the freeing of the industrial sector from the compulsion to seek central government licenses had resulted in an increase in investment proposals in the state.¹³ To take advantage of the new situation, the West Bengal authorities stepped up their efforts to attract new investments. In April 1993, they launched a new incentive scheme for investment projects. Later on, new tax concessions were offered for new investment projects. Moreover, the government streamlined procedures for handling applications for financial support for new investment projects by the government's industrial development corporation.

The West Bengal Industrial Development Corporation (WBIDC) was given a more active promotional role through the induction of a new chairman, Somnath Chatterjee, who was a highly influential member of the CPI (M) leadership. His appointment came immediately after the announcement by the Left Front government of its own new industrial policy in September 1994. This policy statement meant a significant change in rhetoric compared to the 1978 statement:

12. See GWB, *The IMF Loan: Facts and Issues* (Calcutta: GWB, 1981). In July 1991, a similar statement was issued by a group of economists, and the government later submitted its proposal for an alternative economic policy to the central government.

13. GWB, *Economic Review 1992–93* (Calcutta: GWB, 1993), p. 4.

The State Government welcomes foreign technology and investments, as may be appropriate, or mutually advantageous. . . . [I]t recognizes the importance and key role of the Private Sector in providing accelerated growth . . . the State Government would also welcome private sector investment in power generation.¹⁴

When explaining the new policy to the state Assembly, the government expressed its positive attitude to some of the changes brought about through the NEP:

While continuing to advocate a change in some important aspects of this New Economic Policy, we must take the fullest advantage of the withdrawal of the freight equalization policy on steel and the delicensing in respect of many industries.¹⁵

In pursuit of the new policy of actively seeking new investments, West Bengal's chief minister Jyoti Basu intensified the promotion of West Bengal as an outlet for investment through several travels abroad. In its publicity campaign, the government pointed to the state's possession of significant advantages seen from the point of view of potential investors. Among these advantages were the harmonious social situation, with the state free of the strife between religious groups that had become so conspicuous in other states; a uniquely stable political regime; and a dedicated and committed local administration. The new industrial policy statement also claimed to have removed "certain misgivings about the state Government's attitude toward industrial investments."¹⁶

Immediately after the declaration of its new industrial policy, the government received significant support in its publicity campaign from local chambers of commerce. The Confederation of Indian Industry (CII) (Eastern Region) commissioned a report on West Bengal's industrial future from the international consulting company, Arthur D. Little. In the report, the consultants called for an "industrial development compact" between government, industry and labor." The report also deplored the "lack of a strong partnership and growth attitude among business, labor and government," which it saw as the single most important historical factor behind the state's loss of its industrial preeminence."¹⁷ It further advised the state government to concentrate on developing infrastructure and terminating its own industrial and commercial activities. The report also designated a number of industrial sectors with strong growth potentials.

14. GWB, *Policy Statement on Industrial Development* (Calcutta: GWB, 1994), pp. 7–8.

15. *Ibid.*, p. 6.

16. GWB, *Economic Review 1995–96* (Calcutta: GWB, 1996), p. 43.

17. Arthur D. Little, Inc., *A Vision of West Bengal's Industrial Future: A Strategic Perspective* (Calcutta: Arthur D. Little, 1995), pp. 1–2.

Shortly after the release of the Little report, the Indian Chamber of Commerce and the WBIDC commissioned another consulting firm, Price Waterhouse, to help promote West Bengal as an investment target for international companies. The new consulting company pointed to some of the same industrial sectors that had been mentioned in the Little report.¹⁸ These new initiatives clearly indicated that both government and local industry were anxious to collaborate in the encouragement of industrial development.

The changes in the state's industrial policy during the 1990s demonstrate the dilemmas in which the Left Front government was placed by the central government's NEP. The liberalizing elements in the central government's new policy were particularly pronounced for precisely those type of industrial enterprises that had always dominated the industrial scene in West Bengal: the multinational corporations and the large Indian industrial conglomerates. But the more competitive market environment that was emerging also posed new dangers to these often old enterprises. However, far from attacking large industrialists, the Left Front government now actively tried to woo the very same companies through its new industrial policy. Significantly, no mention was made of small enterprises in the government's new industrial policy.

The rhetorical volte-face of the new policy statement was so evident that, besides the expected criticism from outside the government, it prompted serious dissent within the CPI (M). The debate and the internal dissension led to the publication of a statement by the party's central committee explaining and defending West Bengal's new industrial policy. The thrust of the central committee's defense was that it had been prompted by (1) the compulsions of the new situation and the constitutional limitations of a local government; and (2) the need to provide a minimum relief in the form of employment and income to the people. The party's state committee also argued that the Left Front government had no other alternative than to woo private investors of all kinds. It was a question of industrialization or de-industrialization. Furthermore, the liberalization policies of the central government, in particular delicensing and the withdrawal of the freight-equalization policy, were said to have opened new opportunities for the state. The initial dissent within the party subsided, however, and there is today apparently no significant opposition to the new industrial policy.

One reason for this could well be that in terms of actual policy the change was less dramatic than rhetoric suggests. As mentioned earlier, along with its attempts to influence the central government, the state government had always tried to attract investors to West Bengal— with little success as documented. The significance of the new policy lies in its explicit adoption of an

18. Price Waterhouse Associates, *Doing Business in West Bengal, India* (Calcutta: Price Waterhouse Associates, 1995).

TABLE 1 *Industrial Entrepreneurs Memoranda (IEM): Share of West Bengal in All-India IEM Filed*

	<i>IEMs Filed</i>		<i>Investments Proposed</i>		<i>Employment Potential</i>	
	<i>No.</i>	<i>Percent</i>	<i>Rupees</i>		<i>No.</i>	<i>Percent</i>
			<i>Billion</i>	<i>Percent</i>		
August 1991–December 1994	576	3.4	88.73	2.6	121,555	3.8
January 1995–December 1999	1,092	5.1	188.22	4.3	151.14	4.5

SOURCE: Author's calculations are based on *Economic and Political Weekly*, March 18, 1995, p. 537; and *SIA Statistics*, January 1999, at <<http://indmin.nic.in>>.

openly market-oriented industrial strategy and the downplaying of the strategy of influencing the central government through political channels.

A full assessment of the impact of the new policies will of course have to wait for some time, but a few indications may be given here. As Figure 1 showed, the latest available figures indicate a slight revival of industrial production, but this is unlikely to reflect the beginning of an industrial upturn. The slight improvement in West Bengal's position comes almost exclusively through a significant rise in the generation of electricity (included under "industry") and does not reflect an increase in factory production.

A better indication of the future effects of the 1991 NEP and the 1994 New Industrial Policy of the West Bengal government is the direct response by potential investors. One measure of investor attitude is the evolution in the number of Industrial Entrepreneurs Memoranda that potential investors today are obliged to submit to concerned authorities, and in the magnitude of investment they include. According to the West Bengal government's annual *Economic Review*, the number of such investment proposals has been on the rise since the filing of the Memoranda replaced the issuing of industrial licenses. As can be gleaned from the figures presented in Table 1, the number of proposals for investment in West Bengal have been considerable. This change is particularly remarkable considering the state's policy of extensive industrial licensing. When measured against all-India investment proposals, West Bengal's share has been low. In fact, as was shown in Figure 3, its performance has been very much in line with its share of past industrial licenses. However, the new policies announced in 1994 may have had a positive impact on investor interest as can be seen from the small increase in the share of West Bengal in all-India investment proposals in the period after 1994. Despite this increase the investment share is still lower than the state's present share of industrial production.

TABLE 2 *Share of West Bengal in All-India Foreign Investment Approvals*

	<i>Investment Approvals</i>		<i>Investments Approved</i>	
	<i>No.</i>	<i>Percent Share</i>	<i>Rupees Billion</i>	<i>Percent Share</i>
August 1991–June 1995	101	3.0	37,013	10.5
June 1995–January 1997	78	3.1	15,482	2.3

SOURCE: Author's calculations are based on *SIA Newsletter*, July 1995, at <<http://indmin.nic.in>>; and Indian Investment Center, at <<http://iic.nic.in>>.

The situation with regard to foreign investments is broadly similar as can be seen from Table 2. West Bengal's share of approved proposals for foreign investment projects has been as small as its portion of industrialist's memoranda and its share of approved foreign investments has been even lower, with little more than 2% of recent foreign investments going to West Bengal. The large investment share in the early 1990s came from a single large industrial project (part of the Haldia Petrochemicals Complex) that is still in the process of being implemented.

Adding to this disappointing picture, there have recently been some disturbing developments that do not bode well for the industrial future of the state. Some well-established large Calcutta-based foreign companies (such as ICI, Philips, and Shaw Wallace) have decided to move their headquarters to other states. These moves probably reflect the companies' lack of faith in the industrial future of the state combined with corporate restructuring as a forced response to the more competitive all-India market situation brought about by the NEP. Most likely these developments will have a dampening effect on future investor interest. Another established company, Dunlop, has suspended operations at their factory and is threatening to close down. Should this happen, it will only underline West Bengal's dubious reputation as the state with the highest incidence of industrial sickness.

A final disturbing trend for the Left Front government is the continued reliance on relatively few large industrial investors. In 1992, for example, companies belonging to one of the largest Indian corporate conglomerates, Birla, accounted for 75% of the value of all implemented investment projects in the state.¹⁹ This is indicative of an oligopolistic market situation that is not conducive to increased growth and may make it difficult for the government to attract new investors.

19. Author's calculations from GWB, *Economic Review 1993–94* (Calcutta: GWB, 1994), pp. 43–45.

Another danger for the government lies in the escalation of the race among the different Indian states in offering incentives to investors. The finances of the West Bengal government are in such a state today that the government can hardly afford a generous distribution of financial incentives and may well end up offering plenty of incentives but receiving no investments. This seems to be an imminent danger, judging from the lack of actual results of the increased activity of the WBIDC. It has substantially increased its loans to prospective investors in the state after 1994, but large proportions of the projects have apparently been abandoned.

It is a depressing picture of the industrial development in West Bengal that one is left with after going through the evidence presented here. Under neither the old nor the new regime for economic development in India has West Bengal succeeded in reversing its industrial decline. While the state government has pursued different policies, only a few hopeful signs of industrial revival can be discerned. This sad outcome calls for a return to the three perspectives mentioned earlier and to theoretical reflections over the conditions necessary for the promotion of industrial growth by a leftist, local state.

Theoretical Perspectives: Linking State, Market, and Society

Returning to the perspectives mentioned in the introduction, it is now possible to draw some lessons from West Bengal's experience. For each perspective the lessons can be drawn in terms of the state-market and the state-society dimensions mentioned earlier.

In relation to the first perspective it can be safely said that the travails of the Left Front government in West Bengal before the central government's adoption of the NEP and the state government's subsequent change in industrial strategy epitomize the dilemmas that reform-oriented left-leaning governments face when capturing only partial political power. The CPI (M)'s theoretical understanding was always that coming to power in a local state did not imply gaining state power in India. State power being located at the central level, local governments would only be able to provide "immediate relief to the people and thus strengthen the mass movement."²⁰ The policy of revival of industrial growth in the state should thus be seen as an attempted relief measure, not as an expression of the party's ultimate strategy. It is the dilemmas of this type of reform-oriented, non-revolutionary political strategy that the past 20 years' experience in West Bengal illustrate.

20. The quote is taken from paragraph 112 in the CPI (M)'s 1964 party program. This paragraph has repeatedly been used by party members to explain the party's policy within the state government. See CPI (M), *Programme* (Calcutta: CPI (M), 1972), p. 48.

The state government was caught between the state and the market. It did not fully possess state power and its initial strategy of fighting (or begging) the state (central government) was based on the assumption that the decline of West Bengal was caused by discrimination from center. The results of this strategy were disappointing. After 1991, the strategy lost its rationale because of the changes in the economic role of the central government. The NEP came to be seen by the Left Front government as a new opportunity. Indeed, the government now had no other option than to rely on the market and hope that its new policy would yield better results. The evidence available so far belies this hope.

The West Bengal experience also illustrates that a market-oriented economic policy need not necessarily be worse than a state-oriented strategy. From the extensive literature on the capitalist state it can be seen that the state is much more than a neutral corrective to market forces. Any capitalist state will in its form and functions express the constellation of dominant social forces, while the contradictory nature of capitalist societies ensures that the state remains an arena for social conflict the results of which are structurally constrained but never pre-determined. Likewise, the market is always socially constructed and will express positions of economic power the exercise of which will be constrained but never fully determined by competitive structures.

The consequence of this indeterminacy is that economic reform strategies cannot easily be constructed or judged a priori. As a minimum requirement the structural characteristics and social constraints of both state and market and the interrelations between the two must be investigated. Cases could be found—and West Bengal may still end up being one—where a partial dismantling of state regulations could incidentally provide better opportunities for local reform strategies than a state-regulated, but politically disadvantageous, economic control regime.

In relation to the theoretical discussion regarding the concept of embedded autonomy and state-society relations, West Bengal also provides some interesting lessons. Peter Evans's initial argument was that "a coherent, cohesive state apparatus with close, institutionalized links to an economic elite would be more effective at producing industrial transformation than other state-society links."²¹ In the case of West Bengal it would seem that these requirements of a developmental state have at least partly been developed during the Left Front's rule. Through the presence of the elite administrative service, the Indian Administrative Service, the state apparatus in West Bengal has been closely linked to the all-India state that is generally considered to be fairly close to a Weberian ideal type of bureaucratic organization. The local

21. Evans, *Embedded Autonomy*, p. 225.

administration may not be very efficient, but West Bengal is probably still among the better-managed Indian states.

On the other side of the state-society equation, the Left Front government came to power with extensive ties to non-business social groups (namely industrial workers), but it quickly developed close ties with the business community and made specific policy initiatives to placate business. In 1983, the Left Front government offered a new incentive scheme for industrial investment and appointed representatives from the two major Chambers of Commerce to the board of the WBIDC. As mentioned earlier, the powerful chief minister was at an early stage seeking to attract potential investors.

During the 1990s, West Bengal's state government collaborated closely with the business community.²² In its labor policy, the government also at an early stage sought to institute a class compromise around a tripartite arrangement in the labor market similar to those corporatist or social partnership arrangements known from the experiences of small European states dominated by social-democratic parties.²³ While there are many indications that West Bengal under Left Front rule moved quite close to a model of state-society relations similar to the embedded autonomy model of Peter Evans (and some small European states), the expected industrial growth has not so far materialized.

One reason for this lack of success could well be that the simple model of embedded autonomy does not fully capture all relevant aspects of state-society interaction. Instead of only focusing on the relationship between the state and organized business, it could be useful to include considerations on the interrelationship with and nature of both business and labor. In the literature on social democratic states in Europe it has been pointed out that the ability of labor to contribute to corporatist arrangements with its own perspective on industrial restructuring has been important for the economic success. In more recent work, Peter Evans himself has turned his attention to the business side of the state-society equation, largely emphasizing that the extent to which a state can promote industrial growth is dependent upon the character of the business community and that business need not always be interested in pro-

22. This impression was confirmed by interviews conducted in Calcutta in November 1996 with representatives from different business organizations, the government, and trade unions. Business representatives unanimously stressed their cordial and close relationship with the government and saw no problems in striking deals with the trade unions.

23. Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985); and Jonas Pontusson, "Labor, Corporatism, and Industrial Policy: The Swedish Case in Comparative Perspective," *Comparative Politics* 23:3 (1991), pp. 163-79.

ductivity-enhancing investments if there are other avenues for profit available.²⁴

Seen in this light, the specific nature of labor and business in West Bengal becomes of interest. As mentioned earlier, labor in West Bengal has a legacy of militancy that during the rule of the Left Front government seems to have been replaced with an "employer's militancy."²⁵ This situation has left labor unions, and in particular the dominant unions affiliated with the CPI (M), in a quandary. Labor unions have not been able to develop their own vision of industrial restructuring. Instead, labor unions have restricted themselves to defensively oppose any industrial restructuring that is seen to affect present levels of employment.²⁶

Turning to business, two specific characteristics of local business in West Bengal are important to understand business behavior. One feature is that the business community in Calcutta has long had a reputation for seeking speculative short-term profit rather than being productive and growth-oriented. One reason for this state of affairs could well be the history of oligopolistic competition in the industrial sector between companies belonging to the old trading community of Marwaris and the large foreign companies. The speculative behavior has probably been most pronounced within the declining jute industry, but recent information on company registrations in the state shows an alarming preponderance of companies engaged in "trade, investment, and construction"—most likely a cover for speculative activities.²⁷

A second and possibly more important attribute of business in West Bengal is its ownership structure. During the period with Left Front governments, little seems to have happened to challenge the strong dominance of large companies. Some old foreign companies have been taken over by Indian (principally Marwari) owners and, in some instances, by Non-Resident Indians. However, these changes appear to have only marginally effected the overall ownership structure. What has changed is that the industrial decline has meant that activities in West Bengal play a still smaller role for large companies operating in India. A compilation of locations of industrial plants

24. Peter Evans, "State Structures, Government-Business Relations, and Economic Transformation," in *Business and the State in Developing Countries*, eds. Sylvia Maxfield and Ben Ross Schneider (Ithaca, N.Y.: Cornell University Press, 1997), pp. 63–87.

25. I coined this expression in my book, *Against the Wall: West Bengal Labour Scenario* (Calcutta: Nagarik Mancha, 1991).

26. In an interview conducted in November 1996, a local trade union leader expressed a militant opposition to any reduction in the workforce or productivity enhancing measures, but he offered no positive vision of industrial restructuring. There are, however, signs that a new, more pragmatic trade union leadership is emerging.

27. The data and the interpretation come from K. S. Chalapati Rao, "Corporate Sector and Emerging Company Law," *Alternative Economic Survey 1996–97* (Delhi: Delhi Science Forum, 1997), pp. 82–92.

for 42 of the largest conglomerates in India in 1996 found that only one large company (Goenka) had a large share of its activities located in the state— a significant decline from earlier times.²⁸ In summary, the society that confronts the West Bengal government comprises a militantly defensive working class and a business class with no vital interest in local industrial development. It is not surprising that any government would find it difficult to establish a mutually productive relationship with society in this context.

The final theoretical perspective concerns the impact of the central government's economic reform program on the regional distribution of industrial growth in India and the possibilities for state governments to promote local industrial growth. This perspective is closely related to the discussion on state-market relations. Does a more market-based economic strategy lead to a more equitable distribution of industrial growth and what are the options available for state governments? Clearly, an analysis of a single state like West Bengal alone cannot provide a full answer to these questions, but if one briefly compares developments in West Bengal with those of the state of Tamil Nadu some preliminary observations can be made.

Tamil Nadu resembles West Bengal in the sense that it has long been ruled by non-Congress— but also non-Left— political parties and the state has most of the time had a strained relationship with the central government. In 1980–81, manufacturing output in the two states were of similar size. During the 1980s, though, industry in Tamil Nadu grew at a higher rate than industry in West Bengal. In the 1990s, Tamil Nadu's more liberal economic regime clearly outperformed industry in West Bengal. From 1980–81 to 1990–91, manufacturing output in Tamil Nadu grew at an annual rate of 14.2% (current prices), while West Bengal grew at an annual rate of 10.6%. From 1990–91 to 1995–96 growth rates were 16.1 and 8.5%, respectively.²⁹ At the same time, Tamil Nadu also succeeded in attracting twice the amount of investments than did West Bengal.³⁰ An important structural cause for this remarkable performance could well be the dominance of locally based entrepreneurs in the industrial sector that, in combination with a weaker and more pragmatic labor situation in the state, apparently has resulted in a more productive form of local embedded autonomy than has been the case in West Bengal.

28. Debdas Banerjee, *The Political Economy of Imbalances Across Indian States: Some Observations on 50 Years of Independence*, Occasional Paper, no. 166 (Calcutta: Centre for Studies in Social Sciences, 1997), pp. 56–57.

29. Calculations are based on data on state domestic product in manufacturing as reproduced in *National Accounts Statistics of India 1950–51 to 1995–96* (Mumbai: EPW Research Foundation, 1997).

30. SIA Statistics, January 1999.

For West Bengal's Left Front government, a key structural constraint then seems to be absence of a growth-oriented Bengali bourgeoisie. Unlike other industrially more successful states in India, West Bengal never developed its own indigenous class of entrepreneurs; ironically, this may have been the ultimate reason why it was possible for a communist party to come to power. The absence of a strong Bengali bourgeoisie left West Bengal without the key social force that could effectively push for a beneficial treatment from the central government. In addition, such a group could provide the vehicle for converting state support into local industrial growth. The state government has in vain tried to replicate a local bourgeoisie political function vis-à-vis the central government. Instead, it now tries to expand the basis for a local bourgeoisie through the indirect route of inviting outsiders to invest.

The most important lesson from the discussion of the three perspectives is that the nature of the local business class—and to a lesser degree the local labor situation—have been of crucial importance for industrial development in West Bengal. The inference for the Left Front government is that, under India's current politico-economic conditions, there is no way to bring about such development other than to try to establish a locally committed and disciplined class of entrepreneurs. Such a class is unlikely to emerge through a strategy of inviting well-established, large industrial companies from outside the state—and such companies are apparently hard to attract anyway—but the dilemma is that no alternative strategy has been developed. Whether policies can be found that could promote the emergence of locally committed growth-oriented entrepreneurs or not will determine the industrial future of the state. From a research perspective, the case of West Bengal supports the recent trend of focusing more on the business side of the state-industry relationship in order to explain industrial changes in developing countries, including India and possibly also the East Asian former miracle economies.