Privatization, Democracy, and the State in India

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Introduction

Several countries underwent major transformations of their economies in the last two decades. The most important shift globally, particularly in developing countries has been to move towards a market-based economy and the phenomenon of globalization. From various treatises on the subject ranging from “Jihads to McWorlds” (Barber 1995) to “Lexuses and Olive Trees” (Friedman 2000) and ‘flat worlds’ (Friedman 2005), globalization has become a household word given the attention from scholars, journalists, and the populace at large. Apart from being the mot du jour, globalization, its causes and its consequences, evokes strong emotions and debate by both its proponents and opponents alike (Naisbitt 1994; Farazmand 1999). Lumped together, sometimes almost synonymously is the phenomenon of privatization. Privatization, like globalization, has also received its fair share of attention, from its supporters and detractors.

On the one hand, privatization purports to unleash economic freedoms and allow private initiative and enterprise. On the other hand, however, privatization has been critiqued for its essentialist notions of efficiency and rationality and for undermining democracy and community (Farazmand 1999; Lindblom, 1977; Heilbroner 1990; Korten 1995). In particular, some scholars have argued that market forces in the form of multinational corporations frequently aid repressive regimes (Cottam 1979) and often cause local people to loose control of their communities (Mele 1997, Korten 1995).

I add to this debate by examining in particular, the impact of privatization on democracy in India. India was chosen as a case study as it is representative in many ways of a number of developing countries who have made the move to open their economies and engage in privatization reforms in the last decade. Moreover, India also is an interesting case, as democracy in India has succeeded for more than half the twentieth century and has proved substantial as well as durable (Rudolph 2002). Thus, there is an opportunity to see whether and how fairly well-developed (but not completely institutionalized) democratic structures and communities might be undermined by privatization. Also, is the picture indeed as bleak as depicted by the doomsayers of privatization? Will privatization be the juggernaut that flattens local autonomy and works to the advantage of the elites?

To answer, these questions, I begin by first discussing the history and background of privatization issues in India. In the second section, I discuss the current state of privatization reforms in India. Finally, I
discuss the extent to which privatization has dampened the forces of democracy and of the state and dwell on possible changes in the future.

I  History and Background of Government Growth and Privatization in India

India’s tryst with destiny began around half a century ago, when she celebrated her newly acquired independence from the British. A new lease on life as an independent nation. India inherited a large and extremely proficient bureaucracy from the British (Appleby 1957) and the complex machinery inherited from colonial days was considerably embellished and supplemented by the growth of new administrative structures that were put in place to address the problems of a newly-formed nation-state. The history of the growth of various structures and reforms adopted to facilitate administration of the economy and polity can be broken down into three phases. The first phase focuses on the period directly after independence up until 1964. The second phase reviews reforms undertaken from 1964 to 1991. In 1991, a third phase of reforms was undertaken and there was a much-publicized move towards economic liberalization and privatization of different sectors of the economy.

A) “Commanding Heights” and the “License Raj” - 1947-1964:
Administrative structures dealing with economic development in this period were influenced largely by the political ideology of and the politics between various key political and bureaucratic elite factions. The factions arose because of the differences between Mahatma Gandhi on the one hand, and Pandit Jawaharlal Nehru, the first Prime Minister, on the other. Nehru saw the road to development as being through industrialization. Mahatma Gandhi, on the other hand, saw the keystone of economic growth as the reconstruction of villages (Frankel, 1978, Hardgrave and Kochanek, 1993). The politics of consensus at that time led to a mixture of the Gandhian philosophy and Nehruvian socialism, the latter of which was a mixture of Fabian socialism, evolutionary socialism, and democratic liberalism (Tummala, 1994).

This ideological mixture found its way into an accompanying debate about the appropriate role of the central government and administrative oversight of the economy and led to India’s own brand of economic philosophy that was termed as a “mixed economy.” This was seen the ‘third way’—a mixture of a democratic political state associated with capitalism and a positive interventionist state associated with socialist principles. In the mixed economy framework that was adopted, the forefathers envisaged both the public and the private sector playing an important role. However, while the private sector was important, there was greater emphasis on the role of the state, which was given a central role in the economy through the control of Indian public sector enterprises as well direct control over key areas of the economy. Over time, the size of the Indian public sector
grew from merely five establishments with a investment of Rs. 290 million in 1951 to 246 establishments with a total investment of Rs. 1.13 trillion in 1991; by 1993, the central public enterprise sector employed about 2.3 million people (Mohnot, 1993; Kumar, 1993). The net outcome was the development of large public sector enterprises, which gradually came to occupy the ‘commanding heights of the Indian economy’ (Hardgrave and Kochanek, 1993; Lotia, 1967; Mohan and Aggarwal, 1990; Goulding, 1997). To manage this gargantuan structure, the government created a maze of bureaucratic controls and regulations designed to define and delineate virtually all aspects of investment and production, resulting in one of the most comprehensive systems of regulation in the non-Communist world- which came to be popularly known as the “License Raj.”

Several administrative structures to facilitate the role of the state were also adopted; the most important of these was the setup of a Planning Commission as an advisory body. The Planning Commission launched what came to be known as India’s Five-Year Plans, which formed the blue-print for economic development. Given that the Planning Commission was a political rather than ‘neutral’ administrative body (as it members were appointed by the Prime Minister), the Five-Year Plans reflected the political trends of the day and reflected the preferences of politicians at that time. Under these plans, the adoption of the mixed economy model was evident at first and then evolved into plans to enlarge the role of the state.

B) The Second Phase: 1965 – 1991:

In the second phase, while the role of the state was still growing, there were some attempts made to reform the bureaucracy’s stranglehold over several economic structures. During the 1980s, there were also some initial forays into economic liberalization. With regard to administrative reforms, the most important step taken was the creation of the Administrative Reforms Commission (ARC) in 1966. Modeled after the Hoover commission in the United States, the ARC reported to the government. It was left to the individual ministries to implement its recommendations after approval by the parliament. The ARC produced over 500 recommendations for changes to the civil services. Some of these recommendations were to integrate more selected specialists into the administrative hierarchy in the Indian Administrative Services (IAS) and to change its ethos to one that was more service-oriented. However, despite all these recommendations not many changes were actually adopted and implemented. The Indian administrative Services continued to retain its superiority and its structure and this was helped by the economic changes taking place at the time.
With regard to economic changes, a policy of cautious liberalization in this phase took the form of the reduction of tight controls over the pricing and distribution of major products, the introduction of significant procedural reforms, and liberalizing controls over investment (Hardgrave and Kochanek, 1993; Joshi and Little, 1994). Agrarian reform was also initiated in the form of the adoption of a new agricultural strategy that encouraged the use of fertilizers and high-yielding seeds, along with the infusion of new technology, leading to what has been dubbed as the “Green Revolution.”

However, these tentative steps were rescinded due to the policy failure associated with the devaluation of the rupee that accompanied the liberalization measures. Politically, liberalization became a “hot potato” that all politicians wished to avoid. Indira Gandhi, in a bid to gain party support, built a coalition among left-wing Congress members, socialists, and communists, and embarked on a massive program of nationalization (Sapat, 1998). The expansion of the public sector continued well up until 1974, and led to even more complex rules and regulations being adopted that enhanced the power and prestige of the administrative services. However, the Kafkaesque maze of approvals and permits, along with rigid controls also led to massive procedural and administrative delays and shortages, increases in project costs, corruption, and bribery. Production declines, manipulators and ‘black-marketeers’ profited from shortages, and technological development stagnated (Iyer, 1983, pp. 5-18). Inflation rose sharply and reached an all time high of 30 percent by the middle of 1974 (Joshi and Little, 1994).

The downturn in the economy kindled public agitation and combined with other political developments, it resulted in the imposition of a national emergency by the Prime Minister, Indira Gandhi in 1975. A somewhat aggressive style of liberalization was adopted in this period, but as it was accompanied by a suspension of democracy, economic liberalization and administrative reforms were discredited once the Emergency was over and did not gain support until 1984 when Rajiv Gandhi’s government came into power. While some reforms were undertaken, several political constraints and political instability that led to successive changes in governments slowed down any attempts at economic and administrative reform. The coalition politics of the times and the worsening economic situation led instead to inconsistent policy decisions and “band-aid” approaches to problems leading to a political and economic crisis by 1991.

C) The Third Phase: The 1991 Reforms--The Third Wave of Liberalization?

The minority government headed by Narsimha Rao assumed power in July 1991 at the height of the macroeconomic crisis. The legacy that the coalition government of Narsimha Rao inherited was formidable and presented an almost insurmountable challenge for the new government. The government response to the economic situation was swift and radical in its approach. Within weeks of taking office,
the government of P.M. Narsimha Rao and his Finance Minister, Manmohan Singh began the adoption and implementation of an economic program, designed to address the crisis through stabilization and structural reform. The key elements of this reform package included the adoption of a new industrial policy, trade reforms, foreign direct investment, and public sector reform. The adoption of a New Industrial Policy (NIP) led to several measures, i.e. abolishing industrial licensing for all but a few select sensitive industries; removing asset limits for dominant undertakings; easing location requirements for industries; and eliminating phased manufacturing programs. In terms of trade reforms, the rupee was devaluated by 22 percent in July 1991 and by 1992 there was partial convertibility on the current account. Import duties were cut drastically and non-tariff barriers were eliminated. With the exception of consumer goods, direct import controls on virtually all items were abolished. Almost all capital goods and raw materials were allowed to be imported without a license on payment of custom duties. The government also drastically cut import duties and custom duties, opening the economy to goods and services from other countries (Panagriya, 1996). In terms of consumer goods, a Special Import License (SIL) was introduced in October 1992, which entitled large exporters to import a group of consumer goods included in a positive list. On the export front, export restrictions were drastically reduced and many foreign exchange restrictions were removed such as the prohibition on exporters holding property abroad, which had significantly restricted their presence in foreign markets. Duty-drawback and duty exemption schemes were strengthened to give exporters duty-free access to raw materials (Panagriya, 1996). With regard to foreign direct investment, restrictions on foreign firms were relaxed considerably: automatic licensing was given for projects involving foreign equity investment up to 51 percent in 35 selected industries. These industries cover approximately 50 percent of the value-added in manufacturing. In addition, foreign equity above 51 percent was permitted on a case-by-case basis by the Foreign Investment Promotion Board. The government also shed its rejectionist attitude towards multinationals and allowed foreign investors to invest in any sector, except for plantations and agriculture, as long as they mobilized the domestic financing and paid the same taxes as domestic companies. (Joshi and Little, 1996). Liberalization of the public sector was much less extensive than liberalization of trade reform. Nonetheless, of the 18 sectors reserved for the public sector, 11 were opened to private sector ownership. These areas that have been opened to private sector ownership are aircraft and airlines, shipbuilding, telecommunications, electric power, iron and steel, heavy electrical equipment, and heavy castings and forgings (Joshi and Little, 1996).

This brief history of the growth and then subsequent deregulation and privatization in India indicate that while economic factors were important in each phase, political factors including public opinion and support were key to understanding the initial espousal of a socialist mixed economy, followed by very
minimal forays into deregulation and then a more open, but yet restricted adoption of privatization reforms. What is the pace at which privatization is proceeding currently and what role have local communities and other democratic institutions played in response to the implementation of privatization reforms? The next sections in this paper address these issues.

II Current State Of Privatization Reforms in India

While the floodgates were opened in 1991 with the launching of economic liberalization and privatization reforms, there is considerable debate about the extent to which these gates were opened. That they will remain open, is not the question, as closing the economy now, would be the proverbial closing of the barn door after the horse has fled. However, how the gates should be opened, in which areas they should be opened, how much privatization should take place and the manner in which it should be implemented are deeply contentious issues.

In examining privatization as it took place in India in the 1990s, it became apparent that: A) certain forms of privatization reforms were preferred over others; and B) certain sectors of the economy were privatized more extensively than others; and C) privatization in some areas was either withdrawn or stopped prior to completion.

A) Preference for certain forms of privatization:

Privatization, according to its proponents and ‘gurus’ can take various forms ranging from complete outsourcing of production and delivery of a good or service to contracting, to divestment, or to other forms known as greenfield privatization (Savas 2000, Dinavo 1995; Savas 1977; Goulding 1997; World Bank 1995b; Reddy 1989, 1990; Cook and Kirkpatrick 1988). Privatization in the Indian context, has taken several forms, which are discussed below:

i) Greenfield Privatization/Introduction of Competition or Parallelization: The term Greenfield privatization is used by most economists to refer to the introduction of competition into areas reserved previously for the public sector (Venugopal Reddy, 1990: 105). Some scholars, such as Goulding (1997) adopt a broader term coined parallelization: he uses this to include not only significant private-sector entry, but other measures such as the creation of independent regulatory authorities, the disaggregation of supporting government infrastructure from the SOE with which the private sector will be competing (e.g. separation of the government-owned airline from the government-owned airports) and the liberalization of pricing regimes. Compared to other reform strategies, this measure has been adopted more extensively and embraced more readily by the Indian government (Goulding, 1997; Ahluwalia, 1995; Bhall, 1995a, 1995b; Reddy, 1990).
Sectors where this has been applied are automobile manufacturing, power, aviation, infrastructure development, telecommunication services, and television. Privately produced programs are shown on Doordarshan, the national terrestrial broadcasting monopoly, in competition with satellite channels, such as CNN, MTV and BBC. Private airlines now hold as much as 40 percent of the market on trunk routes and several new private banks have been licensed. The telecommunications sector has been opened up and cellular phones are widely used in urban areas.

ii) **Reinvention Instruments/Marketization**: Performance Contracts--Memoranda of Understanding (MOU): “Reinvention,” (Osborne and Gaebler, 1992) or marketization (see Reddy, 1990) entails adopting measures to improve government efficiency and to make it more “business-like” in its orientation. This form of reform, which became popular in several countries, including the U.S., was been tailored to the Indian context in the form of performance contracts for PSEs known as Memoranda of Understanding (MOUs). MOUs refer to an improvement of performance through the signing of an agreement between a PSE and its administrative ministry to facilitate autonomy in exchange for greater accountability in the administration of state owned enterprises. Between 1990-1993, approximately 120 PSEs signed or were identified to sign MOUs (Ahluwalia, 1995). These measures have been somewhat limited in addressing problems of accountability and autonomy (Hindustan Times, April 29, 1998; World Bank 1995b; Ahluwalia, 1995).

iii) **Denationalization and Disinvestment**: This measure involves the sale of all or part of the company to private investors and can also include the formal liquidation of the public sector enterprise, leading to its dissolution. To facilitate divestiture, a Divestment Commission was set up (Goulding, 1997). Disinvestment and denationalization have for the most part been purely marginal. By 1994, most cases of disinvestment involved only 5 percent of equity: in no case was disinvestment more than 20 percent of total equity (Ahluwalia, 1995: 254).

iv) **Budgetary Constraints**: Budgetary constraints refer to constraints set up by government institutions to remove or gradually eliminate budgetary support to PSEs. Some scholars argue that measures such as denationalization, greenfield privatization, and marketization can improve public sector performance only if they are supplemented with hard budget constraints: in other words, if PSEs stop receiving access to subsidies, privileges, and other forms of soft capital that enable them to compete without improving efficiency (Kornai, 1980). As Bhagwati points out, “...the combination of such a clear policy of what economists now call ‘hard budget constraints’ with a truly effective dismantling of barriers to private entry would mean a pincer-movement type of attack on public sector inefficiency: the entry of better managed and efficient private competition would put pressure on the public sector enterprises and that pressure would then translate, in the
presence of hard budget constraints, into the option to perform or to fail into bankruptcy. 
(Goulding, 1997). In the Indian context, the government reduced the level of support to PSEs to some extent. For instance, till 1991, PSEs enjoyed a 10 percent price preference over their private competitors in government procurement. This was phased out in the period 1992 to 1995 (World Bank, 1995b: 99). The share of budgetary support in the plan investment of PSEs has also come down from 23.5 percent in 1991-1992 to 18.6 percent in 1992-1993 (Ahluwalia, 1995: 252).

Nonetheless, despite the adoption of parallelization reforms, the government still does not follow a hard budget policy. Loss-making PSEs are still subsidized and rely heavily on borrowing from state-owned banks. For instance, despite reforms in the banking sector, the State Bank of India was recently forced to bail out a textile mill and a manufacturer of railway carriages (Economist, 1997a and 1997c). On average, the government has been earning a dismal 4.47 percent return on its total investment of 860 billion rupees and the drain on the annual budget in 1996 was 36 billion rupees (Economist, 1997b). Thus, the government has not seriously pursued the option of using hard budget constraints as a reform tool for PSEs.

iv) **Contracting Out and New Public Management:** This involves the contracting out of public services to private entities. While this option has become very popular in some countries, its use in India has been fairly limited. The most prominent example has been the contracting out of transport functions for Coal India. However, contracting out did not receive much attention from policymakers as a policy measure initially. While some sectors have traditionally contracted for services, it has not been used to the extent that it has in other countries.

Thus, in ranking them in order from those most aggressively pursued to the least aggressively pursued in India, the various reform measures discussed above would be greenfield privatization, followed by marketization, budgetary constraints, disinvestment, and lastly, contracting out (Sapat 1998).

**B) Levels of Privatization By Sector:**

The highest levels of privatization reform have been seen in the area of industrial policy, with most central government industrial controls being dismantled. From 18 industries reserved for the public sector, which covered everything from iron and steel to telecommunications, oil mining and air transport services, only three industries are currently reserved solely for the private sector: defense aircrafts and warships, atomic energy generation, and railway transport (Ahluwalia 2002). The Indian government, headed by the current Prime Minister of India, Dr. ManMohan Singh, who was the architect of economic reforms in 1991, has virtually dismantled the “license raj” of the past, with the exception of a few hazardous and environmentally sensitive industries (Panagriya, 2006). At the state level as well, a number of states have been privatizing state-level
public sector enterprises, mostly the loss-making ones. Current foreign direct investment policy now allows 100 percent foreign ownership in a large number of industries and majority ownership in all except banks, insurance companies, telecommunications, and airlines (Ahluwalia, 2002). Given these changes, foreign institutional investors have been bullish about the Indian economy and its soaring 8 percent growth rates, pouring more than $10 billion into Indian equities in 2005 and $8.4 billion in 2004 (Rai, 2006).

With regard to the small-scale sector however, substantial reservations for the production of certain goods (around 800 in this category) existed, which included items such as toys, shoes, and garments. In response to internal domestic reports, pressures from multi-national corporations, and the rising success of and competition from China in exporting such products, 14 items were removed from the reserved list in 2001, and another 50 in 2002. The removed items included items important for exports, such as shoes, toys, auto components, and garments (Ahluwalia 2002).

Reforms in other sectors have taken much more time. For instance, reforms encouraging private investment in infrastructure have worked in some areas but not in others, particularly with respect to financial sector reforms and the energy sector. These have also impacted reforms in the agricultural sector, where numerous restrictions and state-level protections have still been retained.

C) Areas in which privatization reform has been stalled or withdrawn:

There are some areas in which privatization reforms were not even attempted, not completed or completely withdrawn. One such area where reform has not been attempted by any government is the area of labor law reforms. While such reforms are not a form of privatization, they are linked closely to it. Indeed some proponents of privatization argue that privatization is unlikely to be successfully implemented, unless Indian labor laws are changed (Ahluwalia 2002; Panagriya 2006). Under current labor laws, firms with 100-plus workers are not permitted to lay off workers under any circumstances, often deterring larger firms from manufacturing even products that are free from the small-scale-industries reservations. (Panagriya, 2006).

Similarly, the banking and retailing sector remain untouched, despite repeated proposals to sell stakes in Indian banks and despite increasing pressures from retail giants like Walmart and Tesco who have come knocking on India’s doors. The government has chosen not to allow direct foreign investment in retailing (Rai 2006). In some areas, privatization was attempted, such as the insurance
sector, but none of these initiatives came to fruition. In some cases, proposed privatization plans were withdrawn. For instance, in 2005, the government scaled back its privatization program, scrapping plans to sell strategic stakes in 13 state-owned companies, including a major power equipment manufacturer, Bharat Heavy Electricals Ltd., a state-run mining company, the National Aluminum Company, and other state-run companies dealing with construction, shipping and fertilizer manufacturing (Larkin, Ramkrishnan, and Venkat 2005).

Thus, in summary, there has been a greater emphasis on certain kinds of privatization in India—such as greenfield privatization vs contracting out. Moreover, economic liberalization has been greater in certain sectors, such as industrial and trade policy as opposed to agricultural reform. Finally, there was a lack of privatization-related reforms in other areas, and in some case, particularly in the last 2 years, some privatization initiatives were either delayed or withdrawn. In an overall analysis of India’s economic liberalization and privatization reforms, some observers have concluded that the pace has been very gradual, and in some areas almost glacial (Ahluwalia 2002). Why has the pace of reforms relatively gradual and restricted to some areas? Which factors have contributed to the lack of reforms or even the withdrawal of privatization initiatives? The answers to these questions are explored in the next section.

III Privatization, Democracy and the State

There are several reasons for the patterns and pace of privatization reforms in India. In some cases, certain projects were withdrawn because of economic issues, such as high transaction costs, or the lack of interest by private entities in some projects. However, overall, there are some more reasons that relate to the nature of the democratic system in India, which can help explain the lack of privatization “progress/regress” (depending on one’s Weltanschauung). The first three of these have to do with national level politics; the role played by coalition governments with communist factions, voter preferences, and the power of interest groups. The fourth factor discussed is the role played by local communities and grass-root efforts and their impact on local, state, and national democratic institutions.

1) Domestic Politics and Coalition Governments: From 1991 to 2004, there were several elections and a change in power by political parties. In 1991, the Prime Minister P. V. Narsimha Rao, and his Finance Minister then, Dr. ManMohan Singh, belonging to the ruling Congress party and its allies, embarked on an economic liberalization program. Despite a change in the ruling political party in 1996, and then 1999, the liberalization program continued apace, albeit with some hiccups. However, in May 2004, India unexpectedly voted into power the Congress and its allies (later renamed the United Progressive Alliance, UPA). The election was won by the Congress party, because of its leader Sonia Gandhi (the wife of slain former Prime Minister, Rajiv Gandhi and a daughter-in-law of Mrs. Indira
Gandhi of the Nehru-Gandhi dynasty). Mrs. Sonia Gandhi won on an anti-privatization/liberalization platform, but calmed investors by declining the premiership, installing instead in her place, Dr. Manmohan Singh, a Cambridge-educated economist with impeccable free-market credentials. The alliance however, by the ruling Congress party, has been resting on the support extended by several factions, including those from the communist party. As part of its campaign promises, the Congress party had struck a deal before the elections, under which the communists would support it from outside the government in return for restraint on divestiture and the stalling of further privatization reforms (Larkin, Ramakrishnan, and Venkat 2005).

2) Voter Preferences: The Congress and then UPA alliance also won the election and formed government by campaigning against the former ruling party’s (Bharatiya Janata Party, BJP) slogans of India Shining, which touted the economic benefits that had been wrought in the last decade by economic liberalization policies. The BJP had committed itself to privatization of state-owned enterprises, liberalization of the energy sector, tariff reduction, and other micro-economic changes designed to bolster private investment, even in the service sectors. However, the voters of India rejected the Bharatiya Janata Party (BJP) government, in large part because of the unhappiness of the large rural population and the lack of employment growth in the cities. Spending on agricultural/rural development had declined to 3.8% of GDP during the period 1999-2004 compared with 4.1% during the previous three years. Moreover, “the campaign slogans about "India Shining" rang hollow in a population where over 600 million people depend upon agriculture but only 26 million have cell phones and 659,000 households have computers” (Hale 2004). Thus, in terms of voter preferences, there is a movement away from unrestricted privatization, at least on the part of the rural masses.

3) Labor Unions as Interest Groups: When applied to the issue of privatization, unionized workers have been recognized in a number of countries as being resistant to reform and privatization (World Bank, 1995a, 1995b; Waterbury, 1990, 1993). In the Indian context, the presence of organized labor is an important constraint or obstacle to privatization for two reasons. The first of these has to do with prevailing labor laws that protect the right of unionized workers. The second of these has to do with the importance of labor unions as political constituencies.

As mentioned earlier, Indian labor laws are very stringent (Bhalla, 1995; Saran and Parthasarathy, 1998; Economist, 1997b). These laws function as “concurrent laws,” meaning that both central and state governments have a say in regulation. It is estimated that there are 45 separate laws dealing with every conceivable aspect of employment: wages, safety at work, industrial disputes, job security, collective bargaining, etc (The Economist, 1997a). Moreover, permission to sack workers in firms employing more
than 100 people must be obtained directly from state governments and this is granted only rarely. Given this overwhelming protection afforded by the Indian legal system to PSE workers, making public sector reforms would entail substantial constitutional and legal changes, which operates as a powerful deterrent to any government endeavoring to reform PSEs.

Combined with these institutional safeguards is the role played by union opposition (Waterbury, 1990; Goulding, 1997). Some types of privatization reform are seen by unions as being more threatening than are others. Measures such as the introduction of competition and reinvention of enterprises are not perceived to be as intolerable to unionized labor as are disinvestment and denationalization. The latter signal the potential loss of jobs, whereas the former signifies merely an increase in competition that will not have a direct impact on job security or wages. Parallelization strategies that lead to the introduction of competition may even be viewed positively, in that the addition of new industries may represent new job opportunities for PSE workers (Sapat 1998). This has been born out in the banking sector, where a number of managers have left nationalized banks to work for higher salaries offered by new competitors in the market (Economist, 1997a; World Bank, 1997). Moreover, given the lack of a national social security system and lack of retraining and redeployment programs, it is not surprising that organized labor does not support de-nationalization and disinvestment that are equated with retrenchment and layoffs. The lack of support and union opposition to such reforms has been voiced strongly preventing changes in labor laws and privatization in certain sectors of the economy.

4) Local Communities and Grass-root movements: The adoption of large-scale privatization has not been without opposition. While some opposition is short-lived, there are growing instances of grass-root movements and organizations opposing efforts to decimate local communities by the commodification of goods and services under a rationalist, efficiency driven privatization paradigm. These protests and opposition have taken the form of using a variety of methods from simple demonstrations to larger-scale protests against multinational giants.

A clear example of this is to be found in the movement launched against the multinational giant Coca-Cola. Led first by one woman, Mylamma, a group of women in a small hamlet in Kerala, a southern state in India, succeeded in shutting down a Coca-Cola plant. The Coke plant in Plachimada, Kerala was commissioned in March 2000 to produce 1,224,000 bottles of Coca-Cola products a day and was issued a conditional license by the local village council to install a motor-driven water pump. However, as the company started to illegally extract millions of gallons of clean water, the water level started to fall, jeopardizing water supply with serious consequences for the agricultural livelihood of the local people in the area. Tribals and farmers began to petition their local village council, the panchayat, to ask the company for details. The local village council/panchayat did respond to the citizen complaints and when
Coke failed to comply with the local village council’s request for details, a show-cause notice was issued to the company and its license was cancelled. The company tried other tactics and tried to bribe the local council president with 300 million rupees, a considerable sum, particularly in rural areas.

However, in a surprising strong show of strength and integrity by the local council, the bribe was refused and did not work to undermine the resolve of the local council and community. In addition, waste material deposited by Coca Cola caused serious pollution in neighboring paddy fields, canals, and wells, and in 2003, the district medical officer informed the people of Plachimada that their water was unfit for drinking. The women of the village, who already knew their water was toxic, staged a *dharna* or sit-in at the gates of the Coca-Cola factory. On Earth Day 2003, there was a huge agitation and demonstration staged, followed by a huge rally outside the plant on September 21st, 2003, when an ultimatum was delivered to Coca-Cola. This led to national and international attention to the cause; in January, 2004, a World Water Conference brought global activists to Plachimada to support the local activists (Shiva, 2006). Today, the plant is closed and movements have begun by local and national groups against other plants.

Similarly, a Citizen’s Movement for Water Democracy has been launched to stop the privatization of water supply in India’s capital New Delhi. Started in 2002, this movement prevented the privatization of the water supply, which would have increased prices and diverted water from poorer to richer areas of the capital. Supported mostly by local groups, this movement succeeded in stopping the water privatization project by 2005. Other movements have included farmer protests and even destruction of factories set up by Cargill, the agro-giant, and non-cooperation movements to prevent the introduction of genetically modified seeds. Thus, opposition by local grass-root movements have stymied privatization initiatives in a number of instances.

**Whither Democracy?**

Initially, India’s foray into privatization in the early 1990s was welcomed and viewed in relief by large numbers of citizens given the restrictive economy that had existed till then. However, as privatization has continued, there has been a growing reluctance on the part of both citizens and governmental elites to embrace all forms of privatization whole-heartedly. As the ill-effects of privatization continue to grow, so too has opposition to its excesses. It is clear that the power of the privatization movement has grown to a large extent. However, the movements and demonstrations by local citizens and groups are indicative of the power that small local movements and communities can have in using democratic policy tools to fight back. As seen in the Plachimada case, a small movement started by local tribal women led to national and international attention to their cause and succeeded in driving back one of the most influential
multinational companies in the world—a powerful testament to the ability of local democratic initiatives to stave off some of perils of privatization. From the Indian case, it seems to be that some degree of privatization is tolerated to the extent that it has loosened the reigns and power of autarkic socialist elites. However, unabated privatization is not accepted readily and when local lifestyles and livelihoods are threatened, opposition intensifies. When domestic politics, voter preferences, labor laws, and union opposition are also taken into account, the viability of a breakdown or take over of traditional community and societal norms by privatization forces is rendered questionable. Local contextual factors and situational norms could be seen as anti-essentialist forces that need to be reckoned with by rationally self-interested privatization interests, imbued with essentialist norms of efficiency.
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\footnote{This section is largely drawn from Sapat (1998, 1999).}