Chapter -1

Introduction
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Industrial economics is a distinctive branch of economics which deals with the economic problems of firms and industries, and their relationship with society. In economic literature it is known by several names such as 'Economic of Industries', 'Industry and Trade', 'Industrial Organization and Policy', 'Commerce' and 'Business Economics', etc. The name 'Industrial Economics' was adopted in the early fifties perhaps through the writing of PWS Andrews. Although this name is becoming popular day by day, some authors, particularly in the American circle, prefer 'Industrial Organization' as a title of the subject.

In fact, Stigler emphatically argued that the field of industrial economics does not really exist. It is nothing more than a slightly differentiated microeconomics.

Industrial development not only emphasizes the location of different industrial units at a place but it also take into account the various factors which play the role of cause and effect. The engagement of employment as well as production of goods may also be termed as the basic components of development. It also encompasses the role of demand generating capabilities.

Industrialization is identified with economic development. Theories of progressive structural changes also propounded the fact that as economic development gets underway industrial and service sectors assume larger

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proportion of the total value added. Naturally, industrial deceleration becomes
an explicit symbol of economic under development and this must have a far
reaching implication either at the national level or at the regional level.

Development in the field of technology, the increasing interdependence
of the major units of production, transportation and services, the changing
character of the labour force and the emergence of new economic and social
problems have changed and will changed further the environment in which
industrial relations are shaped. Industrialization is a basic feature of modern
economic growth and intended to signify that only the non-agricultural
industries display major rises in productivity. Advanced industrial countries
are said to be experiencing their second, or perhaps third, industrial
revolutions. The underdeveloped countries are said to be in the midst of a
"revolution of rising expectation", and on the verge of the early stage of a first
industrial revolution.

Industry is an area which concerns all the social science. It has elevated
the interests of the economist, sociologist, psychologist, management
scientist, historian, industrial relation specialist and social worker. It disregard
traditional boundaries which have rapidly separated one discipline from
another. The sociologist cannot shut their eyes to the theory of
industrialization merely because the most ambitious attempt to etch the future
shape of society has been made by a group of economists.

Objectives:

Many studies have been done for the manufacturing industries in India
and abroad. An attempt has been made in this study to evaluate the
distribution of registered working factories and number of small-scale
industries in West Bengal. it has been tried to analyze the current situation in
the State. Endeavour has been made to find out various causes which effect
the scenario of industrial development in the State. Main emphasis has been made to observe the enlist various other factors which have been the integrant of the concentration of industries throughout the world and on the basis of which has been attempted to study the same situation in connection with West Bengal.

Other specific objectives within the framework setout for the study are as follows:

2. To identify the main problems confronting of manufacturing industries and small-scale industries.
3. To examine the nature and extent of inequalities at the district and inter district level in West Bengal.
4. To suggest measure this should be taken to realize the full potential of growth and development of industries as well as small-scale industries in the long run.

This study has added significance due to the initiation of the process of economic reform in India since 1991.

The manufacturing and small-scale industries in West Bengal have been working within the overall framework of protection. But with the initiation of the process of economic liberalization, this sector is now more exposed to competition. It is important, therefore, that we have to look into the difficulties and adopt appropriate measure to overcome.

**Methodology:**

To illustrate the effects of the measures of manufacturing industries and small-scale industries, variable have been organized at different stages with the help of quantitative methods. The obtained tables have serialized
according to the merits and significance of the problems. There are three main points which have been taken into account for the whole position. At first instance crude date were converted with the help of computer technique into different statistical criteria. Second stage is presentation of the problems with the help of correlation coefficients. The third aspects include the detailed analysis of the problem substantiated by methodology used in simple, analytical and involve calculation of percentage and compound growth rate. Compound growth rate in the case of small-scale industries have been calculated for number of unit, production and employment etc.

**Database:**

The present work examines the industrial experience of West Bengal during the period 1971 to 2004 with particular emphasis on the role of the government as the main instrument for growth. For this work, available statistical material has been utilized for the sake of precession as well as to strengthen the quantitative evidence. This study carefully analyzes the growth of industries and industrial complex in the state of West Bengal.

The method of research followed during the course of this study is analytical in nature. The present study is fully based on secondary data published by various government agencies. The data thus collected were tabulated, analyzed and interpreted in consonance with the objectives of the present days.

Five major sources of date are used in this study to depict and analyze special patterns of industrial development. These six sources summarize data from a wide range of published sources and from the widest range of data available. Data published by various agencies have been immensely used. These agencies include: West Bengal Bureau of Applied Economics and
Unit of Analysis:

District is the main unit of analysis in this study. Considering the nature of the work it was not easy to have a smaller unit than that of district. Entire districts have been considered for the purpose. There are eighteen districts which have been taken into account. The districts of 24 Parganas (North) and 24 Parganas (South) sometimes in parentheses denote simply N and S respectively which serve the same purpose.

Organization of the Study:

The present study entitled “Industrial Development in West Bengal since 1971”, deals with the analytical as well as the theoretical aspects of subjects, and takes into account the related fields of industrial development in detail. The ongoing work has been divided into six chapters. Chapter 1 deals with the basic premises of the study. The important thrust of this chapter lies in the statement of the problem concerning objectives, methodology, database, units of analysis, etc. Given the aims of the study this chapter provides a brief review of the literature. It tends to give a brief overview of the study area rather than a detailed description keeping in view the nature and scope of the work.

Crux of the problems begins from chapter 2 and onwards. Chapter 2 bases on “Genesis of Industrial Economy”, deals at length the meaning, definitions and emergence of the field. The definition has been substantiated by the opinion of different economists. This chapter also read as “Impact of Industrialization”. Attempts have been made to analyze the impact of industrialization and its role in the development of the society. It has also been endeavored to find out the negative aspects of industrial development.
Emphasis has been made to underline various environmental problems related with industrialization. In this chapter, it is also discussed about the industrial scenario during the various plan periods and assessment of economic reforms in India and side by side analyzes the problems and prospects of small-scale industries after 90s in the country.

Chapter 3 made an attempt primarily to assess the performance of industrial sector in West Bengal. In this chapter, it explain new industrial policy adopted in West Bengal, where analyze the economic policy and its approaches of the State Government. It also elaborates in detail about the salient features of the policy and its prospects in future.

The next chapter entitled "The Growth Pattern of Manufacturing Industries" which is the fourth one is based on the study area. This chapter is the main one as it is directly related with the theme of the present study. Various tables have been included on the basis of the secondary source of data. It has been envisaged to come out with various controlling factors of industrial development together with associated problems. In chapter 4 examine the growth and development of various manufacturing industries i.e. jute, cotton, tea, leather etc.

Chapter 5 evaluates the important role of small-scale industries in the State. In this chapter, it analyze through many table about the number of units and distribution of employment in different zones. Here the author try to correlate to number of small-scale industrial units registered with corresponding employment. Financial assistance plays a vital role in economic growth and development. Therefore, this important area also covered in this chapter. Handloom and sericulture are the emergence sectors in recent time and they also play a pivotal role in the State economy. So, these areas also get the position in this chapter.
Chapter 6 is related with “Problems of Industry in West Bengal”. This chapter focuses attention on all those components which either create problems for industrial development or sometimes because unavoidable circumstances which hinder the smooth functioning of an industrial unit. It incorporates the matter right from natural resources to humanly affairs.

Lastly, the author has concluded the work with some suggestive measures. Conclusions are entirely based on the 4th to 6th chapters, because remaining chapters are related with theories, assumptions and explanations. Some measures have been suggested which if adopted will help industry flourish in West Bengal.

At the end a list of bibliography has been included to the sequel.

**Review of Literature:**

It is difficult to know the true beginnings of the field because of non availability of facts. There is, of course, some evidence according to which monopolistic practices and other elements of the industrial economics were in operation as far back as 2100 BC.

Adam Smith propounded the principle of division of labour. According to him: “The greatest improvement in the productive powers of labour and the greater part of the skill, dexterity, and judgment with which it is directed, or applied, seem to have been the effects of the division of labour.” To support his contention Adam Smith gave the famous example of pin-making, whereby division of labour, productivity went up manifold. This principle has a fundamental bearing of industrial economics and now-a-days, particularly in modern large corporations, production is impossible without division of labour or machines as a way of production. Apart from the division of labour, Adam Smith’s contribution to the field of industrial economics is the analysis of product pricing. He regarded a product having two prices ‘market price’ at
which it changes hands and ‘natural price’ or ‘value’ determined by the labour required to make the product. Much of his analysis was devoted to the determination of ‘natural price’, ignoring the market price altogether. Though he is criticized on this account, yet his work is regarded as a pioneering study of price-cost margins for industries under competitive conditions.¹

After Adam Smith, the historical development of the economic analysis of industrial activities was subject to the methodological division. One school of thought led by Jevons followed abstract, deductive reasoning to derive testable hypotheses in the theory of the firm, while the other, known at Historical School, followed inductive for study of the economic behaviour of the firm and industry. S Jevons, almost hundred years after Adam Smith, developed the theory of demand in terms of the present utility theory.² In addition to this; he was able to refine the concepts of cost and the factors of production. He and his follower Edgeworth³ were able to establish the conditions for equating price and average cost of a product and thus, elimination of the excess profit. Clark⁴ carried their work further and Knight⁵ was able to refine the perfect competition model which we see at present.

Sraffa’s description of the laws of the returns under competitive conditions⁶ was perhaps the turning point. Thereafter the stumbling blocks of Joan Robinson’s theory of imperfect competition⁷ and Chamberlin’s analysis of monopolistic competition. These two theories, particularly of Chamberlin’s opened altogether new venues for the industrial economics. The impact of

³ Edgeworth, FY (1881): Mathematical Physics, London.
⁵ Knight, FH (1921): Risk, Uncertainty and Profit, New York.
⁸ Chamberlin, EH (1933): The Theory of Monopolistic Competition, Harvard University Press.
Chamberlin’s work on industrial economics was so profound that it was regarded as the single most important antecedent of contemporary industrial economics. Along with the line of Chamberlin, Hotelling developed the stability conditions for competition by taking differentiated goods and special dimensions. His work and Chamberlin’s theory together influenced Lancaster who has developed altogether a new theory of consumer demand which is very much relevant for industrial economics.

An independent development in the theory of firm was seen during the decade of the 1940s, when Von Neumann and Morgenstern published their work on the game theory. Economists accepted this as a text of industrial economics; this theory has many potential uses. Martin Shubik,

Along with the deductive stream of thoughts, the alternative methodology of inductive reasoning was in extensive use right from the time of Adam Smith, to develop a meaningful and realistic theory of industrial economics. The need for such an approach was felt mainly because the method of logical deduction being too abstract failed to analyze the economic behaviour of the firms as seen in real life. This school of thought, and many other individual researchers, used the histories of the individual firms and industries and case studies covering the institutional and local conditions in which the firms operated, to find out common patterns regarding varieties of industrial activities such as product variation, merger, innovation, investment, employment, pricing policies, distribution of profits, advertisement, etc. The important authors who made significant contributions in this side of industrial economics.

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economics during the early thirties were Allen, Sargent Florence, Berle and Means and WG Hoffman. Allen’s work was mainly concerned with the aim of describing the structure of certain British industries against the background of their historical development, at the same time considering some of the more significant trends in the industry as a whole. Florence examined the industrial structures and functions in a more logical way linking economic and political sciences and other related disciplines like statistics and psychology. Hoffman provided a very lucid description of manufacturing industries and the historical pattern of growth they generally follow. Berle and Means made a break through in the empirical analysis of the modern corporations by making a separation between ownership and management. Mason was an important author in the late thirties who dealt with the price and production policies of large scale corporations and in the forties came a very important work of PWS Andrews.

The fifties and sixties developed bulk of the industrial economics that we read at present. The journal of Industrial Economics was started in 1952. Then appeared the important contributions by Bain, Marries, Stigler on one side and Simon, Cyert and March, and Galbraith on the other. Bain provided ‘the structure-conduct-performance’ nexus as a framework for

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industrial analysis. His contribution in industrial economics is quite significant. Robin Marries analyzed the role of managerial behaviour in the context of modern corporations. His work has been extended further in the quite different framework of techno-structure by Galbraith. Cyret and March developed a behavioural theory of the firm which opened a new frontier in the study of industrial economics. Simon studied the process of decision making in the context of industrial organization as an administrative unit. Stigler, who is a leading industrial economist at present, focused on the analysis of the oligopoly structures, apart from other things.

While the deductive and inductive sides of the theory of the firm were in the course of their distinctive development, there were economists who adopted a compromising stand, that is, the use of both the methods in the study of the economic behaviour of the firms and industries. Schumpeter and Marshall were leading economists in this theory. Schumpeter was mainly a development economist, but his work in entrepreneurship, innovation and analysis of competition had a profound impact on contemporary industrial economics.\(^1\) Marshall was deeply impressed by the utility theory of Jevons and inductive or industrial approach of the Historical School.\(^2\) He, therefore, adopted the middle way. This is reflected in his book ‘Principles of Economics’ and even more so in his ‘Industry and Trade’ which was the early textbook of industrial economics. According to him, “induction, aided by analysis and deduction, brings together appropriate classes of facts, arranges them, analyses them and infers from them general statements and laws”.\(^3\)

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It has seen the highly useful work of EAG Robinson in the field of industrial economics. 

Summing up the review of the historical development of the subject, it may say that it has come up to the present stage mainly during the last fifty to sixty years. The subject has not yet grown to its maturity. From methodological point of view, it is an amalgamation of the deductive and inductive methods as perceived by Marshall. It has many dimensions to grow for which sophisticated tools of analysis like econometrics, game theory, operation analysis, information science and computers are being used extensively.

The Study Area:
The State of West Bengal as it appears nowadays is not the same as it used to be earlier in its shape, size and location. West Bengal, as the name indicates, is the western segment of a larger regional entity called Bengal. Precisely it is the area left out from Bengal province in undivided India, after East Pakistan (present Bangladesh) was carved out of it. West Bengal has been called a problem State. Many of its problems flow from the division.

West Bengal has for long been the leading industrial hub of India but for the last several years it has become humdrum. Fading glory of the industrial development has its own tale to tell. But a mere pronouncement is not sufficient to call it a deteriorating centre of industrial activities. It is therefore of paramount importance to judge the parameter through the point of view of an economist and for the reason West Bengal has been selected as the study area. The present work titled ‘Industrial Development in West Bengal since 1971’ has been chosen owing to the various reasons. West Bengal is one of the main industrial centre of the country. It also occupies the

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undisputed place in India to which the largest areas of hinterlands of eastern India are attached. It possesses several other socio-economic-political causes which play key role in making it both decaying and growing industrial hub. These are the component factors due to which the author has selected this topic.