Strategy for Economic Reform in West Bengal

During the last two decades West Bengal has led the rest of the country with regard to agricultural performance and implementation of panchayat institutions. But these developments have begun to level out. At the same time the state has fallen behind in other sectors – industry, higher education and state of public finances, particularly – to an extent that is seriously worrying. This paper reviews performance of these different sectors, discusses possible explanatory factors, and makes a number of suggestions for policy reforms. With regard to industrial revival, it stresses public investment in transport and communication, measures to improve higher education, foster industry-university collaborations, and help small-scale industries overcome specific market imperfections (access to credit, technology and distribution channels). In public finance, emphasis is placed on raising tax revenues (especially with regard to the service sector), limiting losses of public sector undertakings, and widening the scope of land taxes and user fees. In the agricultural sector, the need for a greater role of the government with regard to biotechnology, extension services, irrigation and flood control is emphasised, along with suggestions for encouraging and regulating contract farming with MNCs. Finally the article urges greater empowerment of panchayats with regard to social service delivery and agro-business development, and administrative reforms to enhance accountability of state government employees.

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This year marks the 25th anniversary of the advent of the Left Front government in West Bengal, whose continued electoral success over such a long period is undoubtedly a unique achievement. During this time the nature of the West Bengal economy has changed much, in ways that reflect the principal policy priorities of the Left Front. In the rural sector the state has led much of the rest of the country, with significant acceleration in the implementation of land reforms, and institution of panchayati raj well in advance of the 73rd and 74th constitutional amendments. With respect to comparisons of growth rates in foodgrains production and farm productivity across the rest of India, the state transformed its status from laggard in the 1970s to star performer in the 1980s. The benefits of this have been relatively evenly shared: the rate of decline of rural poverty since the late 1970s has also been one of the fastest. Contrasted to these impressive achievements in the countryside, the story is entirely different elsewhere – in industry, higher education, or fiscal discipline its performance relative to other Indian states has progressively deteriorated. Fortunately there appear to be some recent winds of change in policy direction of the Left Front, following a recent change in political leadership, and the message conveyed by voters in the 2001 state assembly elections.

It is an appropriate time, therefore, to review the performance of different sectors of the West Bengal economy over the past two decades, and distill from that some lessons for future policy priorities. We start with the problem sectors first, where the need for new policy initiatives is greatest – industry, higher education and public finance. We move thereafter to discuss rural development and governance (including decentralisation, social services, and public administration), and argue there is a need for a fresh policy approach in these sectors as well.

I
Industry

Industrial Decline: Facts and Possible Causes

The crude facts of the last 20 years about the relative position of West Bengal industry are nothing short of stunning. In 1980-81 West Bengal produced 9.8 per cent of the industrial output produced in India. In 1997-98, which is the latest year for which we have the numbers the share was 5.1 per cent, up from a nadir of 4.7 per cent in 1995-96. Organised sector employment actually declined in West Bengal over the period 1980-97; in particular employment in the organised private sector went down from 10.84 lakhs all the way to 7.99 lakhs.

A similar pattern shows up when we look at foreign trade. In 1985-86 the Kolkata airport and port handled about 10 per cent of the imports and exports from the country while in 1998-99 that fraction was around 4 per cent. Or to take a measure of the vibrancy of trade, in 1999-2000 the value of cheques cleared in

Kolkata was just 6 per cent of the value in Mumbai, compared to 38 per cent in 1980-81. Even in the mid-1960s West Bengal was the second most industrialised of the larger states. By 1995-96, West Bengal was a long way down in that list, behind Karnataka and just ahead of UP in terms of the share of output from industry.

What makes these numbers even more striking is the fact that this industrial meltdown happened in a period of relative peace and political stability in the state after the turbulent 1960s and the repressive 1970s. According to the report 'Crime In India 1997', West Bengal was 30th among 32 states and union territories in terms of the rate of IPC crime (this category includes almost all crimes against private persons and private property) and Kolkata was 23rd among the 23 largest cities. Moreover this was a period when incomes and therefore demand was growing: per capita gross state domestic product grew at 2.6 per cent per annum in the 1980s and an impressive 5 per cent in the 1990s.

Most remarkably, all this happened in a period when the industrial growth rate in the country as a whole accelerated: the rate of growth of industry value added was 7 per cent in the 1980s and 6.7 per cent in 1990s compared to 5.5 per cent in the 1960s and 1970s.[1] This was after all the period of the software boom and liberalisation, the period that put Karnataka, Andhra Pradesh, and Delhi on the industrial map of India. It would almost seem that West Bengal opted to step off the bus just as everyone else was getting on.

The cliché about West Bengal, the most familiar story of how things could come to such a pass, is of course poor labour relations – who would invest in West Bengal, when they could invest in Maharashtra and Gujarat and buy themselves a much more docile labour force. This is certainly not what jumps out when we turn to the evidence on labour disputes. There were indeed a rash of strikes in the early 1980s: according to the West Bengal Labour Commissioner there were 78 strikes in 1980, as compared to an average of 22 per year over the period 1990-97. The average number of man-days lost due to strikes in the eight years from 1990 to 1997 was just below 17 lakhs. And if we leave out 1992, the one year when there was a really big strike, the average comes down to 6 lakhs, which amounts to less than one day per private organised sector employee in a year. The median number is even lower at 3.2 lakhs.

It is worth putting these numbers in the context of other Indian states. The one year for which we have data from the other states is 1996. The Indian Labour Handbook tells us that West Bengal had only 16 strikes in that year, which puts it lowest among all the major states. These 16 strikes affected 27,000 workers, compared to 143 strikes in Tamil Nadu that affected 37,000 workers, or 129 strikes in Gujarat affecting 1,20,000 workers.

There are a number of possible reasons why these numbers might be misleading. Employers might have had to make huge concessions to avoid strikes, which would of course discourage future investment. This, however, is not what people say about industrial relations in West Bengal. Moreover, it seems inconsistent with the ready willingness of employers in West Bengal to declare lockouts. On average about two crore man-days were lost each year due to lockouts in the early 1990s. And while that number has come down since, it was still over a crore a year at the end of the 1990s. Indeed in 1996, the one year we can make an interstate comparison, West Bengal was the national runner-up in lockouts, with 80 lockouts according to the Indian Labour Handbook (and 144 according to the revised numbers issued by the state government). The government of West Bengal numbers also tell us that the number of lockouts in any year in the 1990s did not go below 120 when the median number of lockouts in the other states was less than 20. In 1996 West Bengal was also the state with the highest number of man-days lost due to lockouts.

The data on lockouts and strikes could be interpreted in a variety of ways. One is that anticipating labour troubles, employers were preemptively declaring lockouts, in order to put workers in a poor bargaining position. The other is that the intrinsic profitability of industry in West Bengal has declined for other reasons, and the increased incidence of lockouts is a response to that. Without a more detailed analysis it is hard to say which hypothesis is more believable, or whether both were relevant to some degree. But it is clear that the evidence currently available does not provide unambiguous support to the hypothesis that labour troubles constitute the only (or main) source of the state's industrial decline. And that we should seriously look for alternative causes of declined industrial profitability.

A recent joint study by the World Bank and CII based on data from over a thousand firms, provides some support for the view that low profitability is the key problem in West Bengal, rather than labour militancy. The study only reports data for the group of what they call the poor investment climate states. West Bengal, tellingly, is in this group, along with Kerala and UP. Value added per worker in these states is at least 30 per cent lower compared to what the study calls the best investment climate states (Maharashtra and Gujarat). In an effort to assess the contribution of various factors towards low profitability in these poor investment climate states, the study surveyed opinions of a large number of entrepreneurs. The entrepreneurs themselves believed that labour market rigidities, represented by over-manning of factories, is less important in these particular states than it is elsewhere in India (excluding the best climate states).

While this is consistent with the evidence, cited above, on the relative weakness of workers in West Bengal, it should not be read as saying that the West Bengal government does not need to grapple with the issues of industrial relations. For even according to these numbers, firms in Maharashtra and Gujarat are much leaner than their counterparts in West Bengal. Moreover, a part of the reason why workers are in a weak position now may be that employers have chosen not to make use of labour-intensive technologies – which of course hurts both workers and employers. And the fact that workers in West Bengal are less aggressive than they used to be after all these years of industrial decline, is no guarantee that industrial strife will not pick up as soon as growth revives. Finally and most important, strikes and over-manning are not the only cost of poor labour relations. If poor relations within the factory translate into a lazy or opportunistic labour force, productivity will suffer. If management has a lot of bargaining power, this might not hurt them so much; it will be the workers who will pay the price in terms of lower wages. Indeed we learn from the World Bank-CII report that wages are 25 per cent lower in the poor industrial climate states compared to the best states.

Instead of labour relations, the report goes on to cite over-regulation, poor infrastructure and lack of skills as the most important problems faced by the poor industrial climate states. Over-regulation is measured in the survey by the average number of visits to an industrial unit by a government inspector. There are almost twice as many visits in any given year in the poor investment climate states compared to the best states. While it is true that these visits are often a waste of time and have the potential of leading to corruption, it is somewhat difficult to believe that the over-regulation itself is the key problem (except perhaps in the case of very small firms, an issue which we will touch upon later in this article). One suspects that the direct effect of these regulations is dwarfed by what they represent – a government that is regulation-happy is much less likely to cooperate effectively with investors. Eliminating inspector visits will only help if it signals a true commitment to investor-friendly governance.

The effects of poor infrastructure are much more palpable. A recent study puts West Bengal 14th among Indian states in 1997-98 in terms of an index of infrastructure, as compared with 4th position in 1971-72.[2] The index comprises (a) roads, railways, ports, (b) irrigation, (c) electricity, (d) telephone, (e) loan-deposit ratios of banks and (d) tax collection of the state government. In terms of each of these individual items, West Bengal has fallen below the national average whereas in 1964-65 it either came first or second. These facts therefore suggest infrastructure to be a key factor explaining the decline of West Bengal's industrial performance relative to the rest of the country.

Poor roads delay shipments and raise shipping costs – in some extreme cases, such as flowers and fish, delays in getting to the market can make production entirely worthless. A case-study of a failed mini-steel plant in Purulia in a recent report on industrial sickness in eastern India by Sudip Choudhury and Anindya Sen reports that each year the plant paid Rs 25-30 lakh extra for transportation (compared to the liquidation value of the plant, Rs 81.5 lakh).[3] In terms of road density per capita, West Bengal happens to be far below the all-India average.

Electricity is another key input to production. The Choudhury-Sen report mentions many cases of firms that became non-viable simply because they got less than the promised amount of electricity from WBSEB. There is some claim that now the power situation in West Bengal is less dire, but one wonders how much of this is a result of deindustrialisation. Moreover the power situation is reportedly much worse outside the metropolitan district. It is also worth emphasising that predictability of the power supply is very important for someone who is running a business. The report on sickness comes back time and again to the fact that investments were made on the basis of expectations of power supply that turned out to be over-optimistic. To avoid this, the government should draw up a comprehensive and credible power plan for the foreseeable future, that is then made available to investors. Indeed it may be worth announcing very specific power supply targets by district and then setting up a system of compensations that the government must pay registered investors in the district in the event of failing to meet those targets.

The third piece of infrastructure is communication. While in the past this has been a major bottleneck, there is some reason to believe that this will not be the case any more. For one, the government of West Bengal clearly sees the link between investment in data transmission technology and the hi-tech industries that it dearly wants, and is trying to very hard to measure up in this dimension, with numerous recent initiatives to upgrade communication infrastructure in the state. Moreover, in the new liberalised environment, private sector suppliers may be expected to step in to fill in the remaining gaps and alleviate any bottlenecks that might emerge.

This brings us to the last of the factors emphasised in the World Bank-CII study – the supply of skills. West Bengal has fallen behind a number of other states in terms of educating the young. In terms of primary enrolment rates for children aged 5-9, in 1993-94 West Bengal at 51.7 per cent was below the national average of 52.1 per cent and its rank was 10th among the 15 major states.[4] A recent central government report puts West Bengal third, after Sikkim and Bihar among all states in terms of percentage of students who drop out before the secondary level.[5] However, it still compares well with most other states in terms of the education of the current workforce. So a skill gap, measured by average years of schooling completed by currently working adults, cannot be the reason why West Bengal currently has low productivity. Of course, given that current achievements in schooling will have an impact on the workforce in future decades, it is quite possible that West Bengal will fall behind other states in this respect in the future.

There are, of course, many different relevant measures of labour skill. It is possible that there may be a particular deficit in West Bengal within the category of the highly skilled. By this we do not just mean those with advanced degrees, but also the best carpenters, welders and commercial artists. Exact statistics on this point are hard to arrive at, though it is clear that now a very large fraction of Kolkata middle class families have one or more children living outside West Bengal. Some suggestive evidence can be gleaned from the placement statistics of the better engineering and management institutes, which suggests an abnormally large fraction of graduating students tend to find employment outside the state. Another way is to look at the data on migration. A striking fact about the last two decades is that migration into Kolkata has slowed very considerably, at a time when migration into Delhi and other cities has exploded. There was a time when young men of ambition from the south of India came to Kolkata to seek their fortunes – now that trend has been entirely reversed. Even the marwaris, the oldest and most well-established community of migrants into West Bengal, are no longer looking for gold on the pavements of Kolkata.

This is of course what one might have predicted. The explanation goes back to the very essence of big cities. Big cities exist as a matrix, where different types of talent can be brought together. The best welder knows that his true value will only be appreciated by the engineer who aims to produce the highest quality. The best engineer, in turn, wants to work for the entrepreneur who aims to sell in the most discriminating markets and can only function if the materials manager knows to buy the best quality materials. All these people coalesce on the city where they are most likely to find each other. Moreover, the ambitious measure themselves against other people of similar ambition – it is no fun being the biggest fish in a very small pond. Therefore they all head for the city where the others are going. This is why big cities keep growing despite the crowding and the cost of living – this is why people are still moving to

Mumbai and Delhi despite the fact that their commutes are interminable and their flats are minuscule. This is also why when the river of ambition changes course, it changes course so very rapidly. Once Kolkata stopped being a magnet for new young talent, the next generation of young talent decided to try their luck elsewhere and eventually even their older brothers and sisters, now short of young talent to work with, also decided that it was time to move.

To make matters worse, the initial period of industrial decline in West Bengal (which is what stopped the inflow of talent), was followed by a long period (essentially till about 1990) when the state government had decided to focus all its political energies on the rural areas. This may have been the right choice in many ways, but a combination of worsening roads, persistent power shortages and a general feeling of decay did little to make Kolkata an attractive venue for the young and upwardly mobile. On top of it, there was an explosion of upper middle class amenities (posh housing estates, clubs, discos, restaurants, amusement parks) in all the other major cities around this time, while in West Bengal, government ministers were telling them that western music was 'aposhonskriti' (decadent culture). No wonder they chose to leave.

Since then Kolkata has indeed become a much more middle class-oriented city. However the experience from the US is that old industrial cities (Cleveland, Pittsburgh, Baltimore) continue to decline even after quality of life improves substantially (these days Pittsburgh often gets rated as the most livable city in the US). This is indeed what one might expect – after all for young ambitious people deciding where to go, quality of life matters less than being with other people like themselves.

Industrial Strategy: Options for the Future

Hi-Tech

How does the fact Kolkata has been de-skilled and is not expected to recover any time soon, affect the way we think about industrial policy for the coming decade? The one clear implication seems to be that we should not pin excessive hope on knowledge-intensive industries (or what is more popularly known as the hi-tech sector) that will make Kolkata a Bangalore or Hyderabad overnight. These are exactly the industries where a high level of skill matters the most, and the benefits from clustering are the largest (what is Silicon Valley if not the world's largest industrial cluster?). One way out seems to be to attract one mega-firm, which provides a hub for the industry, as Microsoft has done for Seattle. There are encouraging signs of late, with the recent interest shown by WIPRO and Purnendu Chatterjee's group (and others) in investing in Kolkata's IT sector, and the CII for expanding opportunities for IT training. But whether or not the cluster takes off remains to be seen. After all West Bengal is a late entrant among Indian states in this area, and the competition is stiff.

Higher Education

One key aspect of comparative advantage of West Bengal in this connection is in higher education. The state turns out a large number of well qualified students in engineering, services, besides the general arts and sciences, that could form the reservoir of skilled workers in hi-tech sectors. West Bengal leads other Indian states in the number of graduating students successfully passing the NET qualifications for college teachers. Yet many of them seem to leave subsequently to other states and countries looking for suitable employment. And from all appearances the demand for quality higher education continues to outstrip supply of seats in colleges and universities in the state. One hears of special trains to Bangalore run by South-Eastern Railways largely for students going there for entrance examinations for technical courses. The high demand for education in the state is mirrored also in the fact that West Bengal leads India in the fraction of students who get tutored (according to Anjini Kochar),[6] and the high status traditionally accorded to education in Bengali culture.

Indeed, the rich educational traditions of the state suggest going one step further, by treating higher education itself as a profitable industry where investment can be encouraged. West Bengal is surrounded by states where the education system is in complete disarray and where well to do parents send their children to schools in Delhi. If West Bengal could provide good schools and colleges at competitive prices, it could easily attract a part of that demand, as it used to some decades ago when the brightest and the best from eastern India would come to study in Kolkata's schools and colleges.

To transform this into a reality, however, there has to be a sea change in the government's policy concerning institutions of learning. There has to be a determined effort to create centres of excellence, which seek to attract and retain the best talent among teachers and researchers. This will require a sharp reversal of the trend in the last two decades towards excessive egalitarianism and politicisation in education. To begin with, the process of hiring of teachers is hopelessly politicised. After that, unconditional job security, use of criteria unrelated to merit such as political connections and seniority in promotions and transfers imply that teachers have no accountability. The government owns or funds most institutions of higher education and so it can get away with whatever it wants – just look at the sorry states that Presidency College and Calcutta University find themselves in today, in contrast to their past glory. There are few competitive pressures within the system to alter this situation. On top of all this, policies such as abolishing English as a language of instruction in public schools at the primary level has disastrous implications for essential skill formation in a globalised economy (although, the government has recently announced the policy of reintroducing English from class 1). Even countries poorer than India, such as Ghana, have been able to attract a lot of data transcription and operator services from the US on a subcontracting basis just by virtue of having low wage workers who know English and have basic computer skills. In Ghana, a country where the average income is about $ 380 a year, the best data processors make $ 300 a month.

The best way to deal with problems in the education sector is to provide substantially greater autonomy to existing educational institutions by restoring the role of merit and productivity in such institutions, and encourage the development of an entirely new set of institutions from the private sector. Centres of excellence need to be free of political interference, be guided by norms of productivity (as evaluated by students and academic peers) and have maximum flexibility with respect to tuitions, hiring, salaries, evaluations and working conditions. The government needs to woo investment from the private sector and from leading educational institutions elsewhere in the country and abroad, provide setup and facilitating assistance (in the form of land clearances, electricity and water connections and so on, and matching grants). Most important it needs to credibly commit to letting these institutions operate autonomously, and foster competition for students and teachers between new and existing institutions. If existing institutions lose their best faculty and students to the newly emerging ones so be it – nothing else will shake up the system better. The entry of new institutions could be encouraged at all levels, all the way from primary schools to high schools to colleges and research institutes. If schools with currently high reputation and in high demand want to open additional branches throughout Kolkata or the state – as Delhi Public School or Springdales has done in Delhi – there is no reason to prevent the same here. Indeed, if Delhi schools want to open branches in Kolkata, that should be actively encouraged as well. The role of the state should be limited to providing scholarships to needy students, and to filling in the gaps left by private initiative with respect to establishment of new schools.

Yet another set of reforms pertain to bringing educational institutions and industry closer to one another. There are promising beginnings in this direction, with increasing emphasis on vocational and computer training in curricular reforms, and establishment of placement services in some existing colleges and universities. There is even greater scope for the encouragement and establishment of apprenticeship and adult education programmes that help small entrepreneurs at one end, and encouraging research joint ventures between research laboratories and hi-tech industry at the other. Indeed, commercially viable research laboratories are potential spin-offs from higher education. Given that there is still some demand for careers in research among Bengali families, there could be a future for privately funded research institutes that teach advanced students and do research on contractual basis, in biotechnology for instance.

Industrial Strategy: Emphasis on Small-Scale Sector

Having stressed the role of new initiatives in infrastructure and education, we turn now to the third and perhaps most important part of a new industrial policy – small-scale units at the lower end of the technology spectrum. There are many reasons to accord primacy to this part of the industrial sector. First, it is difficult to predict whether or to what extent the high-tech sector will indeed take-off in West Bengal. As we have mentioned earlier, this is subject to a number of uncertainties – the state is a latecomer to the stage, with strong competition from rival hubs in the country. Where hi-tech clusters form and thrive is inherently difficult to predict in advance, owing to the interdependence of location decisions of numerous investors and skilled professionals. A slowdown in the information technology industry has set in worldwide since last year. It would be unwise for West Bengal to place all its chips on this sector alone.

Second, investments in large-scale industry, such as Haldia Petrochemicals, are also fraught with a number of risks and uncertainties. Managing such a large joint venture between diverse stakeholders, and raising necessary finances has already shown significant strains. More fundamentally, the challenges of managing such large-scale enterprises are immense. The larger the industry (and Haldia Petrochemical is very large indeed), the more it relies on the skills of its management – personnel management gets harder as the manager becomes more remote from his workforce; materials management becomes demanding as the number and amounts of purchased materials grows, and so on. It is well established that at least in the OECD countries, managers are paid much more in bigger firms, which presumably reflects their heightened importance in such enterprises. The shortage of skills (management skill in this instance) therefore suggests large firms will suffer from poor management. The Choudhury-Sen report makes frequent mention of poor judgment on the part of management as one reason why particular firms failed. It is also possible to see the preponderance of lockouts as a result, in part, of poor personnel management – firms had to close because they were unable to negotiate the right deals with the workers. While one fervently hopes that the Haldia project will indeed survive and prosper, it would not be wise to pin the prospects for industrial revival entirely here either.

Third, and perhaps most important, even if hi-tech industry and Haldia were to take-off, how would that ensure that the resulting benefits spread widely, in terms of employment creation and wage growth for semi-skilled and unskilled workers throughout the state? There is a big market potential for West Bengal small-scale units in the supply of cheap toys, stereos, watches and household implements to the rest of India. This is what China supplies to the rest of the world, and has formed the basis of their phenomenal industrial success in the past two decades. One can add to the list of high potential consumer products the following as well: garments, leather, food processing, spare parts and metal-working, industries all of which have had a long tradition in West Bengal.

The Chinese strategy is particularly attractive in being labour-intensive and broad-based. Under what is sometimes half ironically referred to as people's capitalism, a lot of China's output is produced in relatively small firms located in small towns and villages. The reason is that the products have been so chosen that an entrepreneur with limited education, little capital, semi-skilled workers and no professional management can still achieve a high level of productivity. One also observes similar patterns emerging in Punjab, though with a different product mix. Indeed West Bengal also has a long tradition of successful small-scale enterprises. The engineering workshops of Howrah were once famous all over India, and even now the small garment producers in Metiaburuj and elsewhere in south Bengal have a substantial presence in garment retail stores all over India. Moreover, West Bengal is now flush with savings waiting to be invested. It has a higher rate of small savings net collection per capita than richer states like Maharashtra, Gujarat, Karnataka and Andhra Pradesh. This is no doubt in part a result of agricultural prosperity in the state. A lot of these savings are presumably in small towns and rural areas, where labour is especially cheap. The diversification of agricultural production into a variety of non-food crops also provides promise for the development of agroprocessing industries.

If West Bengal is so favourably endowed, the puzzle is why this kind of industry has not already taken off? What are the key constraints, and how can they be relieved?

Infrastructure and Regulation

One obvious bottleneck is the lack of quality roads. Even to go from Metiaburuj to Howrah 'hat', where garments are sold, a distance of less than 25 km, is a day's work for the entrepreneur. If roads were better he would only need to be away from his business for half a day.

Power supply is another. Small entrepreneurs typically do not have access to the schemes through which the government has tried to provide power to industry. This is a particular problem for them since they cannot afford the overhead cost of a captive generator.

Over-regulation is yet another problem. Small entrepreneurs are the typical victims of corrupt factory inspectors; given the narrow margins on which they operate, the bribes can significantly reduce their prospects of succeeding. The prospect that an inspector could come and shut them down soon after they spend their hard-earned money to buy a small machine, makes them reluctant to invest in the first place. One consequence of the fear of the regulator is that small firms do not register themselves, making them ineligible for formal loans and other publicly supplied inputs (such as power supply).

The solution here is not complete deregulation but very clear, realistic and simple guidelines in specific industries of the form – if you have invested in this type of machine and have taken these few other steps, the inspector has to leave you alone. This has to be backed up by a crackdown on corrupt inspectors, necessitating the establishment of grievance cells where complaints can be lodged and followed up on.

Training, Technical and Marketing Assistance

Infrastructure shortages and bribes are not the only problems. Others include the supply of skilled and semi-skilled workers, the availability of technical and marketing assistance, and of credit from the organised sector. The government can take an active role in relieving each of these constraints. Even low-tech industries need skills, in the form of primary and secondary schooling complemented with vocational training. The experience of vocational training in West Bengal in the past appear to be quite mixed, judging from newspaper reports. While there are some successful institutions, many others have foundered for the lack of adequate teaching staff and poorly designed syllabi. Efforts to improve primary schooling and vocational training programmes will be important here. One solution may be to provide subsidies for apprenticeship in existing firms, making use of the money from one of the centrally funded yojanas for the young unemployed. Opportunities of providing technical and marketing assistance to small-scale units should also be provided by creating entrepreneur networks with easy access to information and extension services provided by the government. Getting a new business off the ground requires defining a suitable product with a market niche either in the state or outside, in which small town entrepreneurs need the assistance of well-informed and well-connected intermediaries. Industrial expositions and trade shows both in and out of the state can also provide the required exposure, as well as access to Internet and e-commerce networks.

Credit

Finally, we come to credit, perhaps the most significant constraint faced by small and new businesses. It is well known that most of the savings that formal financial institutions collect in West Bengal do not get invested in the state. Among the garment manufacturers in Metiaburuj, it is a rare firm that has any connection with the formal capital markets (banks, term-financing institutions, etc). This reflects in part the fact that the Kolkata-based banks (particularly United Bank of India and United Commercial Bank) are now classified as weak banks, and as a result have become extremely conservative about new lending. But perhaps the most serious problem stems from the fact that bankers have become extremely suspicious of borrowers in West Bengal. The Choudhury-Sen report documents numerous instances where the bank refused to go along with a refinancing plan by the government and/or reputed consultants. This, in turn, reflects the experience of banking in West Bengal in the last 30 years. Time and again, investors have borrowed money, stripped the assets of their firm and declared a lockout. Of course, only a fraction of the investors actually behave in this way, but the rest get punished for it.

A number of steps need to be taken to restore sanity to the system. First, the state government should put pressure on the central government to revive the Kolkata-based banks. They could be merged with other banks since privatisation is an unlikely option, given the political resistance that this is likely to elicit from their workers, and also the fact that no one would want to buy them at a reasonable price. Second, the banks should be encouraged to increase loan-deposit ratios within the state, with reasonable allowances for bad debts that prevent excessively cautious lending practices. Innovative schemes such as micro-credit can be encouraged to limit default risks, and mobile banking can increase the reach of the organised credit system to agro-businesses in rural areas. Efforts can be made to create information networks among banks that help them track credit histories of individual borrowers, which can also have a remarkable effect on loan repayment incentives. Third, the state government should institute a set of special industrial debt tribunals, aimed at speedy disposal of the many pending liquidation cases. These tribunals should have the power to bring immediate criminal proceedings against those found guilty of deliberate fraud against lenders. Fourth, the state government should take steps to prevent firms from delaying payments to WBSEB and other government undertakings for input purchases. The Choudhury-Sen report documents many cases where the immediate cause of the bankruptcy was the fact that WBSEB stopped supplying power to these firms because they had not paid their bills for many months. Making WBSEB tougher in terms of collecting it bills (e g, blacklisting any company associated with someone who has a poor record in repaying electricity bills is one way) will help avoid getting into situations where companies owe so much to WBSEB that their incentives get distorted.

In sum, the strategy of encouraging the small-scale sector should be a multipronged one, aimed at alleviating the diverse constraints in the supply of key inputs faced by such units – infrastructure, credit, technical and marketing support. There is no need to repeat the mistakes of traditional policies for encouraging the small-scale sector, which were built around reservation of selected sectors and products for such units. It is very hard for a government to know and predict the kind of technology and firm scales that are the most efficient for any given sector. Moreover, reservations insulate selected units from the competition that is essential to foster the required cost consciousness and the incentive to adapt to changes in the marketplace and adopt new technology. Instead the emphasis should be on maximising entry and competition in every industry.

Industrial Strategy: Summary

The broad industrial strategy proposed here is based around three critical priorities: infrastructure, education and support for small-scale units specialising in light manufacturing goods. Above all, the guiding philosophy should be not to pick winners and pin hopes on a few select sectors, and subsidise these heavily. Such a strategy would be risky, narrowly based, expensive and subject to the risks of political capture by resulting special interest groups. The aim should instead be to create a facilitating environment for a broad-based and diversified industrial sector, of the kind seen in China or in successful east Asian countries. To make this feasible will require a substantial shift in how the government itself functions. It is by no means obvious how to make this happen, how to build a governance structure that is both more responsive and more able to stand back and allow things to happen.

II
Government Finance

We turn now to discuss another leading problem area of the state's economy: its dire fiscal situation. The state of public finances of the West Bengal government is currently quite alarming. Recent newspaper reports suggest that West Bengal's expenditure on three heads in the current fiscal year – salaries, pensions and interest payments on past loans – alone amounted to 110 per cent of its total revenue. As a result the government will be borrowing not only to fund any development programs but also to pay its wage and pension bills (The Telegraph, May 30, 2002). West Bengal has resorted to overdrafts with the Reserve Bank of India as many as 134 times during 2000-01. During the past year only Bihar (283), Kerala (204), Manipur (263), Orissa (194) and Uttar Pradesh (209) had to resort to more overdrafts. The underlying reason for West Bengal's financial distress is that its revenues are chronically and increasingly falling short of operating expenditures. The revenue deficit (i e, the gap between operating expenditures and revenues) in West Bengal rose from 3.0 per cent to 6.7 per cent of net state domestic product (NSDP) between 1990-91 and 1999-2000.[7] In contrast, the corresponding ratio of aggregate revenue deficits to the aggregate NSDP across all Indian states was 0.9 per cent in 1990-91, and 2.9 per cent in 1999-2000. Moreover, West Bengal had the single largest revenue deficit among all states in 1999-2000. As a result of the growing revenue deficit, the corresponding fiscal deficit (which adds loans and capital expenditures to the revenue deficit) in West Bengal has risen from 4.9 per cent in 1990-91 to 9 per cent of NSDP in 1999-2000 (whereas the all-state average went from 33 per cent to 4.8 per cent over this period).

What do these high deficit rates imply? In the short run the state government will have to find sources of borrowing to cover its operating expenditures. But borrowing sources that offer reasonable rates and are available at short notice are in limited supply. In the past when the state government has faced a crunch it has on occasion been forced to resort to borrowing from private sources (such as Peerless Insurance) as an emergency measure in order to be able to pay salaries and pensions to government employees. Since the fiscal deficits are now higher than ever before, the possibility of resorting to some such 'creative' strategies cannot be ruled out.

In the medium to long term, the brunt is eventually borne by either new or maintenance investments in infrastructure, or the delivery of social services – areas where spending levels are more discretionary than the payment of salaries, pensions or interest on past debt. These are precisely the areas in which the role of the government in promoting growth and reducing poverty is the greatest. For instance, owing partly to continuing fiscal stringency the all-India average capital expenditures of state governments fell from 3.6 per cent of gross domestic product in 1980-81, to 2.4 per cent in 1990-91, and down to 1.8 per cent in 1999-2000. In West Bengal this stood at 0.8 per cent in 1999-2000, and 1.3 per cent in 2000-01, well below the all-India average. The per capita plan outlay during the Eighth Plan period (1992-97) was Rs 1,348 in West Bengal, the lowest among all states. The all-India average per capita plan outlay during this period was Rs 1,970, and states such as Maharashtra, Gujarat, Karnataka, Orissa and Rajasthan had outlays exceeding Rs 2,000 per capita.

While we do not believe that we should make a fetish of fiscal aggregate targets, the situation in West Bengal does need correction. How can there be an economic revival, if the state has no money to spend to build roads, provide electricity, build schools and extend medical facilities?

Sometimes fiscal crises serve to focus the attention of governments to the need for deep-seated reforms, which involve an entire government. We believe that such a time has now come. And for this, it is necessary to begin by understanding how the state government finances have reached their current predicament.

Let us deal first with the most common explanation: the implementation of the recommendations of the Fifth Pay Commission. The need to revise upward salary and pensions certainly resulted in a steep increase in the fiscal deficit for all states: the all-India average rose from by more than one percentage point of GDP in just one year: from just under 3 per cent in 1998-99 to over 4 per cent in 1999-2000, and almost 4.5 per cent in 2000-01. Yet, this is something that affected all states, so does not serve to explain why the West Bengal deficit is now almost twice the national average.

Having said this, it is worth noting that the level of salary and pension payments in West Bengal has been consistently high (relative to revenue receipts) in comparison with other states. These payments formed 86 per cent of revenue receipts in 1998-99 (in comparison with 78 per cent in 1990-91), whereas the corresponding figure was lower in Orissa (85 per cent in 1998-99, 44 per cent in 1990-91), Kerala (61 per cent and 82 per cent), Rajasthan (65 per cent and 34 per cent), Andhra Pradesh (47 per cent and 48 per cent), or Tamil Nadu (66 per cent and 53 per cent respectively). So salaries and pensions are high in relation to the state government's revenues, not just now, but a decade ago as well. In 1990-91 only Kerala had a ratio comparable to West Bengal's, and the former managed to bring it down substantially by 1998-99. Of course, this could reflect either the fact that the total amount of salaries and pensions is too high in West Bengal compared to other states, or that revenues are too low, or a combination of the two. This is a particularly alarming problem since pension payments are expected to grow all across the country, due to the increased longevity of employees. The need for serious pension reform is urgent, as the experience of many countries across the world clearly indicates.

Before we address the importance of revenue performance, let us consider another possible contributing factor: the state's debt burden. Could they be an important cause for the higher deficits in West Bengal relative to other states? In 1997-98, the ratio of West Bengal state government debt to GDP was 23 per cent, which was close to the all-India average – with many states such as Punjab, Orissa, Uttar Pradesh, Bihar, Himachal Pradesh, Rajasthan, Kerala and Assam recording higher levels of debt. However, this ratio has been increasing rapidly in recent years: it rose to 26 per cent in 1998-99 and 30 per cent in 1999-2000. Similarly, the ratio of interest payments to revenue receipts in West Bengal was 31 per cent in 1998-99, which though high relative to the average is not out of the range of the other states (it was 38 per cent in Punjab, 33 per cent in Orissa, 32 per cent in Uttar Pradesh, 26 per cent in Bihar, and 27 per cent in Rajasthan). This ratio has also been rising quickly in West Bengal recently, approaching 40 per cent currently. Debt service ratios of the order of 30-40 per cent are normally considered the upper limit of the range of safety. So going by the figures for the late 1990s, it does not appear that West Bengal's fiscal problems owe their origin to an excessively heavy debt burden inherited from the past. But the debt service burdens are now threatening to become onerous. Indeed, West Bengal has been experiencing one of the fastest growth in outstanding debt and interest burden among the states over the last few years. However, this seems the consequence rather than the cause of the fiscal crises, since (as we explain further below) the process of rising fiscal deficits and poor revenue performance had set in much earlier in the 1990s.

If neither expenditures nor debt constitute the main cause of West Bengal's persistently poor fiscal performance, there is but one remaining possibility: a poorer record with regard to revenue generation. This is indeed borne out by the facts. The annual rate of growth of revenues during the decade of the 1990s in West Bengal was 11.2 per cent, against an all-India average of 14.1 per cent. In this respect West Bengal was singularly the worst performer amongst the major states: even Bihar grew its revenues faster (at 11.8 per cent per annum). And West Bengal's performance during the 1990s was conspicuously worse than its own in the 1980s, when its revenues grew at an annual rate of 16.3 per cent (against an all-state average of 15.9 per cent in that decade). Other facts can be adduced in evidence for the revenue shortage hypothesis. In 1998-99, own-revenue receipts formed 36 per cent of revenue expenditures in West Bengal, in comparison with an average of 49.5 per cent for all states, and 55.8 per cent for the group of middle income states that West Bengal belongs to (which includes Andhra Pradesh, Kerala, Karnataka and Tamil Nadu). As a proportion of NSDP, West Bengal's tax revenues have fallen from 6.43 per cent in 1986-87 to 6.04 per cent in 1996-97; among the major states its relative position fell from the bottom 25th percentile through most of this period to the bottom 10 per cent in 1996-97.[8] The sources of the marked deterioration of the state's finances relative to other states in the19 90s therefore owes more to poor revenue performance than any other factor.

Unfortunately, there are no easy fixes to a chronically low and worsening revenue situation. The causes are of a structural, long-term nature. As we explain below, West Bengal is by no means unique with regard to the need for such reforms: the problems afflict all other states as well, though to a lesser degree. But many other states have already initiated long-term reform measures, and it is imperative that West Bengal not lag behind. Andhra Pradesh, Karnataka, Kerala, Maharashtra, Tamil Nadu and Uttar Pradesh have brought out White Papers recently documenting the nature of the state's finances, and outlining a medium-term plan for improving them, something West Bengal is yet to do.

In what follows, we identify some of the main problem areas where corrective actions are urgently needed. *Taxation of Services*

As with most other states, West Bengal faces a problem with regard to taxing the service sector. It is a normal pattern of economic development that the service sector at some stage begins to grow relative to other sectors, and India is no exception. The ratio of the service sector in GDP for the country as a whole rose from 36 per cent in 1985-86 to 41 per cent in the late 1990s. The service sector accounted for 70 per cent of the growth in GDP during the 1990s, compared to about 50 per cent during the 1980s.

On the other hand, the bulk of the revenues of state governments are accounted for by sales taxes, which are levied principally on manufactured goods. A negligible fraction of revenues are accounted for by taxes on the service sector. Paradoxically, their role has been shrinking over time: the all-India average for ratio of tax revenues accounted by tax on the service sector declined from 11.81 per cent in 1985-86, to 9.75 per cent in 1998-99. So there is a general need to expand the base of indirect taxes to include the service sector, i e, transport, communication, banking and financial institutions, construction, media, education, health, and hotels and restaurants.

How does West Bengal fare relative to other states in this regard? The share of services in NSDP in the state is 39 per cent, which is near the all-India average. But on the other hand, taxes on services as a proportion of NSDP are exceptionally low in West Bengal: it was 0.30 per cent in 1998-99, compared with 0.54 per cent in Bihar, 0.63 per cent in Punjab, 0.64 per cent in Kerala, and at or above 0.80 per cent in all other major states. Gujarat achieved the highest ratio in this regard (2.29 per cent), i e, seven times higher than West Bengal. Yet the proportion of services in NSDP in Gujarat was 41.8 per cent, only marginally higher than West Bengal. How does Gujarat manage to do so much better in this respect? Understanding the answer to this question is bound to be important. Or for that matter, why the ratio of tax revenues accounted by services in West Bengal deteriorated so markedly in the course of the 1990s: they fell from 0.82 per cent in 1990-91 to 0.30 per cent by the end of the decade.

Improvement in state tax effort with regard to the service sector is now currently receiving high priority in most states, and forms part of the objectives of the transition to a value-added-tax (VAT) currently in motion throughout the country. Accordingly, the cooperation of the central government and other states will be important for West Bengal. The transition to VAT represents a historic opportunity to dismantle the highly inefficient and cumbersome system of cascading taxes on the manufacturing sector at multiple stages of production and distribution. It will also broaden the base of indirect taxation and allow greater uniformity between manufacturing and services on the one hand, and between different states on the other. By reducing high levels of distortions in costs, such a fiscal reform will undoubtedly enhance industrial growth as well. However, for a broad-based service tax to be feasible for state governments, a constitutional amendment will be necessary to place services on the concurrent list. Now only a limited set of services can be taxed by states, and the definition of these allowed services has already been stretched to the utmost (e g, the entertainment tax has been extended to tax hotels and restaurants) by state governments. It will also be important to coordinate minimum tax rates with other states, in order to prevent a re-run of the ruinous ‘races to the bottom’ across different state governments witnessed recently.

So the extension of indirect taxes to the service sector is not entirely in the hands of the state government, owing to the necessity of a constitutional amendment and harmonisation with other states. Yet such an extension is vitally important, and especially so for West Bengal. Current estimates of the revenue potential from taxing different service sectors have been worked out on an all-India basis and the highest returns appear to be realisable for railways, land transport, pipelines, major ports, courier services, banks (excluding basic lending and deposit services), financial institutions, hotels and restaurants, media and education (including tutorial colleges, professional educational institutions, and computer schools).[9]

Contingent Liabilities

State government budgets do not disclose the full story behind the state of their finances, owing to a variety of accounting practices that enable them to circumvent central government restrictions on their borrowing. One item missing from state budget figures is contingent liabilities, which represent state government guarantees for loans taken by public sector undertakings from the market. State governments have increasingly resorted to this means for supplementing resources of the public sector in recent years, following discontinuation of loans to PSUs from the state banking sector since 1993-94. In

March 1997, aggregate outstanding guarantees of 18 major states amounted to 9.1 per cent of NSDP, though this ratio has declined now to about 6.4 per cent in 1999-2000.[10] Since many of the projects of PSUs are of doubtful financial viability, these contingent liabilities may end up being realised in the event of repayment problems, which will add even further to the state government deficit. The extent of contingent liabilities of the West Bengal government is not generally known, as it has not chosen to disclose this publicly (unlike some other states). We have no reason to believe that the West Bengal government's liabilities are worse than that of other states in this regard. However the practice of contingent liability is of some concern precisely because of its inscrutability.

Losses of Public Sector Undertakings

Losses of PSUs also do not show up fully on state government budgets, thus concealing the true extent of state finances. Moreover, a recent CAG report notes with concern that accounts in many of these PSUs are late by many years; the 2000-01 West Bengal Economic Survey presents PSU accounts only until the year 1996-97. In addition, less than one quarter of the losses of State Electricity Boards actually show up in state budgets (through the direct budgetary) subsidy even though the state government is ultimately liable for all these losses. How does West Bengal fare in regard to losses of the State Electricity Board?

Here, too, its financial performance is a distant outlier: in 1999-2000 there was a negative rate of return of the order of 63 per cent to the capital invested in the West Bengal State Electricity Board, as against an all-India average (i e, averaging across all State Electricity Boards) of –26 per cent.[11] The SEBs of Maharashtra, Kerala and Tamil Nadu were of the order of –10 to –15 per cent. While there is some volatility in rates of return for individual states across different years, West Bengal is consistently the worst performer across all SEBs.

It is worthwhile, therefore, to ascertain where exactly the causes of this dismal performance relative to other states lie. Here the detailed data provided by the Planning Commission Report is helpful. Costs per unit of electricity generated do not appear to be substantially higher than other states. Nor is the average tariff, which is also comparable. Transmission and distribution losses are above average, but not by very much: 28 per cent in WBSEB, against 24 per cent in the others. The most important difference is in the plant load factor, which ranged between 31 and 36 per cent in West Bengal between 1995 and 2000, compared to an average of 66 per cent for all the SEBs. During this same period, SEBs in southern and western India improved their load factors from 60 per cent to between 70 and 80 per cent. While the low plant load factor may partly reflect industrial stagnation in the state, there is an urgent need for a serious enquiry to study the various factors behind this problem because it has huge consequences for state finances.

One other dimension in which the WBSEB differs from all the rest is the relative tariff on different classes of customers: commercial tariffs are substantially lower, while agricultural tariffs are higher. The pricing problem in West Bengal is therefore more severe with respect to commercial and industrial customers, unlike many other states where underpricing of electricity to farmers is a key problem.

The speed of reforms in the electricity sector is another area where West Bengal is lagging behind other states. In Orissa, Haryana, Andhra Pradesh, Uttar Pradesh, Rajasthan and Karnataka, state regulatory commissions have already restructured SEBs, dividing them into separate generation and distribution units, and issued new tariff orders. Such actions are still pending with the West Bengal state regulatory commission. Besides rationalisation of tariffs, initiatives to improve plant load factors at least to parity with other states should be an important initiative in West Bengal.

Electricity is not the only sector where PSUs have been racking up spectacular losses. The West Bengal Economic Survey 2000-01 does not disclose the losses of the State Transport Corporation. But it does report that the accumulated losses up to 1996-97 of the Calcutta Tramways Corporation was Rs 2,786 crore, of Durgapur Projects was Rs 1,276 crore, and Durgapur Chemicals was Rs 1,670 crore.

Collectively these three amount to more than the total accumulated losses of the WBSEB till that year (which was Rs 4,897 crore). If we combine the accumulated losses of these four PSUs we obtain a total of Rs 10,629 crore. To get a sense of what these magnitudes mean, they outweigh the state's own tax revenues of Rs 6,513 in 2000-01, and form over 7 per cent of the NSDP. A recent CAG report finds that of the 11 statutory corporations and 69 public sector companies in West Bengal (with a total investment of Rs 14,000 crore of public money), not a single one has paid a dividend to the state government for 1999-2000, as in most years in recent history. Commenting on the CAG report, a recent editorial in Business Standard estimated that at 10 per cent cost of capital, this means that on average these enterprises implicitly collect Rs 500 every month from each family in West Bengal.

Small Savings Mobilisation

One area in which West Bengal has progressed far beyond all other states is with regard to mobilisation of small savings, which amounted to Rs 2,024 crore in 1995-96 and 4,690 crore in 1998-99. In contrast Uttar Pradesh and Maharashtra mobilised between Rs 3,000-4,000 crore in 1998-99, and most other states less than Rs 2,000 crore. Yet it is not clear what the implications of this are for the state's financial position. It is important to realise that these represent a form of borrowing, rather than raising current revenues. So they do little to alter the fundamental structural problem of revenue shortage in the state's financial situation. Moreover, these savings deposits often earn above market rates of interest, besides being eligible for various tax exemptions. So they may involve a steep borrowing cost for the government sector as a whole. The resources generated by the savings deposits accrue to the central government, a large fraction of which are loaned to the state government at even higher interest rates than the rates offered to the depositors. The fact that the state government is indeed taking these loans (when it can choose not to) suggests that the cost of borrowing under this arrangement does not exceed that from alternative sources available to it. The fact that the state is forced to borrow back these funds is thus merely a symptom of the severe financial malaise it finds itself in.

Other Possibilities There are a number of other possible avenues for improving the collection of revenues in West Bengal as for most other states: introducing a wider range of user fees; improved enforcement of state excise, liquor, registration of motor vehicles and transfer of immovable properties and so on. The government has recently attempted to raise more revenues via user fees in education, health and water, something which needs to be encouraged. Reforms in state bureaucracies represent another potential avenue for effecting economies in expenditure, if there is sufficient political will. The state government can follow the lead of certain other states with respect to voluntary retirement schemes, converting DA into pension benefits, not filling posts when vacated, streamlining government departments to eliminate duplication of functions and those tasks rendered redundant by new information technology. Maharashtra has reacted recently to its own fiscal crisis by freezing DA payments and converting them to pensions. Kerala has modified the policy of leave encashment and housing loans. An even deeper reform we will urge (in subsequent sections) diversion of responsibilities in some sectors such as education and health increasingly to panchayats, and reduce the size of the state bureaucracies in those sectors gradually over time.

It may also be worthwhile to revive suggestions for taxation of agriculture, in the implementation of which panchayats can be actively involved. Despite recent revisions (that came into effect from April 2002) the land revenue still applies at a low flat rate of Rs 20 per acre above a fairly large threshold (4 acres of irrigated land, and 6 acres of unirrigated land). This means that the majority of middle farmers do not pay any tax at all. Considering that they obtain significant benefits from the government in the form of subsidised inputs, and the substantial increase in agricultural productivity in the past two decades, it would seem reasonable to extend the tax net to holdings above 2 ½ acres of irrigated land. The levy could be conditioned on the nature of cropping patterns in recent years, and the yields realised over the last 3-5 years, with assessments carried out periodically. A suggestion for an agricultural holdings tax along such lines has recently been made by Indira Rajaraman and M J Bhende,[12] modifying earlier proposals advanced by the K N Raj Committee and Amaresh Bagchi[13] in the 1970s.

The principal stated reason that the K N Raj Committee recommendations were not implemented anywhere in India in the 1970s was that it was considered too cumbersome to administer, though this often masked a lack of political acceptability mainly to the powerful lobby of rich and middle farmers. The subsequent modifications suggested by Bagchi, and by Rajaraman-Bhende seek to devise a version of the tax that is administratively workable, and levied only on plots above a certain size (two and a half acres in Bagchi's proposal, and a threshold to be defined by local crop surveys in the Rajaraman-Bhende proposal). The administrative and political feasibility of such a tax would be considerably enhanced if local panchayats are actively involved in land assessments, and this is a subject placed for discussion in gram sansad meetings. To encourage the cooperation of panchayat officials, the panchayats could be entitled to the lion's share of the proceeds from the tax. A similar reform in fiscal decentralisation in China occurred in 1985, enabling local governments to keep all local revenues above a fixed sum. The reform is widely believed to have contributed significantly to China's rural industrialisation, and is worth emulating in the West Bengal context. If the panchayats become more fiscally self-sufficient, it can reduce their need for state government funds. Moreover we shall argue in later sections of this article that panchayats could be given wider authority over provision of local education and health, which can reduce the level of spending necessary at the state government level for these services.

III
Rural Development

The Left Front, with some justice, views rural development as the one place where their strategies have clearly paid off. The 1980s, the decade that immediately followed the takeover by the left, saw a remarkable renaissance in the fortunes of the average Bengali farmer. West Bengal in the 1970s had one of the slowest growth rates of agricultural production – whereas in the 1980s it was the fastest growing state with growth rate of 6.5 per cent for foodgrains production.[14] There was a switch to high-yielding varieties, a shift towards cash crops like oilseeds and vegetables, and a substantial expansion of multiple cropping.

Remarkably, given some of the fashionable prejudices of our times, all this was achieved in a policy environment that quite explicitly favoured the poorer farmers. This was the period when land ceilings were enforced, land was redistributed to the landless and the rights of sharecroppers were secured through Operation Barga. This was also the period when decentralisation began. Starting in 1978, a full 15 years before the passage of the 73rd and 74th constitutional amendments made them mandatory, West Bengal instituted a functioning three-level system of panchayats. These panchayats have played an active role in the implementation of the land reforms, in the construction of roads and other local infrastructure and in helping people take advantage of various government schemes.

The result has been that the benefits of agricultural growth in the 1980s and 1990s have been relatively evenly shared, which is probably not unrelated to the fact that West Bengal has been one of the states where the decline in poverty has been the fastest. The share of the poor went from 73 per cent in 1973-74 – the highest across all states in the country – to 32 per cent in 1999-2000. The remarkable continuing political success of the Left Front must also owe something to it. And in the one case where we have hard evidence on this point – the case of Operation Barga – it appears that these pro-poor policies also contributed to the acceleration in growth.

As is well known, every silver lining must have its cloud. The cloud, in West Bengal, is in part a consequence of its success. A large part of the growth over the last decade was driven by the expansion of boro rice production based on the use of high-yielding varieties and irrigation water. By now, most places suited for boro production have already made the switch and there is some evidence that at least in some places the process has probably gone too far: There is some evidence that the water table is not being replenished. More generally, the scope for further expansion of diesel tube-wells and canal irrigation seems to be relatively limited[15] even ignoring the arsenic problem that has already become a serious danger in several districts. The state has in fact had occasion to buy extra water from Bihar over the last years. The switch to high-yielding varieties can continue for a few more years, but with 60-70 per cent of acreage already converted, it will not be for long. And it has been some years now that there have been any major efforts on the land reforms front, reflecting, no doubt, the fact that there are few easy options left.

It is therefore no surprise that the growth rate has been slowing: Cereal production rose by 28 per cent between 1985-86 and 1990-91. In the two successive five-year periods that followed, this particular growth rate fell to 14 per cent and then 11 per cent. Similarly the growth rate of total agricultural output fell from a high of 15 and 16 per cent (over the periods 1985-86 to 1990-91 and 1990-91 to 1995-96 respectively) to 9 per cent over the period 1995-96 to 2000-01. Indeed one might expect, in the absence of further innovations, agricultural growth in West Bengal is heading where other successful states like Punjab and Haryana have ended up – in a plateau of close to zero growth.

This is not to say that there is no further scope for improvements in rice productivity. Rice yields in West Bengal are still considerably below those in compared to some other rice-producing states such as Andhra Pradesh and Tamil Nadu. They are also low compared to neighboring countries. For example, the rice yield per hectare in West Bengal in 1999-2000 was about 2.2 tonnes, while that in China was 4.1 tonnes, that in Indonesia was 2.9 tonnes and that in Taiwan and Vietnam was 2.8.

China's pre-eminence in rice production owes in part to its success in introducing improved varieties that are better adjusted to the local weather and more resistant to specific pests. Many of these new varieties were developed by private multinationals working with the Chinese government. The Chinese government has also spearheaded efforts to develop genetically modified varieties of a wide range of crops: It is said that in the case of rice inserting genes from wild rice relatives into the best performing Chinese rice hybrids is reported to have raised yields by 20-40 per cent. It is true that many of these new technologies are yet to be properly tested and the associated dangers are real. Nevertheless, they have such immense potential that it would be foolhardy to turn one's face entirely against them, especially given that they offer the possibility of escaping from the current trend of growing dependence on pesticides and chemical fertilisers. A more circumspect strategy, based on the Chinese model, would be for the state government to strike a deal with some multinationals in this area to develop crops suited to the particular local environment of West Bengal. At the same time it can appoint a panel of independent and highly respected scientists to evaluate the risks of the new genetically modified crop varieties.

To increase crop yields and reduce pesticide use there are also significant gains possible from moving towards integrated pest management (IPM), which uses information about the life cycle of crops and their pests to determine the type and degree of crop protection needed in local contexts.

West Bengal is also falling behind the rest of nation in terms of water management, perhaps under the illusion that there will always be enough water. Panchayats need to be strongly encouraged to build and maintain water-harvesting structures, especially in view of the continuing deterioration in the condition of ponds all over West Bengal. Wherever additional water resources are still available, the success of the pilot tubewell groups programme suggests that this may be the way of the future. Under this programme the wells are dug with public money but then a beneficiary group of small and marginal farmers is formed and assigned responsibility for repair and maintenance of the tubewell. On most accounts this is working remarkably well, in welcome contrast to the usual sight of broken-down public tubewells all over north India. In some cases these groups have reportedly approached the minor irrigation department of the West Bengal government for more public tubewells in their village, which they are prepared to maintain as well as share in capital cost. This is an unusual and welcome instance of local responsibility in resource mobilisation. Finally, the state government needs to be much more concerned with flood control. Floods have become increasingly frequent in West Bengal, with devastating consequences for farmers. This is in part a matter of building permanent structures but it clearly also needs better environmental management in the uplands in collaboration with Bangladesh and Nepal, and with possible help from international agencies.

Unfortunately even with all these improvements, it is not clear that the future of West Bengal lies in growing more and more rice. For one, the demand for West Bengal grown rice is not growing as fast as supply, with the consequence that prices have fallen sharply in recent years. While it is true that a part of the problem is that the central government is not putting enough money into the public distribution system, it is hard, given the present political climate in the country, to imagine that this would be reversed in the near future. In the meanwhile, the farmers face a very serious problem.

More importantly, the hothouse-like climate that Kolkatans love to complain about makes the state an ideal place to grow vegetable, fruits and flowers. West Bengal already leads the country in vegetable production and the trend is towards even more: Acreage under vegetables grew by more than 20 per cent in the period 1995-96 to 1999-2000 to reach just over 11 lakh hectares. Prospects for further growth in this area seem excellent. The state government, based on the recent Policy Paper on Agriculture, seems to agree, though it also reiterates the need to continue to pursue self-sufficiency in food: This is mysterious – does one really expect the rest of country to declare war on West Bengal sometime soon? Otherwise why shouldn't Bengal buy rice from Andhra Pradesh and sell them vegetables?

The Policy Paper and the McKinsey report commissioned by the state government also seem to agree on much of what needs to be done to promote agricultural growth – farmers need better roads to get the produce to the market, better storage facilities and massive investment in the agro-processing sector. The establishment of Agro-Export Zones, proposed in the Policy Paper, is an excellent way to encourage the processing industry, especially if firms set up in these zones can be partially insulated from the state regulatory machinery. In particular, it will be important to de-reserve the agro-processing industry, now earmarked for the small-scale sector

Moreover we feel that the government should consider schemes for encouraging panchayats and other community organisations to get involved in the development of local agro-processing industries, along the lines of the sugar cooperatives in Maharashtra and the township and village enterprises in China. In both these cases industries sponsored by the state but run by community bodies spearheaded development in the surrounding area and in principle, the same could happen in West Bengal. The government could choose one or two districts with relatively well performing local self-governing institutions (such as the panchayat samity) and with a hinterland of better-off agriculture could be chosen for such an experiment. These samities could be provided some initial capital to start a collective enterprise specialising in some area of local expertise and potential. This may be a scheme of diversification into some cash crop, the development of agro-processing, or marketing products of household artisanship. Apart from paying interest on the initial borrowed capital and a premium on an insurance fund, the samity could be allowed to retain most of the money from this business, and spend the proceeds on any project of its choosing. These activities should not be subject to regulation by any ministry, apart from the usual periodic auditing of accounts. Over time encouraging such forms of collective initiative is likely to create incentives for local business development. Of course some of these enterprises are bound to fail, in which case they could draw upon an insurance fund (to which they have contributed upfront) to weather temporary losses. If the losses pile up and persist, the businesses should be required to fold up. A Left Front government that emphasises decentralisation, popular participation and the cooperative spirit of the people, should have the courage to experiment with some local cooperative ventures on business lines. Such ventures could generate substantial employment opportunities without degenerating into conduits for milking the state cow, the fate of many state-sponsored cooperatives in the past.

Even if all these initiatives are taken and taken successfully, however, there are many reasons why farmers may not be in a position to extract the full benefits of dealing with the world market. Credit and technology are both constraints and while the state government can help, its current financial distress will surely limit what it can do. The more serious constraint is marketing. Consumers in the rich countries are increasingly reluctant to eat anything that is not guaranteed to be 'safe', meaning that their production has taken place in tightly monitored environment. Lobbyists and spokespersons from import-competing industries in these countries are always happy to push for even tighter regulations of imports of edibles, for obvious cynical reasons. This makes multinationals a vital intermediary in these industries. They are the ones that can deal with the regulatory machinery and have the requisite credibility with the consumers for being quality and safety conscious. It is foolhardy to think that a local firm (or a cooperative, according to the government's plan) will be able to compete with these firms to get access to these markets. Just imagine what would happen to exports from West Bengal if someone spreads the rumour that the local firm is growing fruits on arsenic-infested land.

This, we think, is the main reason to take the recent proposals for contract farming seriously. Under contract farming farmers will contract with multinationals to produce, say, pineapples on some fixed amount of land in the current year, and the multinational will promise to buy everything he grows at a fixed price.

The reservations expressed by those who have opposed contract farming are certainly worth taking seriously. For example, if the contract involves putting the farmer's land as collateral, there is a real risk of farmers becoming dispossessed. While many will agree that we do not want agricultural land becoming concentrated in the hands of a foreign multinational, there is nevertheless a case to be made for easing restrictions on land transfers. Land, after all, is the one collateral that a poor farmer has: making it impossible for the banks to seize land from defaulters, makes it harder for him to borrow. We may therefore want to consider an alternative arrangement, say one where the banks are allowed to seize land from defaulters but seized land is required to be resold to a landless labourer (from a list nominated by the panchayat) within some fixed period.

A more serious fear is the risk that comes from dealing with the vagaries of the world market and the uncertainties of a new technology. In part this can be dealt with by setting up the contract so that the price is guaranteed at the time of planting. The government can negotiate (and enforce) some crop insurance contracts with commercial insurance providers, so that farmers are compensated when the crop failure is clearly not their fault (such as when the rain fails or when there is a pest attack that covers a large area). But even with these measures, there is still the uncertainty that farmers face when making specific investments in a crop (e g, scented rice) that may lose its market beyond the next few contract rounds. For example, Cargill – one of the model McKinsey companies – will plan to export both aromatic and nonaromatic rice through contract arrangements. But Cargill has faced problems elsewhere in India, and there is no reason to believe that the same cannot happen in West Bengal. What if Cargill shuts down its operations – where will that leave the farmers who have already invested heavily in the special rice varieties?

For these reasons, and more generally to avoid 'default' on the part of the MNCs, the government should require that the multinationals place a substantial amount of money in an escrow account that is invested in some safe asset and is available for the court or the arbitrators to pay off the farmers in the case of a default. There may be legitimate fears on the part of the MNCs that such escrows may be applied indiscriminately in favour of farmers, and to avoid these it may be possible to design schemes which permit escrow amounts to be lowered in exchange for a history of good business dealings.

Finally, to deal with the possibility of exploitation of contractual loopholes by MNCs to cheat farmers, it would be important to have uniform contracts negotiated at the gram panchayat or panchayat samiti level. The government can then provide the panchayats with technical assistance with the negotiation of the contract. Even after the contract has been negotiated, there is the possibility that the multinationals will find it convenient to reject a large part of the produce on quality grounds. This is in part a matter of writing a contract that is detailed enough (so many inches long, so many kilos each, etc) and in part by appointing arbitration boards whose recommendations are binding (in the sense that a firm that rejects the recommendation loses its escrow money). All of this would be easier if the multinationals involved have a name to lose and have operations elsewhere in the country. It is similarly important to establish the reputation of the arbitration boards by appointing those with high proven integrity and technical competence.

The discussion of contract farming has brought up the spectre of the Neelkuthis reborn in some quarters. It is worth recalling that the Neelkuthis became what they became with the active connivance of the colonial state. If the present, avowedly pro-people, government is confident that it has the will and the power to protect its people if and when necessary, why would it need to close the door on very real opportunities?

IV
Governance: Social Service Delivery, Decentralisation and Corruption

As we remarked earlier, West Bengal has led the rest of the country with regard to implementation of panchayati raj. A three-tier structure of panchayat government has been functioning since 1978, elected every five years. In West Bengal the panchayats have been actively involved in implementing land reforms, in channeling the delivery of farm inputs and government welfare schemes. This has enabled a measure of accountability and popular participation, though inevitably mixed up with the shenanigans of party politics. While further research is necessary to ascertain their role in agricultural growth and poverty alleviation in the West Bengal countryside over the last two decades, on balance the expectation is that they have played a positive role.

Nevertheless, the extent of devolution of authority and finances to local panchayats still remain extremely restricted. The West Bengal panchayats have virtually no financial autonomy, either with respect to raising financial resources of their own, or in deciding on the allocation of funds across different local sectors. They are merely agencies that implement projects in specific sectors that trickle down from above. The bulk of the panchayats' budgets consist of centrally sponsored public works schemes (e g, those that used to be covered by the Jawahar Rozgar Yojana). The overall scale of these funds is determined at higher levels of government according to specific formulae, and are typically earmarked for specific sectors: roads, irrigation, etc. The extent of decentralisation of decision-making to the panchayat bodies is limited to deciding where a road project will be located, and to its implementation and supervision. The same goes for schemes for the allocation of credit, fertilisers, housing or old age assistance. The total quantum of the service available for the village is determined from above, and the role of the panchayat is limited to selecting the beneficiaries. There is little scope for an enterprising panchayat body to decide on the allocation of spending across different sectors. And less still for deciding to raise resources for urgently required repairs to a local road or canal, or to initiate a promising new project that will benefit a large number of local residents.

In contrast, panchayats in Kerala are automatically entitled to 40 per cent of all state plan outlays, following a landmark decision by the Kerala State Planning Board a few years ago. The local community then decides the allocation of these funds across different sectors. From various accounts, this has energised local communities in Kerala, encouraging high levels of popular participation in the discussion and implementation of local development priorities. In some parts this has led to remarkably successful outcomes. Consider for instance the Manjeri municipality in the relatively backward district of Malappuram in north Kerala, which has not been characterised by a traditional industrial culture. In collaboration with some social groups and bankers, the municipal authorities succeeded in converting it into a booming hosiery manufacturing centre, after developing the necessary skills at the local level and the finance.[16] These and other award-winning panchayats in Kerala dispel the common presupposition that civic bodies in the villages and small towns of India do not have the capability to take the leadership in developing and facilitating skill-based small-scale and medium-scale industries. Of course there are also many instances in Kerala where the panchayats' attempts have been handicapped by a lack of expertise; as a result the funds were often spent on short-term populist or welfare projects, and less on asset creation.

The past two decades have also witnessed numerous experiments in democratic decentralisation throughout low and middle income countries (e g, in Philippines, Uganda, Brazil, Bolivia, Mexico), most of which have been characterised by substantially greater degrees of financial autonomy. In those countries local governments have been devolved a substantial chunk of state revenues on a formula-bound basis. This has resulted in a more even and equitable spread of expenditures across regions. It has also caused major shifts in the allocation of government spending in local areas, with greater resources devoted to social services (roads, water and sanitation, and education). The available evidence suggests that these shifts are in accordance with preferences of local residents, and less with those of state bureaucrats located in district or state capitals hundreds of miles away. Surveys in these countries also suggest a decline in the extent of corruption in the delivery of these social services, with a larger fraction of services reaching the intended beneficiaries.

This brings us to the other glaring limitation in the extent of devolution of authority to panchayats in West Bengal: primary education and health services, which still largely remain under various organs of the state government. In contrast, most other developing countries embarking on decentralised forms of governance have shifted authority over the control and supervision of local schools and primary health clinics to local governments. The need for a similar reform in West Bengal has been urged by a recent report sponsored by the West Bengal District Primary Education Project (DPEP).[17] This report points out that many other states in India (Kerala, Rajasthan, Uttar Pradesh, Bihar and Assam) have already initiated the transfer of authority of primary schools to zilla or gram panchayats. In West Bengal, however, primary and secondary schools remain under the authority of the District Primary School Councils (DPSCs, which form part of the West Bengal Board of Secondary Education), and various inspector bodies of the Directorate of Education in the state government.

The DPEP project report pinpoints the critical problem with the existing system: limited accountability of schools owing to insufficient local supervision and control. The problem with government schools is partly reflected in the tendency of people sending their children to private schools, if they can afford it. Even though the teachers are not necessarily more qualified, particularly in rural areas, there is less absenteeism and greater accountability. The problem is also highlighted by the experiment with Shishu Shiksha Kendras throughout the state. Initiated in August 1997, there are approximately 8,000 SSKs operating now. Each SSK is managed by a committee consisting of student guardians and gram panchayat members, and appoint teachers on a contractual basis. The Kendras are supervised by appointees of the zilla parishad. The scheme is now being extended (since March 2001) to Madhyamik Shiksha Kendras. Another recent development (following a West Bengal government notification in November 1999) is that every gram sansad is to have a Village Education Council (VEC) consisting of teachers, gram panchayat representatives, student guardians and community representatives.

Nevertheless, the DPEP report stresses the need to go substantially beyond these measures. They point out that the VEC and local panchayat bodies play no role with regard to control and supervision of the schools. The participation of the panchayat is confined mainly to such areas as building or extension of school infrastructure and procurement and distribution of textbooks. The formal primary education system is far too much in the control of uncoordinated and insulated bureaucratic bodies or institutions captured by large teachers' unions, often impervious to local community needs. The general perception of respondents in the study was that the SSKs were performing better than the formal primary schools because of greater local supervision and monitoring of teacher performance, in spite of the fact that the formal primary school teachers were better qualified and much better paid. Panchayat members often could do very little on public complaints about teacher performance in the formal system: their protestations to the office of the District Primary School Council and the District Inspector were hardly attended to.

It should also be stressed that these measures nevertheless allow a large number of regular teachers to continue being delinquent while drawing substantial salaries. This is neither fiscally sustainable nor justifiable on any grounds. The public education system should not become hostage to a group of unionised workers just because they are politically powerful. Moreover, the problem cannot be solved by using an alternative stream of informal, often under-qualified, teachers. These informal teachers will soon agitate for being regularised, thereby compounding the original problem. Decentralisation in the field of education cannot be effective unless and until the formal teachers are answerable to (and dependent for at least part of their salary on) local bodies in which parents of children are represented and have the authority to discipline delinquent teachers. If the legal and the administrative system are not up to the task in handling this problem, a popular campaign to identify delinquent teachers may be the only way out.

Other problems described by the DPEP report include lack of coordination between the different state bodies involved in control and supervision, and of resources available to these bodies for inspection of schools. Teachers complained about lack of suitable infrastructure and about being directed to ancillary duties not related to teaching (such as routine office work, election duty, etc). Local residents complained about teacher absenteeism and lack of accountability to students and their guardians. All of these problems result ultimately in high drop out rates especially between primary (Class I-V) and middle level

(Class VI-VIII) schools. In the survey carried out by the DPEP team, enrollment rates drop from an average of 80 per cent and above in primary schools to under 30 per cent in middle schools, with particularly low enrollment rates (between 16 and 18 per cent) for minorities at the latter level.

Accordingly the following reforms suggested by the DPEP report deserve to be implemented throughout the state. First, the VECs should be given the principal responsibility for control and supervision of schools. To avoid conflicts of interest, teachers should not be represented on the VEC. Instead they can serve on school management committees that are appointed by and report to the VEC. Second, the district inspectors should be placed under the zilla parishads and panchayat samitis, and their principal role should be redefined to provision of support and training. Similarly, the DPSC should be reconstituted as a specialised body responsible for training, evaluation and curriculum development. Third, teachers should be absolved from ancillary duties unrelated to teaching. Fourth, delivery of primary education, primary health, women and child-care services need to be coordinated in each village. Accordingly all functionaries involved in these services at the district level and below should be placed under the panchayats. Finally, necessary funds and training with regard to management of schools and health clinics need to be imparted to VEC representatives.

Such an initiative is urgently required to carry panchayati raj to the next stage. Such moves are already under way in other states. Given that West Bengal was a pioneer in this area, it is imperative that it not lag behind the rest of the country. A superior level of educational achievement is necessary not just to secure a fundamental human right for all citizens, but also to encourage adoption of new technology and declines in population growth rates.

A more dynamic role for panchayats in rural development will obviously necessitate an increase in the level of financial resources they have discretion over. At the moment the panchayats are largely dependent on the state and central government for their funding. The achievements of West Bengal relative to other states in decentralisation amount mostly to panchayats spending other peoples' money in a better or more effective way. Genuine decentralisation requires a much greater effort in mobilisation of own local-level resources, and in that respect no state in India has yet made much progress. Given the deep poverty of our rural population and the preponderance of low-productivity subsistence activities, a relatively self-reliant public finance at the local level will take many years to build. But even under this general constraint there are many ways some local resources can be mobilised and the culture of dependency on the outside world in rural self-governing institutions reduced. This also enhances accountability, as general citizens are more likely to be vigilant if the local government officials mismanage or steal their own money.

Following upon and extending the recommendations by the state finance commission, a reasonable number of taxes and fees (share of a modified agricultural holdings tax suggested earlier, some forms of stamp duty, amusement tax, education cess, user fees for some public services like water or roads or ferry ghats) can be earmarked for panchayats. Some projects may be largely funded by the state government, but include a provision for matching funds by the panchayat (extending the idea of the tubewell group discussed in the previous installment). All political parties look upon the local government as a part of a huge job-giving and patronage-distributing machine. The electoral advantages for an incumbent government in this respect are easy to see. But it is important to gradually shift the focus to asset creation as a well-defined goal of the local government (which in the long run can also be electorally advantageous). These assets should include infra-structural assets (such as minor irrigation or flood-control structures), human capital assets (primary and secondary education, public health and sanitation), and rural cooperative business development.

Increasing the finances and authority of panchayat bodies is of course likely to lead to corresponding abuses of power. Accordingly there is a need for more intensive and independent monitoring and auditing of the spending and assessment of panchayat performance, involving a combination of citizen bodies, representatives of higher levels of government, and NGOs. At the moment the auditing process is very weak (and much too delayed) at best. The mandatory meetings of the gram sabha, where major policies and items of expenditure are to be discussed can provide some salutary checks. But in many areas the attendance in the gram sabha meetings is rather thin and the requisite quorum is barely managed. Kerala has had a similar experience. It has often been alleged that panchayat funds are mostly spent on the favorite projects of influential members of the majority party in the area. Accordingly, members of opposition parties and other citizens do not think their attendance in gram sabhas serves any purpose. The perceived tyranny of the majority party is potentially a serious problem that may undermine the legitimacy of local democratic processes. It was for such reasons that E M S Namboodiripad, a passionate believer in democratic decentralisation, had originally argued for partyless elections to panchayats. While that may not be feasible or effective in the current context, it is important to install some institutional mechanisms to counteract the tyranny of whichever happens to be the local majority party. One idea is to replicate at the panchayat level the model of the public accounts committee system that exists in the Lok Sabha: appointment of opposition party members can be mandated to key local committees with some measure of veto power over large spending programmes.

Other Administrative Reforms

In the recent past the state government has initiated efforts to restore 'work culture' in public offices. This is a difficult but important task, involving adoption of new social norms and serious negotiations with the powerful public employees' unions. But such efforts are certainly important in restoring accountability to citizens among government employees. There is clearly a long way to go. No changes will be effective and sustainable until some well-defined and scrupulously enforced system of rewards and punishments is in place. The key problem is that productivity is difficult to measure in government offices. So simple mechanisms for linking pay to performance are difficult to devise.

In this connection, the Report of the Administrative Reforms Committee appointed by the government of West Bengal (chaired by Ashok Mitra and submitted in April 1983) had made a number of suggestions for reorganising state administration. Many of these have never been implemented. In employee promotion policy the committee had suggested several steps: (1) broaden the scope of promotion in order to give more incentives to employees now caught in low-scale dead-end jobs; (2) create an intensive system of training and instruction at all levels of administration to prepare candidates for the next level of administrative responsibility; and (3) introduce a system of quality assessment with equal weight given to seniority, the Open Performance Report or the Annual Confidential Report, and performance in an objective test set by an Examination Committee in consultation with the State Public Service Commission.

We also urge the need for well-publicised norms and rules of work discipline, agreed upon by the employers and the employees in a particular division, subject to approval of higher authorities. Workers regularly violating those rules and norms should be brought to the attention of an independent disciplinary committee vested with quasi-judicial powers to investigate those charges and penalise those found guilty. The penalties should include suspension, salary reductions, denial of increments and promotions, and in some cases compulsory retirement. The ruling party will acquire credibility in such disciplining if a few exemplary cases of punishment of such workers (irrespective of party affiliation) are brought to public attention. Without that all talk of work culture will remain empty.

Other procedural reforms could also help enhance accountability of governing authorities. The monopoly of particular officers in granting some permits can be reduced as far as possible, so that the same permit or license can be issued by different offices. Bonuses could be based on relative speed of disposal of files, subject to minimum quality standards. The Report of the Administrative Reforms Committee had suggested the following norms for departmental functioning: "Where no new policy decision or new project is involved, no file should be detained at a particular point beyond three working days and in a department beyond a fortnight. Where it involves an issue of policy or a new scheme, the time limit should be three weeks. In the case of interdepartmental reference, the time limit should be a fortnight for routine files and one month where interdepartmental discussion is called for". The statewide computerisation of government offices currently under way should allow a further reduction in these time norms.

It can hardly be disputed that there is rampant and institutionalised corruption at the middle and lower rungs of the government. Particular government departments (PWD, police, excise and municipal property tax, irrigation) and public procurement agencies should be targeted for special investigations, and some egregious cases and punishment of the guilty should be publicised. Corruption thrives when there is a general perception of pervasiveness of corruption. Again, some exemplary cases of punishment and keeping the campaign sustained (and blind to party affiliation) are absolutely essential to make a dent on the problem. This has to be supplemented by vigorous auditing, performance evaluation by independent bodies, scrutiny of large contracts and procurements, incentives to whistle-blowers, etc. The Report of the Administrative Reforms Committee had commented on how public complaints and grievances were handled with “a casualness, bordering almost on cynicism” – the situation has hardly improved since then – and suggested the setting up of Public Grievance Cells in each department as well as in each large-sized directorate and district administration. More important than setting up such cells is to activate them in a time-bound fashion and empower them or some other bodies to punish the guilty. As we have already discussed in connection with decentralisation, mechanisms of accountability to the local users of the public service in question are also important. The adoption of a Freedom of Information Act (much stronger than the toothless one proposed at the centre), and involving non-party NGO’s in acting as watchdogs of government performance are essential. Unlike some other states in India, party politics in West Bengal does not give enough space to NGO’s often depriving the local citizenry of their important performance monitoring functions.

Corruption is usually defined as the use of public office for private gain. A related but wider problem that afflicts the public economy of West Bengal is blatant privatisation of public space in various forms. The examples around us are simply too numerous and manifest: unauthorised occupation of space and beds in public hospitals and in student hostels, unauthorised structures in public spaces (whether for a union office or a place of worship), undue use by doctors of medical equipment and publicly paid time for their private practice, use of public schools and colleges by salaried teachers mainly to tap potential candidates for private tuition, unauthorised connections to public electricity lines and landfills of public waterbodies by promoters and the real estate mafia in cahoots with party bosses. They represent an insidious privatisation that has become entrenched over the years. Confronting the thick layers of related vested interests will be a politically challenging task for any reform-minded leader.

V
Conclusion

In this article we have reviewed some of the critical areas of economic policy in West Bengal, highlighting the most important areas of concern, and suggesting policy directions for the future. Given that the new chief minister has expressed serious interest in economic reform, we hope our discussion will not only stimulate public debate but result in action. Even in areas where reform may be difficult, it is important to identify the key problems and recognise that they exist. Our discussion has been motivated by this pragmatic need to confront the facts as they are and to get the state’s economy moving again.

Most of our policy discussions have been guided by a widely accepted conceptual framework in which market and state institutions are viewed as mutually reinforcing, rather than as substitutes for one another. Development in a market-based economy requires appropriate state provision of infrastructure and regulatory systems, absence of chronic deficits in public finance, widespread access to quality education, measures to reduce poverty and creation of safety nets for the vulnerable. With regard to industrial revival we have accordingly stressed the role of public investment in transport and communication, public encouragement and sponsorship of technology and education, and specific measures to promote small scale industries that overcome market imperfections (in credit, technology access and distribution channels). In the government’s finances we have urged the need for the government to raise more taxes particularly from the service sector, and rein in its revenue expenditures in line with revenue receipts. In agriculture we have highlighted the role of the government with regard to biotechnology, extension services, irrigation, flood control, and regulation of contract farming. We have also suggested a wide range of administrative reforms to widen and deepen the scope for decentralisation, improve delivery of social services and enhance accountability.

Embarking on all these policy initiatives will surely be a challenging task in the short run. Our hope is that they will help define the main directions for economic policy in the medium to long term. Considerations of administrative and political feasibility have played an important role in our thinking: the policies we have suggested are already being undertaken in some other Indian states and other developing countries. We have also tried to make suggestions that have the prospect of commanding a reasonable consensus within the state. This may mean that we are sometimes stating the obvious. But it is worthwhile to continue re-stating them until they become part of a commonly accepted policy platform, irrespective of whichever party happens to be in the government.

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Notes

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1 Source: *World Development Report, 2000/2001*, Table 11 and I J Ahluwalia, *Industrial Growth in India: Stagnation since the Mid-Sixties* (OUP, 1985) Table 2.3.
2 See Budhdhhadeb Ghosh, Anandabazar Patrika, May 10, 2001.
3 Sudip Choudhury and Anindya Sen, 'Report on Industrial Sickness in Eastern India', mimeo, Indian Institute of Management, Kolkata, 2001.
4 P Lanjouw and M Ravallion, 'Benefit Incidence and the Timing of Program Capture', Working Paper, World Bank' 1999. The states ahead of West Bengal were Assam (62.7 per cent), Gujarat (60.4 per cent), Haryana (53.3 per cent), HP (79.5 per cent), Karnataka (59.9 per cent), Kerala (83.8 per cent), Maharashtra (63.2 per cent), Punjab (71.2 per cent) and Tamil Nadu (74.6 per cent). A recent report prepared on behalf of the WB government (*The Status of Primary Education in West Bengal* by R Chattopadhyay, S Chaudhuri, S K Ghosh, A K Sen, and V N Reddy) puts the net enrollment rate for West Bengal at 50.7 per cent, which is slightly lower than the above estimate.
5 See the report in *Anandabazar Patrika*, June 12, 2001.
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