OAKRIDGE INTERNATIONAL SCHOOL
HYDERABAD, BACHUPALLY
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BACKGROUND GUIDE

LOK SABHA

Agenda: Evaluating the Privatisation of Public Services and Resources, with an Additional Examination of Socialism in India

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Chapter 1: Constitutional Foundations

When the Constitution of India came into effect on 26 January 1950, the young republic declared itself a Sovereign Democratic Republic. The word socialist was absent from the Preamble, yet the intent was already embedded in the text. The Directive Principles of State Policy, found in Part IV, were never meant to be enforced in court, but they were there to set the moral direction of the state — a kind of political conscience.

The principles themselves left little doubt about their purpose. Article 38 called on the state to promote the welfare of the people, and to reduce inequalities not only in income but in status, facilities, and opportunity. Article 39(b) went further, stating that the ownership and control of material resources should be distributed to serve the common good. Article 39(c) tried to prevent wealth from gathering in a way that would harm society at large. All of this spoke to a belief, born out of the colonial experience, that political freedom would mean very little if the economy remained unbalanced in favour of a narrow few.

The formal addition of the word socialist came much later, in 1976, during the Emergency. It was introduced via the 42nd Constitutional Amendment, a political choice that suited Prime Minister Indira Gandhi's rhetoric of Garibi Hatao and her record of nationalisations. In reality, the change only made explicit what had been there in spirit since independence. Indian socialism was not about abolishing private property altogether. It was an attempt at a hybrid: a planned economy operating within a democratic framework, with the state taking responsibility for directing resources and opportunities in a way that aimed at equity and social justice.

Judicial Interpretations

Over time, the courts gave meaning to these ideas. In Minerva Mills v. Union of India (1980), the Supreme Court struck down amendments from the Emergency era that would have given Parliament unlimited power to alter the Constitution. It held that the balance between Fundamental Rights and the Directive Principles was part of the Constitution's "basic structure" — something Parliament itself could not dismantle.

In LIC v. Consumer Education & Research Centre (1995), the Court looked at an insurance scheme that excluded large sections of the population. It concluded that access to life insurance, particularly from a public body like LIC, was tied to the right to livelihood and social security under Article 21. Public institutions, the judgment implied, were not merely commercial actors — they had obligations rooted in the Constitution.

Similarly, in Air India v. Nargesh Meerza (1981), the Court struck down rules that forced female cabin crew to retire early or on becoming pregnant, calling them arbitrary and discriminatory. These cases, while not altering the economic structure directly, reinforced the idea that the "socialist" element in the Preamble was more than ornamental. It had to be considered in how rights were interpreted and how state bodies conducted themselves.

The Planning Era (1951–1980s)

At independence, India's economy was thin: overwhelmingly rural, lacking in industrial capacity, and short on infrastructure. Nehru's answer was to place the state at the centre of development. Fabian socialism gave him a model for gradual reform, while the Soviet Union's planned economy showed what large-scale coordination could achieve. India's system took cues from both but kept its parliamentary democracy, press, and judiciary intact.

The Planning Commission, set up in 1950, was the heart of this strategy. The First Five-Year Plan (1951–56) concentrated on agriculture, irrigation, and rural development to secure food supplies. The Second Plan (1956–61), shaped by statistician P.C. Mahalanobis, shifted towards heavy industry and capital goods, on the belief that without domestic steel, machinery, and power, India would remain dependent and vulnerable.

Large public sector undertakings (PSUs) were built to control the "commanding heights" of the economy. The Steel Authority of India established major integrated plants in Bhilai, Rourkela, and Durgapur. Bharat Heavy Electricals Limited produced the turbines and equipment for electrification. The Life Insurance Corporation, nationalised in 1956, channelled household savings into infrastructure. The banking sector was brought firmly under state control in 1969 and again in 1980, extending credit to agriculture, small industries, and underserved areas.

By the 1980s, the public sector dominated steel, coal, banking, insurance, and much of infrastructure. Supporters saw this as the constitutional vision in action — preventing monopolistic concentration of wealth, spreading economic gains more widely, and keeping control of strategic sectors in Indian hands. Critics, however, pointed to inefficiency, bureaucratic inertia, and corruption. Economic growth hovered at 3–4% — enough to build a foundation, but too slow to lift living standards rapidly.

Indira Gandhi's Socialism (1967–1984)

Indira Gandhi approached socialism in a way that was more immediate, more politically charged than her father's. In July 1969, fourteen major banks controlling 85% of deposits were nationalised overnight. Officially, it was to align banking with developmental priorities — agriculture, small industry, and backward regions. Politically, it was a clear message that she was prepared to take on entrenched economic interests.

Nationalisation spread to other sectors: coal in 1973, general insurance, oil, and air transport, which was consolidated into Indian Airlines and Air India. By the mid-1970s, the state's reach extended deep into finance, energy, and transport.

During the Emergency in 1975, she launched the Twenty-Point Programme, which promised land reform, rural housing, abolition of bonded labour, irrigation expansion, and stronger monopoly controls under the MRTP Act. The Garibi Hatao campaign that had carried her to electoral victory in 1971 was now backed by a broader machinery for redistribution.

The Green Revolution, begun in the late 1960s, accelerated under her watch. High-yield seeds, fertilisers, and expanded irrigation transformed Punjab, Haryana, and western Uttar Pradesh into surplus grain producers. Food shortages disappeared, but the benefits remained uneven, deepening disparities between well-irrigated and rain-fed regions.

The downsides were equally visible. The Licence Raj — the dense web of permits, quotas, and price controls — grew more cumbersome. Intended to guide investment and manage scarcity, it often rewarded political connection and discouraged innovation. Public monopolies, protected from competition, became complacent. Rural credit expanded, but politically directed lending saddled banks with bad debts. By the early 1980s, the strengths of the model — food security, wider access to credit, state control over key sectors — were counterbalanced by inefficiency, fiscal strain, and a still-sluggish rate of growth.

Chapter 2: From Crisis to Liberalisation (1991)

By the late 1980s, the state-led model was under strain. Oil price shocks, rising fiscal deficits, and weak exports had left India vulnerable. The Gulf War in 1990–91 pushed oil prices higher, cut remittances from the Middle East, and disrupted trade. The collapse of the Soviet Union removed a major economic partner. By mid-1991, foreign exchange reserves had fallen to barely two weeks' worth of imports. In an act that captured the severity of the crisis, the government airlifted gold to secure emergency loans.

Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh responded with sweeping reforms. Industrial licensing was abolished for most sectors, ending decades of the Licence Raj. The MRTP Act was amended to remove limits on the expansion of large firms. Tariffs were reduced, import restrictions lifted, and the rupee devalued to encourage exports.

Foreign investment caps were relaxed, and the first steps towards disinvestment in PSUs were taken, though cautiously, with minority stakes sold. The role of the state shifted — from producer to regulator, from controlling private capital to seeking to work alongside it.

The results were rapid: GDP growth moved beyond the old 3–4% range to over 6% in the mid-1990s, exports rose, and the private sector entered sectors previously closed to it. Poverty rates began to fall, though inequality widened and job growth in the formal sector lagged. The liberalisation of 1991 marked a break with the Nehru–Indira model, redefining the balance between state and market in ways still debated today.

Chapter 3: Privatisation in Practice (1991–Present)

The liberalisation of 1991 began cautiously, but the logic it introduced — that the state's role should be smaller in production and larger in regulation — persisted through every government that followed. In the first decade, most reforms involved loosening controls and inviting private participation into areas that had been reserved for the public sector. Only later, particularly from the early 2000s, did governments move towards the strategic sale of state assets.

Natural Resources

Mining was among the first to see change. The 1993 National Mineral Policy opened the door for greater private and foreign participation in exploration and extraction. Later amendments in 2008, and again between 2015 and 2019, replaced the older system of discretionary allotments with competitive auctions — a reform intended to curb corruption and improve transparency. In oil and gas, the New Exploration Licensing Policy (NELP) in 1997 simplified contracts and invited foreign bidders. This was followed by the Hydrocarbon Exploration and Licensing Policy (HELP) in 2016, which moved to a uniform licensing system covering all hydrocarbon types. The Open Acreage Licensing Policy (OALP) allowed companies to propose and bid for blocks at any time rather than waiting for government-initiated tenders.

Public Sector Enterprises

Some PSUs adapted to competition by diversifying. Bharat Heavy Electricals Limited, for instance, expanded beyond thermal power equipment into renewables, transport systems, and defence manufacturing. Others, less able to match the efficiencies of private players, saw market share erode. Disinvestment — the selling of government stakes — accelerated in the 2010s. The most high-profile case was Air India, which returned to the Tata Group in 2021 after decades of losses. Other sales were either partial (selling minority stakes) or strategic (full transfer of ownership and control).

Public Services and Urban Models

In some areas, privatisation meant creating parallel private systems rather than selling state assets. Gurugram in Haryana became the most visible example: a city where much of the infrastructure — from roads and lighting to water and security — was built and run by private developers. The result was rapid development, at least for those who could afford it, alongside visible inequalities in service delivery.

Agriculture and Rural Resistance

Agriculture remained the most politically sensitive arena. Attempts to reform agricultural
marketing, such as the three farm laws passed in 2020, aimed to deregulate the sale of produce, encourage contract farming, and bring private investment into storage and supply chains. Farmer protests, especially in Punjab, Haryana, and western Uttar Pradesh, forced a repeal of the laws in 2021. The episode showed that while privatisation could advance in industry and infrastructure, it remained fraught when it touched land and livelihoods directly.

Chapter 4: The Modi Government – Strategic Disinvestment and Market Reforms (2014–Present)

The Modi government inherited an economy in which the principle of liberalisation was no longer in dispute, but the pace and form of it still were. Since 2014, its economic policy has focused less on gradual stake sales and more on **strategic disinvestment** — full transfers of ownership and control in enterprises judged to be non-core to state functions. The sale of Air India to the Tata Group in 2021 became the most prominent example, marking the first complete exit from a major state-owned enterprise in the aviation sector. Similar plans have been announced for Bharat Petroleum, Shipping Corporation of India, and selected public sector banks.

The **National Monetisation Pipeline (NMP),** unveiled in 2021, extended the approach beyond outright sale. It proposed leasing operational public assets — highways, ports, gas pipelines, power transmission lines — to private operators for fixed terms. Ownership would remain with the state, but operational control would shift. The rationale was to unlock capital for new infrastructure without increasing public debt. Critics, however, questioned whether essential infrastructure should be ceded, even temporarily, to private control, and warned of the risk of monopolistic behaviour in sectors vital to the economy.

In **energy and natural resources**, the government has continued liberalising. Coal mining, once the monopoly of Coal India, is now open to private and foreign firms. In hydrocarbons, the HELP framework and OALP system have been actively used to auction exploration blocks. The policy aim is to increase investment and production capacity, but it has also been part of a broader attempt to signal openness to global capital.

Renewable energy has been a notable focus. Large-scale solar and wind projects, often through public–private partnerships, have positioned India among the world's fastest-growing renewable energy markets. These projects have been politically useful, allowing the government to claim progress on climate commitments while also attracting investment.

Agriculture saw the most publicised reform attempt in the 2020 farm laws. The legislation's withdrawal in 2021 after sustained protests underlined the political limits of market reform in sectors tied closely to rural identity and subsistence.

On **welfare and redistribution**, the Modi government has maintained — and in some cases expanded — targeted programmes. PM-Kisan delivers direct income support to farmers; Ujjwala provides subsidised LPG connections to low-income households; Ayushman Bharat offers public health insurance. These initiatives allow the government to argue that reducing the state's role in production does not mean abandoning its social obligations.

Assessment

The supporters' case is that strategic disinvestment and asset monetisation have the potential to increase efficiency, improve service quality, and free public funds for more productive use. The rapid growth in renewable energy capacity is often cited as an example of what public–private models can achieve.

The critics' case is that the sale of profitable PSUs risks eroding long-term public revenue, that operational control of infrastructure by private players raises regulatory challenges, and that certain sectors — agriculture above all — are politically unsuited to rapid market reform. There is also the concern that privatisation in a concentrated market may simply replace state monopolies with private ones.

The Modi government's policies represent less a departure from the post-1991 trajectory than a sharpening of it. The state is positioned as facilitator and regulator, private capital as the primary driver of growth, and welfare delivery as a targeted, often direct-transfer function. In this sense, the economic vision is far removed from the constitutional socialism of the early decades, yet it still claims — at least rhetorically — to serve the same end: raising living standards across the population.

At the 21st century, new directions have been taken by the main states that display military bases overseas in relation to the types of efforts involving military bases. The deepening struggle against terrorism has become central, especially after the September 2001 attacks. The key threats to the USA were redefined as growing religious extremism and other asymmetric threats (unconventional warfare, crime, and the threat of the proliferation of weapons and technologies of mass destruction). France, by its turn, has reduced the size of its forces in Africa, while the USA is increasing its presence on the other side. Along with the counterterrorism force in Djibouti, Washington has secured agreements with southern and western African nations to provide them with logistical support, while it has also worked to build new drone bases in Niger. This American command could be taken as a sign that the exclusively French military influence and presence in Africa is effectively over, besides its actual presence and actions.