Tracing Economic Transformation: The Impact of Nationalisation and Disinvestment in India (1990-2023)

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Abstract

This study looks at the economic development of India over the period of time ranging from 1990 upto 2023 with reference to two broad policies, that is Nationalisation and Disinvestment. Nationalisation policies, the key focus in the years after the independence, was about government ownership of certain sectors such as coal, insurance, and banking in order to promote self-sustenance and fair distribution of resources. However, as time passed by, many PSUs were not functioning at optimum levels and were incurring losses and hence the need for structural changes became inevitable. The 1990s marked the advent of a new economic order with liberalization being the turnaround point along with Disinvestment policies which became the bedrock of reforms aimed at enhancing efficiency, minimising budgetary pressures and increasing the role of the private sector. This paper stresses on the privatisation of Air India and Life Insurance Corporation (LIC) listing as milestones while at the same time mentioning the limiting factors including political interference, disputes about valuation and unemployment.

While analysing and discussing the impacts of Nationalisation on social welfare and the effects of Disinvestment in the enhancement of productive efficiency respectively, the study attempts to look at the two policies in their interaction. The Discussion emphasises the need for a hybrid ownership model that combines the features of private enterprises and public tutelage. Such a perspective enhances coverage, meets evolving economic needs, and is integral to sustainable development.

Introduction

India has undergone several developments in its economy over the years as a result of different policies that have been adopted during different times. Though there are many policies, two of the most pronounced ones include Disinvestment and Nationalisation. These two policies have also contributed to the structural transformation of India's economy starting from a command economy and moving towards a more market oriented economy. Julka argues based on economics history that nationalisation became a vital policy in the first decades after independence, emphasising on the basis of import substitution through self-sustained growth. India began to Nationalise sectors with the intention of allowing the public sector to dominate industries and ensure that everyone benefited from the economy. However, as the circumstances of world economy started alter, India has faced the necessity to adjust it's policies too. Consequently, 1990s witnessed a phase of liberalisation and widespread disinvestment programs to enhance efficiency and attract the private sector.

To purchase private ownership businesses into the public sector is called Nationalisation through which the government can own those businesses and manage them. Disinvestment, in contrast, is the process of selling or liquidating an asset or enterprise owned by the government and is frequently sold to the individual sector.

How is it conceivable that a country that once advocated for extensive state control over spheres of activity turned around to embrace market orientation and Privatisation? This is a remarkable development because it reflects the fact that Indian economic policies are very complicated and are constantly changing with India's quest for development.

This article's goal is to examine the history of Nationalisation and Disinvestment and their current stage and prospects is of major concern. These policies, which had a great impact on the socio-economic life of the country, can be further understood from this perspective.

Nationalisation in India

In the period between 1950 to 1970, India experienced a massive wave of Nationalisation. Sectors such as banking, coal, undertakings and steel were nationalised. The other factors which led to such a situation were self-sufficiency, welfare of society, and fair access to resources. The aim was to have control over commanding heights of the economy, so that the economy served the people and not the other way around.

The Reserve Bank of India (RBI) was chartered on March 10, 1934, as a private entity under the Reserve Bank of India Act, 1934. It was later taken over by the Government in 1949, and since then, it is entirely funded by the Ministry of Finance, Government of India. The aim of the Nationalisation was to control the issuance of currency notes, ensure and recognize the importance of monetary control and also maintain the currency and credit system for the greatest good in India.

In the 1950s, the Indian government under Prime Minister Jawaharlal Nehru applied economic measures that were predetermined by the centre of the government, incorporated previously commercial banks into the state's plans, and strengthened the control of the state's bank. After the bank crash in the early 1960s, the RBI came up with a scheme to avail deposit insurance as a mark of regaining confidence. In 1969 after the government of Indira Gandhi took over, fourteen major commercial banks were nationalised, and later in 1980, another six more banks were nationalised bringing more power to the RBI in controlling and regulating the economy while fostering public banking.

The Nationalisation of coal companies in India was propelled by the necessity for better management and utilisation of coking coal resources and improving their employment conditions. With the initial step of taking control over coking coal mines by the Government in 1971, the resources were Nationalised in 1972 under Bharat Coking Coal Limited (BCCL). In 1973, the government expanded its umbrella over rest of the coal mines leading to further Nationalisation of the mines under the Coal Mines (Nationalisation) act. This included the coal hydrocarbon deposits belonging to the non coking coal deposits that were transferred to Coal Mining Authority of India.

Air India was first established by J.R.D. Tata as an airline after the financial crisis and was known as Tata Airlines in 1932. Tata airlines was nationalised in 1948 when India bought 49% shares. By the year 1953, the airline was completely nationalised by the Air Corporations Act, the India Air International was formed to facilitate international routes and Indian Airlines domestic routes. This was designed to improve management, control, safety and all coordinates covering vital national security aspects. However, Air India performed well to begin with until ultimately it struggled to maintain operational effectiveness making the airline being privatised in 2020 with Tata Sons buying the airline back.

Nationalisation of life insurance in India occurred in 1956, when Life Insurance Corporation (LIC) was created by merging more than 240 private insurers and nationalising general insurance in 1972 to create the General Insurance Corporation (GIC) along with its four subsidiaries; further changes lay dormant for decades. The objective of these moves was to improve regulation, broaden coverage and protect policyholders. These institutes, which were nationalised, were termed Public Sector Undertakings (PSU's).

The Public Sector Undertakings (PSU's) were supposed to be dynamic engines of economic growth for achieving multidimensional activities. As a result of Government efforts, a number of Public Sector Undertakings (PSU's) engaged in manufacturing, trading and service activities flourished over the years in terms of number and capital investment. The number of central public undertakings (CPU's) and capital investment during 1951-52 was 5 CPUs and Rs.29 crore respectively, which rose to 243 CPUs and Rs.2,04,050 crore in the year 1998-99.

There were 240 CPUs having capital investment of Rs.3,24,632 crore as on 31st March, 2000.

The Public Sector Undertakings (PSU's) extraordinary expansion created a solid basis for quickening India's economic development. However, the Public Sector Undertakings (PSU's) had a number of significant issues that needed immediate attention in addition to some major flaws. The bulk of Public Sector Undertakings (PSU's) suffered enormous cumulative losses as a result of these issues, which also included underusing resources, decreasing productivity, ineffective management, a lack of a commercial strategy, and an increase in industrial illness, all of which threatened the Public Sector Undertakings (PSU's) ability to remain financially viable. Following these developments, there was severe criticism directed towards the public sector.

Disinvestment in India

The next chapter of the Indian economy had started in the mid 1990s, with liberalisation and disinvestment catching up. Now, Gross Domestic Product was previously known as the output of our economy at that time, and in the late eighties the then Prime Minister Narasimha Rao along with Finance Minister Manmohan Singh started to open up this economy. The point of revolution was consequent to the disestablishment of industries like VSNL and Air India which represented change from state-capitalism to economics driven by market forces.

The Government initiated the sale of the Government equity in PSU's partly or fully to mutual funds, financial institutes, employees, general public The rationale behind this policy was that the Government should divest its funds from loss making PSUs and use the realisations (receipts) for creating social as well as physical infrastructure. These sectors are strategically important and owned by the government to safeguard national security and public welfare.

The disinvestment programme of the Government of India was launched with the twin objective of addressing the fiscal deficit and raising resources to fund large-scale infrastructure development, boost economic spending, reduce borrowings by the government and invest in social welfare such as health and education. Public sector inefficiencies - under utilisation of capacity, low productivity, costs overruns, lack of innovation culture and delays in decision-making - had impacted growth even during post-1991-92 reforms.

1991-1992 to 2000-2001: During this time, 31 Public Sector Undertakings (PSUs) were divested, resulting in revenue of Rs.3,038 crore. In December 1999, the Department of Disinvestment was created as an independent entity, which was later upgraded to the Ministry of Disinvestment in September 2001. Most transactions involved selling minority stakes in PSUs, with the Unit Trust of India acquiring shares in several of these companies.

2001-2002 to 2003-2004: This period saw the highest level of disinvestment activity, primarily through strategic sales and public offerings. The government generated Rs.21,163 crore, although the overall target was set at Rs.38,500 crore.

2004-2005 to 2008-2009: Disinvestment efforts nearly came to a halt during this phase due to its controversial nature, raising only Rs.8,515 crore (Lekhi and Singh).

2009-2010 to 2019-2020: With better market conditions and a stable government, disinvestment gained renewed attention. The government began divesting minority stakes in both listed and unlisted PSUs via public offers, a trend that continued until December 31, 2010.

2020-2021: The COVID-19 pandemic disrupted the disinvestment process, with market instability and economic uncertainty delaying planned activities. However, the government managed to generate Rs.32,835 crore, primarily through minority stake sales in PSUs and IPOs, including RailTel Corporation.

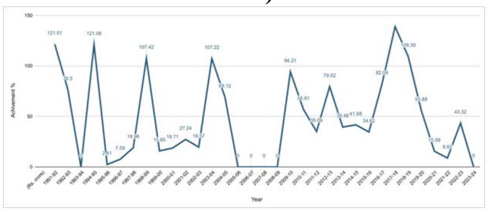
2021-2022: The privatisation of Air India became a landmark achievement, marking its return to private ownership after nearly 70 years. Other initiatives, such as LIC's listing, contributed to raising Rs.13,531 crore, though the IPO did not fully meet expectations.

2022-2023: Efforts shifted toward strategic sales and reducing stakes in PSUs. Challenges delayed transactions involving BPCL and CONCOR, yet the government still secured over Rs.30,000 crore through asset monetization and minority stake sales.

2023-Present: The government pursued its disinvestment goals with a target of Rs.51,000 crore. Strategic sales of smaller PSUs and non-core asset monetization were key priorities, reflecting a focus on efficiency and reform (PRS legislative Research)

The current government has adopted an aggressive approach to disinvestment, targeting non-strategic public sector enterprises for sale. Recent disinvestment achievements include the privatisation of Air India and plans for strategic sales in sectors such as steel and petroleum. The goal is to reduce the fiscal burden and enhance efficiency in these enterprises.

Key Findings from Disinvestment Data (1991-2023)



Early Success in Disinvestment (1991-2000)

In the initial years post-liberalization, India saw notable disinvestment achievements, with targets exceeded in 1991-92 (121.51%) and 1993-94 (121.08%). These early successes reflect the government's initial push to reduce public sector dominance and encourage private participation.

Policy Stagnation (2005-2008)

Between 2005 and 2008, no disinvestment was recorded, indicating policy stagnation or shifting political priorities. This could be attributed to political resistance, valuation concerns, or external factors like global economic conditions.

Revival and Aggressive Targets Post-2010

Post-2010, there was a revival in disinvestment efforts, with ambitious targets set (e.g., Rs.40,000 crore in 2010-11 and Rs.69,500 crore in 2015-16) .The highest achievement rate was recorded in 2017-18 (138.82%), reflecting focused government efforts and favorable market conditions.

Consistent Gap between Targets and Achievements

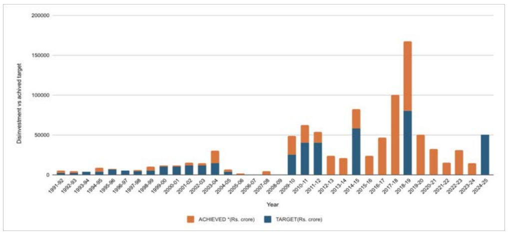
Over the years, the total disinvestment target was Rs.1,213,725 crore, while the actual achievement stood at Rs.438,839 crore, averaging 47% completion. This persistent gap underscores challenges such as valuation mismatches, investor hesitancy, and bureaucratic delays.

Recent Challenges (2019-2023)

Despite setting high targets (e.g., Rs.90,000 crore in 2019-20), achievements were subdued due to factors like the COVID-19 pandemic and global economic uncertainties. In 2021-22, the achievement rate dropped to 8.82%, highlighting the continued struggle to meet disinvestment goals.

Broader Implications

Disinvestment has contributed to reducing fiscal deficits and promoting private sector efficiency. However, persistent under achievement limits its potential. To enhance outcomes, policy execution must improve, investor confidence must be strengthened, and valuation processes need refinement.



1991-92 to Early 2000s: Liberalization and Modest Achievement:

Liberalization and Modest Achievement: India initiated economic liberalization in 1991 due to a severe balance-of-payments crisis. Disinvestment emerged as a tool to reduce fiscal deficits and improve public sector efficiency. However, during this period, the privatization policy faced resistance from labor unions and political stakeholders.

Key Observations: Modest disinvestment targets of Rs.2,500 crore were set during the initial years, with actual achievements showing significant under performance (e.g., 1991-92 achieved Rs.121.5 crore, just 4.86%). Political uncertainty and lack of a robust framework limited success.

2003-04: The Turning Point: A stable political climate under the Vajpayee government enabled significant privatization efforts. Landmark sales, including Bharat Aluminium Company (BALCO) and Hindustan Zinc Limited (HZL), marked a shift in the privatization strategy toward outright sales rather than minority stake dilution.

Key Observations: The achievement of Rs.15,547 crore surpassed the target of Rs.14,500 crore. This was one of the rare instances where policy execution matched the government's aspirations.

2006-07 to 2008-09: Global Financial Crisis and Policy Stagnation: This period saw no disinvestment activities due to political hesitations, global economic uncertainty, and coalition pressures during the UPA-I government. The focus shifted to retaining government control over public enterprises rather than privatization.

Key Observations: Zero achievements during these years highlight how global financial crises and domestic coalition politics can stall economic reforms.

2010-11 to 2013-14: Expanding Targets but Limited Results: With growing fiscal deficits, disinvestment became a critical component of resource mobilization. However, procedural delays, regulatory challenges, and lukewarm investor responses resulted in suboptimal achievements. For example, in 2013-14, while the target was Rs.54,000 crore, only Rs.21,321 crore was achieved (39.48%).

2017-18: Record Achievement: Under the Modi government, strategic disinvestment gained momentum, with initiatives to privatize major PSUs. The listing of CPSE ETFs and the sale of entities like Hindustan Petroleum Corporation Limited (HPCL) to ONGC were significant milestones.

Key Observations: The achievement of Rs.1,00,642 crore significantly exceeded the target of Rs.72,500 crore, driven by aggressive execution and favorable market conditions.

2021-22 Onwards: **Bold Targets, Moderate Achievements:** The government announced ambitious disinvestment plans, including Air India's privatization and plans to reduce stakes in Life Insurance Corporation (LIC). However, pandemic-induced economic stress and market volatility posed challenges.

Key Observations: Despite the bold target of Rs.1,75,000 crore in 2021-22, only Rs.15,440 crore was achieved due to procedural delays and lack of investor interest in some assets.

Impacts and Implications

Economic Impact: Nationalisation and Disinvestment have had deep economic impacts. Nationalisation initially boosted sectors like banking and coal, ensuring broader access to services. On the other hand, disinvestment has been intended to improve efficiency and reduce the fiscal deficit. In fact the evidence is mixed, with disinvested enterprises better off under private ownership or struggling to manage shift.

Social Impact: There are also different social implications of these policies. Nationalisation brought about job security and national good in some sectors, disinvestment resulted in thousands losing their jobs with inevitable service delivery changes. Striking a balance between economic efficiency and social welfare continues to be the most important challenge.

Political Impact: Nationalisation and Disinvestment have both been hotbeds of political controversy. Nationalisation was viewed as a move to socialism, advocated by some left wing elements and trade unions. On the other hand, there is push-back against disinvestment because labour unions are concerned about job losses and interest groups don't want to see key industries come under less local control.

Challenges and Opportunities

In addition, plans for Disinvestment create resistance in the form of labour unions and political opposition to the government. Moreover, transparency in valuation and fairness in values are some of the serious barriers which the government encounters while executing successful Disinvestment, thus unlocking considerable fiscal resources, increasing efficiency, and attracting foreign investment. Areas such as infrastructure and insurance can be a potential pickout for future disinvestment, pursuing growth and modernization.

Conclusion

Revival of India's Public Sector Enterprises can be attained through efficiency and competitiveness. Improving the capacity use and making adoption of state-of-the-art technology for improvement of competitiveness have to necessarily be taken up by the Government as key action. Product diversification and rationalising pricing policies are the critical factors in economic performance. Integrating the public and private sectors will eliminate unproductive competition, while increasing management responsibility and decreasing unnecessary government interference will spur operational efficiency. Improving market reach through quality standardisation and effective promotion, as well as encouraging voluntary worker participation, will spur change and innovation in PSEs. Gradual privatisation, where possible, will bring efficiencies from the private sector; targeted, time-bound programmes to revitalise ailing enterprises will raise productivity and efficiency.

Hence, a balanced approach of Nationalisation and strategic Disinvestment is necessarily warranted. Nationalisation could ensure stability and safeguard public interests. Disinvestment will attract private investment to propel growth. Thus it is a dual plan of action where PSE's can actually contribute significantly to the Indian economy by keeping ownership with general public yet having working capital and joint ventures with private players. This way PSE's can be an efficient, competitive and sustainable source for driving economic growth in the world of globalisation. Policy makers have to be farsighted; they need to dissect how long we want our country to survive on these policies in sync with bigger goals: inclusive and sustainable development.

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