

# **Contradiction and Negotiation: New Economic Policy and Industrial Policy Transition in West Bengal, 1987 – 2000**

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## **Abstract:**

*India's transition in 1991 to a regime of 'structural adjustment' is a watershed in the post-independence Indian economy. As an effect of this New Economic Policy (NEP), the traditional and indigenous industries were exposed to a severe crisis. In West Bengal, the impact of NEP onslaught was greater. In West Bengal the situation became even worse in respect of the industries, both in the private and public sectors, which had already started becoming sick for various reasons, including lack of investment, old machineries, managerial inefficiency and lack of ability to withstand competition in the market. Initially, the NEP faced massive mass opposition mobilised by the left-wing parties, but later the Left Front government adopted its own policy to revive the stagnating industrial condition of the state. This article attempts to analyse this policy transition and its impact on industries in West Bengal from 1987-2000.*

Keywords: NEP, Left Front, West Bengal, Industry

By the beginning of 1990s, India witnessed a sharp break from the earlier period of Nehruvian mixed economic policy. During the tenure of the Narasimha Rao-led Congress government, the New Economic Policy (NEP) was adopted in 1991, though the ground was prepared earlier. In the mid-1980s, the *Licence-Permit Raj* was withdrawn, and India's economy was gradually opened up to foreign investors and domestic private players under the initiative of the then Prime Minister Rajiv Gandhi. He adopted some pro-market policies of import liberalisation, concessions to foreign capital, and reforms were also introduced in the field of telecommunication, broadband system, etc. The Monopoly and Restrictive Trade Practice Act (MRTP) was redefined; electronic machinery, machine tool, drug-related industries, etc., were de-licenced; and private production of telecommunication equipment was also allowed during this period (Nayar, 1990, pp.58-63). However, Rajiv Gandhi's reform policy and his pro-business budget of 1985 were highly criticised within the Congress party itself because it was a sharp break from the earlier policy of a 'socialistic pattern of development' as an exclusive aim.<sup>1</sup> The trade union organisations also opposed his privatisation plan of public sector units and the oppositions cornered him by the Bofors scandal.<sup>2</sup> In

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<sup>1</sup> *Rajiv Gandhi, Selected Speeches and Writings-1986*. Government of India. New Delhi, Publication Division, (1989), pp. 66-72.

<sup>2</sup> In 1986 the Government of India signed an arm deal with Swedish arms manufacturer AB Bofors for the supply of Howitzer guns for the Army. It was alleged that to secure the contract the company had bribed top Indian politicians and army officers. The scandal became a political agenda against the Rajiv Gandhi led government in the late 1980s. For more details, see Henrik Westander. (1992). *Classified: The Political*

this situation of political agitation, the central government sharply u-turned from the liberal agenda of privatisation and liberalisation, and initiated a pro-poor budget and anti-poverty programmes, like the *Jawahar Rojgar Yojana* (1989) (Nayar, 1990, pp.98-4). Though, the idea of liberalisation was in the air, which came into effect by 1991.

It is a generalised notion that an acute balance of payment crisis and industrial deadlock prompted the newly elected Congress government headed by Prime Minister Narasimha Rao to initiate a major reform in the economic strategy of the country. At this juncture of policy shift to liberalisation and privatisation, the then Finance Minister Dr. Manmohan Singh, collaborated with International Monetary Fund (IMF) and the World Bank, introduced the NEP in July 1991. Though the real cause and nature of the economic crisis of late 1980s and early 1990s is a highly debatable issue. According to some scholars like P. Patnayak, C.P. Chandrasekhar and others there was no such crisis in the real economy. They argued that the crisis was caused largely by finance capital and there was no need to initiate this kind of policy reform towards liberalisation and privatisation as dictated by the Fund-Bank lobby (Patnayak, 2010, pp.52-85).

Nevertheless, India's transition in 1991 to a regime of 'structural adjustment' is considered a watershed in the post-independence Indian economy. Reform in the industrial sector was a central focus of much of India's reform effort in the early stage. India's industrial policy, before the reform, was characterised by various controls over private investment and the *Licence-permit Raj*, and almost every industrial project was primarily dependent on foreign collaboration for technical know-how and capital. As a result, a dependent industrial structure evolved under this regime. After introducing the NEP in 1991, the industrial policy was changed rapidly, with most of the central government's industrial controls being dismantled. The industrial licensing policy of the central government had been almost abolished, except for only three key industries of national interest, e.g., defence aircraft and warships, atomic energy generation and railway transport. Liberalisation of trade policy and reforms in the public sector, including partial privatisation, were initiated. Thus, after four decades of mixed economy and protectionism, the Indian economy was gradually opened up to the world market and foreign investors significantly. In January 1992, the central government also abolished its scheme of equalising domestic freight rates for iron and steel. From West Bengal's perspective, this was one of the longest-standing demands of all governments led by the Congress and the Left Front.

As an effect of introducing the NEP, the traditional and indigenous industries were exposed to a severe crisis. In West Bengal, the impact of this onslaught was more significant. Here the situation even became worse in respect of the industries, both

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*Cover-up of the Bofors Scandal A gentleman book.* Sterling Newspapers (Original from the University of Michigan); and Chitra Subramaniam. (1993). *Bofors: The Story Behind the News.* New Delhi, Viking.

in the private and public sectors, which had already started becoming sick for various reasons, including lack of investment, old machineries, managerial inefficiency and inability to withstand competition in the market. Initially, the NEP faced massive mass opposition mobilised by the left-wing parties in the state, but later Left Front government adopted its own policy to revive the stagnating industrial condition of the state. This article attempts to analyse this policy transition and its impact on industries in West Bengal from 1987-2000.

### **Initial Reaction to the NEP: *from Mass Agitations to Left Alternative***

The introduction of the NEP in 1991 faced intense agitation from a major section of the opposition, including the left-wing parties. The Communist Party of India (Marxist) (hereafter CPI(M)) criticised this central government's decision of liberalising economic policy both inside the parliament and in public forums. According to their manifesto, it was a complete surrender of the central government to the capitalist section led by the IMF. The CPI(M) criticised the pro-market policies of the previous Rajiv Gandhi led government for the acute balance of crisis that occurred by the end of the 1980s, which made the road for the total shift of India's economic transition from the Nehruvian 'socialistic pattern of development' to the new policy of liberalisation and privatisation. However, against this policy transition, the CPI(M)'s several mass organisations expressed their grief and arranged various protest activities over the year. On 29<sup>th</sup> November 1991, the Sponsoring Committee of Trade Unions called the first major nationwide strike. (Das, 2013, p.175) Both at national and regional levels, the CPI(M) and other opposition parties called for several strikes, court arrests and other mass civil disobedience campaigns. In April 1993, a National Platform of Mass Organisation was formed, which organised a voluntary court arrest movement and a nation-wide strike in August and September, respectively (Das, 2013, p.175).

In West Bengal, the Left Front government initially opposed this liberalised market-economy as being dictated by IMF and the World Bank. The CPI(M)-led Left Front government of West Bengal mobilised economists, intellectuals and academicians to denunciate the liberalisation policy in the public domain. The Trade Unions also expressed their opposition through a general strike in September 1993 and with the support of the Left Front, the strike became successful in this state. This was followed by the biggest mass mobilisation organised by the left-wing parties in which 12.5 lakh (approx.) volunteers participated in the court arrest programme, and another 50 lakhs (approx.) joined in the mass sit-in campaign. These mass protest programmes continued throughout 1994 and reached their peak in 1995. Thus, throughout the first half of the 1990s, the left parties, precisely the CPI(M), organised several agitations against the central government's liberalisation and privatisation policy.

Apart from these agitations, the CPI(M) also framed a substitute path to this pro-capitalist policy based on the left-alternative. The CPI(M) argued in favour of

economic sovereignty, land reform and rural employment scheme, minimum government expenditure, tax reform, promotion of public sector units and indigenous research and development, limited use of foreign technology in some vital sectors only and finally, social development for all (Das, 2013, pp.177-8).

**The Left Front in Transition: *The Policy Statement on Industrial Development, 1994***

Despite continuous militant mass agitations and demonstrations by the CPI(M), an alternative thinking had gradually developed within the Left Front Government. The state government and the liberal line of the ruling party simultaneously started arguing for a change in economic policy. They realised the importance of abolishing the licence permit system and removing the freight equalisation policy for the industrial resurgence in the state. In this changing economic structure, the Left Front government eagerly tried to attract new investments by introducing some modifications in state economic policy and offering concessions to set up new industrial units in various sectors. They indirectly acknowledged that abolishing the *Licence Raj* increased the investment proposals in the state.<sup>3</sup> In 1993, the state government implemented a new industrial incentive scheme by announcing an attractive package of assistance for the establishment of new units, expansion of existing units and rehabilitation of sick units. A high-powered committee was formed to consider the urgent problems under this incentive scheme.<sup>4</sup> Some tax concessions proposed for new capital investment for setting up industrial units in the state. The West Bengal Industrial Development Corporation (WBIDC) became more active in promoting new investments in the state. Somnath Chatterjee, one of the influential members of the CPI(M) leadership, was appointed as the new WBIDC chairman. He was one of the liberals among his party leadership and had strong connections with various national level leaders and business organisations. Soon, the Left Front government announced a renewed *Policy Statement on Industrial Development* on 23<sup>rd</sup> September, 1994. In this statement, the state government proclaimed –

...the West Bengal Government's own proposal for an alternative economic policy call for a statement of policy by the Government of West Bengal on the vital issues of industrial development, rehabilitation of sick units and generation of employment opportunities and protection of the legitimate interest of labour.<sup>5</sup>

However, it was a significant change compared to the previous policy of 1978 statement (Das, 2019, pp.1211-19). In the new industrial policy, the government announced that it would welcome foreign technology, investment and recognised

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<sup>3</sup> *Economic Review 1992-93*. Government of West Bengal (GoWB), Kolkata. (1993), p.4.

<sup>4</sup> *Policy Statement on Industrial Development*. GoWB, Kolkata. (1994), p.15.

<sup>5</sup> *Ibid.*, p.1.

the importance and key role of the private sector in providing accelerated growth. It announced,

The State Government welcomes foreign technology and investments, as may be appropriate, or mutually advantageous... [I]t recognises 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... 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 (*sic*) in respect of many industries.<sup>6</sup>

Although, the policy still considered the Public Sector as an important vehicle for ensuring social justice and balanced growth. But in the context of changes in the policies of the Government of India, the need for meeting the increased demand for power and the constraints on the budgetary resources, the State Government also welcomed private investment, both domestic and foreign, in power generation, roads, communication and other infrastructure sectors.

Regarding foreign capital investment, the new statement of 1994 marked a departure from the earlier statement of 1978. Here the Left Front government upturned from their previous militant attitude, at least in the policy statement, towards the multinationals and warmly welcomed foreign capital. The statement of 1994 stated that,

Apart from the presence of large Indian Industrial Houses functioning in the State, a number of Multi-national Corporations (MNCs) have long been successfully operating in the State... Philips, GEC, Hindustan Leaver, ICI, Silences, Bata, etc. A welcome development is that a good number of Non-Resident Indians (NRIS), MNCs directly or through foreign Governments and Indian Industrial Houses have, in the recent past, shown special interest in coming to West Bengal.<sup>7</sup>

The new policy statement also identified some thrust areas for private capital investment, such as electronics and IT, petrochemical industries, heavy engineering, textile, iron and steel, mining, leather and food processing, tourism, gems and jewellery, etc. To attract foreign investment, the then Chief Minister Jyoti Basu, politburo member of CPI(M) along with Somnath Chatterjee, travelled to several western countries and projected an investor friendly ambience of the state. The Left Front also claimed to have removed certain misconceptions about the state

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<sup>6</sup> *Ibid*, pp.7-8.

<sup>7</sup> *Ibid*, p.7.

government's principle towards industrial investment.<sup>8</sup> Thus, the state government tried to promote West Bengal as an attractive destination for private capital. In this matter, Somnath Chatterjee, the then Chairman of WBIDC, consciously projected West Bengal's changing capital-friendly environment through various press conferences, interviews and discussed with several industrialists to regain confidence. He was among the liberal minded members of the CPI(M) party. He once said, "We must attract private capital. I don't see any alternative." (Das, 2013, p.181)

Immediately after the announcement of the new industrial policy, the local chambers of commerce extended their support to the publicity campaign of the state government. International consultancy company, Arthur D. Little, appointed by the Confederation of Indian Industry (CII), commissioned a report on West Bengal's industrial future. The state government and the CII also jointly commissioned another consulting firm, Price Waterhouse, to promote West Bengal's potential for investment to the multinational investors. These reports emphasised the strong partnership between government, industry and labour and indicated several industrial sectors with strong growth potential.<sup>9</sup> These new initiatives reveal the state government's eagerness for foreign capitalist investment.

To highlight capital friendly image, the state government and its principal ally, CPI(M) also take various measures to control the power of the trade unions. The authority, on different occasions, repeatedly conveyed the message to the trade unions, mostly led by CITU, to go only for the just demands and maintain work discipline and work culture. Even, Jyoti Basu verbally warned the trade union leaders several times and ordered them to maintain cooperative labour-business relations (Sinha, 2004, p.85).

Thus, same as like the central government's NEP, on the one hand, the Left Front government also promoted multinational corporations and large Indian industrial houses. Ironically, on the other hand, the new industrial policy of the Left Front government did not announce any incentive scheme for the development of small-scale labour-intensive industries. This indicates the contradictory position of the Left party in power. While in its electoral propaganda the CPI(M) argued vehemently against the NEP and worldwide capitalist imperialism, but in practice the Left Front government was trying to ensure capital investment, irrespective of its colour, in West Bengal.

### **Condition of Industries in West Bengal during the Period of Policy Transition**

Between 1987 to 2001, the Left Front Government was democratically re-elected to the office for four times through legislative elections in West Bengal. Thus,

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<sup>8</sup> *Economic Review 1995-96*. GoWB, Kolkata, 1996, p. 43.

<sup>9</sup> For details see Confederation of Chambers of Commerce (CII). (1995). *A Vision of West Bengal's Industrial Future: A Strategic Perspective*, project prepared by Arthur D. Little, Inc., Kolkata.; *Doing Business in West Bengal, India*, GoWB, project prepared by Price Waterhouse Associates, Kolkata, (1995).

throughout this period, the state has achieved a steady government, which should be reflected in its overall socio-economic development. Between 1984 and 1994, the state accounted an annual growth rate of 5.7 per cent in food-grains production and achieved a leading position in India. After the announcement of the state's new industrial policy, the 'Shilpa Bandhu' (friend of investors) or the 'Single Window' clearance cell of WBIDC was reconstituted in 1994 for the speedy clearance of new industrial investment proposals. Because of these positive factors, the state increased industrial investment. In the period from 1991 to 1999, West Bengal received 2031 investment proposals involving a total investment of Rs. 47393.93 crore. This includes 256 NRI/FDI projects involving a total investment of Rs. 19512.01 crores. Out of those proposals, 338 projects with a total investment of Rs 8688.21 crore were implemented in the state during this period.<sup>10</sup> Regarding the Industrial Entrepreneurs Memoranda, the share of such investment proposals increased to 5.1 per cent during the period from January, 1995 to December, 1999 compared to 3.4 per cent from 1991 to 1994 (Pederson, 2001, pp.646-68). Considering the new industrial policy of the state government, this change was significant. This implies that after the new policies were announced in 1994, the entrepreneurs became more interested in investing capital in the state.

Despite this increase in new industrial investment, the new economic policy could not resist the decline of the industrial output of the state. The Table 1 shows that in terms of ex-factory value added of output, West Bengal's share was reduced to 6 per cent in 1991 when the NEP was announced. This ratio was further reduced to 5 per cent and 3.9 per cent in 1994-95 and 1999-2000, respectively (Pederson, 2001, p.662).

**Table 1: Ex-Factory Value Added of Output in West Bengal**

Year	Share of West Bengal in total value of output in the country (%)
1985-1986	7.9
1990-1991	6
1994-1995	5
1999-2000	3.9

*Source: Economic Review, GoWB, 2004-05, P.108*

Regarding the number of approved proposals of foreign investment projects and approved foreign capital investment, West Bengal accounted for only a little more than 2 per cent during this period. The Haldia Petrochemical Complex, one of the most hyped industrial projects of the Left Front government, was commissioned in the year 2000, and this single project accounted a large investment share of the state in the early 1990s. Though, from the beginning, this project faced several problems, such as delays in getting a licence and clearance from the Central Government, the

<sup>10</sup> *Economic Review, 1999-2000. GoWB, Kolkata, (2000), p. 39.*

inadequacy of capital and raw materials, managerial inefficiency and above all, conflict of interest between the state and the investors. This seems a burning example of the failure of the notion that large-scale investment is essential for the development of a nation.

The condition of the organised industrial sector in West Bengal became more severe in the middle of the 1990s when some large well-established multinational companies such as ICI, Philips, Shaw Wallace and many more shifted their headquarters to other states from Kolkata. This indicates capitalist houses' lack of faith in the industrial potentiality of the state. Kolkata, once the industrial capital of British India and the whole East Asian region, gradually lost its position as an automatic choice of capitalist investment. Apart from these foreign companies, several large-scale Indian conglomerates and local medium and small-scale manufacturing units also became very sick and closed their factories by the end of 1990s. The traditional jute and engineering machine-tool industries faced a major blow. By the end of the millennium, West Bengal accounted for a large share of sick industries in India. The state-owned public sector enterprises have also incurred heavy losses throughout this period. In a liberalised economy, West Bengal failed to compete with the other emerging regions of the country in terms of offering incentives to investors and attracting new capital investment. The state government introduced several schemes, and offered easy loans for the prospective investors, but many of these projects were either poorly executed or abandoned in a very short time. As a result, throughout the 1990s, West Bengal depicted a gloomy picture of the industrial resurgence, and instead of the new industrial policy, the Left Front government failed in reversing the industrial decline of the state.

### **Conclusion**

From the above discussion, it can be argued that there was an ideological contradiction regarding the NEP inside the CPI(M) party itself and also in the Left Front government of West Bengal. Despite various mass agitation, mobilised by the left-wing parties especially led by CPI(M) in the initial period of the 1990s, the left in power in West Bengal tried to maintain a cordial relationship with the private capital and welcome foreign investment to revive the sinking industrial structure and dilapidated infrastructure of the state. The ruling left party in West Bengal imposed the policy of 'collective bargaining' and peaceful negation of industrial disputes to control the militant labour unrest. Here, the government directly intervened in any kind of industrial conflict between the workers and factory owners and tried to negotiate to improve the capital friendly image of the state. Hence, the working class lost their right to take any independent decision to safeguard their class interest against the capitalist section and became more venerable. However, despite all these measures, the industrial condition did not improve sufficiently. West Bengal gradually lost its previous superior position in the industrial map of the country to the other emerging states.



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