

West Bengal from an External Perspective

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I am grateful to the organisers for inviting me to this session to share my thoughts on West Bengal from an external perspective. I must confess that my perspective can never be completely external since I still consider West Bengal as my 'home', and furthermore, even the 'outsider's perspective' that I was gaining when for six years I was at the Asian Development Bank (ADB) in Manila, is fading since I returned in July 2013. Still, let me try to say a few words about the economy of West Bengal, not exclusively but with some reference to ADB's involvement in West Bengal.

In an article "A Look in the Mirror" in 'The Outlook' on March 31, 2014, before the recent Lok Sabha elections, Professors Maitreesh Ghatak and Sanchari Roy compared the economic performance of Gujarat under Narendra Modi with some of the best performing of the 16 major populated states of India during 1980-2010. Criteria were level and growth of per capita income, human development index, inequality, and people below the poverty line. Haryana, Karnataka, Kerala, Maharashtra, Punjab, and Tamil Nadu came up for special mention. Even Andhra Pradesh was mentioned for low levels of poverty, Assam for low level of inequality, Bihar for growth of per capita income, and Rajasthan for low and declining inequality. There was no mention of West Bengal.

Yet, in 1980-81, in per capita income, Bengal ranked fifth after Gujarat, Haryana, Maharashtra and Punjab. By 2000-01, Himachal Pradesh and the four southern states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu overtook Bengal and its rank had slipped to tenth.

In the late 1940s, factory employment at more than 600,000 workers in West Bengal was as much as in Bombay State (present Maharashtra and Gujarat combined). Bengal was the second most industrialised state in terms of value-added and first in terms of number of factories and employment even in the mid-1960s. Thereafter, with a severe and long process of deindustrialisation, it lost its primacy. Its share of net value-added in the factory sector fell from more than 14 per cent in 1971 to 4 per cent in 2002, and its share in employment from 16 per cent to 7 per cent.

What strikes any observer about West Bengal is how the state has dropped out of the screen for better-performing Indian states for quite a few decades. Like a frog slowly being boiled alive and cooked to death, the people of Bengal were unable or unwilling to react to significant changes that occurred gradually since the late 1960s until 2011. With Cuba and North Korea, Bengal shared the distinction of being under almost uninterrupted 'communist rule,' even after the demise of the former Soviet Union. In May 2011, with the Vidhan Sabha elections, things changed and a new government under Mamata Banerjee inherited a Bengal in distress.

The inheritance included a daunting fiscal challenge. Bengal was in overdraft seven times for 62 days in 2010-2011! The Communists left Bengal with the distinction of having the highest debt-gross state domestic product (GSDP) ratio, followed by Punjab, Uttar Pradesh,

and Kerala. The ratio was nearly double the average of other states. Among all non-special category states, as a proportion of GSDP, Bengal had the lowest own tax revenue and the highest fiscal deficit. After paying salaries, pensions and interest, there was no fiscal space for development expenditure.

In November 2013, Finance Minister Amit Mitra of Bengal had urged the 14th Finance Commission for loan write-offs, rescheduling, interest moratorium and special grants. The Commission has already submitted its report to the President on December 15, 2014. What it has done with Mitra's request will be known soon. My copanelist Dr. Mundle, a member of the 14th Finance Commission, knows it, but may not reveal! Difficult to see, however, how it can accede to such a request without breaching the principles of sound federal finance. A state has to make amends for the past sins committed by its own elected governments.

Indeed, there has been some serious fiscal consolidation since 2011. Information technology has been used for ensuring tax compliance and some expenditure reorientation. Fiscal deficit-to-GSDP ratio, after remaining on average at 5.2 per cent compared to the all-State average of 3.5 per cent during 2001-11, came down to a provisional 3.4 per cent compared to an all-State average of 2.3 per cent in 2012-13 and is 3.1 per cent (relative to the budgeted 1.9 per cent) for 2013-14. In the two years ending in 2013-14, Bengal increased its own tax revenue receipts remarkably by 31.6 per cent and 19.2 per cent by augmenting its land revenue, stamp duties and registration fees, taxes and duties on electricity, and sales taxes. The government also introduced the Integrated Financial Management System in 2012-13 for better management of all financial aspects of the government. In this context a notable oddity is the non-implementation of the new pension system for new government employees: it is being implemented in all the other major States!

The new government can also claim due credit for reduction of red tape (e.g. by closure of central dispatch section, right of services act, self-attestation); intensive monitoring of projects and schemes; emphasis on the girl child (through Kanyashree, a conditional cash transfer scheme to prevent early marriage and continued schooling); reopening closed tea gardens and giving land for coal mines; innovative PPP in health and family welfare through fair price medicine shops and diagnostic centres; and progress in handling left wing extremism in Jangal Mahal. The power of white-collar labour aristocracy has been reined in and this is attested by the shift of the government secretariat from the cramped Writers' Building, a building originally built in the late 18th century for the junior functionaries – the 'writers' – of the British East India Company. The model Agricultural Produce Marketing (APMC) (Regulation) Act was circulated by the Centre to the states in 2003. Most major states adopted it with some changes without much delay except West Bengal and Uttar Pradesh. The West Bengal APMC (Regulation) (Amendment) Bill 2014 was finally passed on December 8, 2014.

But there are miles to go for putting Bengal on a sustained growth path. The situation is gloomy in both social and physical infrastructure. In the secondary schools, the pupil-teacher ratio is much more adverse compared to that at the all-India level. Literacy (effective) rate at 77.1 per cent in 2011 continued to be higher than the national rate, but its growth from 2001 at 8.4 percentage points was lower than the national growth (9.2 percentage points). According to the 2011 Census, 41.2 per cent of the households in West Bengal did not have a latrine within the premises. Only 25.4 per cent of the households in Bengal had drinking water available on tap compared to 43.5 per cent at the all-India level. The state made good progress in providing electricity connections to households between 2001 and 2011, yet only 54.5 per cent of the households were using electricity as their primary source of lighting in

2011 compared to 67.2 per cent at the all-India level. In 2011, kilometre of road per 100,000 people – which is more relevant given the population density of the state – at 327.55 was lower than the all-India figure of 387.57 (including Jawahar Rozgar Yojana roads). The corresponding figure for National Highways was 2.82 compared to the all-India figure of 5.86!

Notwithstanding the encouraging efforts of the present government on tax mobilisation, for sustained fiscal consolidation and creating fiscal space for developmental expenditure, there is no alternative to revising user charges and also creating a strong industrial base to widen the tax base.

A tradition of resisting user charge imposition and cost recovery is long and entrenched. In 1953, the Calcutta Tramways Company (CTC) could not revise its second class fares, unchanged since 1922. There were protests by the Tram and Bus Fare Enhancement Resistance Committee, known popularly as *Pratirodh* Committee, led by veteran Forward Bloc leader Hemanta Basu as its president, and the future CPI(M) Chief Minister Jyoti Basu, and Comrade Subodh Banerjee of ‘gherao’ fame, among others. CTC went bankrupt and was taken over by Bengal government in 1967. Similarly, Kolkata is one of the rare major Indian cities where water is completely free for domestic consumers. Inculcating the habit of paying for public utilities among the middle and upper classes is going to be critical in the way forward.

Bengal, after Bihar, is the second most densely populated state of India with 1,029 people per sq. km. With so little land and so many people, agriculture alone cannot put the state on a sustained path of high growth and prosperity. Agriculture can grow at say 5 per cent for a few years, but can never absorb surplus labour in ‘quality’ employment or generate sustained 7-8 per cent overall growth for 2-3 decades.

Too little land and too many people in West Bengal have been a problem from the second half of the 19th century. Land ownership and user rights were burning issues. After a series of peasant uprisings, the Bengal Tenancy Act was passed in 1885 to protect tenants by giving them rights regarding security of tenure and fairness of rent. From the first half of the last century, the Communist Party, through its peasant front – the Bengal Provincial Kisan Sabha – started to mobilise the peasants, especially the *bargadars*, the sharecropper. After the Pajia conference in June, 1940, the Communists started to support the ‘tebhaga’ demand – two-thirds of the crop for the sharecropper. There was an uprising in the four districts of north Bengal in 1946, wherein the sharecroppers demanded an increase in their share of the crop from a half to two-thirds. But events overtook the movement. The partition of the country saw the greatest human exodus in world history and intensified the pressure on land. But, the tebhaga movement fizzled out as every issue apart from the challenge of maintaining law and order and resettling the refugees to the backburner.

The Communists after coming to power did redeem their pledge about tenancy reform by launching Operation Barga. It is recognised as a very successful programme of tenancy reforms and as the first serious attempt to implement the legal provisions of tenure security protection for bargadars and control over the crop-share between landlords and tenants. But, in the process, inter alia, industry and infrastructure got neglected. It is as if the entire energy of the government got expended on land reforms. A self-congratulatory government had none left for development of industry or infrastructure. Even electorally, with more than 70

per cent of the population in rural areas, land reform was enough to mobilise votes and win elections.

Land reforms did provide immediate relief to the poor and may have even boosted agricultural growth. But with so little land and so many people it was not a recipe that could put a state like West Bengal on a sustained path of high growth with prosperity. Thus, in the interim, the process of Bengal's deindustrialisation continued for at least two decades. By 1991-92, the share of unregistered manufacturing in GSDP exceeded that of the registered manufacturing sector, and, the upward trend continued thereafter. Furthermore, even in this limited registered manufacturing sector, it was the public sector that played a major role. Around one-fourth of Bengal's industrial workforce was absorbed in the public sector. Private investors were closing shop and moving elsewhere. Employment growth in almost all industries in West Bengal was negative during 1979 to 2002. The volume of regular employment in West Bengal declined at an average annual 1.7 per cent from 1993-94 to 2004-05. Employment that was being created was mostly of the 'casual' category. Proportion of self-employed in total employment started to rise from the 1980s. Languishing industry and lack of employment led to substantial migration to states such as Assam, Bihar, Delhi, Haryana, Maharashtra, Orissa and Punjab.

The problem of inadequate attention to industry was exacerbated by a turbulent trade union movement. The West Bengal Development Report 2010 points out that "...in most of the industries, emolument per employee was higher in West Bengal compared to that prevailed in the western region states, particularly Gujarat, despite higher labour productivity in Gujarat." Furthermore, "Only 8 per cent factory workers in West Bengal are in contractual jobs, while in Gujarat this share is as high as around 30 per cent." Perhaps, these are symptoms of a strong trade union movement and labour market rigidities.

Industrialisation will also require some serious effort to wipe out the memory of turbulent trade union movement and 'gherao.' The late Comrade Subodh Banerjee, the PWD and Labour Minister in the United Front Government of 1967 and 1969, respectively, became famous for introducing 'gherao' as a formal means of protest in the labour sector by which an employer is prevented from leaving the place of work until demands are met. He has become immortal as one Bengali who enriched the English vocabulary in recent times. Gherao was added to the Concise Oxford English Dictionary in 2004!

For industrialisation, there is a need for emphasis on orderly and planned urbanisation. West Bengal's population density is 2.7 times higher than the all-India density of 381. With an area of 88,752 sq. km., West Bengal has only 2.70 per cent of India's total area, but 7.55 per cent of the population. Thus, given the land-intensive nature of agriculture, West Bengal should be much more urbanised and industrialised than the rest of the country. But, the proportion of population in urban areas at 31.9 per cent in West Bengal is only marginally higher than the all-India figure of 31.2 per cent according to the 2011 census. And, urbanisation in West Bengal continues to be much lower than in many states, such as Punjab, Maharashtra, Gujarat, and Tamil Nadu. Calcutta, developed as a port town some 300 years ago and the capital of British India until 1911, for a long time was reckoned as the second city of the British empire. Now Kolkata plays second fiddle to more than one city of India.

Promoting industry will require a rejuvenation of the physical infrastructure. The infrastructure bottleneck is best illustrated by the sorry state of north-south corridor extending from Haldia port via Kolkata to Siliguri in the north, and touching important towns such as

Baharampur, Krishnanagar, Malda and Raiganj. It is an artery connecting Bhutan, Nepal, and Sikkim to the sea, and Bangladesh and the seven sisters in the north-east to the western parts of India. The corridor improvement project, including its 4-laning, is stuck for years because of land acquisition problems. Such was the poor state of NH34, the corridor's southern section, that all air-conditioned bus services between Calcutta and Siliguri were suspended in August 2013!

Since the topic is West Bengal from an external perspective, let me end with some reference to ADB's mixed experience with developing the north-south corridor. In 1998, the ADB provided technical assistance (TA) to assist the Government of West Bengal to prepare a strategy and investment plan for developing a north-south corridor in general and NH34 in particular. The TA study was completed in June 2000, and the Government requested ADB assistance to develop the corridor. The Project was formulated in April 2001, and reviewed in July 2001. The project was justified because demand for road transport had been increasing rapidly at an annual rate of about 11 percent since the early 1980s, while the national highway network had hardly expanded. Furthermore, NH34 'as the spine of the transport system' was of strategic importance and "...mismatch of demand and supply of road transport has resulted in road infrastructure becoming one of the key constraints to the social and economic development of the state". Loan was negotiated in November 2001. The ADB loan was approved on 11 December 2001, signed on 10 December 2002, and became effective on 7 January 2003.

To help reduce the implementation period, advance procurement action was approved by ADB and the Government of West Bengal began preconstruction activities. However, these activities were delayed by a shortage of staff at the PIU and procedural delays. Due to slow project implementation only 21.5% of the net loan amount was disbursed by 2006. At appraisal, it was anticipated that the project would be implemented over 60 months, inclusive of design and preconstruction activities, and completed by June 2006. In the event, land acquisition and resettlement activities were delayed in some cases due to disputes over shareholding, non-mutated documents, and lack of updated revenue records, as well as weak capacity of the implementing agencies; and the number of affected people at completion were double that in the resettlement plan. The loan took longer to become effective, and the project took even longer to be implemented. Three extensions had to be given and the loan was finally closed on June 23, 2011!

The ADB concluded that borrower and executing agency's performance was less than satisfactory: The government cancelled NH-34 as it opted for four lanes rather than just improvement of the existing 2 lanes. The executing agency did not mobilize the PIU and recruit consultants on time. Some civil works contracts were terminated and required new procurement. Land acquisition was delayed due to court cases and disputes. Overall, the completion was also significantly delayed. Three of the 15 loan covenants were also partially complied with at loan closing.

In short, project implementation in West Bengal is an arduous task. It becomes especially difficult if it involves land. Continuation of government policy of not acquiring any land compulsorily, if necessary by force, even for public sector road or urbanisation project may result in the delays also continuing. The NH34 saga continues; it still awaits 4-laning. A part of it, between airport Gate No.1 and Barasat was downgraded from the status of a national highway to that of a state highway when the State Government failed to remove encroachers to make land available to the NHAI! NHAI website gives a very grim picture of NH34

progress. For example, there are no dates for start and completion of project. In the meantime, West Bengal Government is planning a corridor parallel To NH-34 at a cost of `4,600 crore!¹ All I can say is that it may not be a sign of good and effective governance.

For various reasons, expectations triggered by the regime change in 2011 have become a bit subdued. Bengal government will have to work hard on multiple fronts to live up to the expectation.

¹ The plan is for a 270 Km North-South Corridor from Murshidabad to East Midnapore, parallel to NH-34. The corridor starts from Haldia's Mechogram and ends at Jangipur's Morgram area passing through parts of Hooghly, Burdwan and Nadia. West Bengal Highway Development Corporation (WBHDC) is preparing a detailed project report and work will be implemented in Phases. In the first phase, two stretches will be constructed from Mechogram to Ghatal and Arambag to Burdwan. See <http://www.tenderdetail.com/projects/project-news/6222/723853ce-5cbc-4f5b-b1f9-45325f759a26#sthash.IISWEISC.dpuf>