

ORGANIZED LABOR AND ECONOMIC REFORM

Pakistan's industrialist Prime Minister [Nawaz Sharif] followed his natural instincts and began liberalising his economy almost a year ahead of us despite stiff opposition from his coalition. ... The Pakistanis, who have always been in awe of India's industrial prowess and envious of our democracy, can today be proud of having stolen a march on us. For once, we have something to learn from them. ... Unlike India, where reform is taking the slow, ponderous pace of an elephant, Pakistanis are zipping toward liberalisation. ... Clearly, Pakistan is plugging itself into the global economy faster than India.¹

Aroon Puric

Like most countries, India and Pakistan moved away from extensive state ownership and regulation of the economy at the end of the twentieth century. Before the 1990s, India and Pakistan's economic development philosophies contrasted markedly. But each exhibited high levels of state intervention in the economy. In the late 1980s and early 1990s, governments of India and Pakistan were attempting to exit the economy. But patterns of actual economic reform have differed considerably.

Explaining these divergent patterns is the focus of the first half of this chapter. Attempts to implement nearly identical International Monetary Fund (IMF) structural adjustment measures (detailed below) exhibit the influence of solidarity-building social institutions and organizations, more abundant in India than in Pakistan. Labor unions and other significant social organizations have played an essential role in responding to government measures and patterning changes in economic outcomes. This is evident in the privatization processes, discussed in the second part of the chapter.

The major elements of structural adjustment in South Asia were trade liberalization, privatization, and promotion of foreign direct investment (FDI).² The memoranda of understanding signed by the IMF and each government were almost identical. Indian and Pakistani currencies were to be devalued and ultimately made freely convertible. The IMF agreements

committed the Indian and Pakistani governments to reduce budget deficits by reducing public subsidies, to deregulate industry and commerce, to relax foreign ownership and monopoly restrictions, to open areas to private business, to lower tariffs, and to privatize state enterprises. Generally, the state's authority in the direct management of the economy was to be reduced. Foreign investment was to be encouraged and the financial sector was to be deregulated, denationalized, and opened to foreign banks. Most of these policies have been effected and have begun to transform the role of the state in the economies of India and Pakistan.

The 1988 IMF structural adjustment loan to Pakistan, the first in a series, was negotiated quickly and signed, after General Zia ul-Haq's death, by an interim government. Zia had appointed that interim government after he dismissed Prime Minister Mohammad Khan Junejo's government. India began its structural adjustment program a couple of years later, in July 1991.³ A fragile Indian National Congress (I) coalition government negotiated the IMF agreement to correct a severe balance of payment crisis. The Government of Pakistan was able to move rapidly in adjustment, notably in its privatization program, with little public resistance. In India, adjustment has been gradual, "half-hearted,"⁴ and privatization has been thwarted at the central (federal, in US parlance) and provincial (state) levels. Why have the similar structural adjustment programs been implemented so differently, especially the privatization programs?

Structural adjustment

Contemporary structural adjustment began with the Mexican international private loan default of August 13, 1982 and the consequent establishment of an IMF Structural Adjustment Facility. The immediate concern of the IMF and other Mexican creditors was to maintain the capacity of Mexico, and other debtor developing countries, to make payments to financial institutions and private banks. In this sense – as it relates to balance of payments – the term structural adjustment is a misnomer. Adjustments are made in government expenditure. There is not a structural change in the conditions that lead to balance of payments crises in developing economies.

IMF structural adjustment is based upon monetarist principles. The IMF makes reduction of government expenditure – and thereby reduction of aggregate demand – a condition for release of funds. Tight monetary policies (e.g., higher deposit requirements for commercial banks), and reduced fiscal deficits, dampen inflationary pressure.⁵ At the same time, subsidies are cut, leading to higher prices of commodities and services for improved long-term allocative efficiency. By design, structural adjustment dampens demand (in "the short-term," I hasten to add) through significant cuts in government consumption. Structural adjustment thereby depresses employment (again, in "the short-term").

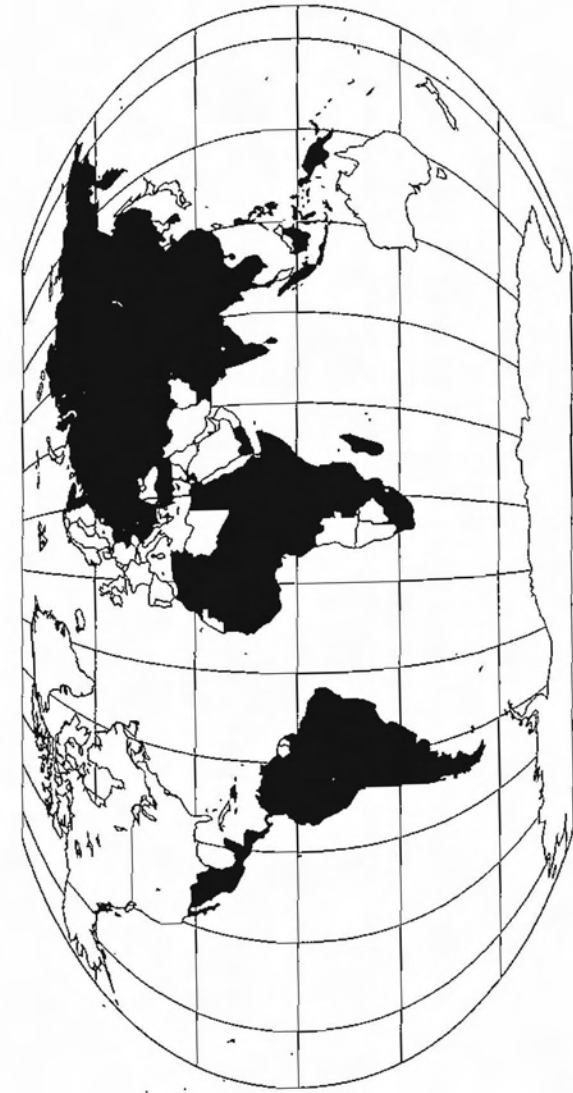
Speculation about the efficiency and distribution tradeoffs of various models of mixed economies should not prevent one from looking at the record. Nearly everywhere that it was deployed, structural adjustment encouraged, if not forced, governments to cut public services, including education and health. These were not small cuts. In many countries, they injure an entire generation.⁶ Structural adjustment in India and Pakistan pushed millions into poverty, not unlike the structural adjustment programs of a decade earlier in Latin America and the Caribbean. Structural adjustment programs have failed to promote sustained growth or the intangible foundations for development – such as investment in education and health.

The arguments for structural adjustment may be sound, but the assumptions behind them are not. Indeed, the assumptions underlying structural adjustment theory do not conform at all well to human life. An imaginary unregulated market is posited. The actors in this imagined market are assumed to be individuals (or corporate bodies legally recognized as individuals), with perfect information and equal capacity. An imperfectly informed government that issues distortion-causing regulations for “political” purposes is posited in opposition. This false dichotomy between the fictionalized state and the fictionalized market leads to the conclusion that state regulations can only be perverse in delivering net economic benefits.

Regulation can have a positive impact on efficiency and growth, putting aside positive impact on civil rights for the moment, as health and safety standards do. The existence of regulation does not itself demonstrate that its impact is negative.

Indeed, all markets require states to regulate them. In advanced capitalist societies, such regulation may be less obvious than in postcolonial societies. Vast networks of regulations are necessary to sustain markets, including regulatory bodies for stock and security exchanges, bodies for adjudication of disputes, processes for securing entitlement to intellectual property or patents, as well as regulations related to the numerous necessary direct monetary and macroeconomic interventions, such as interest rate determination. Governments also subsidize selected corporations and industries by bailing out troubled companies or, less publicly, by providing tax write-offs and other financial benefits. Such government intervention in the marketplace – essential to the operation of the so-called free market – comprises the majority of government spending in the advanced industrial world.

In the developing world, government intervention is typically more obvious. Governments often dictate maximum prices on important consumer goods, directly control financial organizations, and restrict designated industries to the public sector. Developing countries do tend to rely more on managerial controls than on macroeconomic controls. By itself, however, this is not proof that states in developing countries are more interventionist. It may be an indication that governments in the developing world are less capable of exercising control over the economy through regulatory and



Map 3.1 World: countries having undertaken IMF structural adjustment 1982–2007
Source: adapted by Fatima Burrey from Walden Bello, Shea Cunningham, and Bill Rau, *Dark Victory: The United States, Structural Adjustment, and Global Poverty*, London: Pluto Press, 1994. With permission from the authors.

macroeconomic intervention. The significant macroeconomic policy component of structural adjustment of the 1980s and early 1990s shows that governments in the developing world are shifting to more control through macroeconomic and financial policies and less through public management of the economy. At the same time, state protections and supports are being withdrawn from areas of the economy, with harsh effects on significant portion of the population.

Fiscal realities in poor economies

Increasing international economic interdependence is evidenced by the creation of the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), and the proliferation of bi-lateral trade agreements. This interdependence renders governments, in both the developed and the developing world, less capable of forcing capital to make pacts with workers. Businesses often opt for investment in areas where no restrictions are placed on employers (nor guarantees placed on worker productivity, worker commitment, or worker discipline), rather than investment in areas where a compromise between the state and workers requires a significant degree of regulation to maintain a productive, rule-structured, and market-obedient work force. Just as Japanese and US corporations shifted their production facilities to Thailand, South Korea, Malaysia, and Indonesia decades ago, Indian and Pakistani industrialists have shifted their production from towns and cities, where workers have experience in organized action, to rural areas and small towns, where workers are not organized.

Governments throughout the world have abandoned once seemingly ubiquitous state-guided economic development strategies. Even in early neo-liberal development models and in their application, the state played a crucial role.⁷ Economic ideologies were wide ranging but levels of market intervention in the economy were extensive in all economies, excepting those that have begun to fail as viable modern states. What caused the state's abdication from economic management?

The catalyst for the state's retreat from national economic planning, since the debt crisis was officially declared, has been balance of payment crises. Mexico's inability to meet its foreign debt payments in August 1982 officially inaugurated the debt crisis. IMF structural adjustment programs were designed to allow foreign creditors to recover their loans.⁸ But the impetus for structural adjustment runs deeper than such fiscal imperatives. Over the past three decades, the very nature of industry, employment, and production has changed, especially in lower income countries, where economic policy makers once assumed that all economic activity could one day be regulated and formalized.

Structural adjustment does not merely address balance of payment crises. Structural adjustment programs have reduced government spending and

opened protected national economies to international competition. Structural adjustment has legalized changes in labor production processes and has institutionalized deregulation and informality that threatens the very institutions of sustained development. Structural adjustment changes the state and its role in society. The chief challenges to societies in industrializing countries may be overwhelmingly fiscal. Nurturing democratic institutions built on cooperation and mutual protection, rather than abdication, is the best response to the inevitable fiscal crises of industrializing economies.

India's cautious adjustment (since 1975)

As with any incremental process, the origins of India's economic adjustment might be disputed. The beginnings of economic reform in India can be traced variably to 1974, when wholesale trade in wheat was denationalized, to 1980, when Mrs. Gandhi loosened industrial licensing requirements, to 1981, when the Indian government negotiated a nearly US\$6 billion IMF loan, or to 1984, when Rajiv Gandhi, an advocate of technology and liberalization, was made Prime Minister.

I trace the origin of Indian economic reform to 1975 because the experiment with authoritarian rule known as the Emergency produced the most direct government overtures to the business community and new relationship between organized labor and the state. While the state used unprecedented violence against organized labor and its leaders, some of India's national labor unions also exhibited an unprecedented willingness to collaborate with an authoritarian state in spite of the interests of labor.

Early adjustment under the Emergency

In June 1975, Prime Minister Indira Gandhi declared a state of Emergency.⁹ An executive ordinance amending the Maintenance of Internal Security Act permitted Mrs. Gandhi to imprison her political opponents without charge, to censor the press, and to outlaw strikes. Mrs. Gandhi announced that the Emergency was required to protect against external imperialist threats and internal capitalist ones. She announced a 20-point program with such populist features as lowering retail prices, seizing the luxury goods of tax evaders, and enforcing the ceiling on land holdings.¹⁰ The Emergency, however, marked not a deepening of economic populism but a decided pro-business turn.¹¹ Relaxation of production capacity controls and restrictions on monopolies constituted the first efforts at economic adjustment. In 1975, the government permitted most industries to expand capacity by 125 percent, and to produce in related areas (a practice called broad-banding). In 1975, Mrs. Gandhi also had lifted the ceiling on what constituted a monopoly under the Monopolies and Restrictive Trade Practices Act.¹²

Left front liberalization

Mrs. Gandhi heeded the advice of some in her inner circle to conduct the scheduled 1977 general elections and to stand on a platform of government strength in defense of national independence and socialist principles. In the event, she was soundly defeated. The Janata (People's) Party, a hastily assembled coalition of political parties and protest movements, took office with a political platform in favor of extending Nehruvian socialism through a more strongly interventionist state and a more dominant public sector. The Janata coalition held Gandhian development sentiments and took a negative view of big business. The socialist labor leader of the Janata Party, George Fernandes, who told representatives of big business at the Federated Indian Chambers of Commerce and Industry (FICCI) that they behaved during the Emergency like rats rather than like men, became India's Minister of Industry. The industries of the largest 20 business houses, including the Tata Iron and Steel Corporation, were threatened with nationalization.

Despite the socialist rhetoric, a significant faction of the Janata Party regarded the public sector with the same suspicions as they did big business. Charan Singh, who served in the newly created office of Deputy Prime Minister and later as Home Minister and Finance Minister in the Janata Party government, led a Janata Party section representing middle-caste agriculturists. The Janata Party directed substantial state expenditure to agricultural and small-scale industry development. One major faction of the Janata Party, the Jan Sangh, represented "shopkeepers and traders and the new middle class of small industrialists and white collar workers."¹³ "The main thrust" of the Janata Party's economic policy was the position that to of secure livelihoods for the rural masses "whatever can be produced by small and cottage industries must only be so produced."¹⁴

The fortunes of the Janata Dal at the center coincided with the rise of significant industries at the state level. The consensus apparently forming in the late 1970s among business people, journalists, and government officials that India could perform better in the international economy was encouraged by the major expansion in the middle sized business community in the 1970s. Medium sized businesses, with the political support of regional political parties and state governments, such as the Telugu Desam Party of N. T. Rama Rao in Andhra Pradesh and the Communist Party of India (Marxist) of Jyoti Basu in West Bengal, grew rapidly and challenged the major business houses which were more closely allied to the Congress.¹⁵

Indira Gandhi's gradual adjustment, 1979-1981

In July 1980, the Congress adopted a new Industrial Policy Resolution designed to bring coherence to de-licensing, broad-banding, capacity expansion, and the other *ad hoc* adjustment measures already announced.

The Industrial Policy Resolution of 1980 marked a clean break with the 1956 Industrial Policy. It dropped the previously obligatory reference to building a strong public sector that would occupy the "commanding heights" of the Indian economy in favor of reference to a public sector that would serve as the "pillars of infrastructure."

Despite the Indian government's cautious pursuit of a more open economic policy, there was economic discord between India and the United States. In August 1980, the US accused the Government of India of unfair trade practices on account of the use of export subsidies.¹⁶ In January 1981, the World Bank announced the cancellation of a US\$250 million loan to India to be used to establish two fertilizer plants. The loan was arranged on a concessional interest rate of 7.9 percent, payable over 20 years.¹⁷

Under some pressure from the US government and from the World Bank, India began negotiations with the IMF on an Extended Fund Facility loan in January 1981. Later in 1981, the government took several anti-inflation measures, including raising the bank lending rates and raising the minimum reserve on deposit required of banks.¹⁸ Also as an anti-inflation measure, in July 1981, during a year of record wheat harvests, the government announced that it would purchase 1.5 million metric tons of US wheat.

Early IMF adjustment, 1981-1983

The negotiation of a US\$5.8 billion loan with the IMF was a significant turn in economic development strategy. Then Finance Minister, Ramaswami Venkataraman, announced on August 11, 1981 India's application for the loan. It was eventually approved on November 9, 1981. To be distributed in three installments, the IMF loan was the largest that the international financial agency had ever cleared. The loan consumed one-sixth of the IMF's hard currency reserves. The US government abstained from the IMF vote on the loan, and the Reagan Administration lobbied other governments to block the approval, on the grounds that the loan was development aid rather than financing for structural adjustment. Officially, the loan was granted to relieve India's balance of payments problem, greatly exacerbated by the rising cost of imported oil.

At the same time, the conditionalities of the loan were strongly opposed in the Indian Parliament. Finance Minister Ramaswami Venkataraman was at pains to assure Members of Parliament that the conditions agreed to were in India's own interests. While the Indian government did not agree to a currency devaluation, as is customary, the government did agree to substantial changes in its financial policies. In April, the government eased its import policy in accordance with the conditions of the IMF program. Beginning with the coming fiscal year, fully export-oriented industries were permitted to import all requirements.

In anticipation of the resistance it would face over its economic adjustment policies, the government banned strikes in key industries on July 27,

1981 for six months. The law was promulgated as an ordinance, signed by the President under a Constitutional Provision permitting the President to enact ordinances when parliament is not in session, thus avoiding the outcry that would have occurred in a parliamentary debate on the measure. The industries in which strikes were banned included railways, electrical services, telephones, post, ports, airlines, banking, petrochemicals, hospitals, and defense-related industries.

In the wake of the November 1981 IMF loan, public criticism of the IMF and the World Bank continued. During a visit of the World Bank President, A. W. Clausen, in early February 1982, Indian economic planners voiced their criticism of the high commercial component of a US\$1.9 billion World Bank pledge. In January 1982, eight national trade unions called a general strike against the "anti-labour policies of the government." The chief demand of the strikers was that the government lift the 1981 law giving the government the authority to ban strikes. The strikers also wanted the repeal of the National Security Act of 1980. Over 6,000 activists, chiefly in Andhra Pradesh and Tamil Nadu, were arrested on the eve of the strike. By the day of the strike, 25,000 activists and striking workers were in jail.

The government reorganized in favor of politicians inclined toward adjustment. On January 15, 1982, Prime Minister Indira Gandhi reshuffled her cabinet. Pranab Mukherjee, "a close associate of the Prime Minister with little experience in economic administration,"¹⁹ was given charge of the Finance Ministry, while Ramaswami Venkataranian was moved to the Defence Ministry. Political observers saw this as Indira Gandhi's attempt to bring "economic management closer to her inner circle of advisors."²⁰

Rajiv Gandhi's supply-side "liberalization," 1984-1990

Ten weeks before the completion of her third term as Prime Minister, Indira Gandhi was assassinated. She had ordered the Indian army to enter the holiest place of the Sikh faith, the Golden Temple, to capture or kill an armed party of Sikh separatists. Her younger son, Rajiv Gandhi, groomed for succession since his brother Sanjay's death in 1980, was quickly chosen to be Prime Minister by Parliament. While Rajiv Gandhi's efforts at economic adjustment were not the first or the most extensive, he is regarded by some as the chief proponent of economic reform among India's prime ministers because he explicitly articulated the position that India's Nehruvian development strategy had outlived its usefulness.

The Congress (I) government lost the November 1989 general election. A coalition government, headed by the Janata Dal leader and former Congress Finance Minister, V. P. Singh, held office until the Hindu chauvinist Bharatiya Janata Party withdrew its support in October 1990, causing the Janata Dal to lose a vote of confidence in parliament in November 1990. The Janata Dal's National Front coalition government was succeeded by a

new coalition government, headed by Chandra Shekhar, the leader of a faction of the Janata Dal, the Janata Dal (Socialist), until it lost the support of the Congress (I) in May 1991.

The 1991 IMF agreement and the 1991 new economic policy

The Government of India publicly explained its decision to enter into a structural adjustment agreement with the IMF in July 1991 as the unavoidable response to a serious fiscal crisis.²¹ Taking office in June 1991, the Congress (I) government found itself in an unsustainable fiscal situation, a situation which Congress governments had helped to create in the 1980s. The fiscal deficit of the central government for fiscal year 1990-91 was estimated at 8 percent of gross domestic product (GDP), having climbed from roughly 4 percent in the mid-1970s. Interest payments on internal debt alone constituted nearly 20 percent of total central government expenditure. Inflation had reached double digit levels, a historically high and politically dangerous level for India. The consumer price index for fiscal year 1990-91 increased by 13.6 percent, with the sharpest rises in foods, fuels, and other essential commodities. The balance of payments situation was also very serious. Foreign exchange reserves had dwindled, while governments changed three times in New Delhi, to Rs. 2,500 crore,²² an amount sufficient for only two weeks of imports. In October 1991, the government of India signed an agreement with the IMF for a standby loan of 1.656 billion SDR (Standard Drawing Right) (approximately US\$2.1 billion).

The fiscal crisis can be traced to a combination of domestic and international, economic and political factors. Although the government of India had been cautious with foreign and domestic borrowing since Independence, it began running large fiscal deficits, in excess of 6 percent of GDP, in the late 1970s. The deficits, which increased under the Congress (I) government of Prime Minister Rajiv Gandhi, were based upon sharply rising expenditure on interest payments on domestic and international borrowing, defense purchases, government salaries, and domestic subsidies on food, fertilizers, and exports. Large current account deficits, in the range of 25 percent of exports between 1980 and 1984 and 40 percent thereafter, were met through a large loan from the IMF, dispersed between 1982 and 1984, and large commercial borrowings.²³ To manage its fiscal deficits, the government reduced the growth of real spending on capital investment and increased its short-term external commercial borrowing. The Iraqi invasion of Kuwait in 1990 and subsequent conflict in the Persian Gulf made this precarious situation worse. The return of Indian workers from Kuwait and the loss of their remittances added to the foreign exchange crisis.²⁴ The price of petroleum and petroleum products, India's single most costly import item, increased sharply.²⁵

In September and October 1990, Standard and Poors and Moody's lowered their rating of short-term debt to Indian financial institutions.²⁶ Moody's October 1990 report listed six factors responsible for the decline in their credit rating: (1) the increase in public debt; (2) the increase in external commercial borrowing and subsequent higher interest payments; (3) the increase in the external debt to export ratio; (4) the impact on export earnings and foreign remittances of the Iraqi invasion of Kuwait; (5) the increase in budget deficits and the subsequent increase in interest payments and inflation; and (6) the recession in Overseas Economic Cooperation and Development countries and subsequent decrease in export potential.²⁷ The July 1991 agreement with the IMF brought nearly US\$4.8 billion in credit. While this solved the immediate foreign exchange crisis, the concerns enumerated by Moody's – especially increasing budget deficits, interest payments, and inflation – remained.

In July 1991 the Government of India's Finance Minister, Manmohan Singh, announced in the Lok Sabha, the lower house of Parliament, the removal of most industrial licensing requirements and the lifting of location and capacity restrictions on industry. The new industrial policy reduced the number of industrial sectors reserved for public sector investment from seventeen to eight. The new industrial policy also abolished requirements for government approval of domestic investment in all but 18 sensitive areas, specified on a "negative list," and granted automatic approval of foreign technology agreements and foreign investment of up to 51 percent of equity in 34 sectors, specified on a "positive list." The government declared two major currency devaluations in early July 1991, amounting to a devaluation of the rupee by approximately 20 percent. A further devaluation was made in March 1993.

The government announced in June 1991, and often thereafter, that it would stop supporting unprofitable public sector enterprises. Almost twenty years later, however, the central Government has initiated very limited direct privatization and failed at wholesale privatization. The government has sold shares in public sector enterprises, but most of these shares have gone to government financial institutions, effectively transferring public debt from public sector enterprises to public sector financial institutions. Of the 248 public sector enterprises managed by the central government, only 31 have been subject to disinvestment, and these at an average of only 8 percent of equity.

Pakistan's rapid adjustment (since 1988)

According to Prime Minister Nawaz Sharif, the free market economy introduced in this country would serve as a model to other Muslim countries. ... His Federal Industries Minister ... said that this was a

challenge to the world as even UK's Margaret Thatcher could not go for such a massive privatization programme.²⁸

Nawaz Sharif, Prime Minister of Pakistan, 1992

General Zia's aborted economic liberalization

In his 11 years of rule, General Zia ul-Haq did not significantly restructure the public sector economy that he inherited from Zulfikar Ali Bhutto and General Ayub Khan. From July 1977 until August 1988, Zia managed only to complete the privatization of those public sector enterprises – wheat flour, rice husking, and cotton ginning mills – that Bhutto had slated to denationalize.²⁹ Zia failed to meet Pakistani industrialists' demand that all nationalized industries be returned to the private sector. Writing in the last month of General Zia's 11-year rule, journalist Shahid Zahid comments that "[d]espite years of ballyhooing about privatization, hardly any change has come about in reducing the size of the public sector."³⁰ General Zia's economic behavior contradicted the thesis that authoritarian interventions are driven by the logic of dependent capitalist development and betrayed the economic objectives he himself declared in 1977.

Despite the professed interests of the military government, the intervention of the military in Pakistani politics did not mark a transition away from statist economic development. General Zia kept the bulk of Pakistan's newly nationalized industries in the public sector. With the 1985–86 budget, it was announced that shares of public sector enterprises valued at Rs. 2 billion would be sold to the private sector. Fourteen public sector enterprises were later identified for divestiture, but by 1989 only six companies had been divested of public shares. Pakistan International Airlines could only be divested by 10 percent and this was only possible when the government guaranteed returns on the investment. Ironically, only after General Zia's death and the election of Benazir Bhutto's Pakistan Peoples Party (PPP) did Pakistan move rapidly to dismantle the statist structure that Zulfikar Bhutto had helped to solidify.

As soon as the government of Pakistan took a US\$835 million IMF loan in 1988, a large loan by any standards, the pace of economic adjustment picked up. Years earlier, in 1980, Pakistan had arranged a, relatively small, US\$2 million loan from the IMF.³¹ The loan was made from the IMF's Extended Fund Facility, a predecessor to the IMF's Structural Adjustment Facility, established in 1986.³² The disbursement of the 1980 loan was made contingent upon the lowering of government subsidies on such essential commodities as wheat, cooking fuel, and fertilizers, increasing the administered price of electricity and other public utilities, lowering import tariffs, and halting further investment in public sector undertakings. The loan was

extended several times, but eventually lapsed due to lack of implementation of the conditions attached to it. Until a serious foreign exchange crisis forced the government to go to the IMF again in 1988, no substantial progress was made in implementing these conditions.

The caretaker government and the 1988 IMF agreement

The 1988 IMF agreement, which would spur Pakistan's rapid economic policy reform, came at the close of a significant year for Pakistan. On May 29, 1988, President General Zia ul-Haq dismissed the federal government and the national assembly, on charges of corruption and inadequate attention to Islam, under the authority of the Eighth Amendment. On the following day, under Zia's direction, the Governors of Pakistan's four provinces dismissed the provincial governments and provincial assemblies on similar grounds. Zia appointed an interim Pakistan Muslim League-dominated caretaker government and promised to abide by his own 1985 Constitution in holding elections within 90 days, but on a non-party basis. A little more than two weeks after the dismissal of the national and provincial governments, on June 15, 1988, President Zia promulgated a Presidential decree repealing all existing civil law and introducing the *Shariah* as the foundation for Pakistan's legal system. Rather than instituting a system of guided democracy as the promised non-party elections suggested, President Zia deepened authoritarianism under the ideological cover of an Islamic theocracy. Within one month, however, General Zia ul-Haq, his senior military officers, and the US Ambassador died with the detonation of a device aboard a plane on which they were flying.

Before General Zia's death, the Finance Minister, Dr. Mahbub ul-Haq, presented the 1988-89 budget. Twenty years earlier, Mahbub ul-Haq served as Chief Economist for Field Marshal Ayub Khan's Planning Commission. Ul-Haq, the "caretaker surgeon" as he described himself, presented the budget on June 26, 1988.³³ He addressed people directly on television and radio rather than through the conventional address to the National Assembly. The budget provided for major increases in defense expenditure, income and sales tax, and excise duties and as well as the introduction of a value added tax. Fourteen public sector enterprises were to be privatized immediately and others, including the nationalized banks, were to divest shares. In mid-August 1988, foreign exchange reserves dwindled to US\$150 million, an amount sufficient for less than one week's worth of imports, the lowest level in ten years. Declining export growth and increasing debt servicing contributed most to the crisis.³⁴

The caretaker government thus began negotiations with the IMF on a structural adjustment loan under the IMF's Extended Fund Facility. Mahbub ul-Haq discussed the prospects of securing an IMF loan with the IMF Managing Director in September 1988. Earlier that year, Pakistan had

taken a US\$18 million standby loan from the IMF to meet balance of payment difficulties.³⁵ On December 28, 1988, the IMF announced that it had approved a structural adjustment facility loan of 620.05 million SDR, equivalent to US\$836 million. An initial tranche of US\$147 million was disbursed in December 1988. Three hundred and sixty eight million dollars were to be drawn over a 15-month period on a typical IMF standby arrangement. Funds were to be drawn as adjustment targets were met. The remaining US\$467 million was made available as a three-year structural adjustment loan, contingent upon the Pakistan government's achievement of specific economic targets. These were standard IMF conditions, including elimination of subsidies, reform of pricing and tax policies, liberalization of imports, widening the role for the private sector, and contraction of fiscal deficits. With each new fiscal year, the government and the IMF was to sign a new letter of intent, based on satisfactory progress in the previous year.

Economic pragmatism under Benazir Bhutto

On November 16, 1988, Pakistan had its first political party-based elections since 1977. With 38.7 percent of the vote, the PPP emerged with almost twice as many seats as its rival, the Islami Jamoori Ittehad (Islamic Democratic Alliance) (IJI). The incoming PPP government regarded the December 1988 IMF loan's conditions as "a bitter pill, the last legacy of Zia." The new Finance Minister, Ehsanul-Haq Piracha, described the conditions "as the harshest ever contracted by Pakistan" and declared that the PPP should not be held responsible "as it was already signed before [Bhutto] became Prime Minister."³⁶ The financial crisis it inherited, her government argued, gave it no choice but to honor the IMF agreement. On December 7, 1988, the Finance Minister announced that "the government has agreed to abide by the IMF."

The international financial community seemed inclined to give some leeway to Pakistan's first democratically elected government in over a decade. Pledges by members of the World Bank-sponsored Aid to Pakistan Consortium, meeting in Paris in April 1989, committed US\$3.095 billion for 1989-90, an increase over the 1988 Paris agreement by US\$384 million, more than 14 percent. This reflected the confidence of the governments of the advanced industrialized countries and the international financial organizations that compose the Consortium that the Government of Pakistan could be financially responsible under democratic rule. In May 1989, Prime Minister Bhutto announced that the IMF was relaxing conditions attached to the IMF structural adjustment loan. Instead of cutting Pakistan's budget deficit to 5.5 percent of GDP, the government was permitted to hold the deficit to 6 percent of GDP. The IMF vigorously denied that there had been a relaxation of economic conditions.³⁷

Despite the unpopularity of structural adjustment, Prime Minister Bhutto made solid progress in implementing the IMF agreement. The Pakistan

rupee was gradually devalued. At the end of October 1988, the rupee stood at 18.20 to the dollar.³⁸ Within a year, by October 1989, it shrunk to Rs. 20.95 to the dollar, a devaluation of nearly 12 percent.³⁹ Within six months, the Pakistan rupee had lost another 4 percent of its October 1988 value.⁴⁰ Most importantly, the PPP government reduced the budget deficit to 6.8 percent of GDP in fiscal year 1989-90 by freezing all government spending at the rate of inflation. In fiscal year 1988-89, the deficit had been 8.5 percent of GDP. The PPP government also made overtures to the Pakistani business community. In early April 1989, Bhutto arranged for selected businessmen in Karachi to be included in the framing of the budget. A Board of Investment was also established and chaired by the Prime Minister to facilitate private sector industrialization.

On August 6, 1990, Pakistan's President, Ghulam Ishaq Khan, dismissed the government of Benazir Bhutto and appointed Ghulam Mustafa Jatoi, the IJI opposition leader, interim Prime Minister. Elections were scheduled for October 24, 1990. In late August and early September, an IMF team visited Islamabad to discuss the third tranche of Pakistan's 1988 loan. The third letter of intent had not been signed on schedule because the IMF was not satisfied with Pakistan's refusal to increase immediately the domestic price of oil, gas, and electricity by 40 percent, so as to reach international levels,⁴¹ and Pakistan's failure to keep the fiscal deficit to 5.5 percent as originally projected for fiscal year 1990-91.⁴² The IMF and the World Bank had also raised with Mrs. Bhutto, before her dismissal, the political uses of loans and their low recovery by the nationalized banking sector.

Nawaz Sharif's privatization campaign⁴³

The IMF closely monitored the government that succeeded the PPP as well. The October 1990 elections led to the victory of the IJI and the National Assembly's selection of Nawaz Sharif as Prime Minister. In his first address to the nation as Prime Minister, Nawaz Sharif announced that the new government intended to move quickly on privatizing the public sector and deregulating private industry. According to Sharif, Pakistan's privatization program would be more rigorous than anything that Margaret Thatcher could implement and would serve as a model for the entire Muslim world.

The IJI government, however, did not satisfy IMF conditionalities as well as the PPP administration had, or as well as the subsequent PPP administration would. In keeping with IMF demands, Sharif did raise oil prices by 41 percent upon his move into office, but resisted price increases in electricity and natural gas. While talks with the IMF over the final disbursement of the 1988 loan continued, the government sought an additional loan of US\$1 billion from the IMF under its Extended Structural Adjustment Facility, a facility for countries which have completed an IMF adjustment program.⁴⁴ The major concern of the IMF with Pakistan's adjustment program was its

difficulties in reducing the fiscal deficit and in effecting tax reform. The IMF, concerned that capital earned from privatization was being used to finance the deficit, made the non-use of privatization proceeds for deficit management a conditionality of the 1990 memorandum.⁴⁵

In November 1990, a Disinvestment and Deregulation Committee was formed to identify enterprises to be privatized and to suggest deregulation measures. The Committee recommended that the government "retire from the production of industrial goods."⁴⁶ One hundred and five enterprises were identified for privatization. All nationalized banks were slated for privatization as well as the Telegraph and Telephone Corporation of Pakistan. The Commission decided against privatization in only two of the cases it has considered, the National Bank of Pakistan and Pakistan International Airlines (PIA). The government then established, in January 1991, a Privatization Commission to handle the privatization process. Senator Saeed Qadir, a retired general, was appointed Chairman of the Commission.

Opportunities for personal profits, and to a lesser extent need to finance the deficit reduction stipulated by the IMF, drove the privatization campaign in Pakistan. Senator Saeed Qadir presented the government's privatization program not as an economic necessity, as the reforms in India were presented, but as a victory for the free market. Qadir's enthusiasm for the virtues of the private sector was challenged. At one meeting:

Senator Saeed Qadir faced a hostile audience which mostly comprised the trade union activists, journalists, academicians and intellectuals and he lost his control on many occasions. He was interrupted when he said industrialization in Pakistan was done entirely by the private entrepreneurs after Partition in 1947 and many persons from the audience reminded him that the actual pioneering role was played by Pakistan Industrial Development Corporation, a public sector institution.⁴⁷

By the time Nawaz Sharif left the Prime Minister's office in 1993 - at the request of the military - the Privatization Commission sold 67 of the 105 public sector enterprises on its 1991 list as well as two of the four national banks. These included 11 cement factories (at Rs. 4.658 billion), eight automobile factories (at Rs. 1.043 billion), five chemical and ceramics factories (at Rs. 1.030 billion), 15 *ghee*, or vegetable oil, mills (at Rs. 626 million), two fertilizer factories (at Rs. 457 million), seven rice mills (at Rs. 165 million), four engineering firms (at Rs. 141 million), and thirteen *roti*, or bread, plants.⁴⁸ Under Prime Minister Nawaz Sharif's tenure alone (October 1990-June 1993), the Pakistani public sector shed 60,000 workers through privatization.⁴⁹

The potential windfall in a single privatization deal is illustrated by the privatization of the Pak China Fertilizer company.⁵⁰ The Privatization

Commission evaluated the Pak China Fertilizer facility and the 300 acres upon which it stands at Rs. 470 million. The industrial estate included clubs for rest houses, and dozens of living quarters for officers and staff. The Schon group purchased the factory and estate for Rs. 190 million. This included the Rs. 180 million in cash holdings of the enterprise. The Schon group prospered under Zia ul-Haq and maintained close relations with Nawaz Sharif.⁵¹ Having purchased the enterprise, the new owners had the facility appraised. Based on a Rs. 980 million appraisal, the Schon group was then able to arrange for a Rs. 720 million loan.

The Pak China Fertilizer Mazdoor Union, to which all Pak China Fertilizer workers belong, fearing for their jobs, protested against this subsidized transfer of their factory. The Union took their case before the Privatization Commission, where they were told that the transfer was legal. The new management attempted to form a pocket union, but no workers opted to accept the offer to become officers in the new union. The new management had also promised the Mazdoor Union that it would not hire new workers, but has nevertheless hired security staff who are prohibited by law from joining the Pak China Fertilizer Mazdoor Union.

Prime Minister Nawaz Sharif often protested that Pakistan's economic reform program was not "an *ad hoc* exercise, but rather the immediate steps in a well-thought out strategy of industrialization and economic development."⁵² His protestations draw attention to the concerns of international financial institutions and investors. Pakistan's adjustment program, under Nawaz Sharif, was essentially *ad hoc* and involved too little consultation with affected social sectors or government ministries to be easily sustained. Indeed, officials in the Ministry of Production claim that they were only appraised of the privatization of the industries under their charge when the managers of the individual enterprises informed them of the Prime Minister's privatization initiative.⁵³

The 1993 IMF loan and the interim Qureshi government

In recognition of the reform efforts of the "caretaker" government of Prime Minister Moeen Qureshi, the IMF approved a standby loan of US\$377 million over a twelve-month period for the 1993-94 economic and finance program. GDP growth had declined in 1992-93 to 6 percent from 9 percent in 1991-92.⁵⁴ The removal of an elected government and approval of an IMF adjustment by the subsequent military-appointed government repeats a pattern begun in 1988.

Deepening adjustment under Bhutto, 1993-1994

As negotiated by the Pakistani military, elections to the National Assembly were held on October 6, 1993. The Pakistan Peoples Party, with the support

of smaller parties and independents, formed the government. The National Assembly elected Benazir Bhutto Prime Minister.

Pakistan was hit by massive flooding in 1992, followed by drought and further flooding in 1993, with consequent massive crop infestation and disruptions of hydroelectric-supplied power to industry. These natural calamities had a serious negative impact on Pakistan's economic growth. Growth in gross domestic product in 1992-93 was only 2.3 percent, and only 3.9 percent in 1993-94. As the Economist Intelligence Unit put it, "in the face of such adversity the government's commitment to the adjustment path is laudable."⁵⁵ In fiscal year 1993-94, Mrs. Bhutto brought the fiscal deficit down to 5.8 from 8.0 percent.⁵⁶ In fiscal year 1994-95, contraction of credit and money supply fell below World Bank and IMF targets, the expansion of exchange reserves exceeded expectations, and the fiscal deficit was to be estimated at 4.0 percent.⁵⁷

Between returning to power, in October 1993, and the end of 1994, Mrs. Bhutto sold 22 public sector enterprises.⁵⁸ Two state companies were sold in May 1994, a *ghee* mill and a fertilizer factory. In July and October 1994, 16 more enterprises were sold for a total of Rs. 8.83 billion (US\$289.5 million).⁵⁹ The government initiated the sale of four large financial institutions: the National Development Finance Corporation, the Industrial Development Bank of Pakistan, Habib Credit and Investment Corporation, and Banker Equity.⁶⁰

Nawaz Sharif 1995-1999

The privatization of the oil and natural gas sector in Pakistan suggests that unfettered economic policy decisions are not necessarily economically sound. In May 1999, the Pakistan Privatization Board, chaired by Nawaz Sharif, approved the disinvestment of Oil and Gas Development Corporation gas and oil fields. The Board estimated that the sale of 20 percent to 30 percent of those concerns could bring US\$450 to US\$560 million. Prime Minister Sharif wanted the complete privatization of the oil and gas sector. "Why every time the country should raise a begging bowl before everybody and why should not we get the money by selling our assets," he asked reporters.⁶¹ The Board-appointed Privatization Commission Financial Advisor on oil and gas reported that consumer prices for oil and gas would need to be raised in order to make the concerns attractive to foreign investors. The Minister of Petroleum, estimating the value of their holdings at several times that amount, opposed the privatization of the industry before the development of a strategic plan.

Pakistan's Privatization Commission sold or closed all central government public sector units in Northwest Frontier Province, resulting in the loss of thousands of the province's best jobs.⁶²

Privatization compared

We've got these desperately poor people and no matter what you do in adjustment it won't affect them. ... The thing we are all after is this exit policy [a policy granting employers the right to fire employees]. We can't move until we buy off labor. After all, we're talking about only 500,000 workers in a labor force of 350 million. An aggressive manager can pretty much buy these guys off.⁶³

Richard Cambridge

According to World Bank officials, organized labor remains the greatest obstacle to the full implementation of India's IMF structural adjustment program. Several years into India's structural adjustment program, organized workers and unions have yet to be bought off. Employer federations have not won their demand for labor law reform that would allow employers in large enterprises to fire employees without government permission. And, despite government efforts, no central government public sector enterprise, and few at the state level, has been privatized. In Pakistan, where a similar IMF structural adjustment program was adopted, organized labor posed little impediment to the government's adjustment program. Indeed, those Pakistani public sector unions which first faced de-nationalization negotiated an agreement with the Ministry of Manpower, cleared the way for the privatization of the entire manufacturing sector and, shortly thereafter, all other sectors of the economy. Despite vigorous opposition from Pakistani labor unions, workers have only occasionally delayed privatization, never prevented it, as workers in India have.

Variation in social institutions – not the manipulation of opposition groups – explains why similar economic reform efforts have had widely differing results. I show that political party-based unionism and enterprise unionism have a significant and predictable influence on economic reform initiatives. Political party-based unionism – wherein unions are allied to political party patrons – can succeed in blocking adjustment measures but it is weak at mobilizing support from other social groups, even from other unions, whether or not they are affiliated with political parties. In contrast, enterprise unionism – factory-based unions without political party affiliation – is not able to block adjustment measures but, somewhat surprisingly, is able to forge community alliances and to advance workers' welfare.

To blame Indian trade union centers for intransigence in the face of industrial restructuring and consequent job losses, as many economists and industrialists do, is silly. The criticism is misplaced not merely because the defense of the economic interests of its members is one of the cardinal purposes of a union. Rather, it is misplaced because Indian trade union centers often oppose industrial restructuring because the political parties to which they

are affiliated, when they are out of power, often find it politically expedient to challenge the privatization measures of the ruling party. Thus, it is wise to take the perspective suggested by Perry Anderson. "[T]rade unions," Anderson reminds us, "do not *challenge* the existence of society based on a division of classes, they merely *express* it."⁶⁴ Unions are best understood as agents operating within the structure and the constraints of existing social institutions.⁶⁵ How does political party-based unionism, characterized by a dependence of unions on political parties, influence patterns of economic adjustment? How does enterprise unionism, characterized by factory-level bargaining by politically unaffiliated unions, influence patterns of adjustment? Under what circumstances do labor organizations contribute to promotion of employment, labor standards, human development, and social opportunity?

Indian trade union responses

Indian and Pakistani union responses to privatization converge and diverge in revealing ways. We begin with a brief overview of protests by Indian unions against privatization. Indian trade unions have responded to privatization with strikes and demonstrations. Demonstrations have expressed workers' feelings of betrayal and fears of losing employment. After the announcement of the structural adjustment measures, a one-day nationwide strike was organized by a coalition of national trade union centers, on November 29, 1991, to demonstrate to the government the damage that labor could do to the adjustment program if trade union federations were not consulted. The general strike, and those which followed on June 16, 1992, September 9, 1993, and September 29, 1994, were of national significance because they disrupted the national economy. In Delhi and in other cities, public transport and financial services were suspended. In industrial areas, workers' demonstrations were vocal and, in some places, drew police fire. The November 1991 strike, like the subsequent general strikes, was complete throughout eastern and southern states and was nearly complete elsewhere, reflecting in part the geographical strength of unions other than Indian National Trade Union Congress (INTUC) and the Bharatiya Mazdoor Sabha (BMS) which boycotted the national strike in favor of their respective political parties' positions on structural adjustment.

Although all trade union federations argue that the government's new economic adjustment policies are an assault on organized labor, the central offices of the INTUC and the BMS, in deference to the economic policies of the political parties to which they are affiliated, did not join these general strikes. Officials of the INTUC and the BMS, whose political parties have supported economic restructuring in Parliament, offered the explanation that their decision not to participate was not in support of economic adjustment, but was rather a strategic maneuver. The threat of a general strike,

they argued, is a more effective way of ensuring that organized labor is consulted in economic policy than actual strike action. National strikes, they have argued, only exhaust the trade union movement's leverage over government.⁶⁶ The actual reason for the INTUC's and the BMS's non-participation is that the political parties to which they are affiliated dictate their policy.

Some local unions affiliated to INTUC and BMS did participate in the general strikes. The Karnataka and Madhya Pradesh enterprises of INTUC, for example, gave support to the strikes of November 1991 and June 1992, despite the non-participation of the central trade union body in the general strikes. Some INTUC officials called for strike action against the new economic policy. Despite the opposition of the Indian National Trade Union Congress to such general strikes, Gopeshwar, General Secretary of INTUC, called for a general strike among public sector workers in West Bengal if the Communist Party of India (Marxist) government there continued with its "retrograde" privatization policies toward the public sector.

Negotiating with Government

Negotiations between government and organized labor over the implementation of structural adjustment measures have been largely inconclusive. In November 1991, the Government of India, responding to pressure from major national trade union federations, initiated negotiations over the new economic policies. Tripartite negotiations began on December 21, 1991 under the direction of the Minister for Coal, P. A. Sangma. Prime Minister P. V. Narasimha Rao chose not to appoint a Labour Minister after the resignation of M. K. Ramanurthy, but rather called upon the Minister for Coal to handle negotiations with the trade union centers.⁶⁷ According to Indian trade union center officials, this had the effect of diminishing organized labor's formal access to government policy.

The tripartite committee decided to concentrate first upon the viability of public sector enterprises. Labor representatives wanted to prevent the assignment of decision-making authority on unviable public sector enterprises to the Board for Industrial and Financial Reconstruction (BIFR). They argued that the BIFR was under-staffed and ill equipped to devise proper reconstruction packages. Labor representatives proposed the re-establishment of tripartite committees on an industry basis for those sectors facing widespread sickness. Eventually, the government would accede to this demand. The chief achievement for labor in the tripartite discussions was the agreement, formally made at the second meeting on January 20, 1992, that labor would be "consulted" before the closure of any public sector enterprise. The business press had reported earlier that the Finance Minister had offered to write off the company liabilities of any public sector enterprise that workers purchased.⁶⁸ The Finance Minister promised labor leaders at the tripartite gathering that workers would be given priority in

buying loss-making enterprises and managing them as workers' cooperatives. The Minister also promised that the liability of enterprises under workers' management would be written off. When the Finance Minister's promise failed to appear in the official minutes of the meeting, prepared by the Ministry of Coal, labor representatives petitioned the Ministry to issue a revised version that noted the Finance Minister's promise. This suggests the lack of seriousness with which the labor consultations were initially met by the government.⁶⁹

Since these initial tripartite meetings, the central government and the largest trade union centers have begun a series of industry-specific tripartite discussions. Trade union officials report that these tripartite discussions are unlikely to lead to a managed restructuring of failing public sector enterprises. In the textile industry, for example, four textile research associations were commissioned to devise a rehabilitation package based on massive labor force reduction and the sale of Rs. 26 billion of surplus land. All the major trade union federations opposed the renewal package by supporting a *jail bhara* (fill the jails) agitation on December 12, 1995.⁷⁰

Preventing privatization

The chief advantage of political party-based unionism to labor is that organized labor might gain a voice, through political parties, in the political process that it could not have gained by merely making economic demands at the enterprise or industry level.

The reversal of the government's decision to privatize the giant Indian Iron and Steel Company (IISCO) demonstrates the strength of political party-based unionism labor in India. The government, in a cabinet meeting in November 1993, decided that IISCO should be privatized. The Steel Authority of India Ltd. (SAIL), under the financial constraints of a tighter government budget, was unable to finance the necessary modernization. The Communist Party of India (Marxist) (CPM)-ruled government of West Bengal, where IISCO is located, supported the move. The central government invited bids and accepted that of an Indian industrialist.

The 30,000 workers at the Burnpur-based enterprise objected to the privatization plan. INTUC, the CPM's chief rival in West Bengal, together with other centers, organized a "lightning strike to oppose the decision."⁷¹ The unions managed not only to stage a strike throughout the entire public steel sector but also to gain the support of public sector officers' associations. A Parliamentary committee, convened to review the privatization decision, recommended that the decision be withdrawn and that SAIL be given the necessary budgetary support to finance IISCO's modernization. The government, despite the Congress's majority in the chamber, withdrew from the Lok Sabha the bill which would have effected the privatization of IISCO. The reversal of the government's decision to privatize the giant public

sector enterprise demonstrates the ability of politically affiliated unions, when they are united across party lines, to oppose government privatization efforts.

Labor opposition to privatization in India has not been restricted to the traditional mechanisms of strikes and negotiations. Labor agitations have also employed some unusual and ingenious strategies. The Bombay workers of Hindustan Lever, an Indian subsidiary of the giant Anglo-Dutch transnational Unilever, locked out of their factory, produced their own washing detergent powder under the brand name Lock-Out. Selling 110 tons of the powder won the union considerable public attention. Continuing the innovative strategy, the Hindustan Lever Employees' Union runs parallel annual general shareholders' meetings so as to inform investors of various management and financial irregularities. In August 1992, cotton textile mill workers from central Bombay marched through the streets in underpants and undershirts denouncing India's commitment to the eradication of poverty as a sham.⁷²

The ability of political party-based unionism to resist privatization also may be seen in the trade union opposition to one of the early attempts by a state government to privatize a public sector enterprise. In May 1991, the Janata Dal Chief Minister of Uttar Pradesh, Mulayam Singh Yadav, took out advertisements offering to sell the three cement plants within the Uttar Pradesh State Cement Corporation. Nine workers' unions joined to win a UP High Court order to stay the sale. Ignoring the stay, the Chief Minister drew up an agreement with the Dalmia industrial group for transferring the plant for a seriously undervalued sum. The High Court accordingly began proceedings for a contempt of court case against the Chief Minister, but the assassination of Rajiv Gandhi, in the middle of India's tenth general election, forced the court to reschedule the case for after July 1991. Before handing over state offices in June, Mulayam Singh Yadav approved the sale of the Dalla plant and began arrangements for handing over the plant to the Dalmia group.

In June 1991, UP government officials and management personnel of the Dalmia group arrived at the factory in Dalla, UP under police escort to transfer possession of the premises. Workers feared that they would lose their jobs. They protested at the factory gate, preventing the new management from entering the premises.⁷³ Police clubbed, tear-gassed, and shot workers, killing twelve and injuring over fifty, six of whom were to die later of their injuries.⁷⁴ According to an investigative delegation of members of the Rajya Sabha, police fired without provocation, pursued workers over three days, and assaulted workers and their wives in their homes.⁷⁵ Despite the BJP's position in favor of de-nationalization, sustained popular pressure organized by the workers of the Dalla plant joined by other state employee unions forced the BJP government to cancel the sale of the plant.⁷⁶

Effort to privatize the Bailadila Mines in Raipur, Madhya Pradesh also reveals how labor organizes effective resistance. Mining and quarrying have

been the exclusive preserve of central and state governments in India. The Government of Madhya Pradesh entertained proposals for opening the mineral rich Chattisgarh area to the private sector in 1995. Pramod Mittal's Nippon Denro purchased the mines. The Chattisgarh Mukti Morcha (Chattisgarh Liberation Front) (CMM) organized protests against the privatization plan.

The CMM is an independent trade union organized by tribal mine workers, formed in reaction to intimidation and periodic killing of laborers and labor leaders by local police and industrialists. Twenty-one workers were killed in 1978 when police fired on non-violent demonstrations against the mechanization of the mines. The leader of the CMM, Shankar Guha Niyogi, was murdered, allegedly by local industrialists, in September 1991.⁷⁷ Eleven workers were killed and forty injured in 1992 when police fired on a demonstration for a uniform labor law and the prosecution of Niyogi's killers. The CMM Vice-President Sheikh Ansar in March 1996 contemplated contesting a Lok Sabha seat in the April-May 1996 general elections.⁷⁸ A mass demonstration was also threatened by the Janata Dal, Communist Party of India, and Communist Party of India (Marxist) to prevent Nippon Denro from entering the iron ore mine site at Mine 11B.⁷⁹

The Bharatiya Janata Party (BJP) also opposed the privatization plan. Congress dissidents in the All India Indira Congress (Tiwari) and Communist Party of India (CPI) activists claim that the National Mining Development Corporation (NMDC) had its proposals for mineral development ignored. The NMDC, with headquarters in Hyderabad, produces 9 million tones of iron ore annually in the Bailadila Sector, one of its major projects, and raises Rs. 400 crore (US\$123 million) in foreign exchange on diamond exports. The NMDC planned to double its iron ore output from the Bailadila mining sector within five years.⁸⁰ Internationally, the NMDC has successfully competed with foreign firms in the supply of modernization equipment. At issue in the protests over the privatization proposals are foreign ownership and profit making in an industry where the Indian public sector industry has the capacity to develop the sector profitably. One CMM labor leader complains that "they [government officials] say De Beers will bring technology. But just ten percent of the royalty from the mine can buy the technology. Why give it to them?"⁸¹

The conflict over the privatization of Chattisgarh mining has raised questions about the need for foreign investment and the potential consequence of foreign management in a strategically sensitive sector of the economy. The Bailadila controversy involves the additional element of a local labor force consisting predominantly of a poor tribal population that has been socially and politically marginalized by local industry, administration, and government. State and upper-caste oppression, now combined with the threat of privatization, forged the local labor force's trade union into a political movement. Labor resistance to the privatization of the Bailadila

Mines is one instance in a series of opposition efforts by organized labor that dates to the initiation of economic reforms in July 1991.

A stand-off also developed between organized labor and the government over the privatization of the telecommunications industry, formerly in the exclusive purview of the public sector. In January 1994, in the most important component of India's privatization program to date, the central government decided to end the state monopoly in telecommunications. Department of Telecommunications unions responded by holding a crippling national strike just before the opening of bids for basic telephone contracts. Labor unions, joined by private firms that were dissatisfied with the tendering procedures, won a Supreme Court ruling in December 1995 requiring the government to address their charges before issuing licenses for telecommunications services to the private sector. The Supreme Court regarded the lack of a regulatory authority to supervise the privatization process as the principal concern.⁸² In anticipation of the court's verdict, in January 1996 the central government issued an ordinance establishing a regulatory body, the Telecom Regulatory Authority of India (TRAI), to formulate guidelines for the participation of private companies in the privatization of the central government's telephone monopoly. The court's decision constituted a victory for the telecommunications labor unions as it specified that an administered process, subject to the political influence that trade unions could apply, would be established for the privatization of the industry.

The exit policy and industrial disputes

There has been significant public debate on the adoption of a so-called exit policy, a policy that would give employers of large industries the right to fire employees at the discretion of the employer. At present, employers with more than 100 employees are permitted only to dismiss individual workers and only for proven disciplinary problems. Lay-off of workers in enterprises employing more than 100 workers must receive the approval of the government. A 1977 amendment to the Industrial Disputes Act of 1947, requires government approval for the retrenchment of employees at enterprises employing 100 or more workers. The government is almost always unwilling to grant the approval and risk alienating the labor voter. Employers can circumvent the law by declaring that an enterprise is unprofitable, closing the factory, and refusing to pay workers' salaries. If an enterprise is to restructure its labor force without closing down the factory, however, a deal must be struck with the unions. The legal dismissal of employees, without their consent, is demanding. An employee must first be issued a charge sheet, an initial warning in which the violation of the terms of contract is made explicit to a worker. Employers prepare charges, workers prepare defenses, and the case is given a hearing before the Labour Commissioner's office. Individuals who commit even relatively minor offenses may be dismissed

in this manner, but the process requires considerable legal involvement at management's expense and is typically drawn out for months.

An Industrial Relations Bill, designed to eliminate the employment security of the Industrial Disputes Act, was proposed by the Janata Dal government in 1978. It was redrafted and circulated to Parliament by the Congress government in 1988 and again in 1993 without sufficient support for enactment. Although the memoranda of understanding signed by the IMF and governments adopting adjustment programs are not made public, it is officially acknowledged in India that an exit policy is an important condition of India's 1991 IMF structural adjustment loan. It was widely expected to be addressed in the Finance Minister's budget speeches in 1992 and 1993. Since the April 1996 parliamentary elections, the expectation of a change to the Industrial Disputes Act's employment protection has receded.

India's trade unions have been particularly concerned about the "exit policy." Employers have been overwhelmingly for it. "Freedom of entry and exit is a basic prerequisite of any competitive environment," begins a publication of the Federation of Indian Chamber of Commerce and Industry on the Exit Policy.⁸³ In private consultations and in tripartite discussions, the national trade union federations have persuaded the government that such a policy would be politically disastrous. The trade unions have blocked amendment to the Industrial Disputes Act needed for an exit policy. A bill to amend the Industrial Disputes Act of 1947 was drafted by the government in 1993, but the government opted not to press for its enactment. Indeed, then Finance Minister Manmohan Singh told a group of Japanese investors, whose single strongest demand on Indian economic reform is deregulation of terms of employments, that:

if by exit policy the employers mean hire and fire policy propounded by Western standards, we are not for it. You can not talk of labour glibly as a commodity. . . . The pace of India's economic reforms has to be tailored to the objective situation existing in the country.⁸⁴

As then Secretary of Labour V. P. Sawney put it, the government can not permit Indian industry to "just say *talak, talak, talak* (I divorce you)" to labor.⁸⁵ Sustained opposition by the trade unions has prohibited the Indian government from moving toward an exit policy.

Public sector closures and the BIFR

The Board for Industrial and Financial Reconstruction (BIFR), a quasi-judicial body designed to evaluate and facilitate the rehabilitation of "sick" industries, provides incentives for industrial failure. Industrialists intentionally drain resources from some of their enterprises, transferring those resources to other enterprises, so that the "sick" enterprise can get additional

financing and tax relief from the BIFR. The incidence of industrial failure, measured by the number of enterprises or the amount of bank loans tied up in failing industries, has grown considerably since the 1970s.⁸⁶ In 1985, in order to address the growing incidence of industrial failure, the BIFR was legally constituted through the Sick Industrial Companies Act of 1985. The act was signed into law in January 1986 and the BIFR began its work in May 1987.⁸⁷ An industry is officially considered "sick" in India, as defined in the Sick Industrial Companies Act of 1985, if its losses are greater than the net worth of the company, if it has incurred cash losses for two consecutive years, and if it has been a registered company for seven years or more. The BIFR operates on the principle that with managerial guidance and financial assistance from the government, a failing business can be made profitable and employment can be saved.

Organized workers and unions prevented the Indian government from establishing a government agency that could determine which public sector enterprises should be sold to the private sector, or be liquidated, and to oversee such sales. The government attempted to implement its policies piecemeal. The BIFR, which was created to reduce the financial burden on the government of industrial failure, was reorganized so as to serve as the principle government agency for industrial restructuring. The World Bank and the IMF evidenced "an interest in the BIFR" early on in India's adjustment process.⁸⁸ For it is through the BIFR that the government can gradually effect an exit policy "in reality but not in fact."⁸⁹

Within a few years, the BIFR was transformed from an agency designed to encourage industrialists to restructure industry, to persuade industrialists to commit additional capital, and to reduce thereby the public financial burden of ailing industries, to an agency used by industrialists to gain subsidized credit while siphoning funds between companies. Through an act of Parliament, the BIFR was made the only central government agency with the authority to determine that a sick industry, public or private, be closed and that workers be terminated. In its first three and one half years, the BIFR considered over a thousand cases. The BIFR had generated rehabilitation schemes for over a third of these companies.⁹⁰ While strongly defending his agency's record in rehabilitating ailing industries, the past Chairman of the BIFR, R. Ganapathy, acknowledged that industrialists have skillfully used the BIFR to gain access to tax concessions, additional government subsidies, and public capital. Many industrialists purposely siphon funds or supplies in order to profit privately while gaining these concessions, subsidies, and public capital for their "sick" industries. Although the Industrial Disputes Act of 1947, prohibits any change in the "service conditions" of employees in factories in which an industrial dispute is pending, in roughly a quarter of the cases coming before the BIFR, the enterprise in question is already closed.⁹¹

Sickness has been an important issue in Indian economic policy for two reasons. An immense and unproductive commitment of public funds is tied up in sick industries. In 1990, it was estimated that outstanding public credit to sick industries amounted to more than US\$52.5 billion. Industrial sickness is also important because the exchange of accusations by management and labor over the causes of sickness encapsulate the conflict between the two parties over the causes of India's industrial underdevelopment. Industrialists, and the business press, claim that labor problems are the chief cause of sickness. Organized labor claims that sickness is caused by fraud on the part of industrialists and management. A Reserve Bank of India Committee concluded that labor problems contribute to a small minority of the cases of industrial sickness. Management deficiencies and mismanagement contribute three times the number of cases of industrial sickness as labor troubles and poor labor relations.⁹²

Amendments to the Sick Industrial Companies (Special Provisions) Act of 1985 made in December 1991 allowed for the closing of chronically loss-making public sector industries. The BIFR is now legally empowered to determine and to order that public sector enterprises which, in the BIFR's view, are unviable be shut down. According to the Sick Industrial Companies Act, which created the BIFR, only sick private sector companies were to fall under the purview of the BIFR. The opposition in Parliament charged that the amendment passed by Congress Members of Parliament, with the support of the BJP, was enacted at the behest of the IMF and the World Bank.

The central trade unions have protested the empowerment of the BIFR to decide on public sector closures. As the BIFR is staffed by government officers rather than elected politicians, the BIFR's expanded mandate would seem to allow the government a certain degree of insulation from unpopular decisions on the closure or privatization of public sector enterprises. The BIFR, however, has not become an instrument of privatization. Not a single "wind-up" order has been issued to a public sector enterprise. The BIFR, staffed by senior officials from India's Finance Ministry who have typically served in national banks, is not pro-labor. Nor does organized labor seem to have an ongoing relationship with the BIFR. Often, labor representatives are not present for the discussions on rehabilitating a "sick industry." The BIFR, however, is not pro-employer either. Under the former Chairman, Ganapathy, the BIFR was deeply suspicious of the accounting practices of allegedly sick industries for an official declaration of sickness enables industrialists to gain concessionary loans and debt and tax relief. Many siphon funds from one enterprise to other enterprises so as to be able to avail themselves of these financial concessions. According to the former Minister of State for Industry, P. J. Kurien, there had been discussion within government circles of creating a separate body for rehabilitating and closing public sector enterprises. But the Indian trade union federations have opposed such a move.

Pakistani trade union responses

While Pakistani trade unions are more legally constrained than Indian unions in calling strikes, like their Indian counterparts, they protested structural adjustment measures through demonstrations and strikes. They met with considerably less success in blocking reforms but greater success in obtaining workplace concessions from the government. Pakistani trade union federations had little choice but to cooperate with the reform agenda while extracting concessions.

Labor unions in banks and financial institutions were at the forefront of the resistance to privatization in Pakistan. They held protests, in which 150,000 employees participated, against privatization in the last weeks of December 1990. In another demonstration, in August 1992, Pakistan Bank officers, led by the Officers' Federation of Banks and Financial Institutions of Pakistan, went on a hunger strike to protest cut backs in the incremental pay scale and in related salary conditions. Pakistani unions, like Indian unions, have also used the courts to attempt to slow the adjustment process. Workers of the Thatta Cement Company in Sindh, for example, challenged the government's privatization policy in court on the grounds that the Privatization Commission, appointed by the Prime Minister, has no legal basis.

Trade union federations have opposed the government's policy of privatizing large areas of the public sector. Central to the workers' campaign against privatization was the formation of the All Pakistan State Enterprise Workers Action Committee. The collective bargaining agents of 115 state enterprises, affiliated to 36 separate trade union federations, formed the All Pakistan State Enterprise Workers Action Committee (APSEWAC) in 1990. In one of their first actions in response to the Islamic Jamoori Ittehad (Islamic Democratic Alliance) (IJI) government's privatization plans, APSEWAC organized a strike in Lahore in December 1990. More than three dozen trade unions participated.

In opposition to the government's economic policy, processions were organized in various cities on May 18 and June 1, 1992. At a procession in Rawalpindi on 21 June 1992, the All Pakistan Federation of Trade Unions (APFTU) announced that it would declare a tool down strike on July 5, if the government did not initiate a dialogue over the new economic policies. In particular, the APFTU demanded a raising of the minimum wage, a guarantee not to suspend labor laws in special industrial estates and export processing zones, as had been promulgated in a Presidential ordinance, and an agreement not to privatize public sector utilities. The Prime Minister agreed to meet with the APFTU on July 4, 1992. The Prime Minister announced his intention to raise the minimum wage for unskilled workers to Rs. 1,500. He also promised not to privatize power distribution and to take no decision on the privatization of thermal power plants and telecommunications without further dialogue with the concerned trade

unions. As regards the suspension of labor law in new industrial areas, the Prime Minister gave vague assurances that policy would give due concern to the interests of workers.⁹³

Minimum wage concessions

The Government of Pakistan met the initial upsurge in trade union action through minimum wage concessions. In Pakistan, minimum wage setting is legally the responsibility of the Provincial Minimum Wage boards. In 1990, the Pakistan Peoples Party, fulfilling one of its election promises, raised the minimum wage in Pakistan from Rs. 530 (US\$21) to Rs. 1,100 (US\$44) per month.⁹⁴ The IJI government of Nawaz Sharif further raised the minimum wage, although not as high as promised in the IJI election manifesto.⁹⁵

The IJI made the election promise that the minimum wage would be lifted to Rs. 3,000 per month (US\$120). At the December 1991 meeting of the Pakistan Tripartite Standing Labour Committee, however, the government proposed lifting the minimum wage from Rs. 1,500 to only Rs. 2,000. Meeting for the first time in over three years, the Pakistan Tripartite Standing Labour Committee agreed that a standing Tripartite Wage Council ought to be established to review and revise minimum wage levels. Rather than let that Council meet and begin a process of institutionalizing the revision of minimum wages, the government and the largest pro-government union, the APFTU, announced an agreement. Critics in the labor movement alleged that the exchange of APFTU demands and government concessions was engineered to raise the stature of the APFTU and of the government of Nawaz Sharif, but weakened trade union solidarity.

The All Pakistan State Enterprises Workers Action Committee

Nawaz Sharif's Minister of Labour, Manpower, and Overseas Pakistanis, Eijaz Haq, son of the late General Zia ul-Haq, approached Malik Muhammad Yaqub with a proposal for an agreement. Under the direction of Malik Muhammad Yaqub, a Vice President in the Muttahida (United) Labour Federation, with support from the Pakistan Institute of Labour Education and Research in Karachi and the Sungi Development Foundation in Islamabad, the APSEWAC negotiated an agreement with the Privatization Commission. The APSEWAC agreement gives workers of enterprises undergoing privatization the options of retaining their job for one year after privatization, retiring with a pension amounting to four months' salary for every year worked, and making a bid for the purchase of the enterprise in which they are employed. Purchases made by workers are guaranteed the first right of refusal and can be financed by workers' provident and gratuity funds and by private bank loans. At the time of the agreement, workers' representatives voiced a preference for workers' management of 25

industrial enterprises, in the manufacture of cement, chemicals, and transport equipment.⁹⁶ As of November 1995, nine of these industrial enterprises were operating at a profit in the private sector under workers' management.⁹⁷

The APSEWAC President met with the then Minister of Labour, Eijaz Haq, on 25 August 1992, to review the progress of the implementation of the government-public sector industrial workers' agreement. They agreed that the Cabinet Committee on Privatisation should decide on the number of shares to workers. They also discussed the provision of financial assistance to involuntarily unemployed workers for the marriages of their daughters and the education of their children. The agreement looks good on paper. The Privatisation Commission, however, has not always honored its agreement with the public sector workers. The government often failed to compensate dismissed workers. Thus, when it came time to give workers at a petrochemical complex in Gharo their golden handshake and the Federal government announced that it could not pay the workers, workers took matters into their own hands. Before they agreed to leave the complex, the new owner – who lost the plant when it was nationalized in 1972 – was forced to pay directly to the workers half of the amount that the Privatisation Commission had earlier promised them. The non-payment of the workers' retrenchment agreement even caught the ire of the World Bank. The World Bank threatened to finance the restructuring of local bodies in Punjab if the government did not fulfill its promise to give workers their golden handshakes.⁹⁸

While workers' ownership schemes have gone further in Pakistan than in India, despite the greater strength of the Indian unions, it would be wrong to suggest that the Pakistan government's attitude toward workers' management's prospects is altogether benign. An attempt by workers to purchase the United Bank Ltd. is a case in point. On August 24, 1992, Abdul Aziz Memon, Secretary General of the Pakistan Peoples Party's (PPP) Peoples Labour Bureau and President of the United Bank Ltd. Employees Federation, along with 15 other PPP-associated labor leaders, were arrested. Memon was arrested on account of his implication in weapons purchases for the Peoples Student Front. The real reason for arrest was his opposition to the privatization of United Bank. Memon had formed an employees' group to purchase United Bank Ltd., but the government refused their offer. In response to the arrests, the United Bank Ltd. Employees Federation declared a one day strike on August 30, 1992, which closed 1,700 bank branches and involved 4,000 employees. Labor leaders of other federations also condemned the arrests. The National Industrial Relations Commission prohibited United Bank workers from striking, under section 16 of the IRO of 1969. According to US government analysis, "[n]ews reports that the government planned to actively support pro-privatization union leaders lends credence to rumors that Memon's arrest was prompted by his anti-privatization stance."⁹⁹

The government announced in May 1992 that a proposed Daewoo industrial complex to be set up at Port Qasim would be exempted from all labor law. The plant, expected to employ between 15,000 and 20,000 people, is to manufacture automobiles, telecommunications equipment, televisions, video cassette recorders, and other electronic goods. In response to the government's announcement, Shafi Malik of the Pakistan National Federation of Trade Unions (PNFTU) complained of "slavery" and "bonded labour" and threatened to begin a nation-wide strike.¹⁰⁰

Pakistani trade unions have become increasingly opposed to privatization and violation of fundamental labor rights. The APFTU, led by Khurshid Ahmed, had been on record that it would oppose the privatization of utilities.¹⁰¹ In commenting on the privatization measures under Nawaz Sharif, Khurshid Ahmed made the distinction between public sector utilities and industries, accepting that loss-making public sector enterprises may be made more efficient by privatization.¹⁰² But as regards utilities, he argued that "it is the duty of the state to provide essential services to the people." Such public necessities as water and electricity which private industry would not provide to all areas or which the poor could not afford, he argued, ought to be provided by the state. Thus, the APFTU and its core union, also headed by Khurshid Ahmed, drew the line between acceptable and unacceptable areas of privatization at the provision of public services. But only the later stages of the privatization process have tested the resolve of the large public sector unions.

The government planned to initiate privatization of the 160,000 megawatt Kot Addu power plant, near Multan, in March 1995. When a group of prospective foreign investors sought to examine the premises, the 885 workers there blocked their way and refused the prospective investors access to the facility. The workers held off the privatization in this manner for almost six months, while negotiations took place between the local union, the APFTU, and the government. The Kot Addu union is affiliated to the 160,000-member Hydroelectric Central Labour Union, the collective bargaining agent of Pakistan's giant Water and Power Development Authority (WAPDA). The Economist Intelligence Unit noted the Pakistan trade union's new militancy with unease:

Another problem is trade union resistance to the disposal of state entities. This has been most vehement in the case of the Kot Addu power station . . . and could result in the planned sale being shelved, or even scrapped altogether. The demonstrations are also making would-be buyers of other enterprises pause for thought. There is a danger of the unrest spreading.¹⁰³

The resistance of the Kot Addu union surprised the government. There had been "little resistance from the small, loosely organized worker groups at

privatised small and medium manufacturers."¹⁰⁴ The confrontation was eventually resolved when the government threatened to call in security forces and agreed to make the retirement and severance benefits extended in the APSEWAC agreement the base for negotiations with the workers.¹⁰⁵ The struggle at Kot Addu suggests that as Pakistan's privatization moves into larger industrial enterprises, which are expected to render 250,000 to 300,000 workers unemployed,¹⁰⁶ trade unions may pose a greater obstacle to the government's privatization program.

Limiting the costs of adjustment

Structural adjustment programs produced significant economic changes across the developing world. In opting for International Monetary Fund (IMF) loans and extensive structural adjustment programs in the 1980s and 1990s, economic policy makers in India and Pakistan responded to a financial crisis. They decided that greater international economic interdependence was a necessity. Success in implementing adjustment programs, however, has differed widely between India and Pakistan. Labor institutions, created by past political regimes, have been central to this differing unfolding of economic adjustment programs.

Trade unions in both countries have deployed a range of strategies to oppose structural adjustment and the deregulation of conditions of work and terms of service, the informalization of production, and the general crisis of formal sector employment, discussed in chapter five. Trade union strategies range from general strikes to consultations with government. This chapter discussed the response of organized labor to the industrial and labor force restructuring in each country. Despite similar challenges to organized labor, the Pakistan trade union movement has not been able to successfully oppose the government's structural adjustment and privatization programs while the Indian trade union movement has emerged as the major obstacle to the governments' structural adjustment program.

This exploration of the development of labor institutions under India's electoral democratic regimes and Pakistan's authoritarian regimes suggests that political regimes lay down deep institutional roots in their political economies. Especially influential are the institutions laid down during the formative period of postcolonial modernization, which in South Asia extended roughly from the mid-1940s to the mid-1960s.

India's structural adjustment program began earlier than Pakistan's and was far more gradual. Both countries have broadly met IMF conditions, although Pakistan has on a few occasions failed to meet IMF targets, provoking hiatuses in loan pay-outs. The most pronounced difference between the Indian and Pakistani privatization experiences is that the government of Pakistan was able to privatize dozens of public sector enterprises, in the

industrial and financial sectors, while the government of India has been unable to privatize a single central government public sector enterprise since 1991.

Some claim that structural adjustment programs in India and Pakistan improved, or will in time improve, general public welfare. Others claim that structural adjustment increased poverty and hunger. We cannot know with certainty the costs or benefits of alternative approaches. But one does not need to know the exact costs or benefits of structural adjustment, in the short term or long term, to assess the relative impact of unions on democratic development.

In each country, workers and employers, including the government, faced economic hardship and financial crises. IMF structural adjustment programs in India and Pakistan may have been good for the economy in the long run, but have devastated working people and the general public in the short run. In both countries, workers lost jobs. Terms of service and conditions of work have worsened. Workers in India were able to limit the costs of adjustment; workers in Pakistan were less successful. The involvement of workers and unions in the adjustment program, even as resisters of aspects of the program, led to higher post-reform growth in India.