

# Tata Motors in Singur: A Step towards Industrialisation or Pauperisation?

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The Singur “model” of industrialisation as represented by the now abandoned Tata Motors project in West Bengal has a number of regressive features. The Left Front government in West Bengal, in competition with other states for the location of Tata Motors’ Nano automobile complex, fell overboard in offering subsidies to the company. Further, the government did not scrutinise the quantum of land demanded by the company, blundered by offering highly fertile land in Singur, and compounded its mistake by invoking the Land Acquisition Act, thereby compelling landowners to surrender their land at a low price. Its compensation formula was biased in favour of non-cultivating absentee landowners, and grossly unfair to the actual cultivators, bargadars and agricultural labourers, giving rise to concerted opposition from peasants and their supporters.

After the dharna led by Mamata Banerjee brought construction work at the Singur factory of Tata Motors Ltd (TML) to a standstill in August 2008, and inconclusive negotiations between West Bengal’s Left Front government (LFG) and the opposition, the company decided to shift the plant to Gujarat. The opposition had not bargained for such an outcome. Had its demand for the return of 300-400 acres of acquired land to local farmers been met, and the company agreed to relocate the associate producers at a site a few miles away, the factory could have come up in Singur. Nearly completed before these took place, the essay reads as if the plant would remain there.

Having won a massive majority in the 2005 assembly elections with “development” as the motto, the LFG led by the Communist Party of India (Marxist) – CPI(M) went all out to invite big capitalists, domestic and foreign, with fiscal and other incentives, hoping to make West Bengal a major destination for investments. It was seen as the only way to fulfil people’s aspiration for jobs and prosperity.

In a short while the LFG claimed a “stunning victory”. TML was induced to shift its “revolutionary” small car project from Pantnagar, Uttarakhand to Singur near Kolkata. Apart from the intrinsic techno-economic merit of the project, there was a general expectation that its success would bring in its train many more projects in various industries. Industrial output and employment would expand manifold.

Curiously, public reaction was far from enthusiastic, as the project required the state to acquire 1,000 acres of highly fertile land. The opposition was initially disjointed and sporadic. Close on the heels came an official notification to acquire for a chemical complex a much bigger area in Nandigram. The peasants there literally took to arms to forestall it. They paid dearly in blood and tears twice – in March and in November 2007, but drew an unprecedented wave of sympathy cutting across party lines in Bengal and beyond. Even the iconic Jyoti Basu expressed misgivings about police action in Nandigram. Apart from the opposition parties like Congress, Trinamool Congress, Socialist Unity Centre of India (SUCI), Communist Party of India (Marxist-Leninist) – CPI(M-L) – and CPI (Maoist), three important constituents of the LFG, namely the Communist Party of India (CPI), Revolutionary Socialist Party (RSP) and Forward Bloc publicly criticised the government. Yet the West Bengal leadership of the CPI(M) was adamant: it was confident about both the correctness of its programme, and popular support for it. The panchayat elections of May 2008 came like a thunderbolt. The CPI(M) was wiped out in Singur and Nandigram, and out of 14 districts councils, it lost control over three, including East Medinipur and South 24-Parganas.

I am grateful to Sushil Khanna and N Krishnaji for useful suggestions, and to Amit Bhaduri and Rajani Desai for probing questions and comments.

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Apprehending a substantial loss of seats in the 2009 parliamentary election, large sections within the CPI(M) called for a fresh look at the policy. The dissidents within the party and other parties in the LFG raised two basic issues, namely, massive subsidies from the exchequer, and the virtual confiscation of peasant land for big capitalists. In both respects the LFG, like the United Progressive Alliance (UPA) in Delhi and many other state governments, is acting according to the neoliberal script. In the face of opposition, the LFG was compelled to go slow on land acquisition, but has not revised its industrial policy.

Focusing on Singur, the present essay seeks to underscore the economic and political fault lines of the pattern of “industrialisation” in contemporary India. While the mantra of the market is chanted ever more lustily, the logic of the market has been swept under the carpet by the “proactive” state raining subsidies on big investors under one pretext or another. This inevitably leads to a highly capital-intensive production structure with overall employment often shrinking rather than expanding; it is especially true of the motor vehicles industry. And the subsidies have an adverse impact on budgetary outlays on public sector investments and on social sectors like health, education and so on. No less disturbing is the creation in the recent past of enormous land banks under private ownership, with the state intervening directly to expropriate peasant land. The Singur “model” incorporates all these regressive features.

Section 1 probes the extent of central tax bounties available in Uttarakhand, if Tatas had located the plant in Pantnagar – from the perspectives of both the company and the national exchequer. In Section 2, are pieced together scattered materials on incentives offered by the LFG for the venture in Singur. Section 3 explores Tata’s business logic in opting for Singur. The next three sections look at the factors behind peasant resistance. The apparent legal anomalies in the LFG’s compensation scheme for the agriculturists in Singur are highlighted in Section 4. The following section goes into the doctrine of “eminent domain” underpinning the Land Acquisition Act, 1894, and some alternatives that have recently been proposed. Two recent judgments of the Supreme Court on what constitutes “fair compensation” are highlighted. If the court comes to a similar view on Singur, the consequences can be far-reaching. The impact on local employment in Singur is explored in Section 7. The next section examines if the new plant could hasten the industrialisation of the state. The concluding part raises some general issues regarding the nature of “industrialisation” being promoted by the central and state governments.

## 1 Incentives in Uttarakhand

The central government introduced in 1999 a special scheme for the industrially backward north-eastern states in respect of new industrial units as well as substantial expansion (an increase of at least 25% over the initial investment) of an existing plant. In 2003 it was extended to a few other states, including Himachal Pradesh and Uttarakhand. The fiscal concessions include: (a) 100% excise duty exemption for the first 10 years of commercial production; and (b) full exemption from income tax for the first five years, and for another five years a tax rebate of 30% for companies.<sup>1</sup>

Indeed, during the last few years Uttarakhand and Himachal Pradesh have attracted big investments in sectors with a high incidence of excise duty like pharmaceuticals and automobiles. Tata Motors obtained 1,000 acres of land from the Uttarakhand government and built a plant to manufacture 60,000 mini-trucks a year. Among other notable factories are those of Ashok Leyland for 50,000 vehicles, of Bajaj Auto for one million two-wheelers, and so on.

Tata Motors’s small car plant will produce 250,000 cars a years with an ex-factory value of Rs 100,000 per car against an investment of Rs 1,500 crore. The excise duty on small cars being 12%, the potential tax benefits comes to Rs 300 crore a year, or Rs 3,000 crore during the first 10 years. If one assumes an annual profit of 10% on the investment of Rs 1,500 crore, corporate tax at the current rate (nearly 35%) on an income of Rs 150 crore a year would be Rs 52.5 crore. In view of the tax exemptions, Tata Motors could annually save the whole amount in the first five years, and Rs 15.8 crore in the next five years. If the plant were located in Uttarakhand, saving on the two taxes during the decade would total Rs 3,341 crore, or more than twice the investment.

However, for an economic agent, one rupee (of income or expenditure) today is not equivalent to one rupee, say, five or 10 years hence. The common practice is to discount future flows at a rate of interest that represents the “cost of capital”, and to calculate accordingly the “present value” (PV) of such flows. For big firms like Tata Motors having access to loans from global sources, the cost may be as low as 6%. Using this discount rate, the PV of total tax benefits comes to Rs 2,627 crore.<sup>2</sup> Looked at differently, Tata Motors would recover its investment in just over four years of full production. Instead of digging into its reserve capital, the firm could easily obtain a “bridging loan” from the market to be repaid through tax saving. The additional bounty, over and above the investment on the plant, of Rs 1,127 crore could be put into new ventures.<sup>3</sup> If the new car fails to capture the market as projected, the plant runs at just two-thirds of the capacity, and Tata Motors earns no profit at all, it would still recoup its investment from excise duty remission over the first 10 years. Thus the centre’s incentive scheme either enables the investors to earn super-profits, or reduces greatly the downside risks of failure in the market place.

Fiscal authorities typically justify tax sops for industry over a limited number of years as a means of raising revenue in the long run. Cleverly, they omit the discount factor for future flows. For the central government (and also the state governments) the average cost of capital in 2007 was 8%, being the yield on their securities.<sup>4</sup> The PV (discounted at this rate) of excise and corporate taxes foregone amounts to Rs 2,447 crore for the first 10 years. From the 11th year the centre would garner the taxes, but the PV of such receipts is much lower and falls rapidly owing to the discount factor. Since a modern motor car plant is unlikely to have a life beyond 30 years, the time horizon for PV calculation may be set at 30 years. During this period the centre would be a net loser to the tune of Rs 701 crore for excise duty and a net gainer of Rs 464 crore for corporate income tax, resulting in a net loss of Rs 236 crore. In the absence of the incentive scheme, the PV of the centre’s tax revenue would be Rs 3,612 crore, or the cost of

the scheme comes to Rs 3,376 (=3,612-236) crore. Thus, contrary to the official claim, the scheme causes a permanent tax loss, aggravating the fiscal deficit.

The official Task Force on Indirect Taxes (2002) came to a similar conclusion, recommended a review of the policy to grant exemption based upon location and opposed its extension to new regions. The advice fell on deaf ears, and the scheme was extended to Uttarakhand and Himachal Pradesh. Other states that were left out began to offer comparable incentives through value added tax (VAT), etc. West Bengal's Singur project, and Tamil Nadu's Ultra Mega Automobile Projects are examples. To regain its advantage, Uttarakhand came out with a new industrial policy from April 2008, doling out power tariff rebate up to 100%, and VAT rebate up to 90%.<sup>5</sup>

Thus the Bharatiya Janata Party (BJP) government through its notification of 2003 not only enfeebled the central exchequer but also engineered an "incentives war" among the states to transform all of them into beggars meekly soliciting big capital.

## 2 The Singur Package

The Industries Minister, Nirupam Sen, informed the West Bengal assembly of some of the terms of the agreement between the LFG and TML (*The Telegraph*, 16 March 2007, and *The Hindustan Times, Kolkata Live*, 16 March 2007). (a) For 645 acres of land the company would make no upfront payment. The annual lease rent was fixed at Rs 1 crore for the first five years, an increase of 25% every five years from the 6th to the 30th year, a 30% rise every 10 years from the 31st to the 60th year, and a flat Rs 20 crore from the 61st to the 90th year. (b) VAT dues would be refunded as soft loan at "a very nominal rate of interest". (c) TML will get a soft loan of Rs 200 crore at 1% rate of interest from the parastatal, West Bengal Industrial Development Corporation (WBIDC). (d) The ancillary units will be set up on 290 acres, paying an unspecified lump sum and an annual rent of Rs 8,000 per acre. In the long run, the minister added, the state revenues would increase by Rs 400-500 crore per year thanks to the Tata project.

Public debate for the next 18 months was conducted on the basis of such incomplete information. In the wake of the impasse in late August, the WBIDC published on its web site the memorandum of understanding (MOU) between TML, the government of West Bengal and WBIDC, providing a fuller picture ([www.wbidc.com](http://www.wbidc.com)). Still, the crucial Annexures A and B of the MOU fleshing out the actual numbers, and perhaps more, were withheld.

The salient points of the published MOU are as follows: (a) Total incentives under (b), (c) and (d) below should be equivalent to those offered by the centre in Uttarakhand (see Section 1). (b) The state will provide soft loans (at 0.01% interest per annum) against VAT and central sales tax (CST) dues until the PV of such loans reaches the level of Uttarakhand benefits reduced by the incentives under (c) and (d) below. These loans will be repaid with interest from the 31st year onwards. (c) The exchequer's cost of land acquired for TML will be deemed to be a benefit; it will be reduced by the PV of rent paid by the latter over 60 years. (d) The loan of Rs 200 crore from WBIDC at an interest of 1% interest per annum will be repaid in five equal instalments from the 21st to the 25th year. The PV of the loan will be reduced by that

of amortisation payments. (e) The PV in all these calculations (from a to d above) will be at a discount rate of 11% per annum.

Regarding land, the state acquired 1,000 acres for Rs 120 crore; the cost comes to nearly Rs 80 crore for the area leased to TML on terms spelled out by Nirupam Sen. TML claimed in an affidavit to the Calcutta High Court in 2007 that it would shell out around Rs 1,000 crore to the WBIDC "in a phased manner" over a period of 90 years.<sup>6</sup> But the phased payment, the Comptroller and Auditor General of India earlier observed, violates the government's own directive of February 2006: for long-term leases, the lessee should have initially paid 95% of the market value of the land, and an annual rent at the rate of 0.3% of the market value of the land. Accordingly, the WBIDC should have realised from Tata Motors a premium of Rs 91.88 crore and lease rent of Rs 29 lakh annually.<sup>7</sup> Actually, under the MOU the state's land acquisition cost is part of the total benefit to which TML is entitled (Table 1), and hence the observation, made prior to the publication of the MOU, by the CAG and also reiterated by the opposition, is not valid.

The cost of acquisition has gone up sharply after the subsequent agitation. In an advertisement (*Hindustan Times*, 14 September 2008, p 1) the state offered to: (i) return 70 acres to the landowners within the project area; (ii) provide cash assistance to landlosers to buy agricultural land, if they want, to the extent of 50% of the land price as determined by the Land Acquisition Collectorate; (iii) compensate agricultural labourers and bargadars for 300 days of work at the wage rate for the national rural employment guarantee scheme; (iv) pay an additional compensation of 10% of the land price if the "unwilling" land-owners accept the offer by 20 September 2008; (v) arrange training for one person per family of landlosers, and endeavour for their eventual direct or indirect employment; and (vi) undertake Community Development Projects in the affected area. A reporter quoted an unnamed government official who estimated the extra cost of acquisition at Rs 48 crore, raising the total for the entire project to nearly Rs 170 crore (*Hindustan Times, Kolkata Live*, 14 September 2008, p 1).

In addition, the state should have spent up to Rs 300 crore in dredging, widening canals, building bridges and culverts, creating training centres and market complex, etc ("Taxpayers' Singur Bill: 300 cr", *The Telegraph*, 7 October 2008, p 1). Since the MOU does not include these outlays as part of the land cost for the project, in Table 1 I reckon the latter at Rs 120 crore for TML, or 50% more than initially expected, and estimate the PV of land rent at different rates of discount.

**Table 1: PV of Benefits in Rs Crore over 60 Years for TML at Different Rates of Discount**

	Alternative Discount Rates			
	0%	6%**	8%**	11%
Uttarakhand package				
Excise relief	3,000	2,341	2,174	1,961
Corporate tax relief	341	287	273	254
Total	3,341	2,627	2,447	2,215
Singur package				
Land acquisition	120	120	120	120
Lease rent	-215	-35	-26	-9
WBIDC loan	200	200	200	200
Amortisation	-246	-82	-59	-39
VAT loans	3,400	2,424	2,386	1,942
Amortisation	-3,580	-1,018	-414	-87
Vat revenue	-8,600	-995	-470	-84
Total	-8,921	614	1,737	2,044

\*\* : VAT loan repayment begins immediately after the target amount is reached.

On the soft loan of Rs 200 crore for a period of 20 years at 1% rate of interest from the WBIDC, the PV of repayments over the next five years is again calculated at different rates of discount in Table 1.

The main item in the calculation of TML's benefit is the soft loan (at 0.01% interest) against the VAT and CST dues of TML. If the car's ex-factory value is Rs 1,00,000, the retail price of the car is likely to be Rs 1,30,000; the VAT (currently, 12% or Rs 15,600 per car) would amount to Rs 390 crore per year ( $=Rs\ 15,600 \times 2,50,000$ ), if all cars were sold in West Bengal. For sales in other states the state will obtain CST, but for export (the volume is expected to be significant) the state will not realise any indirect tax from TML. West Bengal's share in all-India sales was last reported at around 5% in 1998 (see Table 1, p 42), and is unlikely to exceed 10% presently. However, all inputs supplied to the plant from local or other sources will attract VAT; these will be set off only against the VAT on cars sold locally. On a rough estimate, West Bengal is unlikely to collect more than Rs 175 crore in VAT, though for the numerical exercise below, I put it higher at Rs 200 crore.<sup>8</sup>

In Table 1 are shown the PV of benefits to TML over 60 years at different rates of discount; the benefits have a positive sign, while receipts by the exchequer have a negative sign. At the rate of 11% specified in the MOU, the loans on account of VAT and CST continue till the 31st year and repayment stretches from the 31st to the 60th year, resulting in a net outflow over the entire period of Rs 2,044 crore from the exchequer.

Now, in Tamil Nadu's Ultra Mega Automobile Projects (see Section 1), soft loans against the VAT and CST dues over a maximum of 21 years are offered, totalling no more than the value of initial investments, and all flows are calculated at a zero rate of discount. Broadly the same is true for the new industrial policy announced by Andhra Pradesh (*The Hindu Business Line*, 5 October 2008, p 3). Had West Bengal insisted on a zero rate of discount, but other clauses remained the same as in the MOU, the state exchequer would have a net inflow of Rs 8,921 crore over 60 years, as shown in Table 1. In particular, TML would obtain VAT loans for just 17 years, or 13 years less than in the MOU.

There is hardly any logic behind the choice of 11% as the discount rate. As seen in Section 1, the cost of capital for giant firms is only 6%, and that for the state governments is 8%. Alternative estimates of net loss for the exchequer are presented using these discount rates; it is also assumed that repayment of VAT loans starts as soon as the benefit for TML has reached the targeted amount. At the discount rate of 6% the exchequer would provide VAT loans for 21 years, and its overall loss would be Rs 614 crore; at 8% discount rate, the corresponding figures would be 28 years and Rs 1,737 crore. It seems that the LFG failed to do elementary homework in a bargaining situation, and allowed TML to fix the rate of discount to its own advantage.

Again, on compensation for land acquired, the LFG could "afford" to pay much more since the MOU does not specify any figure. Higher compensation would mean a corresponding reduction in VAT loans to TML; at any positive rate of discount, the state exchequer would gain in consequence. In other words, the LFG's vigorous defence of the initial and revised compensation was pointless, and did not serve the interest of either the peasants or the exchequer.

Further, and this is outside the centre's package for Uttarakhand, the government of West Bengal, according to the MOU, "will provide electricity for the project at Rs 3.00 per kwh. In case of more than Rs 0.25 per kwh increase in tariff in every block of five years, the government will provide relief through additional compensation to neutralise such additional increase". The current rate for other users in the state is reported to be Rs 4.15 (*Business Standard*, 9 September 2008). What is the likely extent of subsidy?

From TML's web site one finds that power consumption per vehicle (passenger cars as well as commercial vehicles) at the Pune factory came down from 752.6 kwh in 2000-01 to 580 kwh in 2003-04.<sup>9</sup> Elsewhere, one finds that for the Indigo car power consumption per unit also decreased from 1,174 to 851 kwh between 2000 and 2002.<sup>10</sup> Since Nano is a small car, per unit consumption could be as low as 700 kwh; when the plant operates at full capacity, the annual subsidy (Rs 1.15 per kwh) would then amount to Rs 20 crore. The total would go up over time with a rise in the retail price of electricity, and an increase in plant capacity from 2.5 to 3.5 lakh cars. One may recall that the centre's commitment to supply power at a fixed price in the 1960s to Hindalco's aluminum plant in Uttar Pradesh led to a huge drain from the exchequer. I must add (see Section 1) that the company would have obtained in Uttarakhand a similar incentive.

To sum up: The LFG's claim of an increase of Rs 400-500 crore from the Singur project in the distant future is misleading as it ignores the time discount. The state exchequer would end up as a big loser.

### 3 Tata's Business Logic

In the last two decades automobile manufacturing all over the world has become increasingly footloose as witnessed by the decline of Detroit in the USA or the Midlands in Britain on the one hand, and the rise of new centres in China, India and south-east Asia on the other. When Volkswagen or General Motors goes to China, their component suppliers follow suit. The same thing happened in Pantnagar after 2003, and many inputs into the industry are fabricated locally. However, more complex components with large economies of scale in production like engines are sourced from established centres near Chennai and Pune. Since Singur will also have ancillaries, the transportation costs for all the inputs taken together should be the same as between Singur and Pantnagar. The other major concern for a car manufacturer is the distance from the consumer markets. In the sale of passenger cars, northern India dominates. In 1998, the latest year for which data are available, 44% of cars were sold in the north, 25% in the west, 19% in the south, and only 11% in the east, including 5% in West Bengal.<sup>11</sup> It is possible that Bengal's share has gone up a little since then. Even then Pantnagar should have been the preferred site for domestic sales. However, TML is banking on substantial exports. As Pantnagar is quite far from any port, the company had to find a suitable coastal site.

Had the LFG considered these factors, it should have offered like Tamil Nadu and Andhra Pradesh, less by way of concessions. Among the coastal states in the east, only Orissa could compete with West Bengal; the latter's advantage lies not only in much



higher local sales but also cheaper access to markets in Bihar, and the north-eastern states.

The next question is why, out of the two locations offered by the LFG, TML promptly selected Singur in lieu of Kharagpur. Sen's (2007) hypothesis is that the company wanted the managerial cadre to enjoy a "metropolitan lifestyle", as Singur is situated on a highway, barely 45 km from Kolkata, and 40 minutes' drive from the airport. By contrast, Kharagpur is over 100 km away from the city. Paradoxically, Sen defended vigorously the LFG's industrialisation policy and TML's choice of Singur, but criticised unambiguously the way the land price was fixed. Would TML opt for Singur if it had to pay a hefty sum for the land? If it did, it would exhaust the targeted benefits under the MOU much earlier, and the honeymoon period of VAT-free business would be shortened. Further, though many large firms strive for a "good" living environment for their managers, they have long ceased to be obsessed by mega cities. Lure of fiscal concessions from the centre, made TML and several other major firms build factories in Pantnagar rather than in their traditional bases like Pune, Chennai, etc. Hence one has to explore if there might be still more attractions of Singur for TML.

Critics of the LFG do not believe that all of 645 acres of land was needed for the Tata plant. For instance, Maruti Udyog has a total area of 300 acres and currently produces over 7,50,000 cars a year. TML in Pune now produces nearly 2,00,000 cars and, along with the Jamshedpur unit, 3,40,000 commercial vehicles; it has an area of 178 acres only.<sup>12</sup> If direct employment in Singur is 2,000, the factory premises and employee housing should not take up more than 300 acres. The remainder, more than one-half of the leased-in area, it is suspected, might be converted into commercial real estate, though the company management denies it.

Actually, the LFG in its zeal to be "investor-friendly" has of late been encouraging the conversion of "industrial land" (as per the lease deed) into commercial real estate for a small or negligible fee. A couple of years ago Hindustan Motors at Uttarpara assigned the lease for 314 acres of state-owned "industrial land" to a real estate venture, and made a hefty profit with a promise to invest it in modernising the old plant.<sup>13</sup> At Maheshtala, a suburb of Kolkata, Bata India was allowed to transfer 260 acres of "surplus land" to Riverside Holdings – a 50:50 joint venture between Bata and Calcutta Metropolitan Group. The new lessees have projects of Rs 1,300 crore for setting up hospital, hotel, residential buildings, a 10-hectare special economic zone (SEZ), etc.<sup>14</sup>

Critics of the LFG have also wondered why, for new ventures like that of TML, instead of fertile agricultural land, large blocks of land, usually on lease at a low rental from the state, occupied by hundreds of sick industrial units or underutilised by functioning units, were not repossessed by the state, invoking the lease deed. Ministers have cited legal difficulties as the major obstacle. To my knowledge, the government has not made a single move along these lines. Interestingly, the CPI(M)'s trade union wing, Centre of Indian Trade Unions (CITU), has recently echoed the opposition view by launching a campaign: "We want only industry in industrial land, ... [and] not the development of real estate on lands belonging to sick industrial units" (*The Hindu Business Line*, 21 March 2008, p 11).

The CITU has checkmated the LFG on a number of relatively minor issues, but may not have the correct perspective on this issue. If the LFG revokes a lease on some industrial land, it might or might not have to pay a hefty compensation to the original lessees; the courts would decide. In any case, public opinion would not allow such lands to be gifted away to new entrepreneurs. But manufacturing concerns like TML are unlikely to pay a market price for non-agricultural land, since most state governments provide it virtually free of cost. It is worth recalling that Mumbai has a huge reservoir of government land leased out decades ago for a negligible rent to textile mills that became sick; most of such lands are being converted into real estate. Far from endorsing a similar policy for Kolkata, I just want to underline that no large factory is likely to come up in areas with high land prices.

Indeed, the cash-strapped LFG through its parastatals has been profiteering from land transactions. (i) The maverick CPI(M) West Bengal Transportation Minister, Subhas Chakraborty has publicly flayed his own government for "running a land speculation business, acquiring land at throwaway prices from farmers and selling it at a premium" (*The Telegraph*, 7 June 2008, p 8). (ii) For a transport hub at Gopalpur in Rajarhat, the government froze all land transactions between private persons in regard to more than 200 acres a few years ago, and offered around Rs 12 lakh per acre as compensation. Some 5,000 landowners, "ready to give blood, but not land", were led by CPI(M) activists in a demonstration before the land acquisition office, and refused to accept the compensation cheques. Subsequently, the top bidder for the transport hub from Hyderabad offered Rs 48 lakh per acre to the owners, but that, too, was turned down. For, the realtors in the area who had bought from the parastatal, Housing Infrastructure Development Corporation (HIDCO), land at Rs 2 crore per acre, offered a little less to the individual landowners.<sup>15</sup> (iii) Another report by Mazumdar (2007) claimed that in Rajarhat,

thousands of acres of fertile farmlands and even water bodies were, and still are being, acquired for a spanking new township, complete with IT parks, multi-specialty hospitals, entertainment and shopping malls et al. The landowners were paid at the rate of Rs 3.6 lakh per acre, while the government, after developing the land, sold the same at more than Rs 60 lakh.

Moreover, there is a large-scale conversion of agricultural land into non-agricultural uses by private persons without the state's permission. The total for the past five years is about 1.26 lakh acres, according to the Minister of Land and Land Reforms. Besides, the state failed to retain some 10,000 acres of *khatal* (cowshead) land in Kolkata from which the occupiers were evicted.<sup>16</sup>

#### 4 Fault Lines in Singur's Compensation Scheme

There was some initial confusion within the LFG about the quality of land acquired in Singur. On 21 December 2006, the Department of Culture and Information in a press note stated that out of 997 acres, 900 were single-cropped, and only 37 were multi-cropped. Earlier, the Department of Agriculture had already completed its own survey showing that the percentages were 31 for single-cropped, 56 for multi-cropped, and 14 for non-agricultural land.<sup>17</sup> Curiously, the old data on the types of land acquired were reproduced in the official *Status Report on Singur: As on 19 December 2006* (p 6);

fortunately, the total amount of compensation awarded to landowners was Rs 130 crore – at the rate per acre of Rs 8.70 lakh for single-cropped land and Rs 12.76 lakh for multi-cropped land (p 3), was in keeping with the revised classification of land. Cheques worth Rs 83 crore were issued to 9,839 persons in respect of 658 acres, while those for Rs 36 crore earmarked for about 2,400 persons owning 339 acres, were yet to be collected. In addition, the report stated that recorded bargadars would get 25% of the compensation amount received by the landowners.

The principle of natural justice requires that the amount of compensation for a property acquired should be related to the income foregone from that property. It seems to have been violated on three grounds: (i) For two plots of land with the same fertility, how can the state offer a higher price for land under barga than for the owner-cultivated plot? It was acting according to the provisions of the existing Land Acquisition Act, which does not reflect the ground reality after the Land Reforms Act of 1977 was implemented. (ii) Under the Act of 1977, a bargadar has a heritable right over the land under his/her possession, and is entitled to 75% of the gross output if some of the material costs of cultivation are borne by the former, or only 50% if the costs are entirely met by the landowner. Most studies show that absentee owners rarely contribute to the costs, and very often do not receive even their legal share of 25%. If material costs are roughly one-quarter of the gross output, the net income of the bargadar should be about twice that of the owner. Now, if Rs 100 is paid as compensation per unit of land, the owner-cultivator should receive the full amount, while for land under barga the owner is entitled to only Rs 33 as against Rs 66 for the bargadar. Actually, the state awarded too little to the bargadar (Rs 25) and too much to the landowner (Rs 100). It is no wonder that the bargadars were quite agitated. Apparently, “a CPI(M) [internal] survey has revealed that it is the bargadars who were behind the farmers’ agitations in Singur, Nandigram, Mahishadal and other parts of Bengal”, and that the LFG was working on a better package for them. As for unrecorded bargadars the government promised compensation at half the rate for recorded bargadars, the WBIDC held a hearing to enlist them and 350 of them made their claims, but so far they did not get any compensation.<sup>18</sup> Since the loss of income per acre would be the same for the two groups of bargadars, there is little justification for offering so little to the unrecorded ones. (iii) Other stakeholders in Singur were the agricultural labourers, resident as well as migrant, who lost their earnings. If employees retrenched by urban enterprises owing to “restructuring” or terminal sickness, and squatters on government land are often compensated for the loss of future income or shelter, there is no reason to deny the same to Singur’s labourers. The latest indications are that the latter may get some compensation.

In its September 2008 notification (see Section 2) the LFG has made partial amends by providing some compensation to bargadars and agricultural labourers, but the anomalies (i) and (ii) remain. The state could do much more since TML will pay for the acquisition cost. However, the situation changes dramatically if one questions two basic premises of the Land Acquisition Act. One is the doctrine of “eminent domain” that empowers the state to acquire any piece of land even against the owner’s wishes for a “public purpose” as

determined by the State. The other is the prevailing practice all over the country, including Singur, of the State fixing compensation for agricultural land according to the net income from cultivation.

## 5 ‘Eminent Domain’

The Indian courts so far have accepted the doctrine of “eminent domain”. The Kolkata High Court held that land acquisition in Singur was legal and refused to put on hold the construction work at the site, as urged by some petitioners. At the same time, the court reserved its verdict on the quantum of compensation. The Supreme Court on 13 May 2008 also dismissed the petitioners’ prayer for injunction, but sought reply from Tata Motors, the West Bengal government and others as to why “fertile multi-crop agricultural land” was acquired for the company’s small car project at Singur (*Hindustan Times*, 13 May 2008). The court appears to be re-examining the doctrine of eminent domain in the light of widespread peasant protests and strong opposition led by political and social activists to “development through displacement” of agriculturists.

Fernandes (2007) placed the Singur situation in a broader perspective. Summarising a whole series of studies, he observed that in India over the period, 1947-2000, as many as 60 million persons were displaced, of whom a vast majority were not properly rehabilitated; among those displaced, 40% were tribals, and 20% each of dalits and “other backward classes” (OBC).

After the events of March 2007 in Nandigram, a leading economist and member of the CPI(M), Patnaik (2007) wrote:

The fact that everywhere in the country, not just in West Bengal, peasants are up in arms against such ‘industrialisation’, the fact that a similar tragedy had already occurred in Orissa a couple of years ago (and three Posco officials were recently abducted for a short period by ‘villagers’), and the fact that throughout the long rule of the Left Front (LF) in West Bengal, not one incident of this kind had occurred despite the CPI(M)’s alleged Stalinism, should have suggested that the roots of the problem lay elsewhere, not in the intrinsic nature of the CPI(M).

Over the past six decades or more the broad left movement, including the Naxalites, have carried on land struggles in different forms on the premise that land hunger or inequitable access to land is at the root of socio-economic discontent among the masses. Citing the recent example of Tamil Nadu, without mentioning Kerala’s pioneering land reforms of the 1960s, the National Commission on Farmers (2006) recommended that “wherever feasible, landless labour households should be provided with at least 1 acre per household... [as] the ownership of a small plot of land will help the family improve household income and nutrition security”. Further:

Prime farmland must be conserved for agriculture and should not be diverted for non-agricultural purposes and for programmes like the SEZ. Such special programmes should be assigned wastelands and/or land affected by salinity and other abiotic stresses that reduce the biological potential of land for the purpose of farming.

In the same vein, the Union Home Minister announced that the law on acquisition is being amended.

Land which is good for agriculture should not be acquired for SEZs as far as possible. No irrigated land should be acquired and only barren land should be taken over for SEZs... [T]he land seller has to be compensated financially as well as psychologically. Besides, land for land

is also acceptable... When a man is displaced from his native place, he is psychologically affected and unless and until the new place is better than the old one, he is being hurt". The Uttarakhand government is also contemplating a similar law. N R Narayana Murthy, the iconic chief mentor of Infosys, has spoken in the same vein.<sup>19</sup>

One cannot predict the Supreme Court's final verdict on Singur, or the extent to which the Land Acquisition Act will, if at all, be amended. But the assertion of the LFG, unfortunately echoed by Sen (2007), that those protesting against the acquisition of Singur's fertile agricultural land are enemies of industrialisation, is reminiscent of the proverbial ostrich burying its head in a sand dune. None of the persons or authorities just cited can even remotely be labelled as latter-day "Luddites".

## 6 Compensation

Even if the doctrine of eminent domain is upheld by the Supreme Court, does it imply that the peasant resistance in Singur has been irrational or misconceived? The CPI(M) boasted that the amount of compensation was "well over one and a half times the prevailing market prices".<sup>20</sup> Party spokesmen also claimed that an overwhelming majority of landowners surrendered their lands voluntarily for a simple reason: if the compensation money is kept as fixed deposit in a bank, the annual interest income would exceed the present net income from cultivation. As this argument is repeated in many quarters, one may note the major fallacy. In a period of inflation, the real value of a fixed deposit and the associated income tend to vanish in the long run. As "traditional" peasants know, and the National Commission on Farmers reiterated, possession of some land on which crops grow provides the best safety net.

The "refuseniks" who spurned the compensation cheques, constituted a quarter of the landowners and owned about one-third of the total land, according to *Status Report on Singur as on 19 December 2006*. Owner-cultivators with small means may have accepted compensation as they felt helpless against the peremptory nature of the Land Acquisition Act; the high cost of a protracted legal battle was also daunting. On the other hand, all landowners, who gave consent or not, will benefit from higher compensation. Hence the proportion of objectors is irrelevant. Politically and morally, the very fact that since 2007 the LFG stopped acquiring land, suggests that the story of an overwhelming majority in Singur surrendering their land voluntarily was a concoction.

The refuseniks, accused of being illogical by the CPI(M) pundits, may turn out to be realists in view of two recent judgments. On compensation for land being acquired for a commercial purpose, the Supreme Court took a fresh view in March 2007. While acquiring some agricultural land in Goa for a new broad gauge line of the Konkan Railways between Roha and Man, the government fixed compensation according to its own schedule for *bharad*/coconut land at Rs 4 per square metre. On a petition filed by one owner, based on the report of a state-approved valuation expert, the district court raised the consideration to Rs 102. However, the Bombay High Court made various adjustments and scaled it down to Rs 38. The Supreme Court was scathing about the high court verdict: the latter ignored "the loss of his

[owner's] future earnings", the location of the land (close to a highway), and the fact "that the purpose [of acquisition] is a relevant factor to be taken into consideration for fixing the compensation". The price finally was raised to Rs 250 per square metre (*All India Reporter*, June 2007, SC1414). It seems to me that the LFG made mistakes, even in September 2008, identical to those of the Goan government.

The second landmark judgment is that of the Madhya Pradesh High Court in February 2008 regarding the oustees of the Narmada dam project. (i) The height of the dam cannot be raised until the oustees have been rehabilitated as indicated below. (ii) The oustees may be made better-off by the authorities – whether by the allotment of land, or employment, or other schemes. (iii) Every farmer, encroacher, and adult son of a farmer must be provided agricultural land with a minimum allotment of 5 acres of irrigated land, as per the rehabilitation plan that was approved by the central government. The court observed that while the state government provided thousands of acres of land to SEZs and private industries, it had made no effort to obtain private lands for the oustees. (iv) The oustees who have accepted compensation are still eligible for land. However such oustees would have to return 50% of the compensation when they accept the allotted lands, and the remaining 50% in 20 instalments.<sup>21</sup> The state government appealed against the judgment to the Supreme Court that gave an interim order, and upheld the high court verdict on all points except one; whether the landowners who accepted compensation money, are still entitled to land allotment will be decided later.<sup>22</sup>

At first sight, this last order may have no relevance for West Bengal, as the LFG has not formulated a rehabilitation scheme comparable to that for the Narmada oustees. If the "land for land" formula is valid for Madhya Pradesh, and the LFG has been seeking land for private investors on a large scale, there is no reason why the state cannot make similar efforts for displaced peasants. The LFG claims that there is too little of non-agricultural land to satisfy investors' demand. Land use statistics show that out of a total geographical area (in million acres) of 21.9 in the state, agriculture and forestry account for 17.3, while "area not available for cultivation" and "other uncultivated area" take up respectively 4.0 and 0.7 (WBHRD 2004). Is it not possible to find some land from the last two categories? The "area not available for cultivation" includes land utilised for infrastructure (e.g., roads, irrigation, etc), mining, urban area, etc. It is difficult to believe that land for industry cannot be found if one is willing to pay an appropriate price, significantly higher than the pittance the state has been paying to acquire peasant land for industries. In exceptional cases, one may concede that some agricultural land may be converted into other uses, provided the full cost of rehabilitation the displaced persons is borne by the buyer. This will by itself reduce the investors' demand for such land.

In view of the concern about food security, one must also explore the possibility of augmenting the supply of cultivable land. Not only in Israel that has been commended for converting deserts into arable lands, large chunks of land in Rajasthan have been brought under the plough thanks to massive public outlays. The district of Hughli that includes Singur became agriculturally

prosperous after several hundred crore of rupees were invested in the last 4-5 decades (Sinha 2007). Actually, the LFG has implemented a number of small-scale projects for land development. NABARD (2005) gives an account of one scheme in Bardhaman for land levelling that led to an increase in crop output; actual outlay on levelling 29 acres belonging to 57 farmers amounted to less than Rs 14,000 per acre, and the rate of return on investment was quite high at over 30%. The cost would certainly be much higher in an area without any farming. Even if one multiplies the figure by an ad hoc factor of 10 to Rs 1,40,000 per acre for land levelling as well as irrigation and drainage, it would still be a fraction of the LFG's compensation award for Singur. Hence the LFG's contention that there is too little of non-agricultural land merely reflects a lack of planning and a desire for a quick-fix solution.

## 7 Employment in Singur

According to the chief minister, about 2,700 workers would be directly engaged at the Nano plant and the auxiliary units, but indirect employment would be much larger with both types of workers numbering 16,000-17,000 (*The Telegraph*, 9 March 2007, p 5). Production workers in most modern factories are generally skilled ones and it is doubtful if the main plant or the ancillary units would engage a large number of locals. The skilled workforce would come from Kolkata or from other states. The vast majority of those in "indirect" jobs in canteens, small shops and so on would have a low pay. It is therefore pertinent to compare these gains with the loss of agricultural and related jobs in Singur.

The 2001 Census data on the workforce in the affected area are given in Table 2 (Status Report of end-2006).

**Table 2: Employment in Singur (2001)**

	Total	Cultivators	Agricultural Labourers	Household Industry	Other
Main workers	7,710	1,320	1,224	691	4,475
Marginal workers	1,034	156	355	244	279
Non-workers	15,304				

After examining the data, Mohanty (2007a, b) put the loss of agricultural jobs at 1,476 for cultivators, and 1,579 for agricultural workers, including both the "main" and "marginal" workers in each group; the total comes to over 3,000. Since migrant agricultural labourers are not considered in the census, he cited somewhat sceptically, a figure of 1,579 mentioned in some circles. That would raise the total to over 4,500. Since the cultivated area out of the acquired land was less than 900 acres (see Section 4), the implicit number of workers per acre comes to about 5.0. That appears to be too high.

For West Bengal as a whole, total land under cultivation is 13.5 million acres, while the census figure on agriculturists in the rural areas, including all the groups just mentioned, is a little over 13 million. Or, there is an average of one worker per acre. It is true that land is very fertile in Singur with a cropping intensity of 2.2, somewhat higher than the state average of 1.7. Allowing for the exceptionally labour-intensive crops like potato and vegetables in Singur, the census figure of 3,000 workers, or a little over 3.0 workers per acre, seems more reasonable.

Actually, labour absorption in agriculture is likely to be a little higher both for West Bengal and Singur. Numerous studies over

the past decades have shown that the women in peasant families, typically classified as non-workers in the census, perform many vital tasks in cultivation, and their contribution is generally ignored by the male "heads of the family" who are interviewed by the official enumerators. Without a proper survey one cannot quantify the shortfall; my tentative figure would be 4.0 workers per acre, amounting to a loss of 4,000 agricultural jobs.

One deficiency in Mohanty's analysis is the assumption that all non-agricultural jobs that existed prior to acquisition would be unaffected, ignoring the organic link between agricultural and non-agricultural activities. If one goes back to Table 2, how many of the nearly 1,000 household industry jobs and nearly 4,800 in "other" service sectors would survive?

Kumar (2007) pointed out that there are three large markets in Bowbazar, Sheoraphuli and Ratanpur for fruits, vegetables and potato, and a big cold storage plant for vegetables and potato, all within a radius of 8-10 km from Singur. On the input side, the author quoted from an official handbook for agricultural input dealers to note that the block utilised 10,000 tonnes of fertilisers and 3,000 tonnes of pesticides sold through 303 trading outlets. In addition, there should have been a number of repair shops for agricultural implements, tailoring, and other service establishments. There is little doubt that a part of agro-related employment would disappear, though I am unable to offer a precise number.

The new workforce in Singur is likely to avail of some of these local services. The wholesale markets and the cold storage plant mentioned by Kumar may survive, though with a depleted turnover. The same is true for several other trades related to agriculture. On the aggregate, employment in and around Singur should go up. But the bulk of additional employment would consist of professionals from outside (Kolkata and beyond), and locals with low skills would earn no more than a subsistence wage. Many Singur farmers may have been aware of this prospect, and did not find it attractive enough to sacrifice their land and the security it provided.

On the other hand, the lure of 2000 or more jobs for professionals created a support base for the Singur project in urban Bengal. Although employment of "professionals" has greatly increased in the state, the number of students in training schools and colleges has expanded even faster. Hence the interests of urban Bengal as reflected in media reports seem to clash with those of peasants in most of rural Bengal.

## 8 Singur and Bengal's Industrialisation

The Singur plant itself would contribute significantly to Bengal's manufacturing output. The ex-factory value of production would be Rs 25,000 crore. From the *Annual Survey of Industries (ASI)* 2004-05, one finds that net value added was around 11% of gross output in motor vehicle manufacturing; hence Singur's net output of Rs 2,750 crore would amount to 2-3% of the state's total of Rs 10,000 crore for the entire manufacturing sector in 2004-05.

More important, Singur was to be a catalyst attracting other major players in the automotive sector. There is a mystique around this industry rooted in the history of 20th century capitalism. It was a main driver of American growth from the early decades of the century and also in the post-1945 miracle economies of West Europe

and Japan. Later, several developing countries, including India, have become important centres of manufacturing catering to domestic and foreign markets.

A bright future is predicted in *The Automotive Mission Plan 2006-2015: A Mission for Development of Indian Automotive Industry*, 2006 (AMP), published by the Ministry of Heavy Industries and Public Enterprise<sup>23</sup> with large inputs from the industry lobby. Described as a sunrise sector, the industry in 2006, AMP claimed, directly employed 4,50,000 persons in the manufacture of vehicles and components; indirect employment captures, among others, feeder and supplier industries such as repair services, tyre industry, dealers in vehicles and components, vehicle financing and insurance; vehicle drivers are also included. Total employment in all these areas was put at 13.1 million, while the output of motor vehicles stood at \$34 billion. Output in 2016 was slated to rise to \$145 billion, and total (direct and indirect) employment to 38.1 million. The industry would make a major contribution to incremental GDP, exports and employment. The LFG wanted Bengal to become a preferred destination for new ventures, capturing some of the benefits.

Official statistics broadly corroborate the AMP's base year estimate of direct employment. The "factories" manufacturing vehicles and components, engaged 3,40,000 workers in 2004-05, while "non-factory" units in the unorganised sector, according to the National Sample Survey (NSS), employed (often on a part-time basis) 92,000 persons in 2005-06, as shown in Table 3. While production more than tripled in respect of automobiles as well as two- and three-wheelers over the previous decade, factory jobs rose by less than 10%; including the unorganised units total workforce rose by 19%. Or, a 1% rise in output led to 0.1% increase in jobs. The incremental employment/output ratio was far lower than the projection in the AMP.

Stephen Roach (2004), head of Morgan Stanley Asia and a highly respected business economist, was critical of India's automobile policy. "I have long felt that there is another glaring shortcoming of India's manufacturing solution – a mistaken impression of its job-creating potential." He visited two major plants in Pune. Bajaj Auto in the previous decade doubled its output from one to two million two-wheelers while the size of the workforce was pruned to 10,500 from 24,000. At Tata Motors production rose from 1,29,000 to 3,11,500 vehicles over the same period, but the number of jobs was cut from 35,000 to 21,000. Within two years of Roach's visit, Bajaj shifted the entire production of two-wheelers to Uttarakhand employing no more than 2,000-3,000, or a fraction of what Roach had reported. Taking advantage of the centre's subsidies, it laid off the workforce in Pune. The lavish subsidy, from the centre or the states, reduces the cost of capital to a vanishing point intensifying the trend towards labour-displacing technologies.

Global trends are quite similar. An oft-quoted 2001 study by the University of Michigan, prepared for the Alliance of Automobile Manufacturers and the Association of International Automobile Manufacturers<sup>24</sup> found that while 6,31,000 Americans were directly employed in automotive manufacturing, the jobs of more than 6.6 million workers in various sectors were linked in some way to the industry that produced annually about seven million commercial vehicles and six million cars during 2000-02.<sup>25</sup> Roughly, each production worker turned out 20 vehicles in a year. Labour productivity in new units shot up in the next few years. Toyota's Texas plant to manufacture 200,000 full-size Tundra pick-up trucks per annum was set up after 2003 with just 2,000 workers, each producing 100 trucks a year (Vogel 2008). The Nano factory will also use state-of-the-art technology, and as a small car needs less of labour, the projected manpower (in main and auxiliary units) is 2,700 for 2,50,000 cars, i.e., 93 cars per worker. Clearly, the AMP's employment forecast was based on certain norms of "workers per vehicle" that were conjured out of thin air and fly in the face of contemporary evidence.

Could the Nano plant in Singur transform Bengal into another hub for automobile manufacturing in the country? Across the world relocation is taking place at a fast pace. The emergence of China, India and other developing countries has already been noted; tariff protection against imports and the existence of a sufficiently large domestic market were the main factors. Unlike China where scores of auto firms still survive thanks to local government support against major domestic competitors, Bengal does not have the option. Nor does Bengal or the eastern region have a large market for a big plant. A third factor behind relocation of auto plants is the availability of cheap labour that prompted Japanese and US firms to set up production facilities in China, India, etc, on a massive scale to cater to their respective home markets. Somewhat lesser known is the fact that over 50 new plants in the USA built by Korean and Japanese firms after 1990 are situated in the "globalised auto plant corridor" in the South, in close proximity to Mexico. The Toyota factory just mentioned is a good example. While hourly wage in the Midwest's assembly plants averaged \$26 in 2007, these were \$13.26 or about one-half in the South (ibid). However, interstate wage differences for large manufacturing plants in India are comparatively small, and Bengal in any case hardly offers any advantage.

Like most other states Bengal has to rely on the market forces. Half a century ago it was at the forefront in manufacturing, especially in engineering industries, and the leading auto producer, Hindustan Motors, set up its plant near Kolkata. However, no new plant came up in the state since then. The "old" left in Bengal squarely blamed the central government for three policy changes. First and foremost, Delhi adopted in the mid-1950s the "socialist" formula of uniform pricing of two key raw materials, steel and coal, across the country to encourage regional dispersion of industry. But that formula was not extended to other key industrial materials, domestic or imported, on the ground that the "efficiency" of these other industries would be impaired. Thanks to the peculiar cocktail of "socialism" and market-based "efficiency", Bengal lost out not only in engineering, but also in several others like cotton textiles, chemical and pharmaceutical industries.

**Table 3: Production and Employment in Motor Vehicles Manufacturing** (1994-2005; Number in Thousand)

	1994-95	2004-05	2005-06
<b>Production</b>			
Automobiles	505	1,565	1,702
Two- and three-wheelers	2,190	6,455	7,602
<b>Employment</b>			
Factories	322	337	na
Unorganised units	38	na	92

Sources: Society of Indian Automobile Manufacturers (SIAM) for production; Annual Survey of Industries (ASI) for factory employment; and National Sample Survey (NSS) reports for employment in unorganised establishments.

Further, following again the “socialist” model, public investments were spread across the country, especially in industrially backward regions. This objective was no doubt commendable. But it is difficult to explain why, apart from resource-based steel plants and the locomotive workshop in Chittaranjan, no major central manufacturing investments with strong backward and forward linkages took place in Bengal or the neighbouring states. In addition, under the “licence raj”, the political clout of a state mattered in the location of new industries. Bengal and the eastern region got a disproportionately low share in respect of sunrise industries in the private sector (Dutt Committee 1969). This discrimination continued till the early 1990s when the policies of price equalisation for steel and coal, and of industrial licensing, were abandoned. By then steel plants of various descriptions had sprung up in different parts of the country, imports of coal and oil became much freer, but the eastern region had lost its comparative advantage.

Table 4 shows the shares of some states and regions in the net output of “registered manufacturing” in India from 1958 to 2004-05, and in the country’s population in 2001. Most striking are two features. One, present-day Bihar had an abysmally low share of 0.4% in 2004-05, while her population share was more than 8% in 2001. Two, the percentage share of Bengal in manufacturing fell monotonically over the same years from 26 to 4, the last being around one-half of the population share. There is no explanation other than that of discrimination owing to industrial licensing policy and the bias in public sector investments up to 1990, deforming the competitive advantage of these two states.

**Table 4: The Percentage Shares of Selected States in India’s Net Output of “Registered” Manufacturing at Current Prices, in Population (2001)**

	Shares in Net Output				Population 2001
	1958	1980-81	1990-91	2004-05	
West Bengal	25.8	11.9	6.8	4.1	7.8
Bihar	9.9	2.2	4.4	0.4	8.1
Jharkhand	na	na	na	6.5	2.6
Orissa	0.9	1.7	1.4	2.3	3.6
Sub-Total	36.6	15.8	12.6	13.2	22.1
Gujarat	na	10.1	9.6	13.9	5.9
Maharashtra	na	29.7	24.6	19.7	9.4
Sub-Total	34.5	39.8	34.2	33.6	15.3
Andhra Pradesh	2.3	4.4	6.5	6.1	7.4
Tamil Nadu	7.4	11.0	11.3	8.3	6.0
Sub-Total	9.7	15.4	17.8	14.4	13.4

Source: CSO, *National Accounts Statistics*.

Bengal’s fate reminds one of an important paper by Krugman (1987). He showed the long-term impact of short- or medium-term policy changes on domestic firms competing with foreign rivals in industries enjoying large dynamic economies of scale. Margaret Thatcher’s tight monetary policy stretching several years prevented British firms from making necessary investments, and they yielded the ground to foreign rivals. By the time the policy was reversed, it was too late for local firms to reclaim their old status. Conversely, protection against imports enabled Japanese firms in many industries to expand production and become globally competitive in barely two decades after the mid-1950s and they began to export to the very countries from which they had imported know-how and equipment. As Krugman put it: “Like a river that digs its own bed deeper, a pattern of specialisation,

once established, will induce relative productivity changes that strengthen the forces preserving that pattern. Clearly, history matters here even for the long run” (p 112).

Ignoring all these factors, the present leaders of the West Bengal CPI(M) distanced themselves from the “old” left, and endorsed the media propaganda about militant trade unionism from the late 1960s onwards as the root cause of industrial stagnation in the state. Actually, Maharashtra in the 1980s had a worse record, but it still garnered the largest share of industrial investment in the country. Following the advice of global consultants, the LFG embraced the neoliberal catchword of public-private partnership whereby the state provides fiscal incentives and facilitates the venture in various forms (land acquisition, etc) for private investors to “deliver” results.

TML’s Singur plant was projected as a show-case of this new approach. But the site was chosen by the company for the exceptionally generous subsidies, overt and covert. Can Bengal offer the same for all big investors, given the fiscal constraint? Even if it did, there may not be many takers. After all, Uttarakhand attracted only a handful of big investors; much larger units are coming up in the established regions around Delhi, Chennai, and Pune, although the local subsidies fall far short of those available in Uttarakhand.

On the other hand, the employment impact of big-ticket investments in manufacturing has hardly been encouraging for India as a whole, despite the big spurt in investment since the late 1990s. In the public sector total manufacturing employment (in million) reached the peak of 1.85 in 1991, came down to 1.53 in 2000 and further to 1.13 in 2005; in the organised private sector the peak of 5.24 was attained in 1997, and the number came down to 5.09 in 2000 and 4.49 in 2005 (*Economic Survey 2007-08*, Appendix Table 3.1).

In short, the LFG’s industrialisation strategy is thoroughly misconceived.

## 9 Conclusions

The paper has highlighted two major social costs of the Singur project, and contested one benefit claimed by the LFG.

(a) The LFG, in trying to match central bounties available in Uttarakhand, fell overboard in offering subsidies well in excess of those provided to new vehicle manufacturers in Tamil Nadu and Andhra Pradesh.

(b) The government did not scrutinise the quantum of land demanded by the company, blundered by offering highly fertile land in Singur, and compounded its mistake by invoking the draconian Land Acquisition Act and compel landowners to surrender their land at a low price. It ignored the fact that the concept of “eminent domain” has been under the scanner even of official agencies, including the Supreme Court, and also the fact that the court had already decided on a much higher compensation for land acquired elsewhere, considering the end-use of the land. Moreover, the LFG’s compensation formula was biased in favour of non-cultivating absentee landowners, and grossly unfair to the actual cultivators, bargadars and agricultural labourers. As a result, the state failed to foresee the depth of opposition from peasants and their supporters.

(c) The LFG’s “unique selling point (USP)” of the Singur plant that it would have a ripple effect on the automotive industry, and on

other sectors, with a multiplier effect over time on investment, output and employment, is flawed.

From a national or global perspective, however, the Nano represents a significant innovation in the field of passenger cars. As the world's cheapest car with the lowest running cost, it can effectively displace some of the bigger cars that are more costly in terms of social overheads. Environmentalists rightly apprehend that streets in urban India are already choked and the induction of a large number of new cars would make matters worse. Instead of blaming the Nano, one should rather explore ways of restricting the circulation on the roads of *all* cars, including the Nano. For instance, the State can promote more vigorously public transport. The State can also adopt a variant of the current laws in Singapore (a car can be on the road on alternate days) and London (a steep entry tax into central London with exemption for pollution-free cars).

If one grants that the Nano is useful from a social perspective, there is a case for subsidising TML's R&D outlays (as well as those of other firms that might follow) to a greater extent than is allowed under the centre's income tax laws. But the incentive must come from the centre, and not any state government since the country as a whole will gain. Hence my case is not against the Nano as such, but against the terms of the LFG's MOU with Tata Motors, and the location of the plant.

There is no justification, however, for promoting big industry in private hands through central or state subsidies exceeding investment outlays as in Uttarakhand, Himachal Pradesh

and several other states. It is interesting that the Toyota plant in Texas mentioned earlier, received till March 2007, subsidies to the extent of 40% at most of the investment outlays and had adverse consequences for the state's social sectors (Vogel 2008). In the Indian context, these subsidies are harmful for the national exchequer at the present juncture for several reasons.

(a) Elsewhere I have shown (Chandra 2008) that India's fiscal deficit in the last few years is nearly as high as in the late 1980s, when the government succumbed to the IMF and the World Bank. For the past several years the country has been on the brink of a financial crisis.

(b) According to the Union Budget, the incentive scheme (see Section 1) led to a loss in 2007-08 of Rs 1,947 crore in corporate taxes from Uttarakhand and Himachal Pradesh, while excise duty relief for all privileged regions, including the two states, was Rs 8,500 crore. Along with numerous other schemes, the overall tax loss exceeded 50% of the actual tax (direct and indirect) revenue of the centre. The situation is likely to worsen as more and more of SEZs take shape in coming years.

(c) While the centre dotes on big capital, it has been invoking fiscal discipline to cut savagely since 1991 budgetary outlays on capital formation, and on health, education and other "social sectors", as numerous studies have shown, e.g., Ramakumar (2008). Consequently, "shining" India continues to have a lowly rank in the Human Development Index of the UNDP.

## THE MALCOLM & ELIZABETH ADISESHIAH TRUST

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The fiscal situation of the states is more precarious and yet they were compelled to counter the centre's Uttarakhand package with schemes of their own with a similar impact on socially useful outlays.

Among 17 major states, West Bengal's fiscal record is the poorest; taking the three-yearly average for 2003-04 to 2005-06, four critical ratios for the state are:<sup>26</sup> (i) revenue deficit to gross state domestic product (GSDP): 4%; (ii) interest payment to revenue receipt: 48%; (iii) capital outlays to total expenditure: below 1%; and (iv) social sector (education, health, etc) outlays to total expenditure: 28%.

For item (iv), Punjab had a lower ratio (20%), while for all others, West Bengal was at the bottom of the heap. The insouciance of the LFG about such fiscal matters is astonishing. What makes it worse is the LFG's policy on land acquisition and compensation, offering additional non-fiscal sops to the private investor – at the expense of the cultivating peasants.

Let me finally quote from the editorial of a mainstream national newspaper, *Hindustan Times* (6 October 2008), written after TML

had abandoned Singur but before it opted for Gujarat. While admitting that TML's withdrawal from Singur "is a serious setback for West Bengal's efforts to rapidly industrialise the state", the editorial, captioned "How not to wreck one garage to fit a car", said:

Corporations offering big ticket investments play off one state against another to get the best deal. The Tatas have not yet announced where they are going and this could be an indication that rivals have not matched what they secured in West Bengal. (LFG), for its part, also needs to introspect on what went wrong in its efforts to invite the Tatas. The first lesson, obviously, is that rolling out a redder carpet than is necessary to attract capital is hardly a guarantee for success. *Communists are often quick to accuse others of selling out. But the fact is that they followed suit in giving the Tatas financial and other incentives and subsidies that no state can possibly offer* (emphasis added).

It remains to be seen if Ratan Tata got a matching, or a better, deal in Gujarat.

In any case, all credit should go to the peasantry of Bengal, especially of Nandigram and Singur, for having saved their own farmland and relieved the state exchequer of the burden of maintaining a white elephant.

## NOTES

- Office Memorandum No 1(10)/2001-NER, dated 7 January 2003 (New Delhi: Ministry of Commerce and Industry). See the official web site.
- The PV can be calculated as follows.  
If T is the fixed amount of annual tax up to the n-th year, and i (% per year) is the rate of discount, the PV of the tax due in the final year is  $T_n = T/(1+i)^n$ .  
The PV of tax dues over the years 1 to n is  $PV = T_1 + T_2 + \dots + T_n = (T/i) [1 - \{1/(1+i)^n\}]$   
If one looks for "present value table" in Google, one may find several web sites with these tables, e.g. [www.swlearning.com](http://www.swlearning.com)
- Ashek Leyland's Chief Financial Officer, K Sridharan stated: "The Uttarakhand facility [of the company] will commence Phase I by H2 of FY09 and [reach] 50,000 vehicles [buses and trucks] per annum capacity production by March FY10. The fiscal incentives will repay the cost of the project over four years" (*Rediff News*, 31 October 2007, [www.rediff.com](http://www.rediff.com)).
- Reserve Bank of India, *Handbook of Statistics on Indian Economy 2007*, Table 123.
- "New Mega Integrated Auto Policy in TN", *The Hindu Business Line*, 8 March 2007. "Uttarakhand Announces New Industrial Policy", *Business Standard*, 28 January 2008.
- Iris News Digest*, 23 August 2007, <http://myiris.com>
- "CAG Indicts WBIDC for Excess Expenditure on Singur Land", 27 March 2007. [www.outlookindia.com/pti\\_print.asp?id=557420](http://www.outlookindia.com/pti_print.asp?id=557420)
- VAT on cars sold locally is Rs 39 crore. If components purchased by Tata Motors cost 50% of the ex-factory value, the VAT on inputs to cars sold outside the state is Rs 135 crore (=50,000 × 2,25,000 × 0.12).
- [www.energymanagertraining.com/eca2004/award2004/Automobile/Tata%20Motors%20Ltd%20CVBU%20Pune.pdf](http://www.energymanagertraining.com/eca2004/award2004/Automobile/Tata%20Motors%20Ltd%20CVBU%20Pune.pdf)
- [www.bee-india.nic.in/sidelinks/EC%20Award/Download/Automobile2004/Tata\\_Motors\\_PCBU%5B%5D.ppt#356,13](http://www.bee-india.nic.in/sidelinks/EC%20Award/Download/Automobile2004/Tata_Motors_PCBU%5B%5D.ppt#356,13), Capacity Utilisation.
- Society of Indian Automobile Manufacturers (SIAM) stopped publishing state-wise sales figures after 1999. The data were obtained from the CMIE.
- CMIE, and [www.bee-india.nic.in/sidelinks/EC%20Award/eca06/Award2006\\_CD/02Automobile/TataMotorsPCBUCarPlant.pdf](http://www.bee-india.nic.in/sidelinks/EC%20Award/eca06/Award2006_CD/02Automobile/TataMotorsPCBUCarPlant.pdf)

- Hindustan Motors at Uttarpara, close to Kolkata, obtained leasehold rights in 1942 over 714 acres of land for the factory and employees' housing, but never made full use of it. With the approval of the state, it has sold 314 acres for Rs 295 crore to Shriram Properties, Bangalore, for a variety of new projects. "Singur Public Hearing", *Frontier*, 4 February 2007; and "Hindustan Motors Ties Up with Shriram Properties", *The Hindu Business Line*, 28 February 2007. The LFG probably charged a small "conversion fee" of Rs 40-45 crore. The original lease required the surplus land to be handed back to the state.
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