

**EXPLOITATION OF GROUND WATER
RESOURCES BY MNCS AND RESISTANCE BY
THE LOCAL PEOPLE - A STUDY OF
PLACHIMADA IN KERALA**

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ABSTRACT

Environmental degradation can often be the result of market failures. Market failure occurs when resources are not allocated efficiently. Markets fail to function effectively in the provision of social goods, in the presence of externalities and when property rights are ill-defined. For allocative efficiency and for efficient functioning of the market, price of the product should be equal to the marginal cost of production. But when externalities are present other costs and benefits emerge which are not borne by the transacting party that is the buyers and sellers. There can be positive as well as negative externality to transaction. In issues of environmental pollution the presence of negative externality can be perceived. A negative externality arises when the cost incurred in producing a commodity is not borne by the producer alone. If the cost spills over to the society or creates a negative side effect on a third party, it is 'social cost' which is not taken into account by the transacting party. In the presence of negative externality the cost of pollution is very often borne by the society rather than by the producer himself. In issues related to environment, social costs and benefits have to be considered. Many negative externalities are related to the environmental consequences of production and use. When it is too costly to exclude people from access to an environmental resource for which there is rivalry, market allocation is likely to be inefficient. Hardin's (1968) concept of the 'tragedy of the commons' popularized the challenges involved in

non-exclusion and common property. Later, Ronald Coase suggests ways to overcome the problem of negative externality arising from lack of property rights. He suggests that allocative efficiency can be achieved by bargaining with concerned parties if transaction costs are small. But here again, the problem of efficient economic allocation of resources is addressed rather than environmental issues. Environment is essentially treated as a resource in mainstream economics.