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IDEAS, INTERESTS AND INSTITUTIONS IN POLICY CHANGE:

A COMPARISON OF WEST BENGAL AND GUJARAT

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The shift from state-led[1] to market-oriented economic policies has been one of the most important changes in the developing world in the past two decades. India, a historic frontrunner of a state-led strategy initiated economic reforms in 1985-1991. In July 1991, this policy shift went far beyond the stabilization measures necessitated by a balance-of-payments crisis, encompassing both the external sector (for example, trade, foreign investment, and technology transfer policies) and domestic reforms (for example, licensing, competition policy, and microeconomic interventions). Thus, the reforms of 1990s, in contrast to the "half-hearted"[2] liberalization of the mid 1980s, have systematically modified the existing trade, industrial, investment, and macro-economic regimes.[3] Economic policies, institutions, and ideas about the proper role of states and markets have all undergone a fundamental transformation.

This comprehensive change in economic policy had surprising consequences. India's federal constitution assigns primary responsibility for industry, trade, and investment policy to the central government, and yet policy changes initiated by the center were accompanied, followed and in some cases even preceded by, regional-level policy initiatives.[4] Ms. J. Jayalalitha, the then chief minister of Tamil Nadu, announced a new industrial policy on July 4th 1991.[5] She presciently declared that while the first stage of the center's new economic policy – de-licensing and deregulation – was relatively straightforward, the second stage, "the creation of the right conditions to foster rapid growth" would be much more difficult. She noted that the second stage would require a greater role for state governments in accelerating the provision of infrastructure and ensuring a more participatory and labor-intensive growth.[6] Subsequently, chief ministers from diverse political parties launched liberalization campaigns, travelling to Europe, North America, and South East Asia in an attempt to attract investors on the merits of their states.

Given the centralizing tendencies in India's federal relations, observers have been surprised by the sudden zeal of state governments in seeking to re-regulate the post-1991 central policy framework.[7] It is plausible to argue that liberalization in India amounted not to deregulation but to the reordering of state-market relations mediated by subnational re-regulation strategies and processes).[8] Vikas Kasliwal, a director from S. Kumars, a textile firm in India echoed this assessment:

> Most of us who have been dealing with the corridors of power in Delhi for the past 10 years, probably now feel that the visits to Udyog Bhavan [Ministry of Industry, Central government] have declined dramatically, may have even disappeared . . .But, unfortunately the visits and the interaction required with the state governments and the district authorities has in fact gone up dramatically. This is something very funny and I think academicians need to study why this is happening. *Why is deregulation at the Center leading to increased regulation at the state[level]?*[9] (Italics added).

This paper analyses subnational re-regulation after liberalization by examining how elites of two very different states –Gujarat and West Bengal – pursue pro-reform policies and launch their own re-regulation agendas in response to central policy changes.[10] Certain contrasting outcomes across the two states – the level and composition of industrial investment – are also puzzling. West Bengal and Gujarat have both attempted to evolve pro-investment policies after 1991. However, while Gujarat attracts a very high share of industrial investment, West Bengal continues to attract a very low share of total investment. Gujarat has attracted around 10.6 *times* the actual investment in West Bengal for the period August 1991 to September 2003. The composition of investment – foreign versus domestic – shows an unexpected pattern: West Bengal has managed to attract a higher amount of foreign investment in the aggregate. These two states reveal significant differences in investment patterns despite similar re-regulation agendas and partially similar pro-liberalization policies.

What accounts for this variation across these two regional states? This chapter assesses the role of several factors in order to answer this question, including those related to industrial structure, climatic conditions, demography, relations with global markets, and the role of the political environment. Economic variables related to risk of investment, infrastructure and the nature of demand emerge as especially important. Variations in risk and infrastructural conditions explain a good deal of the difference between the level of investment flows (domestic and foreign) to these two states. Nevertheless, even after some of the variation is accounted for by these factors, much of the difference remains unexplained. For example, West Bengal has shown rapid agricultural growth in the late 1980s and 1990s, increasing demand for industrial investment; and yet industrial investment continues to lag behind, even in rural areas, where one would expect to see increased investment in this period. The role of infrastructure in influencing investor decisions is not absolutely linear. The infrastructural index of Kerala has been extremely high (the highest among all states); yet investors are reluctant to invest in Kerala.[11]

Given these anomalies, this chapter assesses the extent to which variations in risk for investors, the net material benefits obtained by economic actors, and investors' choices are affected by a state's policies, the political support of societal actors, and prevailing institutional conditions. Recent theoretical developments in neo-institutional approaches emphasize the need to analyze political and institutional factors, which may affect more surface level behavioral factors like risk, credibility of policies, and investors' choices.[12] Thus, a degree of modesty is called for in analyzing the relative importance of both economic and political variables; these explanations may not be contradictory but complementary to each other.

It must also be recalled that the macro deductive logic of the growth process (measured in terms of the state domestic product or industrial growth rates) does not reveal what capital really wants from the state. An ethnographic analysis of investors' decisions may show that expectations about risk and credibility on the part of investors are not pure cost-benefit calculations about profits, but are mediated by micro-institutional conditions and what may be characterized as the "feel good" factor, which, in turn, is affected by the extra policy effort initiated by a maverick leader or policy maker.

If this is true, then, political factors such as policy outputs, innovative signaling, and institutional differences will affect concrete investment decisions even when the economic logic may suggest otherwise. The three surveys conducted by *Business Today* from 1996 onwards show that, over time, governance has acquired an enhanced role as a determinant of investment in so far as it affects perceptions of business actors.[13] In these surveys, investors repeatedly insist that "state government support" continues to be a "fundamental" parameter affecting location decisions, and institutional variables like "law and order," "quality of administration," and "quality of work culture" are also very important.[14] All of these considerations strengthen the analytical focus of this paper on how political and institutional factors interact with economic dimensions to produce divergence across regional states.

Case Selection

West Bengal and Gujarat are interesting cases to compare. In choosing these two states, I employ the "most-different systems design" which can be employed to compare the processes and mechanisms of a similar policy adopted by very different states. In contrast to the convention of choosing similar cases, the "most-different system design" makes it possible to study the manner in which a similar policy or process works out and is adapted in very different contexts. Tarrow describes the advantages of the "most-different systems design" thus,

> By stretching the boundaries of paired comparison to more-different kinds of system the analyst need not loose the advantages of context-rich comparison . . . but can identify causal mechanisms that repeat themselves across broad ranges of variation and concatenate differently with other mechanisms and environmental factors.[15]

Structural adjustment policies and liberalization are received very differently in variable contexts; subnational variation within India offers the ideal context to analyze how a common global policy takes a variety of forms as it intersects with *different* environmental and political processes. This methodological approach is especially helpful for process-oriented analysis, in order to explicate and trace the paths of common policies from different starting points.[16]

In 1991, when the central policy of liberalization was announced, these two states differed substantially in terms of policies, parties in power, economic structure and institutions of industrial governance. Politically, various factions of the Congress party have ruled Gujarat in the 60s, 70s and 80s; in the 1990s it is ruled by the BJP. Political instability has been endemic to the state. West Bengal, in contrast, is ruled by the stable CPM-led Left Front Government since 1977. Despite these pre-existing contrasting patterns, regional elites in both states sought to utilize the liberalization agenda for their own re-regulation ends. Both states sought to involve the private sector in their economies; both ran advertising campaigns and investment attraction trips abroad. Incentives were used in both cases to attract investors; they even visited each other states to learn from each other's policy innovations. How do these common policies and *similar* re-regulation agendas interact with political, institutional and politico-economic *differences* that exist in the two states? Do policies matter?

This state-level analysis has implications for theoretical paradigms used to evaluate India's development experience. A long-standing critique of India's developmental trajectory has argued that policy frameworks have definite consequences. India's license-quota-permit-*raj* [rule] generated adverse incentives for both investors and bureaucrats; a change in policies, it is suggested, would have definite positive consequences. An analysis of two states within India, by explicating how similar policies work differently in two regional states, helps us to understand how neoliberal policies become embedded in different contexts. Neoliberal theory argues that most developing nations pursued anti-market policies in the 60s and the 70s having adverse impacts on their economies; this comparative analysis of change in policy allows us to evaluate if horizontal competition, a product of globalization, produces convergent tendencies in policies, institutions, and outcomes as well. Post-liberalization intra-national comparison offers an ideal laboratory for such an analysis: the national political context is uniform for sub-national economies yet the central state is far less active in protecting regional states against international pressures allowing us to observe the expected impact of competition within a relatively controlled environment. A deeper analysis of this regional contrast might also yield some insight into whether and if so how, regional inequalities are being reproduced within India despite the convergent intentions and policies of individual states.

Approach and Argument in Brief

Central policy changes in the 1990s and new external constraints re-create political incentives for subnational politicians to re-regulate industrial policy. Subnational liberalization policies within India are driven by strong developmental and decentralization imperatives. I argue that despite this common impetus the pattern of liberalization is shaped by regional institutional capacities, political economy dynamics, and societal responses.

This argument is generated by an analytical approach that examines the interaction of ideas, interests, and institutions in the implementation of economic policy reforms in the two states. I adopt a "structure and process approach" to the study of policy reform which examinees how both structural variables like socioeconomic interests and proximate variables like policies, ideas, and institutions interact to affect the process of liberalization. I also incorporate an analysis of how parties make choices about economic policy changes. Such an analysis, which explores the interaction between interest articulation, governmental partisan economic strategy and electoral compulsions helps to bridge the familiar yet unproductive divide between students of comparative political economy and parties and elections.[17] Studies of policies and of policy changes in India usually analyze how policy variance depends on economic conditions and interest articulation,[18] while political sciencists analyze aspects of coalitional and political alignments but rarely place the parties' strategic choices, electoral coalitions, and their political fortunes within changing political-economic conditions and policy dilemmas.

Some definitional issues must be clarified first. Ideas can be defined as mental maps that allow actors to give meaning to their so-called objective interests. Given the focus of this study I focus on ideas embedded in policies; I also attend to the overall discursive structure within which a certain policy – for instance private-sector versus public-sector led policy – is framed by politicians. Institutions are defined as rules of the game and procedures that structure expectations about possible consequences; they can be both formal and informal. In this paper I focus on formal institutions, specifically the various industry-related state agencies, but with some attention to how they actually work in practice.[19] Interests refer to material interests of social or economic groups. Economic policy changes may create two types of groups: winners and losers. It is their *responses* and their *strengths*, which are crucial in shaping the pattern of the resulting regulatory framework in a particular state.

To anticipate the main argument of the paper, I show that despite a partial convergence in *policy design*, the two states – West Bengal and Gujarat – reveal very different investment outcomes. These are explained largely with reference to their sharply differing *institutional* and *political capacities* for dealing with the onerous task of re-regulation. Thus, while the ideological difference in economic policy between the two ruling parties -- BJP in Gujarat and the CPI(M) in West Bengal -- have been reduced through a competitive dynamic to attract investment, the institutional and political economy factors at the state-level lead to divergent patterns of investment and even more crucially, differences in the way ideas about liberalization interact with societal responses and group interests.

Thus, a comparison of the two states reveals, first, that a horizontal competition let loose after 1991 has reduced the range of policy divergence witnessed before 1991 between different parties, and second, that policy convergence has less effect on economic outcomes than supposed; rather institutions and responses by political organizations continue to bias the result against West Bengal. Coalitional alignments and institutional legacies of the pre-liberalization period prove consequential in this dynamic between policy change, institutions, and political interests.

The evidence presented in the paper shows that despite significant changes in the policy landscape and the external constraints facing the two regional states –abolition of the licensing constraints – an analysis of state-level economic reforms must not be ahistorical. I argue that the subnational institutions governing industrial regulation in the license-*raj* period shape the nature of institutional effectiveness in the post-reform period as well. Equally significantly, the interests various societal groups acquire, and the alliances formed during earlier periods of conflicts may persist over time and the outcome of the earlier struggles will have enduring consequences for later patterns of subnational adjustment. The following table lays out the building blocks of the argument.

Table 1: The Logic of Subnational Liberalization in Post-1991 India

	West Bengal	Gujarat
Policy Orientation of the State Government	Pro-Liberalization	Pro-Liberalization
Institutions of Industrial Governance	Weak	Strong
Societal Responses	Partisan i.e. seek to defeat the project	Participatory i.e. seek to participate in the project
Strength of Societal Groups Winners (of liberalization policies) Losers (of liberalization policies)	 Narrow Base Strong and Organized links with the ruling political party	 Dispersed Base Weak with no organizational link with any political parties
Resulting Re-regulation Framework	Fragmented	Coherent
Investment Flows	Low	High

This paper is divided into four sections. Section I outlines the regional pattern of investments in the post-1991. Section II discusses the policy shifts in West Bengal and Gujarat.

Comparative institutional analysis in section III reveals the role of institutional legacies of the pre-1991 period while Section IV focuses on the role of economic interests and the logic of political coalitions in the two states.

I. Regional Variation in Investment Patterns

Liberalization affects the rate of investment directly. How do we assess its regional patterns? It is possible to infer the extent of investment in a state from the Ministry of Industry data on investment proposals (domestic and foreign).[20] The data on investment "proposed" shows that a few regional states disproportionately capture a larger share of proposals. There is a definite regional pattern with the two western states, Maharashtra and Gujarat, absorbing more than 1/3rd of the total investment proposals from 1991 to 2003, while their share of India's population is 14.3 percent. West Bengal receives a relatively low share of total proposed investment: a mere 2434 proposals for a share of 3.85 percent of all-India investment. The following table gives the state-wise picture.

Table 2: State-wise investment data

Name of State	IEM +LOI (Number of Proposals)	% of All India Proposals	Investment (Rs. Million)	% of All India Investment
Maharashtra	10232	19.9	2426410	21.11
Gujarat	6483	12.61	1889160	16.43
Tamil Nadu	4786	9.31	702540	6.11
Uttar Pradesh	4553	8.86	776290	6.75
Andhra Pradesh	3613	7.03	1258110	10.94
Haryana	3097	6.02	336130	2.92
Rajasthan	2451	4.77	409730	3.56
West Bengal	2434	4.73	442220	3.85
Punjab	2312	4.5	538970	4.69
Madhya Pradesh	2097	4.08	449760	3.91
Karnataka	2086	4.06	557150	4.85
Dadra and Nagar Haveli	1520	2.96	217650	1.89
Daman & Diu	704	1.37	42690	0.37
Chhattisgarh	627	1.22	378180	3.29
Kerala	528	1.03	105540	0.92
Pondicherry	523	1.02	79970	0.70
Goa	504	0.98	69940	0.61
Delhi	490	0.95	65190	0.57
Himachal Pradesh	455	0.88	98580	0.86
Orissa	414	0.81	301640	2.62
Jharkhand	357	0.69	111090	0.97
Uttaranchal	341	0.66	63820	0.56
Assam	244	0.47	79160	0.69
Bihar	171	0.33	44680	0.39
Jammu & Kashmir	145	0.28	12020	0.10
Meghalaya	123	0.24	14440	0.13
Chandigarh	38	0.07	4580	0.04
Tripura	20	0.04	18790	0.16
Arunachal Pradesh	13	0.03	1530	0.01

Source: Calculated from Secretariat of Industrial Assistance, Ministry of Industrial Development, *SIA Statistics,* Government of India, May 2003.

A more disaggregated picture may also be needed. The following table presents the per capita data on investment as well as shows the two routes through which proposals are admitted after 1991.

Table 3: Total Proposed Investment and Per Capita Proposed Investment (August 1991-January 2003)

STATE	IEM (Number)	IEM Investment (Rs. Million)	LOI (Number)	LOI Investment (Rs. Million)	Total Investment (Rs. Million)	Per Capita Investment (Rs. Million)
Gujarat	6058	1681860	425	207300	1889160	37409.1
West Bengal	2348	402430	86	39790	442220	5513.9

Source: Computed from, SIA, Ministry of Industrial Development, *SIA Statistics*, Government of India, May 2003 and Census of India, 2001. The population of Gujarat in 2001 was 50.5 million and that of West Bengal was 80.2 million.

Note: After 1991, investment proposals are made through two routes: Investment Entrepreneur Memorandum (IEM) and Letters of Intents (LOI). The LOI route refers to those industries, which need a governmental license (for example defense related industries) while the IEMs do not require a license.

This picture of investment intentions needs to be complemented with an analysis of *actual* investment flow. Between 1996-1999 the ratio between proposed and implemented investment ranges between 59 percent to 51 percent in Gujarat, while in West Bengal, it is only 35 percent to 32 percent. This can taken to be the ratio of implementation for the post-1991 period.

Table 4: Ratio of Implementation (Investment Under Implementation/Proposed Investment) (Percent)

States	April 1996	April 1997	April 1998	Jan 1999
Maharashtra	49.5	44.3	52.1	50.2
Gujarat	59.8	56.6	54.1	51.9
West Bengal	35.0	37.2	36.6	32.8
Tamil Nadu	23.9	25.4	21.2	17.3
Kerala	20.8	17.3	16.3	15.30

Source: CMIE, *Survey of Investment projects: Overview*, Feb 1998, p, 5 and November 1998, p, 10 and *Monthly Review of Investment Projects*, February 1999, p, 13.

This ratio allows us to reinterpret the proposal data outlined above and calculate the actual investment flows in Gujarat and West Bengal.

Table 5: Actual Investment for West Bengal and Gujarat (August 1991-January 2003)

	Average Ratio of Actual Investment to Proposed Investment (1996-1999)	**Actual Per Capita Investment (Rs. Million)**	Ratio of Gujarat to West Bengal Actual Per Capita Investment
Gujarat	55.4 percent	20724.6	10.6 Times of West Bengal
West Bengal	35.4 percent	1951.9	

Source: Author's calculations from the SIA and CMIE Data (above tables)

These calculations confirm that Gujarat and West Bengal attract divergent investment flows. The distribution data regarding the ownership of investment (foreign versus domestic) across these two regional states reveals a more complicated picture with West Bengal attracting a higher share of aggregate foreign investment proposals than Gujarat for the period 1991-1997. This data on foreign investment intentions may reflect the relative success of West Bengal's aggressive policy towards foreign investment evident after 1994 (see below). Thus, on the question of foreign investment, the extraordinary effort by regional states such as West Bengal seems to have paid off with its share of foreign investment proposals being closer to Gujarat's share.

Table 6:
FDI Proposals State-wise (August 1991-January 1997)

	Number of Projects	Investment (Rs. Million)	Percent (Share in All India)
Maharashtra	1355	12,6764	12.5
Gujarat	548	3,7625	3.7
West Bengal	271	5,2495	5.2
Tamil Nadu	812	5,4680	5.4
Kerala	104	5209	0.5
Andhra Pradesh	439	2,5113	2.5
Bihar	69	1307	0.1
All India	10,359	101,4940	100

Source: CMIE, *Monthly Review of Investment Projects*, February. Bombay: CMIE, 1999, p. 33.

Table 7:
Foreign Investment -- Proposed and Actual (August 1991-January 1997)

States	FDI proposals Per Capita (Rs. Millions)	Actual FDI Flows Per Capita (Rs. Million)
Gujarat	917.6	508.3 (1.8 times)
West Bengal	771.9	273.2

Source: Author's Calculations. I use population figures for 1991 for calculations in this table.

Thus, the pattern of emergent regional divide is clear vis-a-vis aggregate investment flows but reveals a somewhat complex picture in terms of its ownership pattern. Total investment patterns show a clear superiority of Gujarat in attracting investment yet West Bengal does unexpectedly well (or not as poorly as in domestic investment) in terms of foreign investment. What explains this pattern? The ruling Left Front in West Bengal has traditionally been opposed to foreign investment and has relied heavily on public sector investment. What explains the extremely low amount of total investment flowing in West Bengal relative to Gujarat? Are changes in policies evident in post-1994 West Bengal able to explain these patterns? The rest of the paper addresses some of these puzzles.

II. Policy and Ideational Shifts in West Bengal and Gujarat

In 1991-1992 when the Congress regime at the center introduced structural adjustment and liberalization measures, political parties of different ideological hues ruled West Bengal and Gujarat. In Gujarat the BJP supported a non-congress government enjoying state power for the first time, while the CPI(M)-led Left Front was in power in West Bengal. This party disharmony across central and regional levels would suggest that conflicts over economic policy would increase. The national CPI(M) came out strongly against what they described as 'IMF dictated" economic policies. Following this assessment, the West Bengal State Committee of the CPI(M) was expected to launch strikes, protests and rallies against central policies. The BJP was espousing its policy of economic nationalism: Swadeshi (Made in India). Moreover, in Gujarat, given the nature of party competition in the state, where the ruling coalition made up of BJP and the Janata Party faced the Congress party as its main competitor, one would have expected some amount of policy differentiation vis-a-vis the Congress party's policy framework.

Despite these expectations of policy divergence away from the central policy of liberalization, regional elites introduced their own "liberalization policies" announcing greater role for private sector-led development and avenues for the participation of foreign investment. These were followed by institutional and administrative changes –one-window clearance agencies, for example –

as well as discursive shifts in the way policies were framed in the public realm. The Government of West Bengal announced in 1994, "We need to accept conditional private participation for a quick qualitative change of our industrial and social infrastructure."[21] Gujarat officials declared: We [in Gujarat] must compare ourselves to the Asian Tigers . . .In five years hopefully we [Gujarat] will be ranked among the newly industrializing countries."[22]

How do we understand these convergent policy changes? Did they contribute to the investment patterns outlined above? Did they respond to state-specific policy dilemmas adequately? In this section, I argue that these policy shifts reflect attempts by subnational elites to evolve their own re-regulation agendas in the face of central policy changes and external pressures. While the immediate stimulus for new regional policies came from the central (and global) level and was therefore external, each of the states evolved their policy framework in order to respond to region-specific policy dilemmas. This shaped the specific manner in which the new policies were "framed," and the intensity and scope of the specific policy components adopted. Thus, policy convergence co-existed with important differences in the discourse and scope of liberalization policies across the two regional states; these differences are a product of regional (specific to the state) pressures and dilemmas rather than extra-regional compulsions. The story of state-level liberalization within India must be a combined account of how the internal (region-specific) constellation of discourse and political and economic forces not only "accommodate the externally pushed change but, far more actively, also pulls it in and shapes it."[23] Thus, the analytical approach to understanding liberalization in large, internally differentiated countries must go beyond a top down perspective to incorporate a bottom-up interaction-oriented perspective.

West Bengal: Policy Shifts and Ideological Turnaround

Social democratic parties like the CPI(M) are confronted with a "policy-change dilemma" in the face of neoliberal challenges not faced by centrist or right-wing parties: How to modify the core commitment of its partisan and ideological agenda toward public sector-led industrialization and redistributive economic policy strategies without loosing its core support base – the public sector workers and agrarian peasants. This dilemma is even more troubling in democracies as left-of center parties may be electorally punished for such policy shifts by their traditional supporters. In 1995, the ruling Left Front in West Bengal (India) lost the municipal and corporation polls soon after it announced its new industrial policy (1994) as it went "against the pro-labor image of the Left Front government."[24] This "policy change" dilemma is resolved differently by different labor-based parties: Some turn reformist and persevere with market-oriented policies as the PSI in Italy, the PS in France, and the Spanish Socialist workers party; others, abandon the market liberalizing program or never endorse it (Chilean Communists and the national wing of the CPI(M) in India).

In West Bengal, the ruling political party, the CPI(M) initiated politically risky policy shifts in favor of private, foreign and even multinational investment in the early 1990s. In 1994, a new policy regime – policies and institutions – came into being in West Bengal. It included a new emphasis on involving the private and foreign sector in the state's industrial development, provision for incentives, infrastructural and governmental support for the development of the private sector, and institutional changes to implement the new policy intentions. Some of these shifts had begun during the earlier regime, in 1985, in a fragmented form. In 1994, a new policy statement, institutional changes, and systematic governmental attention encompassing most departments of the government heralded a systematic policy shift.[25] In contrast, the till then operative policy statement of 1978 had declared,

> The major goals of the Left Front government over the longrun should be: (a) reversal of the trend towards industrial stagnation, (b) arresting the growth of unemployment and providing for increased employment in the industrial as well as agricultural sectors, (c) encouraging the growth of small and cottage industries, (d) *lessening* the stronghold of the [domestic] monopoly houses and multinational firms on the economy of the State, (e) the gradual expansion of the public sector, and (g) increasing the control of the actual producers, that is workers, over the industrial sector. . . There *can be no question of allowing new* multinational units to come in. . .Till now the joint sector has been a mere cover for expanding the jurisdiction of private enterprises with the help of public funds. This situation must change, but the prior condition for that is an effective and *ideologically oriented public industrial sector "(Emphasis added).*[26]

After an intense debate within the party and consultations with the business community, the Government of West Bengal issued a new policy statement in September 1994, which outlined the government's priorities in favor of private sector and foreign investment. In contrast to the 1978 policy where inviting new foreign investment was explicitly forbidden, the joint sector condemned, and the public sector visualized as the commanding height of the regional economy, the new statement announced:

> The State government welcomes foreign technology and investment, as may be appropriate, or mutually advantageous. While the state government considers the government and public sector as an important vehicle for ensuring social justice and balanced growth, it recognizes the importance and key role of the private sector in providing accelerated growth. . . [T]the state government would also welcome private sector investment in power generation. Alongside the public and private sector, the State government looks upon the joint and assisted sectors[27] as effective instruments for mobilizing necessary resources and expertise in important areas of economic activity.[28]

Involvement of the private sector in the infrastructure sector, growth centers, and even in social infrastructure like education, health and hospitable became governmental policy for the first time.[29] Institutional changes involved the reorganization of the West Bengal Industrial Development

Corporation (WBIDC) and the upgradation and revival of an escort service within the WBIDC, the SilpaBandhu.[30] Jyoti Basu, the then CM of the state, explained his stance on the central policy of liberalization:

> In 1991 the New Economic Policy of the GOI [Government of India] was announced. While disagreeing with many items in this policy we welcomed its two aspects, viz. the de-licensing and discontinuance of the freight equalization scheme . . . With the removal of regulation and controls, we have got the opportunity to plan for the industrial development of our state. In this new situation, we are making efforts to restore West Bengal status as a leading industrial state . . . We have made it clear that our government has no hesitation in welcoming foreign technology and investment in selective spheres and on mutually advantageous terms. Since the "mixed" economy has been in operation in the country, the public sector, the private sector, and joint sector are required to play their required roles. As a state government, we are to function within its economic milieu and therefore endeavors need to be stepped up for all concerned quarters to bring about the industrial resurgence of West Bengal.[31]

Simultaneously, the chief minister appointed a senior CPI(M) leader – Somnath Chatterjee – as the chairman of the WBIDC, who was given a free hand to evolve the state's new policies and plan for the industrial development of the state. Underlying these institutional and policy changes lay a more subtle change in the political balance of power between the governmental and party wing of the CPI(M) in the state. WBIDC under the chairmanship of Somnath Chatterjee was accorded significant autonomy vis-a-vis the political party and the CITU. Its authority came directly from the chief minister's office, which meant that party pressures would have to contend with the CM. An empowered Committee headed by the chief secretary and other departmental secretaries was also established to "arrange for time-bound decisions in respect of investment proposals and clearances required."[32] The WBIDC's power vis-a-vis other state agencies expanded as it became the nodal agency to coordinate the liberalization policy of the state.

While a surface level reading of the new policy document may reveal that a pro-private sector policy was ridden with qualifications,[33] reflecting continuity with pre-1994 policy goals of the Left Front, it is also clear that the policy announcements and state actions combined represented a radical shift in the public *discourse* of the ruling party, the CPI(M).[34] Even traditionally anti-left newspapers in West Bengal such as the *Telegraph* and the *Statesman* recognized the radical nature of the shift given the historical commitments of the Left Front from 1977- 1994 and even more crucially, the continuing anti-liberalization stance of the national wing of the CPI(M).

Studies of liberalization usually focus on policies in terms of objective output and policy instruments. Yet, equal attention must be paid to the way in which these policy changes are framed within the discursive moral economy of the state.[35] Rodrik suggests that the source of the credibility problem for reforming governments may be asymmetric information. The government has "private" information about its policy intentions but economic actors affected by governmental policy are unable to assess the seriousness of policy reform initiated by the government leading to a credibility crisis and hence indifferent responses to the government's policy change.[36] In such a situation of asymmetric information, the government will have to signal its pro-liberalization commitments aggressively. Achieving credibility requires a larger policy reform, "going overboard," than would have been dictated in the absence of the credibility problem.[37]

In a similar way, the government of West Bengal faced a peculiar problem not confronted by subnational elites of non-left parties (for example, in Gujarat). There was a widespread credibility skepticism among the public and the investors about its policy intentions given its earlier strong commitments against a private sector-led economic strategy. Thus, the selling of the state as an attractive location for investors became even more important for West Bengal given asymmetric information about its intentions and the resulting credibility crisis. The government needed to assure many societal sectors that its *policy change* commitment was credible and long-lasting.

How did the state government deal with this credibility crisis? The major component of the “selling of West Bengal” was to disabuse most people of their earlier impression of West Bengal and of Calcutta, an impression that was consciously cultivated during 1977-1989. As Somnath Chatterjee put it:

> The most serious problem is one of image -- an image that nothing happens in West Bengal, nobody works here, there’s no power, no water, and the government is run by the Mafia, the industrial sector is full of all sorts of irresponsible people. That’s the image that has been very assiduously created [by the press and Center]. . . Even now, even three, four, or five years’ back. There was deliberate action on the part of the Centre to deny licenses, persuade people to move people from here. . . But I say, forget the past, except to learn from the past. We have hopes for the future and we have to work for it.[38]

The government of West Bengal attempted to resolve “this credibility problem” in very specific ways. Initially, policymakers and politicians focused on changing the reputation of the Left Front government by signaling its seriousness in pursuing reforms. Somnath Chatterjee and other members of the government had till then avoided the mainstream press labeling it “bourgeois.” In the post-1994 period, Somnath Chatterjee directly courted the mainstream press giving numerous interviews to explain his government’s volte face.[39] In an interview, Chatterjee’s explicitly noted the need for "larger" and "stronger" reforms, given the credibility problem:

> [U]unfortunately there is still the feeling among a section of the industry: Why should we go to a communist-led state? This should prompt us to be *more* aggressive in projecting West Bengal. We must attract private capital. I don’t see any alternative. Where is the money?[40] (*Italics added*)

The volume of interviews and press statements after 1994 were intended to make available detailed information about the government’s intentions and decision-making procedures. Most significantly, the state government not only instituted new policies and new institutions of liberalization but was also compelled to change the discursive frames through which most people viewed the government's economic programs. It was a struggle not only about policy outputs but a struggle over cognitive frames through which their actions were interpreted. Implementing liberalization policy by a social democratic party at the subnational level, thus, involved walking a fine tightrope of not only convincing industry of their credible intentions but also of convincing a skeptical public that the new policy allowed West Bengal to liberate itself from New Delhi's centralist policies. Thus, the Left Front framed its policy change to the regional population not as a caving in to the dictates of New Delhi or to the neoliberal orthodoxy but as a policy of regional autonomy.

While the struggle over the meaning of a Left-oriented ideology especially in the minds of the investors and the public was a indispensable element of the policy change in West Bengal, the "reformers" within the party also had to convince the "hard-liners" within their party and reluctant alliance partners in the government. This was done in diverse ways. To the national politburo of the CPI(M) based in New Delhi, Basu invoked the TINA [There is no Alternative] argument. He defended the paradigm shift in Bengal by arguing that the regional state cannot go against the "pulls of the market economy which the center has ushered in with the endorsement from parliament. We are not a republic, so how can ignore the policies set by New Delhi?"[41] To his fellow party men in West Bengal, Basu suggested, that they should make a virtue out of a political necessity. According to Basu, the ruling CPI(M) had exhausted the political windfalls of the "rural strategy" and the CPI(M) will loose politically if its does not focus on industrial revival.[42] He therefore urged them to make industrialization itself an electoral issue and carry the issue of industrial revival of Bengal to "the hearts and minds of the people."[43] More recently, the newly elected CM of Bengal -- Buddhadeb Bhattacharjee – defended the invitation to Microsoft as economically necessary:

> Yes, I know Microsoft is an American company. But we are being forced to accept their help. We need that help in areas in which we don't have expertise. . .But there were areas where the Left would not follow the Centre. We will try to find ways of keeping the public distribution system afloat even if the Centre chooses to discontinue it.[44]

For the investors, the state government after 1994 launched a massive advertising campaign in India and abroad to back its newfound commitment to economic liberalization. It also served a background information provider for trips by politicians and bureaucrats to foreign countries. West Bengal needed to signal to the investors that it had changed and the change was radical enough to deserve their interest. The advertisements in the *Washington Post* and the *Financial Times* declared: "The Problems of the Past have been Overcome . . . Red Flags and Red Tape-ism have been Replaced by a Red Carpet."[45] A major effort to improve both infrastructural and social conditions in Calcutta was also undertaken. Firms such as Selvel Advertising Ltd. bagged many orders from the state government to "beautify" and improve the quality of the city's roads. Many of these changes have come under the aegis of ICC Calcutta Forum, a pressure group formed by the Secretary-General of the Indian Chambers of Commerce (ICC), which is working closely with the state government and civic agencies. While Somnath Chatterjee himself admits that it is difficult to quantify the effects of such campaigns, all this hype has not gone unnoticed. By 1997 West Bengal has a larger share of FDI proposals than Gujarat (see table 6 above).

Apart from assurances of ideological change, the government of West Bengal tried to evolve new relations with both chambers of commerce and trade unions. After 1992 the Left Front Government began to curtail the power of organized labor so as to provide conditions conducive to private investment. "Outsider" investors regard labor militancy and high employment costs as among the key reasons for the lack of investment in the state.[46] The state government impressed upon the trade unions affiliated with the ruling party – the CITU – the importance of quality and productivity. It is stressed that while "just" demands would be met, the question of work discipline and work culture is a much larger and more important issue. It is believed that Jyoti Basu [the then CM] went so far as to threaten the unions with "stern action" if they did not maintain harmonious labor-business relations.[47] In almost all of his speeches to the party cadre Basu stressed the need to be productive partners of industry. For example, at a meeting organized to celebrate the 150th anniversary of the Communist manifesto (1999), Jyoti Basu asked CPM cadres to equip themselves with knowledge instead of concentrating on bandhs and strikes. "By merely organizing a bandh or a strike, we cannot say we have done our duty. We have to enhance our knowledge of Marxism as it is a science not a dogma."[48] This disciplining of workers and of CITU has continued. Bhattacharya [the current CM of West Bengal] recently mooted a proposal banning road and rail blockages by demarcating a fixed place for such protest events.[49]

The attitudes towards the business community mark as much of a change although Jyoti Basu's close personal relations with certain key business families (for example, the Goenkas) of the state are well known. What distinguish business-state government interaction in the liberalization period are interactions at the organizational and collective level. In 1996, the West Bengal State Planning Board was reconstituted and for the first time a representative from the private sector was included. The state government representative admitted that this reconstitution was meant to signal the government's intention to boost industrial development in the state; this representative was expected to highlight the problems [of the industrial sector] and speed up the process of industrial growth.[50] A Government-Industry Coordination Committee was constituted in 1996, which included various members of the Confederation of Indian Industry (West Bengal). Regular interactions and close consultations between various sections of the business community were evident in the manner in which the "Partnership Summit" was organized in 1997. There was complete coordination between the government of West Bengal and the CII preceding and during this event.[51]

Thus, the economic policy framework in West Bengal has been significantly transformed in the 1990s. Its significance goes beyond its impact on economic outputs but in terms of its stated goals, which institute radical shifts in party ideology, and even more crucially, in the discursive frames with which central-regional relations, business-state, and party-government interactions are interpreted.

The More Things Change, The More They Stay the Same: Linear Policy Response to External Changes in Gujarat

In Gujarat, responses to liberalization policies, while less ideologically radical, are also significant. During the early 1990s the BJP [Bhartiya Janata Party] made definite inroads into state power in Gujarat while the Congress party ruled in New Delhi. This created pressures for the newly elected party to differentiate itself from the main opposition party in the region, the Congress party. The main dilemma of the Gujarat state elite was to ensure *flexibility* in state responses and to *frame* their responses as involving *both* change and continuity from the pre-existing Congress regime in the state. In contrast, West Bengal's policy elites needed to signal greater change and reversal from their earlier orientation.

Despite similarities with the national policy of liberalization, Gujarat's policymakers and politicians, framed their liberalization policies in the 1990s as internally driven rather than being externally imposed. Moreover, since Gujarat's ruling party did not face the reputational problem faced by a social democratic party in reversing its economic strategy, its re-regulation strategy involved reorientation rather than reversal in the face of the abolition of the licensing system. Thus, policy responses in Gujarat to national policy changes were continuous, linear, and stable involving a reorientation rather than reversal of existing subnational policies. The leadership of the state framed these policies as a whole-hearted support for pro-market forces, but it was also keen to stress continuity with earlier state-led developmental institutions and policies in Gujarat.

Given the absence of any credibility crisis in Gujarat, the government's "policy statement" did not aim to clarify its stance regarding public versus private sectors in the regional economy, nor did it engage in any strenuous public relations exercise as was the case in West Bengal. While the government did issue an industrial policy statement pompously titled, "Gujarat 2000 A.D and beyond" in 1995, the policy "change" was relatively continuos in Gujarat. Gujarat has issued an incentive policy every five years (since the early 1980s) and the 1995 issue of a policy was matter of course. This statement was similar in structure to the earlier policy statements in 1990, 1981, and 1986 but with a stronger recognition of the need to re-orient to the international (rather than the national) market. It argued that Gujarat was uniquely poised to take advantage of the national policy of liberalization owing to the strength of its earlier policies and institutions. "The economic reform process has provided a boost to the [earlier] efforts of the state towards rapid industrialization."[52] Yet, the statement also suggested that the approach of the state would have to be different in terms of reorienting itself to the international world and not merely to the domestic economy.

> In the present climate of economic liberalization and globalization, the State's [Gujarat] approach needs to be radically different from what it has been till now. The "license-regime" imposed certain limitations in the approach and this resulted in each State competing with other States in the country for attracting more investment to that state. The globalization process is radically transforming the scenario. Therefore, the state's [Gujarat's] approach should help in successfully competing with the newly emerging high growth regions of Southeast and East Asian countries. Gujarat should try to benchmark itself vis-à-vis those regions and not merely be content in competing with the other [regional] states in attracting investments.[53]

This "extra-national" reorientation sits somewhat uneasily with a brief perfunctory mention of Swadeshi [national self-reliance], the ideological plank of the ruling BJP. The goal of Swadeshi development is mentioned twice in a 25-page document without specifying how that policy is to be translated. Thus, the last goal of the new industrial policy is: "Encouraging entrepreneurship and developing technology to promote [the] "Swadeshi spirit"[54] (1995, 4). The rest of the document goes onto outline policies, incentives, and institutions without any serious incorporation of the Swadeshi spirit. In the 2000 policy statement titled, "Gujarat Industrial policy 2000," no mention is made of the goal of Swadeshi.[55] Clearly, BJP's economic ideology does not pose as strong a ideological constraint to the state's political leadership as the economic goals of the CPI(M) pose to the ruling Left Front in West Bengal.

An analysis of policy statements by Gujarat officials show that "Gujarat as an attractive location of investment" was sold in somewhat different ways than West Bengal. Continuity with earlier institutions of industrial governance is specifically emphasized to the industrial entrepreneurs. Various documents emphasize continuity: "Gujarat: Located Midwest of the Indian subcontinent, the state began in 1960 . . . with one ideology – Business. An ideology that has remained constant in the face of successive governments."[56] Thus, Gujarat's strategy, while similar to West Bengal's emphasis on "selling of the state as an attractive location for investment" did differ in the content of that 'selling," and notably the sales pitch. Gujarat had no need to assure investors about its radically transformed and newly found "political commitment" as did West Bengal's political leadership. None of its advertisements stressed that Gujarat had changed, as did the advertisements by the West Bengal government. Rather, political advertising by Gujarat stressed the advantages of a linear and stable policy towards industry from 1960s onwards. The promotional literature highlighted that the state bureaucracy continues to employ institutions and techniques that have worked in the past.

Simultaneously, Gujarat also tried to sell itself as a "true believer in unregulated markets." Various government officials insist that the purpose of disinvestment undertaken in Gujarat is not to cover revenue deficits but to professionalize the management and to ensure that "the government is not a producer" and "should not be in activities where it has no business being."[57] The State Finance Commission Report (1994) was clear about this:

> The proceeds of the disinvestment should not be utilized by the state government to cover revenue deficits in the budget but must be utilized for investment in infrastructural facilities which could lead to a higher rate of growth of the [Gujarat's] economy.[58]

The government argued that structural adjustment loan received from the ADB was welcomed, even invited by the government, as it resonated with the new philosophy of the Gujarat government. Dr. Rao, the Additional Financial Secretary, GoG pointed out that the SFC report of April 1994 anticipated the policy guidelines and philosophy of the Asian Development Bank (ADB).

> In that sense the present public sector exercise in Gujarat can be seen only as an endogenous effort and not an exogenous one imposed by ADB.[59]

Thus, the ADB loan is framed by Gujarat's policy makers, not as an external constraint but as a self-driven response from within the regional state.

Despite this pro-market discursive frame within which the policy makers defend their policies, in actual practice, the Gujarat's policy framework in the 1990s married the national policy of liberalization to its erstwhile state-led model of industrialization. The BT-Gallup-MBA Survey conducted in 1996 as well as in 1998 Gujarat ranked first (in the eyes of the CEOs) on most parameters relating to institutional dimensions such as "governmental support, institutional flexibility and political stability and second on policy implementation, administration and law and order.[60] The government continues to invest in projects and sectors where it thinks that private investment is not forthcoming but which need development. For example, in 1991 the Gujarat Industrial Investment Corporation (GIIC) promoted three electronics projects in the associate sector (GIIC having a share of 11% of equity) at the estimated cost of Rs. 580 million. Moreover, to accelerate development of the electronics industry the GoG announced a special incentive package, which includes investment subsidy and sales tax benefit. Five more electronics industrial estates were planned at Por Ramangamdi in Baroda, Doshwada in Surat, and Mehasana, Jamnager, and Vartej in Bhavnagar.[61] The government continues to take a lead role in those sectors which need encouragement.[62] In 1995-2000, many new state agencies were created such as the Gujarat Infrastructure Development Board, and the Gujarat Power Corporation amounting to an enhancement of the size of the state rather than its withdrawal. Thus, both in terms of quantity (increases in the number of state agencies) and quality (performance of different types of functions), the state agencies shape the process of liberalization directly.

Policy changes in West Bengal and Gujarat outlined above were clearly a response to differential policy dilemmas in the two states: the credibility crisis in West Bengal and the need for flexible reorientation in Gujarat. In West Bengal, the state leadership needed to exhibit policy reversal to its earlier public-sector orientation and after the initial reversal, policy consistency. In Gujarat, policy consistency was not as much of a problem but flexibility towards the private sector and the state sector had become necessary. I have suggested that policy changes in the two regional states were adequate to deal with their respective dilemmas: in West Bengal the commitment of the top governmental leadership in favor of a private sector-based economic strategy have translated into significant institutional innovations and changes in authority relations. Moreover, despite the change in the leadership in 2000-2001 (Bhattacharya (2000 onwards) after Basu (1977-2000) the policy commitment has continued with new initiatives. In Gujarat, the state leadership reoriented itself to the private sector and especially the international sector quickly, also instituting many policy and organizational changes in the new era. But these changes amounted to adaptation and re-orientation of the roles performed by state agencies in the erstwhile license-*raj* era than a complete reversal as in West Bengal. The overall policy orientation in both states is pro-liberalization and incumbents have shown significant abilities to respond to and deal with their province-specific policy dilemmas. Moreover, directional change, and the intensity, and the scope of liberalization policies in West Bengal are far more extensive leading to the expectation that investment flows would be correspondingly higher in that state.

Despite these similarities in policy goals and policy instruments, regional pattern of investment flows are different.[63] Some of that variation arises out of differences in the infrastructure level and demand factors in the two states. However, the extent of the differences –the fact that Gujarat receives 10.6 times more investment than West Bengal – cannot be fully explained by economic factors. A much higher per capita income in Bengal and higher agricultural growth rates in the 1990s enhance the demand for industrial products. Infrastructural factors like the availability of electricity advantage Bengal, it is currently a power surplus state.[64] Then, what explains the difference in investment flows?

I argue (in the rest of the paper) that institutional variations across the two states, responses by key social and economic groups and political alignment between some of these societal actors affect the risk perception of potential investors, as well as the effectiveness with which "good intentioned" policies are implemented; this affects the extent of investments in the two states. In the next section I explicate the nature of institutional legacies at the subnational level while the part IV of the paper will analyze the political economy dynamics.

III. Sticky Institutions in West Bengal and Gujarat: A Comparative Institutional Analysis

Do institutions matter in affecting investors' economic decisions? The current theoretical debates give an affirmative answer to that question. Yet, we lack systematic empirical analysis of *how* institutions matter. In this section, I argue that the ideological stance of the respective parties towards economic issues is not as important as the institutions governing industrial change. I specifically analyze the investment management system in the two states. While the approval administration at the central level was substantially streamlined in keeping with the abolition of many licensing regulations, their counterparts at the state-level rose in importance. Despite this enhanced role of the institutional structure in the states, the effectiveness of these organizations after 1991 was largely determined by their pre-1991 capacities and skills.

Historically, industrial regulation in India was vertically shared between the Center and the regional states.[65] The regulatory process can be disaggregated, at least, into a two-stage interaction, one involving the central Ministry of Industry in New Delhi, and the other centered around provincial industry administrations. While the central government used to, and continues to, lay down the rules and receive investment applications, the investors need to interact with the regional institutions both when they decide to invest in a particular state and even more centrally, during the implementation process. Thus, the logically prior stage of an investment application to the central government process is usually decided in interaction with the promotional administration of the state industry departments. Moreover, after an application is accepted, it needs to be implemented in coordination with the regional agencies. These interactions with the regional institutions influence the investors' choice even before the application process begins in New Delhi and continue to shape the speed (and ease) with which the project is implemented, much later than the zero date of the project. In the domain of large-scale industry, the licensing system was a direct embodiment of the "joint-regulatory structure."[66] A government report reviewing the licensing system came to this conclusion:

> Only when there is a detailed plan for region-wise industrial development, covering both private and public sectors, can the licensing system help to implement it. Moreover, a great deal depends upon the initiative of state governments in providing the infrastructure [in the states] without which no [sic] development of industry is possible.[67]

In the license-*raj* period *some* regional states were able to modify the dirigiste effects of the licensing system by ensuring that the licenses allotted by the central government were actually implemented and relatively speedily. This involved the careful monitoring of the licenses at the governmental (central) level. In addition, direct pressures and monitoring of the private sector at the regional level were also crucial in attracting license-holders to the relevant states during the license-*raj* period.

Gujarat's government systematically monitored the licensing system of the central government from the late 1970s onwards. R. J. Shah, the Director of the Investment Promotion Cell in the Ministry of Industry, Government of Gujarat reported how the attempt to ensure the flow of investment in the 1970s led the state Industry department to evolve a systematic system of monitoring the licenses from the stage of allotment to actual production.[68] No such "investment promotion cell" or any method to monitor the various stages of the licensing process existed in West Bengal before 1991. The state government maintained a register of the "Letter of Intents" allotted for Gujarat. The Gujarat regulatory agency, the Industrial Extension Bureau (iNDEXTb), used to send a letter to the relevant investor, inviting him to Gujarat to see possible sites. In addition, a simple monitoring form was sent to the investor that urged them to report, "the application status" of the project. If the application was pending, the investors were required to specify "pending with whom," and the date. This enabled INDEXTB to pursue the matter with the agency with whom the application was pending and in turn, led to faster implementation of the investments approved. An analysis of the internal working of the Department of Industries, Government of Gujarat shows detailed attention to licenses granted for Gujarat, the Export oriented units, DGTD registrations and their "implementation status." The implementation status was measured in terms of eight parameters, each of which were measured under three implementation categories: Arranged, Awaiting, and Not Applied [for]. The eight parameters are: Land, Electricity, Finance, Environment Clearance, Land/Finance/Power Tied UP, Construction, Procurement of Machinery and Production.

This "joint regulatory structure" has survived from the re-reform days, but its informal working has been modified as a result of the combined yet separate actions taken by the central and state governments. After 1991, the interaction based around the approval administration at the state level has acquired *greater* importance. Two aspects of this essentially subnational process are crucial: Persuading new investors to apply for an Industrial Entrepreneur Memorandum (IEM) for a particular state, and ensuring speedy implementation of both the IEM and LOI (Letter of Intents) proposals.

The pre-existing skills of monitoring the pre-1991 licensing system have allowed Gujarat to monitor both the central ministry of industry and the individual investors after 1991 too. The policy of consistent monitoring of the central licensing system before 1991 was modified, not withdrawn, after 1991 by the Gujarat agencies. The targets of attention began to include foreign investors as well as the domestic private sector apart from the central government.[69] The strategic capacities that had proved useful during the license-*raj* were equally beneficial after its abolition. Currently, the "monitoring cell" in the regional Department of Industry monitors every investment proposal. This accounts for the fact that the ratio of implementation to proposed investment is the one of the highest (in comparison to other states) for Gujarat (see table 4). A 1995 memorandum from the Gujarat government to the central government indicates a continuation of its practice of monitoring the central government and the private sector in order to reduce the delays involved in implementing projects:

> . . . The time gap for forwarding [a] copy of applications from Department of Industrial Development to the state government has increased substantially.
>
> As per the GOI [Government of India] procedure, we are to examine these applications on the locational aspect and forward the reply to the department in case the application is not in order. Thus we can start follow up of applications only after a gap of 2 months or more. I therefore request you to expedite the process at the Department [of Industry, New Delhi] so that the time gap in forwarding the application to the state government can be reduced to minimum.[70]

Monitoring the investors is as important. Information provision is key to the effective pursuit of new and old investors. The department of industry collects detailed and independent information about those investors who express an interest in investing in Gujarat. Regular follow-up action on the part of the state agency vis-à-vis the central government and the promoters has remained a regular feature of industrial governance in the state.[71] An investor described the approach of the industrial bureaucracy in Gujarat: "The state bureaucracy has developed a killer instinct when it comes to wooing investors."[72] Outlining the working of the Gujarat power corporation a vice-president said, "What the corporation does is after identifying the area in which the project can be developed, it acquires land and begins to get clearances. By the time the competitive bidding for the project takes place, every clearance has been bagged [by the Gujarat government]."[73]

In West Bengal similar roles of investment promotion are performed by the West Bengal Industrial Development Corporation (WBIDC) after 1994, although there is no systematic system of monitoring different types of units (large or mid size) as in Gujarat. Historically, in West Bengal, no monitoring of the license-*raj* was institutionalized. After 1994, the investors are not required to submit any "Implementation Status" form or any similar documentation. The state agency does keep track of some the industrial proposals and some regular follow-up action is evident. However, disproportionate attention is directed to large-scale prestigious projects. The Industry Advisory Committee considers and evaluates the progress made on these projects but many mid-sized and smaller projects are not carefully monitored. The revived promotional organization – the SilpaBandhu – is the designated "single window agency" of the WBIDC but helps only those investors which come to it with problems. In contrast, various promotional agencies in Gujarat have institutionalized procedures for proactively seeking investors even before they begin to have problems.

Information Services

The "investment promotion" functions of the state agencies depend upon regional information services. In the liberalized scenario prevalent after 1991 the information-gathering capacities of the state agencies have become an important institutional variable helping to determine success in attracting investment. In India information about new projects, government regulations, the regulatory procedures and technology issues is usually difficult to obtain for potential investors. Some regional states compensated for this informational unavailability by providing detailed information, which they had gathered, for the investors.

Again pre-1991 experience in collecting information related to industry by Gujarat's state agencies has proved extremely useful in fine-tuning that "killer instinct." In the license-*raj* period the Gujarat government had, through trial and error, designed institutional mechanisms to collect and disseminate industrial information to entrepreneurs. In its effort to ensure investment flows from Bombay, Calcutta and East Africa during the 1960s and 1970s, the government created a specialized body engaged in data and information collection in 1977-1978: Industrial Extension Bureau (INDEXTB). Even more significantly, in an explicit effort to develop leading sectoral strength – chemicals in the 1960s and 1970s and electronics in the 1990s – INDEXTB and other agencies began to collect industry-related information about many sectors.[74] In addition, information about government rules both at the central and state-level was collated in one place. In the post-1991 period, the state agencies in Gujarat deploy these information abilities to attract, and then to effectively implement many industrial projects.

After 1994 the industry department in West Bengal began to perform similar tasks but no information and data producing institutions comparable to those in Gujarat exist in West Bengal. Thus, while Gujarat had established a separate agency with the responsibility of information gathering regarding industrial issues as far back as 1978; this agency remained responsible for information-gathering after 1991 as well. In West Bengal this role is ostensibly performed by the WBIDC but it does not have any specialized departments for gathering industry-related information. Interviews with entrepreneurs in West Bengal revealed that information is still fragmented and not easily available.[75] The INDEXTB conducts extensive data collection about central policies, new projects technology, and international trends. Moreover, the Industrial Extension Bureau provides some of this data to private investors in systematic ways through pamphlets and policy guidelines. While information dissemination is also attempted in West Bengal after 1994, not many investors know of WBIDC's role in providing information.[76] The investors in Gujarat are fully aware of INDEXTB's role as an information provider and as the single coordinating agency of the Gujarat government.[77] The long-standing experience of Gujarat's INDEXTB in gathering industry related information leads to greater competence and quicker responses while newer organizations like the WBIDC are still learning the ropes.

Thus, different institutional aspects of the two regional states – the state-level approval process and informational capacities – show that institutional differences going back to the pre-1991 regime continue to persist and affect investors' decisions and thus, investment flows after 1991. Gujarat has benefited by the significant continuity in policies but also the continuation of the pre-1991 institutional framework underlying its regional industrial strategy. Institutions are sticky in both Gujarat and West Bengal, contributing to greater divergence than can be predicted by those models that generate the expectation that wrong policies, if corrected, will set these economies onto more prosperous trajectories.

IV. The Politics of Policy Change: Participatory Response in Gujarat and Incoherent Response in West Bengal

The national policy shift in favor of liberalization in 1991 created positive incentives for subnational politicians to re-regulate regulatory policy. Subnational politicians' attempt and desire to re-regulate central policies is shaped by a decentralization imperative, that is, to claim autonomy for the relevant province. This, in part, explains the pursuit of neoliberal agendas by state's politicians of diverse partisan affiliations in a centralized state like India: liberalization offers the chance to push against the centralized character of the state. Thus, widespread shifts in economic policies at the state level are tied to central-local or vertical interactions.

Despite this common impetus, the politics of subnational policy changes are shaped by the societal responses in the region and pre-existing coalitional alignments. While institutional differences (outlined above) play a crucial role in industrial policy, the effectiveness of institutions may be enhanced or negated by the responses of actors such as party members, business actors and labor leaders. This section argues that policy shifts engender political responses from key societal groups and that these societal responses are crucial for the coherence with which a policy shift can be implemented. Different responses by key social actors (parties, labor and business) in the two regional states lead to different patterns of policy implementation. Electoral competition also plays a role in the two regional states in specific ways.

Responses by key societal actors in West Bengal – party cadres at the local level and trade union members at the firm level – make the policy shifts difficult to implement. Most crucially, however, the ruling party (the CPI(M)) faces unique organizational and policy dilemmas peculiar to social democratic parties. In Gujarat, responses of key societal actors were different and the ruling party (BJP) is relatively untroubled by organizational and ideological dilemmas. Moreover, the relative powerlessness of local party (BJP) members and the absence of a political force that can embody the worker's demands contributes to greater flexibility in implementing various reform efforts. In addition, the industrial base of the state is much more dispersed in Gujarat leading to greater support from potential "winners." Overall, the coordination of expectations around industrial activity by many societal groups in Gujarat can be contrasted with inconsistent and fragmented responses by key actors in West Bengal.

West Bengal: The Political Logic of Fragmented Response

Societal responses to economic liberalization in West Bengal are shaped both by the socio-economic balance of forces as well as constraints posed by the nature of party competition in the context of heightened electoral challenges. Most importantly, however, what distinguish the West Bengal's reform trajectory are multiple dilemmas faced by the ruling social democratic party (the CPI(M)) in the face of the given balance of social groups and the necessity of winning elections. Social democratic parties like the CPI(M) are confronted with unique challenges during periods of globalization and liberalization.[78] In West Bengal, these dilemmas must be understood with reference to three interacting dimensions: the particular spatial political economy of industrialization in the state; intra-party and party-union conflicts over industrial policy; and the recent (post-1998) electoral challenge posed by newly formed political party -- the Trinamul (grassroots) Congress. Gujarat differs from West Bengal in all three respects.

Regional Political Economy of Liberalization in West Bengal

The socioeconomic balance of forces in West Bengal poses formidable challenges to the politics of industrialization in the state. Two inter-linked dimensions are especially notable: A spatially concentrated pattern of industrialization in West Bengal around Calcutta and its suburbs *narrows* the political support for liberalization. Moreover, the *symmetric* mapping of the agricultural-industrial divide onto the rural-urban divide in West Bengal distributes the benefits from liberalization only to urban industrialists and consumers. Thus, benefits of liberalization are perceived to be narrow and their share small, while the costs are widespread and large. This hurts rapid consolidation of liberalization policies in West Bengal creating opposition or at the least, indifference. Moreover, the winners from liberalization policies – urban consumers and businessmen – are relatively small and crucially, lack political power. This dynamic – high costs across a large and politically important rural sector with small concentrated benefits to the industrial/urban realm – makes the political consolidation of economic reforms in West Bengal difficult.

The spatial pattern of industrialization in West Bengal is highly concentrated around Calcutta. Noted by Krishna Bhardwaj as well as Kundu,[79] this pattern has continued to persist. Between 1991-1995, 74 percent of *new* industrial applications and 60 percent of proposed new investment was for five districts – Calcutta, Howrah, Hooghly, South 24 Parganas and North 24 Parganas – all of whom are clustered around Calcutta (See Map of West Bengal).[80] Midnapore (the location of Haldia Petrochemical plant) and Burdwan shared about 13 per cent of applications between them. This concentrated band of industrialization narrows the political support for renewed industrialization and thereby liberalization to the relevant constituencies. Simultaneously, about 75 percent of assembly seats are located in a rural districts and about 57 percent of the seats won by the Left Front in the 2001 assembly elections are from rural districts. Thus, the Left Front, disproportionately, depends upon the political support of the rural sector.

This spatial narrowing of the political support in favor of liberalization is enhanced by the urban-rural divide, which maps symmetrically onto the agricultural-industrial divide in West Bengal. All the districts that are urban are also the most industrially developed (except Nadia and Murshidabad); rural industrialization is almost non-existent in the state.[81] Table 8 demonstrates the symmetric character of the urban-rural and agricultural-industrial divide in West Bengal.

Table 8: Extent of Urban-Industrial Symmetry in West Bengal

Districts	Percentage of Urban Population		Percentage of Main Industrial Workers Population
Urban Districts*		**Industrial vs. Agricultural Districts[82] (I or A)**	
Calcutta	100	I	26.5
Howarh	49.6	I	36.7
North 24 Parganas	51.2	I	25.0
South 24 Parganas*	13.3	I	15.6
Hooghly	31.2	I	22.5
Burdwan*	35.1	I	14.1
Darjeeling	30.4	A	7.2
Rural			
Nadia	22.6	I	17.2
Murshidabad	10.4	I	17.9
Midnapur	9.8	A	10.1
Coochbehar	7.8	A	7.1
Jalpaiguri	16.3	A	7.1
Bankura	8.2	A	8.3
Purulia	9.4	A	8.1
Birbhum	8.9	A	8.2
West Dinajpur	13.3	A	5.9
Malda	7.0	A	12.3

Source: Calculated from Census of India, West Bengal Tables, 1991. I define a district as an industrial if the share of main workers exceed 15 percent and a district as urban if the urban population is more than 25 per cent. This definition is used consistently across Gujarat and West Bengal. Main industrial workers are defined by the census as those workers who have managed to work more than 183 days in a year in either household or non-household industry. I employ the same definitions to analyze Gujarat later in the paper.
*Note: South 24 Paragans can be classified as an urban district given its proximity to Calcutta. Burdwan is categorized as an industrial district because of the location of Durgapur within it.

INSERT MAP OF WEST BENGAL ABOUT HERE

This affects the political economy of liberalization in two distinct ways: One implication is that liberalization policies, howsoever forcefully pushed for by the government, are bedeviled by urban conflicts ensuring that conflicts that plague the urban setting affect the industrial firms also. For example, opposition to the Left Front has traditionally been stronger in the urban constituencies. Urban voters especially from Calcutta form the main social base of the anti-Left Front party such as the Trinamul Congress. The urban-industrial district symmetry implies that the pro-liberalization initiatives of the government are overshadowed by the urban opposition against the CPI(M). Also, Calcutta's urban problems – old infrastructure, water problems, and road conditions – affect the industrialists directly.[83] Urban problems complicate and may even overwhelm the industry-related issues. In contrast, newer cities like Gandhinager in Gujarat, Chandigarh in Haryana and Pune in Maharashtra are better placed to offer more modern urban infrastructure. Second, any policy change in favor of urban-industrial Bengal faces the consolidated rural sector which has, until now, little stakes in favor of industrialization. *Rural* industrialization is almost nonexistent in West Bengal, which means that no countervailing group of winners from the countryside supports the government's program.[84]

The Political-Organizational Dilemma in West Bengal

Combined with this narrow potential support base for pro-liberalization policies is a political-organizational variable: the lack of cohesion within the Left-Front coalition and across the party-union structure on the question of pro-private and foreign investment policies. Coalitional politics within the Left Front and disharmony between the CPI(M) [the main coalition partner in the government of the state] and its main trade union the CITU [Confederation of India Trade Unions] contributes to a fragmented and protectionist policy on the part of CITU, and other coalition partners such as CPI, Forward Bloc and RSP.

As a caveat it must be acknowledged that CPI(M) – "the big brother" – in the Left Front has disproportionate bargaining power, which it uses to discipline both the trade unions and the errant coalition partners. For example, Jyoti Basu has regularly given hard-hitting speeches to CITU and asked them to be a "productive partner of industry."[85] Moreover many CITU leaders are themselves convinced of the need to revive the industrial sector. A CITU leader from 24 North

Parganas said, “ If shedding 500 workers in a an honorable fashion can revive the factory and give new life to 4000 others, then, why not?”[86]

Yet, union responses to liberalization are not unified behind the government and important pockets of opposition within the party and the unions remain. The lack of complete harmony between the governmental partners and union and the party does create important gaps and loopholes in the actual implementation of a pro-private sector policy. Party-union relations have been troubled with the CITU scoring important victories over the party in policy matters. The industrial policy statement of 1994, which reversed many of the commitments made in the industrial policy statement of 1978, created enduring party-governmental conflicts. The CITU and important members of the CPI(M) forced the top leadership to modify its aggressively pro-private sector manifesto inviting foreign investment in favor of “foreign investment for mutual interest and only in infrastructure sectors” in the 1994 statement on industrial policy and in subsequent governmental statements.[87] Most statements of governmental leaders in favor of private investment had to be qualified. In 1995 the CITU leaders were able to reverse government’s earlier announcement in favor of the takeover of the Great Eastern Hotel by a French hotel chain and the construction of several multiplex theatres by Warner brothers.[88] These two reversals were strongly welcomed not only by the CITU but the alliance partners in the Left Front, the CPI, RSP, and FB. In July 1998, the CEO of Bata [a shoe manufacturer], Keith Weston was attacked by some employees at Batanagar, 20 km from Calcutta, when he refused to recall three union leaders who had been suspended on disciplinary grounds. A local industrialist’s response on this issue was, "Jyoti Babu [the then chief minister and top leader of the CPI(M) in Bengal] appears to have no control on the local CITU leaders."[89] A party member of the Left Front admitted: "In private, Jyoti Babu admits that neither the party bigwigs nor the CITU leaders listen to him these days. However hard he may try, industrialists will not come here to burn their fingers."[90] In 2001 a government order by which state-run hospitals can do away with the services of some 12,000 empanelled female attendants has been heavily opposed by the CPI(M) cadres on the ground that they constitute an important vote bank and have already “crossed over to the Trinamul Congress camp.”[91]

These snapshots of the party-state and party-union relations reveal certain patterns. At the worst, they reveal the inability of a policy change at the top level to percolate down to the local level affecting its coherent implementation.[92] At the very least, party-union relations are more troublesome in West Bengal than in non-CPI(M)-ruled states. The governing party has to spend lot of its energy in dealing with such conflicts, and building support inside the party and within the trade unions affiliated to it. Even after almost 10 years of reforms, the CM in West Bengal needs to hold meetings with the party cadres to “ Sells Reforms to Skeptics.”[93] These organizational dilemmas produce a *fragmented and incoherent response* at the local level to the pro-liberalization initiatives of the state government.

These two constraints arising from the political economy of the state and the organizational dilemmas within the party are further complicated by the electoral dilemma facing CPI(M) in the late 1990s. While West Bengal has been extremely stable in political terms since 1977, the nature of party competition and electoral competition has undergone some recent changes creating some problems for the Left Front.

The CPI(M)’s vote share has steadily declined in the parliamentary (Lok Sabha) elections. In the late 1990s, the Trinamul [Grassroots] Congress (TC), a recently formed political party built around a breakaway faction of the Indian National Congress (INC), emerged as a serious electoral contender of popular support in West Bengal's politics. Very quickly after its formation (1998), the TC made definite electoral gains with a vote share of 26.0 percent in the 1999 parliamentary elections and 30.7 percent in the 2001 regional assembly elections. The corresponding seats won by the TC were 8 out of 42 in the parliamentary elections. In the 1999 general elections, the TC and INC together comprise 39.3 percent of the votes polled, a higher share than the CPI(M).

Table 9:
Votes of Major Parties in the Parliamentary (Lok Sabha) Elections, 1991, 1996, 1998, and 1999
(Votes in Percentage)

	CPI(M)	TC	INC	BJP	CPI	FB	RSP
1991	35.2	Not Yet formed	36.2	11.7	3.7	3.7	4.5
1996	36.7	Not Yet formed	40.1	6.9	3.8	3.4	4.8
1998	36.8	23.1	15.2	10.2	3.6	3.3	4.5
1999	35.6	26.0	13.3	11.1	3.5	3.4	4.2

Source: Taken from the Election Commission of India, http://www.eci.gov.in.
Note: (a) TC was formed in 1998. (b) CPI(M): Communist Party of India (Marxist); TC: Trinamul Congress; INC: Indian National Congress; BJP: Bharatiya Janata Party; FB: Forward Bloc; RSP: Revolutionary Socialist party [Both FB and RSP are coalition partners in the Left Front government in West Bengal].

Underlying this general picture is a more specific pattern. The strength of this new political formation lies primarily in the industrial districts of West Bengal although it has also shown the ability to challenge the Left in certain other key districts (Midnapore). Thus, the CPI(M) is confronted by the loss of its power in key industrial and urban constituencies. In the 1998 parliamentary elections CPI(M) lost Dum Dum constituency, an industrial district where the CPI and CPI(M) had enjoyed traditional support.[94] In the 2001 regional assembly elections the Left Front only won in 40 out of 75 seats in the industrial belt (South Bengal excluding Calcutta) while the Trinamul-Congress alliance won 32 seats. Comparatively in 1991, the Left Front had 65 seats from this industrial belt while in 1996 it could retain 45 out of 75.[95] While the 2001 assembly elections have been correctly analyzed as remarkable in their continuity, the slow but definite decline of the Left Front in the industrial areas of the state is as noteworthy. The Trinamul Congress is also challenging the hegemony of the ruling party in traditional left strongholds such as Midnapore. This is evident in heightened social and violent conflict in recent months. In recent times, the conflict between CPI(M) and the Trinamul Congress has become increasingly violent and spilled over in the industrial realm at the local level. In January 2001, two managers of a Jute mill were burn to death by the workers, after a worker had been shot dead by one of the managers in Baranagar [North 24-Parganas district]. In Midnapore a traditional CPI(M) constituency, political murder of the student leader Sujata Das [a TC supporter] at Khejuri, and subsequent gang violence by the two parties killed many lives. Thus, while the main social base of the CPI(M), the rural middle class may be electorally safe, TC has certainly raised the stakes for the local party cadres. Mamata Bannerjee [the leader of the TC] raised the issue of "law and order" in West Bengal at the center when she was part of the BJP-led coalition government and persuaded L.K. Advani [the home minister] and a central team to visit the state to review the law and order situation in January 2001. The combination of electoral challenge in the industrial districts and violent conflict at the local level creates problems for the smooth implementation of the new industrial policy of the Left Front; investors are unlikely to fulfill their investment intentions in such a situation of conflict and violence. State government's goals such as a productive work ethic or labor peace are difficult to attain in such conflictual circumstances. An investor told me, "I will think twice before establishing a factory at a location where the conflict between TC's party workers and party cadres is so intense; no incentives will take me there."[96]

The ruling party in West Bengal, despite its policy and institutional commitment in implementing a pro-liberalization policy, confronts serious challenges arising out of the political economy patterns, intra-organizational incoherence in the political response by party cadres and union members and electoral challenges in the late 1990s. At a micro-level, the local cadres and local officials are unable and unwilling to translate the commitment of the political leadership to ensure enabling conditions for the speedy implementation of private investment contributing to a *fragmented or disengaged* response by key social groups in society.

Gujarat: the Politics of Engaged Coherent Response

In this section I demonstrate that important differences in Gujarat, with respect to the three political economy conditions considered for West Bengal, contribute to a coherent and engaged societal response. Fortuitously, the ruling party has been a centrist force (Janata Dal-BJP coalition from 1990-1995) or economically conservative (BJP from 1995 to present) not faced with the peculiar ideological or organizational dilemmas confronted by social democratic parties like the CPI(M). In addition, societal responses in Gujarat are more coherent and broad-based than in West Bengal. The coherence of the responses by key economic and social groups can be attributed to the spatial dispersion of industrialization, wider extension of the benefits of industrialization to many types of social groups, and asymmetry between the urban and the rural sector. The costs of liberalization are borne out by powerless groups while its benefits are shared by diverse set of groups, all of whom have acquired crucial stakes in supporting the liberalization policy of the state government. The urban-industrial asymmetry means that support for industrialization and continued liberalization policies come from both the urban and rural sectors of the regional economy. In this context party change in the early 1990s and political instability loose their power to negatively affect the strong and widespread support for liberalization.

Spatial Spread of Industrialization

Gujarat started out in the 1960s and 1970s with a relatively more dispersed pattern of industrialization[97] but over time industries continued to disperse in Gujarat in a concentric circle around central and South Gujarat. By the 1990s western Gujarat, which had been quite undeveloped in the 1960s was relatively more industrialized than the corresponding backward regions of West Bengal. Areas like Amreli, Kachchh, and Jamnagar, which have been traditionally backward, are also witnessing investment flows in the liberalization period. North Gujarat remains largely non-industrialized yet relative to West Bengal concentration of industries is less of a problem. Also, the geographical distribution of small-scale industries has become highly dispersed to cover the most backward areas of the state.[98] Thus, many more districts are industrialized in Gujarat than in West Bengal and rural industrialization is more widespread in Gujarat than in West Bengal. The following table shows that urban regions do not map onto the industrial regions as symmetrically as in West Bengal: five rural districts are industrialized in Gujarat while only two rural districts are industrialized in West Bengal. This spatial *dispersion* in Gujarat *broadens* the political support for continued industrialization in the state.

Table 10
Extent of Urban-Industrial Symmetry in Gujarat

Districts	Percentage of Urban Population		Percentage of Main Industrial Workers Population
Urban Districts*		**Industrial Vs. Agricultural Districts* (I or A)**	
Jamnagar	40	I	13.6
Rajkot	47	I	19.7
Surendranagar	30	I	14.8
Bhavnagar	35	I	23.8
Junagadh	32	A	8.7
Kachchh	30	A	10.0
Gandhinagar	40	I	13.2
Ahmedabad	74	I	27.5
Vadodora	42	I	15.1
Surat	50	I	31.5
Rural Districts			
Amreli	21	I	16.7
Mahesana	22	I	11.7
Kheda*	22	I	9.1
Bharuch*	21	I	10.4
Valsad	24	I	18.4
Banaskantha	10	A	7.2
Sabarkantha	10	A	4.4
Panchmahals	10	A	4.1
Dangs	11	A	2.5

Source: Calculated from Census of India, 1991.
*The figures for main workers underestimate the extent of industrialization in Kheda, Jamnagar, Mahesana, and Bharuch; these can be classified as industrial. Bharuch (similar to Burdwan in West Bengal) has many public sector units making it clearly am industrial area. Kheda, Mahesana and Jamnagar have a large number of small-scale units, making the classification as an industrial district more appropriate.[99]
Note: I define a district as an industrial if the share of main workers exceed 15 percent and a district as urban if the urban population is more than 25 per cent. Main industrial workers are defined by the census as those workers who have managed to work more than 183 days in a year in either household or non-household industry.

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Absence of Intra-Party Organizational Problems in Gujarat

In comparison to West Bengal, Gujarat's ruling party in the 1990s – the BJP – faces no serious political-organizational contradictions within the party on economic and industrial policy. While factionalism has bedeviled the party leading to a split in the party in the late 1990s, these factional fights revolve around personalities (S. Vaghela versus K. Patel for example) and have not spilled over into economic policy matters. Moreover, these leaders lack an independent organizational power base as found in the trade unions in West Bengal; thus the top leadership is able to subvert their disruptive power easily. Vaghela's challenge to the BJP's leadership existed for a short time and has been effectively circumvented by the current leadership.[100] Thus, factional fights within the party are personality rather than ideology-driven and do not pose an effective challenge to the regional consensus on economic strategy matters. Most crucially, these factional fights do not become conflicts over policy as key winner groups in society (business) provide strong support for the new economic agenda of the government and the losers – labor for example – lack any political strength to take up their issues. Thus, winners are large, more dispersed and more powerful; losers are small and politically ineffective.

Winners

While labor and the CPI or CPI(M) have been historically weak in Gujarat, the business classes have had a strong presence in the state. By the 1990s both the large scale and small-scale business firms are well established and evenly diversified both sectorally and geographically. In terms of the large-scale sector Gujarat's economy is marked by the presence of both domestic and foreign capital. Moreover, *relative to West Bengal* where only Marwari and a small number of Bengali entrepreneurs had invested, in Gujarat, both Gujarati and non-Gujarati capital are located; this includes the big family houses as well as MNCs.[101] As an illustration, the Tatas [originally based in Bihar and Bombay], Birlas [originally based in West Bengal], Ruias [Punjabis], Raunoq Singh group [Punjabi], Dalmia [Parsi], the ABB [MNC], GE [American] have set up industries in the state. Moreover, Gujarati capital is relatively diversified with both traditional frontrunners such as Sarabhais, Lalbhais [Arvind Mills] and Mafatlals joined both by new companies such as Nirma [Karsanbhai Patel], Torrent [Mehtas], United Phosphorus [Raju Shroff], Gujarat Ambuja cement [Nevatia] as well as joint sector companies like the GSFC, GNFC and GACL run by the government with private sector support. This diversification of business capital in the state makes for a silent but powerful lobby in support for continued liberalization.

Vis-à-vis the small-scale sector, three striking facts deserve note. First, the state government continues to support the small-scale sector with credit, incentives, infrastructure and other institutional support. Second, over time, the geographical distribution of SSI units has diversified significantly to cover the backward areas of the states. Shinoda suggests, "Previously SSI units were concentrated in the three industrial centres of Ahmedabad, Rajkot and Surat" but this pattern has significantly changed in the 1980s and the 1990s and extends to large parts of western, central and southern Gujarat.[102] Lastly, entrepreneurship has extended itself to various lower and disadvantaged classes like the Scheduled classes (SCs) although the STs continue to be a small minority in establishing their own units. The SCs comprise about 4.4 percent of total small-scale investment in the region.[103] This social and geographic dispersion increases the number of winners; support for liberalization policies of the state government across the socio-economic spectrum is higher in Gujarat than in West Bengal. Thus, the broader base of industrialization in Gujarat provides for a stronger response by these business actors.

Losers

Potential losers from liberalization policies are workers who are laid off. In Gujarat, in 1995-1996, 14, 000 workers from the textile mills of the state were asked to resign. Yet, no protest against the privatization agenda of the government followed. The process went through smoothly owing to the lack of any political party to take up the interest of the workers and not insignificantly, the manner in which the state government managed the process. The government received a $250 million loan from the ADB for this purpose which it used to create a State [Gujarat] Renewal Fund. This fund allowed to government to offer a generous voluntary retirement package to the workers which was in turn was negotiated with the full support of the textile trade union (Majdoor Mahajan – Labor Guild). Each worker received about two and half lakh as part of the VRS scheme and the scheme, in contrast to the national VRS scheme was not biased against the younger workers.[104] Moreover, the State Renewal fund provided for the retraining of workers. Thus, the Majdoor Mahajan admitted that, "these scheme found favor with many workers."[105] This example of privatization at the state level shows that losers from the liberalization policies in Gujarat, while a significant number do not have any political party like the CPI(M) to take up their claims. However, even more crucially, the *terms* of privatization in Gujarat militate against significant distributional conflict over liberalization in the state. Thus, the ruling party in Gujarat faces little organizational or ideological dilemmas and societal response to the state's policies is coherent and engaged contributing to greater political support for liberalization policies.

Conclusion

This paper has shown that regional actors respond to larger macro constraints in complex ways. This comparison of West Bengal and Gujarat reveals significant change *and* remarkable continuity at the state-level. Theoretical expectations arising from neo-liberal paradigm that structural adjustment policies would reduce policy choices available to policy and political elites are partially correct. Subnational governments earlier committed against foreign investment seek to change policy environments in favor of foreign investment. Policy changes at the central level are replicated at the subnational level. However, this apparent policy convergence is crucially shaped by the ideology of the parties, their political interests in the relevant region and the alignment between auxiliary organizations and coalitions of socio-economic interests. Pre-existing legacies shape the response of the socio-economic actors towards state-level re-regulation agendas and ruling parties are constrained by intra-organizational and ideological dilemmas.

Two larger counter-intuitive conclusions emerge from this paper. First, the logic of collective action at the national aggregate level has changed. This change has created very different incentives at the subnational level leading anti-private sector parties such as CPI(M) to pursue pro-liberalization policies. Erstwhile ideologies are in a state of flux. Despite this policy *convergence*, institutional *divergence* and different political responses by political and social groups continue to persist driving the regionally diverse pattern of investment flows and corresponding growth patterns. Institutions and political responses, not policies or ideas, drive investment patterns both before *and* after liberalization.

Second, policy change from above is usually not enough; responses from below shapes the extent and nature of that policy shift. However, effective societal responses to policy shifts need organization and the strength to interact with politicians initiating policy changes. In democratic settings, politicians are also constrained by electoral considerations making the pursuit of economic policy subject to a partisan logic. This two-step explanation explains both convergent state-level pro-liberalization initiatives and marked regional divergence in investment patterns by providing an analytical framework that integrates attention to ideas, institutions, and societal responses, three variables that interact in different ways in the two states.

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[1]The word state has multiple usage in this in this paper. I have followed the following convention: State with small 's' refers to the general concept of the state. Indian provinces are called states and I refer to them as provinces or regional states. The federal government is usually referred to as the 'central state' or 'center' or 'Union government' consistent with the usage in the literature on India.

[2]See, John Harriss, "The State in Retreat: Why Has India Experienced Such Half-Hearted Liberalization in the 1980s." *IDS Bulletin* 18, 4 (1987), pp. 29-36.

[3]This is widely recognized by both the proponents and critics of the reform program. See T.N. Srinivasan. 2000. "Economic Reforms in South Asia." In Anne O. Krueger, ed., *Economic Policy Reform: The Second Stage.* (Chicago and London: University of Chicago Press); Bhaduri and Nayyar. 1996. *The Intelligent's Person's Guide to Liberalization* (New Delhi: Penguin); and Sachs, Varshney and Bajpai. 1999. edited. *India in the Era of Economic Reforms (*Oxford: Oxford University Press).

[4]India is a federal state with 28 states, six union territories and one national capital territory (Delhi) with its own assembly.

[5]The center had devalued the rupee on July 4th, 1991 and announced industrial policy reforms on July 24, 1991.

[6]*The Hindu,* April 14, 1994.

[7]In pointing to the zeal of state governments I refer to policies, and processes and not to outcomes. Not all of this zeal has positive impact on investment flows, growth or development; the relevant point here is that state governments seek to re-regulate central policy in diverse ways; some of these re-regulation attempts may be development enhancing while other subnational re-regulation strategies may re-reinforce non-productive policies. In each case, regional states seek to and succeed in re-shaping policies initiated by the center, an unexpected result in a centralized country.

[8]See Aseema Sinha for an elaboration of this argument [Aseema Sinha, "From State to Market—via the State Governments: Horizontal Competition after 1991 in India," Paper presented at the

Association of Asian Studies, Annual Meeting, Boston, March 11-14, 1999]. The counter-intuitive result that liberalization demands state formation or regulation or state-building has been has been confirmed by empirical evidence from a wide set of cases: Mexico [Richard, Snyder. 1999. "After Neoliberalism: The Politics of Re-Regulation in Mexico," *World Politics* 51(January 1999), 173-204]; Chile and Britain [Schamis. 2002. *Re-forming the State: the Politics of Privatization in Latin America and Europe* (Ann Arbor: University of Michigan Press)]; financial sector reform in UK, USA, and Japan [Michael Moran. 1991. *The Politics of the Financial Services Revolution: the USA, UK, and Japan* (New York: St. Martin's Press)]; and Brazil (Luiz C. B. Pereira 1999. "Managerial Public Administration: Strategy and Structure for a New State," In Luiz Carlos Bresser and Peter Spink, eds., *Reforming the State: Managerial Public Administration in Latin America*. (Boulder, London: Lynne Rienner)]. Also see, Andrés Solimano, Osvaldo Sunkel, Mario I. Blejer. eds., et al. 1994. *Rebuilding Capitalism: Alternative Roads after Socialism and Dirigisme* (Ann Arbor, Mich.: University of Michigan Press, 1994) and Carol Wise. 2003. *Reinventing the State: Economic Strategy and Institutional Change in Peru* (Ann Arbor : University of Michigan Press).

[9]Vikas Kasliwal. 1995. "Comment," In Conference Proceedings, "*Western Regional Cooperation: A Necessity and Opportunity*" November 24-25 1995.

[10]Scholarship on liberalization in India that focuses on subnational level includes, Rob Jenkins, *Democratic Politics and Economic Reform in India* (Cambridge: Cambridge University Press, 1999); Aseema Sinha, 1999. "From State to Market—via the State Governments: Horizontal Competition after 1991 in India;" Nirupam Bajpai and Jeffrey D. Sachs, "The Progress of Policy Reform and

Variations in Performance at the Sub-National Level in India," *Development Discussion Paper No. 730*, November 1999 (Harvard Institute of International Development, Harvard University, 1999); Loraine Kennedy, "Contrasting Responses to Economic Liberalization in Andhra Pradesh and Tamil Nadu," In this volume; and Samuel Paul, "Do States have an Enabling Environment for Industrial Growth? Some Evidence from Karnataka," *Economic and Political Weekly* 35, no. 43-44 (2000), pp. 3861-69]. Also, see the Special Issue devoted to economic reforms in Andhra Pradesh, *Economic and Political Weekly*, March 22-28/April 4, 2003.

[11]The relative infrastructural index for Kerala in 1993-1994 was 157.1 when India is 100. Maharashtra is 107 although it attracts the highest share of investment (Center for Monitoring the Indian Economy. 1997. *Profile of States* (Bombay: Center for Monitoring the Indian Economy), p. 7.

[12]For a sampling, see Robert. Barro. 1991. "Economic Growth in a Cross-section of Countries." *Quarterly Journal of Economics* 106: 407-443 and Sebastian Edwards and Guido Tabellini. 1991. *Political Stability, Political Weakness and Inflation: An Empirical Analysis*. Working Paper No. 3721, National Bureau of Economic Research. These two articles focus on the relationship between political stability and economic growth. More recently, there have been increasing attempts to focus on the impact of institutional frameworks on economic developments beyond mere political stability. For such studies, see Gerald W. Scully. 1988. "The Institutional Framework and Economic Development." *Journal of Political Economy* 96: 652-662; Peter B., Doeringer and Paul Streeten. 1990. "How Economic

Institutions Affect Economic Performance in Industrialized Countries: Lessons for Development." *World Development* 18: 1249-53; Stephen Knack, and Philip Keefer. 1995. "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures." *Economics and Politics* 7: 3. Also see C. Clague, Philip, Keefer, and Stephen Knack. "Contract-Intensive Money: Contract Enforcement, Property Rights and Economic Performance," *IRIS Working Paper,* No. 151 (Maryland: IRIS); Justin Lin, and Nugent. "Institutions and Economic Development." In *Handbook of Development Economics,* Vol. IIIA, edited by J. Behreman and T. N. Srinivasan (New York: Elsevier). On India, see Mancur Olson. 1995. "A Collective Choice Perspective on the Indian Economy." *IRIS Conference Paper.* (IRIS Center: University of Maryland at College Park) and Pranab Bardhan. 1995. "The Nature of Institutional Impediments to Economic Development." *IRIS Conference Paper (*Maryland: IRIS).

[13] *Business Today*, December 22, 1999-Janaury 6, 2000, p. 43.

[14] "A Business Today-Gallup-MBA Survey: Best States to Invest In," *Business Today*, June 7-21, 1996; "A BT-Gallup Research project: the Best States to Invest In," *Business Today*, December 22-Janaury 6, 1998 and "The Best States to Invest In: A Business Today-Gallup Organization Research Project," *Business Today*, December 22, 1999-Janaury 6, 2000.

[15]Sidney Tarrow. 1999. "Expanding Two-Paired Comparison," *APSA-CP Newsletter* (APSA Comparative politics Subsection), p. 11.

[16]Methodologically, a "most different system design" requires a different research plan than the multivariate regression model. In a "most-different system design" the variables interact differently given the specific pre-existing factors. Thus, a model adequate to capturing interaction effects and multiple causal factors is needed. Charles C. Ragin, 1987. [*The Comparative Method : Moving beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press)] might be more useful than Gary, King, Robert O. Keohane, Sidney Verba. 1994. [*Designing Social Inquiry: Scientific Inference in Qualitative Research*. (Princeton N.J.: Princeton University Press, 1994)].

[17]Herbert, Kitschelt. 1999. ["European Social Democracy: between Political Economy and Electoral Competition," In Herbert Kitschelt et al. edited. *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press)] in a similar vein speaks of the divide between political economists and party scholars.

[18]Sunil Sengupta, and Haris Gazdar, 1997. "Agrarian Politics and Rural Development in West Bengal," In *Indian Development: Selected Regional Perspectives*. Jean Dreze and Amartya Sen, editors (Delhi: Oxford University Press).

[19]These are referred to as State Industry Development Corporations (SIDCs).

[20]The data is available as recent as January 2003.

[21]Government of West Bengal, *Policy Statement of Industrial Development*, 1994.

[22]L. Mansingh, the managing director of Gujarat Industrial Investment Corporation (GIIC) in an interview to the *Business Standard*, March 19, 1997.

[23]Suzanne Berger and Ronald Dore, eds. 1996. *National Diversity and Global Capitalism* (Ithaca, N.Y.: Cornell University Press), p. 19.

[24]*Business and Political Observer*, March 30, 1996.

[25]Jyoti Basu [the chief minister of West Bengal from 1977 to 2000] initiated policy reform at the subnational level in mid 1980s. Around 1985, Basu announced that the industrial orientation of state must change and its working culture modified. At that time, many projects with private sector were initiated (July 15, *India Today* 1985). Attempts to involve a private sector partner in the Haldia petrochemical project were first started in 1985. In 1990 at a time when the national government of V. P Singh was moving against big business (1989-1990), Basu defended big business houses like the Ambani's. His office compared his policy initiatives to promote joint ventures with private capital with Gorbachev's perestroika reforms (July 8, *Indian Express*, 1990). At that time this reform effort went nowhere as Basu was unable or unwilling to convince other members of his government.

[26]Government of West Bengal. 1978. *Industrial Policy*. (Calcutta: Government of West Bengal).

[27]The joint sector refers to combined management of industrial firms by both private and state-level public sectors. The state government holds around 23 per cent of the equity in the joint sector and around 11 per cent in the assisted sector.

[28]Government of West Bengal, 1994. *Industrial Policy Statement.* (Calcutta: Government of West Bengal), pp. 5-6. Also see, Ranjit Das, Gupta. 1995. “Industrial Development Policy: A Critical View.” *Economic and Political Weekly* 30, no. 30: 1896-901.

[29]Government of West Bengal, 1994. *Industrial Policy Statement.*

[30]SilpaBandhu means “A Friend of Industry.” Government of West Bengal, *Memorandum on the Reconstitution of SilpaBandhu*, October 6, 1994 (Calcutta: WBIDC).

[31]Jyoti, Basu. 1997. *People's Power in Practice: 20 Years of Left Front in West Bengal* (Calcutta: National Book Agency Private Ltd), p. xiv.

[32]Government of West Bengal, 1994. *Industrial Policy Statement.* (Calcutta: Government of West Bengal), p. 11.

[33]For example, the statement qualified its pro-foreign investment announcement when it said that foreign investment is welcome in “selective spheres and on mutually advantageous terms” [Jyoti Basu 1997. *People's Power in Practice: 20 Years of Left Front in West Bengal* (Calcutta: National Book Agency Private Ltd), p. xiv) or public sector remained as an important vehicle for “ensuring social justice and balanced growth” [Government of West Bengal, 1994. *Industrial Policy Statement.* (Calcutta: Government of West Bengal), p. 5].

[34]A closer analysis of diverse governmental statements, responses by newspapers and the party cadre shows that most observers in West Bengal recognized this to be a significant discursive shift. Later criticisms of how nothing has happened in West Bengal despite these changes refer to implementation issues, which are separate from ideational shifts.

[35]James C. Scott. 1976. *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia* (New Haven: Yale University Press) uses the concept of a moral economy.

[36]Private information refers to the fact that only the government knows whether it has the intention to follow through with its policy commitments.

[37]Dani, Rodrik. 1998. "Promises, Promises: Credible Policy Reform via Signalling." In *The Policy Economy of Reform*, edited by Federico Sturzenegger and Mariano Tommasi (Cambridge, Mass: The MIT Press), p. 309.

[38]Interview, *Business World*, June 22, 1997, p. 94. Also, see *Business Standard*, "Centre Blamed for Bengal's Poor Image Abroad," October 20, 1995. The theme, that it is the "bourgeoisie press' and the "Center" that has "falsely" created the impression that West Bengal is not interested in attracting industry, was repeatedly stressed by Somnath Chatterjee in different interviews.

[39]*The Telegraph, The Economic Times, The Statesman,* and other business weeklies covered repeated interviews with Somnath Chatterjee from 1994 onwards.

[40]*The Economic Times*, August 12, 1997.

[41]Basu spoke thus at a National Politburo meeting of the CPI(M). Malabika Bhattacharya, “An Alluring Investment Haven,” *Hindustan Times*, October 10, 1995.

[42]Interview with a CPI(M) leader, August 2, 2001.

[43]Interview with a CPI(M) leader, August 2, 2001.

[44]*The Telegraph*, September 9, 2001.

[45]Saumya Bhattacharya, "A New State of Mind,” *Financial Express*, August 18, 1995. Also see cover story on “The New Calcutta,” *Newsweek*, March 31, 1997.

[46]It is worth noting that insiders, that is those businesspersons who have invested in West Bengal for a long time, hold positive views about Bengal’s ruling party and its industrial possibilities.

[47]It is not very clear what that stern action was but Basu has withdrawn the earlier support given by the police during episodes of industrial conflict.

[48]*The Telegraph*, March 1, 1999.

[49]*The Telegraph*, September 9, 2001.

[50]Government of West Bengal, *Press Release* December 1996, Personal Collection.

[51]I draw this information from the following document. Government of West Bengal, *Internal Memo, No. 320(6) on the Partnership Summit*, 1996, Personal Collection.

[52]Government of Gujarat, 1995. *Gujarat 2000 A.D and Beyond* (Gandhinagar: Government of Gujarat), p. 1.

[53]Government of Gujarat, 1995. *Gujarat 2000 A.D and Beyond.*

[54] Government of Gujarat, 1995. *Gujarat 2000 A.D and Beyond,* p. 4.

[55]Government of Gujarat. 2000. *Gujarat Industrial Policy 2000* (Gandhinagar: Government of Gujarat).

[56]INDEXTb. 1995. "An Eye for Business," (Ahemdabad: iNDEXTb). Also, see INDEXTB. 1995. "Gujarat: Prosperity through Institutional Support," (Ahemdabad: iNDEXTb) and iNDEXTb. 1996. *Wheels, An Industrial Journal*, April 1996 (Ahemdabad: iNDEXTb). Interviews with entrepreneurs confirm that the government officials argue that continuity with past policies is one of the institutional strengths in Gujarat.

[57]Author's interview with the Finance Secretary, Government of Gujarat, April 16, 1997 and L. Mansingh, Managing Director, GIIC, April 10, 1997. Also see the interview with L. Mansingh in, "Survey of Gujarat," *Business Standard*, March 19, 1997.

[58]Government of Gujarat, 1994. *Report of the Gujarat State Finance Commission*. (Ahmedabad: State Finance Commission, Government of Gujarat), p. 95.

[59]*Business Line*, March 15, 1997.

[60]*Business Today*, June 7-21 1996, pp. 79-119 and December 22-Janaury 6 1998, pp. 83-147

[61]*Financial Express*, June 29, 1991.

[62]Interview with a industry department official, 25 July, 2001, Gandhinager [Gujarat].

[63]Clearly the intensity of policy change in Bengal was stronger but the goals were and continue to be similar.

[64]Moreover, infrastructure is not a pure economic variable, many aspects of infrastructural provision are affected by institutional and political variables.

[65]This argument challenges the oft-repeated claim that since industry is in the Union list, provinces had no role to play in industrial regulation. For an elaboration of this argument see Aseema Sinha, *Leviathan Divided: The Regional Roots of Developmental Politics in India* (Forthcoming, Indiana University Press).

[66]I elaborate this argument in Sinha, *Leviathan Divided*.

[67]Planning Commission. 1969. *Industrial Licensing and Policy Inquiry Commission (ILPIC)* (New Delhi: Planning Commission), p. 67.

[68]Interview, with Mr. R. J. Shah, GoG official, June 21 1997.

[69]During the license-*raj* [rule], Gujarat bureaucracy was distinctive in targeting the central licensing administration, domestic private sector investors, Gujarati capital from West Bengal, Maharashtra, East Africa, and United Kingdom [See Sinha, *Leviathan Divided*]. In the 1980s and especially after 1991, it has become much more indiscriminate, targeting non-Gujarati as well as Gujarati investors from all over India as well as from Europe, Africa, and United States. However, the skills and institutions employed before 1991 proved to be extremely transportable in the post-1991 context; no other state had this advantage allowing Gujarat to take an "institutional" head start in the race with other states.

[70]A state agency complaining about the delay at the central level in a confidential memo to the Ministry of Industrial Development, GoI). Internal Memo, *IEM [Industrial Entrepreneur Memorandum] Progress Report*, January 13 1995, Personal Collection.

[71]The above information is drawn from, iNDEXTb, 1996. *Agenda Items* ((INDEXTB: Ahmedabad); Government of Gujarat. 1989. *Overseas Indian Business & Technology Exposition at New York, USA: Tour Report of the Gujarat Team*, ((INDEXTB: Ahmedabad); GoWB, *A Review of Industry in West Bengal, Various Years*; Interviews with INDEXTB officials and Interviews with businessmen who were affected by the state-level approval administrations.

[72]*Business India*, "Is Maharashtra Losing out?," March 25–April 7 1996, p. 62.

[73]*Business India*, "Is Maharashtra Losing out?"

[74]The library of INDEXTB is a large room filled with hundreds of reports about feasible projects, sectoral information collected by INDEXTB and other consultancy organizations.

[75]Interviews were conducted with about 45 large-scale and small-scale investors located in Bengal.

[76]Interviews with 45 investors in West Bengal.

[77]Interviews with 50 Businesspersons in Gujarat.

[78]Here, the experience of social democratic parties in Europe might offer some insights into similar compulsions in the face of withdrawal of the welfare state. See Herbert, Kitschelt. 1999. "European Social Democracy: between Political Economy and Electoral Competition," In Herbert Kitschelt et. al. edited. *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press).

[79]Amitabh Kundu, and Moonis Raza. 1982. *Indian Economy, the Regional Dimension*. (New Delhi: Centre for the Study of Regional Development, Jawaharlal Nehru University) and Krishna, Bharadwaj. 1982. "Regional Differentiation in India: A Note." *Economic and Political Weekly* 17, no. 14-16: 605-14.

[80]Calculated from, Government of West Bengal, 1997. "*A Review of the Industrial Scene in West Bengal,"* Annual Report 1996-1996 (Calcutta: Government of West Bengal).

[81]Rural industrialization in states like Gujarat, Tamil Nadu, Andhra Pradesh, Punjab, and Haryana makes for a different political economy logic.

[82]The classification of industrial versus agricultural districts must incorporate multiple dimensions; here I use only one criteria – the number of main workers engaged in industrial activities – for which comparable district-wise data is available.

[83]Bombay has also similar problems; thus West Bengal is not unique in facing such urban problems.

[84]This implies that the pro-liberalization policy of the Left Front must, to be successful, create potential winners in the countryside. The class of rural capitalists forming the backbone of revived capitalism in Andhra Pradesh, Tamil Nadu, Gujarat, and in Punjab does not exist in West Bengal as yet.

[85]Interview with a CITU worker, Calcutta, October 15, 1997. Also, see, *Business and Political Observer*, March 30, 1996.

[86]Udayan Namboodiri, "Left Front's New Industrial Policy Backfires," *Indian Express*, May 18, 1996.

[87]Interview with a CITU member, Calcutta, November 15 1997.

[88]See numerous newspaper reports on this issue: *The Times of India*, August 26, 1995; *Business and Political Observer*, August 31, 1995 and *Business Standard,* August 23, 1995.

[89]Tapash Ganguly, "Capital flight in Industry," *The Week,* August 16, 1998.

[90]Tapash Ganguly, "Capital flight in Industry."

[91]Sumit Mitra, "Clash of Comrades: Two Leftists Leaders Squabble over Efforts to Introduce Economic Reforms in the State," *India Today*, November 19, 2001, p, 51-52.

[92]Apart from intra-organizational conflicts over economic policy, the CPI(M) has been troubled by serious factionalism from the late 1990s onwards. Even Jyoti Basu has publicly acknowledged the existence of factionalism within the party. The implications of factionalism and conflictual intra-party and party-CITU relations outlined in this paper for the conventional picture of CPI(M) as a coherent organized force [Atul Kohli. 1987. *The State and Poverty in India* (Cambridge: Cambridge University Press)] are significant. The CPI(M) is a different political party in 2000 than it was in the 1970s and 1980s . The evidence presented in this paper suggests that conflicts over economic policy within the organization of the CPI(M) play a crucial role in enhancing intra-party differences. A new analytical model is needed to understand the CPI(M).

[93]Sunando Sarkar, "CM Sells Reforms To Skeptics," *The Telegraph*, September 9, 2001.

[94]Reflecting after the parliamentary elections in 1998, Basu wrote, "The Trinamul-BJP combine had emerged as the biggest opposition challenge. The BJP, which had never been able to open its account in even the assembly, won the Dum Dum Lok Sabha seat. Also, the [TC-BJP] combine got 34.62 per cent of the votes. The [Left] Front got 46.83 percent. This was a fall compared to the previous time. . . [W]we must look into the erosion of our base in the urban areas and [among the] middle class. That is vitally important now" Jyoti, Basu. 1999. *Memoirs: A Political Autobiography*, translated by Abhijit Dasgupta (Calcutta: National Book Agency Private Ltd.), pp. 389-390.

[95]*Frontline*, June 8, 2001, pp. 124-125.

[96]Interview with an investor, Calcutta, August 15, 2001.

[97]Amitabh Kundu, and Moonis Raza. 1982. *Indian Economy, the Regional Dimension*. and Krishna, Bharadwaj. 1982. "Regional Differentiation in India: A Note."

[98]Takashi Shinoda, 2000. "Institutional Change and Entrepreneurial Development: SSI Sector." *Economic and Political Weekly* 35, no. 35-36), p. 3212.

[99]See, Dupont's study of Western Gujarat, which concurs with this conclusion: Véronique Dupont. 1995. *Decentralized Industrialization and Urban Dynamics* (New Delhi; Thousand Oaks, Calif.: Sage Publication).

[100]See *The Economic Times (Ahmedabad edition)* and the *Times of India (Ahmedabad edition)* for August 1997-November 1997.

[101]In West Bengal some multinationals have moved in the late 1990s but in Gujarat the presence of different types of business actors pre-dated the 1990s.

[102]Takashi Shinoda, 2000. "Institutional Change and Entrepreneurial Development: SSI Sector," p, 3212.

[103]Calculated from Table 7 in Takashi Shinoda, 2000. "Institutional Change and Entrepreneurial Development: SSI Sector," p, 3212.

[104]Anil Padmanabham, "Programmed for Privatization," *Business Standard*, January 9, 1997.

[105] Cited in Anil Padmanabham, "Programmed for Privatization."