

SECTION - II

Chapter - 1.1

Indian Economy on the Eve of Independence

Position of Agriculture, Industry and Infrastructure:

The main objective of this chapter is to keep you known about the changes in the economic development in the Indian economy. In this chapter, we have to study the characteristics of the Indian economy before the independence and at the time of independence.

Before the British rule, India had its own independent economy. Each village was prosperous and self-sufficient in political, social and economic areas. Although agriculture was the main source of government revenue and livelihood for public, there were many different types of manufacturing activities in the country. There were three classes in villages- farmers, craftsman and servants. In these classes farmers were at the top. Artisans did all types of work of farmers for whole of the year and in turn they were given the food grain after the harvesting the crops. Servants collected the rent for the government. At that time Indian agricultural was sufficiently developed, farmers were most happy in agriculture and agriculture productivity was very high (means land produced gold in terms of foodgrains). India exported cotton and silk cloths, rice, jute, sugar, spices and other agricultural commodities and in turn received gold.

There was development of industries also with the agriculture. India was very well

recognized in the world as a good centre of art and crafts related with cotton and silk clothes, metal based goods and gems. Indian goods had become famous in the world market and India received gold, silver and precious stones from the exports of these goods. India was considered as the richest country in the world in the 17th country. At this time the land-labour ratio was favourable to labour, size of land holding was large, per capita production and productivity with was higher and the Indian economy was known as the golden bird. Due to this reason, foreign traders visited India continuously. In this order of business, the East India Company started trade with India. But the trade policies of this company were defective and exploitative. With the trade, the East India company made India a colony by the intervention in the political activities. The main objective of the British government was to make India an exporter of raw material for the rapidly growing Industries in England. As result, the Indian economy was being exploited and the Indian economy became underdeveloped and poor upto the achievement of independence.

Indian Economy on the eve of Independence:

The past of India has been glorious. Before the British rule Indian economy was progressive and prosperous but the defective British policies of exploited the country and duty the drains of resources the downfall took place in Indian

economy. The objective of the British economic policies was to protect and enlarge the economic interest of England. These policies resulted into the change in the main mode of the Indian economy. Now India became the exporter of raw material and the importer of the manufactured goods of England which diverted the industrial growth of India. As a result, the growth rate of national income in India decreased upto less than 2% in the starting of the 20th century.

Due to the above defective economic and political policies Indian economy became poor, stagnant, backward, inactive, agricultural based, and underdeveloped.

At the time of independence, the position of India in the following sectors can well be explained.

(a) Position of Agriculture:

In the British era, Indian economy became agriculture dominated. 80% of the rural population of the country was dependent directly or indirectly on agriculture. But agricultural development was stagnant and the productivity decreased.

There was no technical improvement in agriculture and agriculture was dependent on human labour and animals. Irrigation facilities were not improved which resulted into famine and draught. Under British period, rulers did not improve agriculture and thus the Indian agriculture became stagnant. This can be explained as below:

(1) Land System:

British government implemented zamindari system, zagirdari system and mahalwari system in India which developed the middle class.

This middle class people, intermediaries, charged Part of the crop production as rent from farmers.

Ownership of land was in hand of

intermediaries who took land from British government on high rent and asked other people to get the work of agriculture done. Rent rate was very high which left nothing to farmers to eat. Thus farmers became weak economically and health wise. There were no incentives of farmers.

Land Holding Systems:

There were three land holding systems in British period. These were:

(i) Zamindari System:

Before this system farmers were owners of land. Governor general of East India Company, Cornwallis, declared zamindars as the land owners and gave the right to collect rent.

Defects of Zamindari System :

Following were defects of the zamindari system:

- Numbers of zamindars were very large.
- Zamindari system was based on exploitation. Zamindars charged rent at their own will. Rent rate was from 34% to 75%.

Zamindars took free labour services of farmer, gifts, etc. Farmers were treated as slaves on taking loans from zamindars.

(ii) Mahalwari System:

This system was implemented by William Bentinck in Madhey Pradesh, Punjab, Agra and Avadh. Whole village was the unit from the point of view of rent. It was duty of village head to deposit rent to the government. Village head collected rent from all the land holders. Under this system land was the property of whole of the society.

(iii) Raiyatwari System:

In this system farmer was the owner of land and there were no intermediaries between farmers and government. There were different rent-rates on different land holdings. In this system, condition of farmers was not good also.

(2) Low Level of Technology:

Agriculture technology was weak and backward. There was lack of high quality seeds, chemical, fertilizers new instruments and equipments, insecticides, irrigation sources and agriculture credit. Due to all these factors, levels of agriculture production and productivity were very low.

(3) Revenue System:

Due to the revenue conditions farmers were over exploited. Each farmer was to pay rent according to these conditions. If the rent was not paid by zamidars, their rights were snatched. This situation was also responsible for backwardness of agriculture.

During British period production of food grains decreased but there are evidence of increase of the production of non-food crops. Indian farmers did not receive the profit of this increased production. Production of commercial crops and cash crops was used as raw material for British industries.

(b) Position of Industrial Sector:

During British era, position of industries was also not good. The art of craft was destroyed. British rulers did not develop modern industries in India. British government wanted that India should export raw material to British industries and India should provide market for finished products produced in British industries. Old domestic industries were destroyed in India and modern industries were not developed. Due to this unemployment became a big problem.

In post 19th century, some modern industries were developed in India but their progress was very slow. Cotton and jute industries were developed. Cotton industries were developed in Maharashtra and Gujarat and jute industries were limited upto West Bengal.

In beginning of 20th century, iron and steel

industries were developed. In 1907, Tata Iron and Steel Company (TISCO) was established. After second world war sugar, cement, paper etc. industries were started in India.

But there was no step taken to develop the capitalist industries which were necessary for the future industrialisation. Thus, industrial growth was backward in India due to below given reasons:

1. Indian crafts were destroyed and obstacles were created in industrial development.
2. Indian artisans were tortured and they were made labourer.
3. Import duty was imposed on Indian goods and Indian exports were reduced.
4. Cotton industries were discouraged by imposing 5% excise duty. There were many obstacles in the development of iron and steel industries.
5. There were no incentives for industrial development in India.
6. There was 'free trade policy' in India and 'policy of protection' in England.
7. Shipping industry was also discouraged.
8. There was lack of capital goods industries in India. Some consumer goods industries were established.
9. Industrial structure of India was imbalanced, underdeveloped and unfavourable.
10. There was downfall of world famous crafts and small industries were closed.
11. Modern and big industries were not established.
12. Industrial finance and development institutions were not established.
13. There was no effort for making industrial policy.

(c) Position of Infrastructure:

If infrastructure facilities are developed in the country, economic development takes place. Infrastructure has two categories:

(1) Economic Infrastructure:

Irrigation, transport, energy, communication, banking, technical knowledge, etc. are included in economic infrastructure. During British period, economic infrastructure was developed in India. Roads, railways, ports, water transport and post-telegraph were developed. Objective behind this development was only the British interest. Britishers developed roads for the military movements and to approach the nearest railway stations and ports to send Indian raw material to England. These roads were also aimed to send the finished goods into the Indian local markets. Rural roads were not at all developed and thus the life of rural people was not easy.

Railways were developed in India in 1850 which was the most important contribution of Britishers. To finance the development of railway, tax were increased on Indian farmers. Objective of British government behind railway development in India was only to serve the interest of the Britishers. This railway development affected the structure of Indian economy in two ways.

- (i) People got opportunity to travel long distances, and
- (ii) It increased the commercialization of agriculture.

Along with roads and railways, British government also developed the sea routes but these efforts were not satisfactory because internal waterways were not proved profitable. Services of post and telegraph were also developed.

Upto 1870, there were only two joint capital banks in India which increased upto 9 at the

beginning of 20th century. There were not banking credit facilities to Indian people and thus no contribution of banking in economic development. Under the R.B.I. Act, 1934, Reserve Bank India was established on April 1, 1935.

(2) Social Infrastructure:

Human resources are included in social infrastructure. Human resources include population, education, health and housing.

Population of India in 1881 was 25.4 crore when first census was conducted. Upto 1921, population in India was not so large and population growth rate was not high.

Indicators of social development were not in good position. Literacy rate was less than 16%. Female literacy was only 7%. Public health facilities were scarce and insufficient. Thus there were infectious diseases and due to this gross death rate was very high. Infant mortality rate was very high (218 per thousand). Life expectancy was only 32 years. Problems of poverty and unemployment were more intensive.

British rulers did not make any efforts for the solution of problems of high birth and death rates, high infant mortality rates, low life expectancy, low literacy rate, insufficient health facilities, etc.

Under Development of India during British Rule:

For economic development of country both national income and per capita income should increase. Economic development can also be studied on the basis of occupational distribution of population, technical improvement in agricultural, expansion of poverty, nature of poverty, real wage, industrial development etc. During British rule economic development was not experienced in India. Conclusions of underdevelopment can be derived on the basis of following facts.

1. National Income:

Before independence data on national income were not collected systematically because British rulers wanted to keep unknown about the stagnancy of economy. Some of economists tried to collect these data. First of all data on national income in India were estimated by Dada Bhai Noroji who gave data for 1976-68 in 1876.

2. Nature and Extent of Poverty:

Large extent of poverty indicates underdevelopment. In India, there was no economic development due to poverty. Some of the publications of that time proved this fact in India. data were not available on poverty estimates.

3. Level and Trends in Real Wages:

These data were also not available in the British period. Radhakamal Mukharji prepared real wage indices for 1600 to 1938 period at his own by collecting historical information which ever was available. These indices shows that in 1938, in comparison to 1807, the wages both of efficient and inefficient workers were very low.

4. Occupational Structure:

Experience of production function shows that productivity of labour in agriculture is less than that in industry and service sectors. Thus on the basis of occupational distribution of population estimates of economic development are obtained. Countries, in which agriculture is main occupation, are said to be the underdeveloped countries. When population is transfered from agriculture to industry, service, trade, etc. it is supposed that economic development is taking place. Many economists have conducted research work on the relation between occupational distribution of population and economic development and found that during 1881 to 1951 most of the population was engaged in agriculture in India. According to the estimates

61% population was working in agriculture in 1881. This proportion became 72% in 1951 This is a concrete proof of the underdevelopment of Indian economy during the British rule.

5. Lack of Technological Improvement in Agriculture:

In British period no technical reform was undertaken in agriculture. Most of people earned living by working in agriculture. Farmers used wooden plough and bullocks in the agriculture. No commercialization of agriculture took place. Irrigation facilities were not improved and some canals were constructed by British rulers. Thus there was not historical change in agriculture sector.

6. Weak Industrial Structure:

Before British rule handcraft work was very progressive but during British rule in India this work of handcrafts was destroyed due to defective policies. This happened so because goods produced in British industries captured the Indian market. Cloth industry also became victim of defective policies of British government. In the same way iron work had also been badly affected. In 19th century cotton and jute industries were developed to some extent but no suitable industrial process was started.

It is clear that during the British rule of about 200 years, Indian economy remained underdeveloped and thus resulted into stagnant per capita income, increase in poverty, traditional nature of agriculture, lower wages, downfall of handicrafts and insufficient industrial development.

Characteristics of Indian Economy at the Time of Independence:

At the time of independence Indian economy was stagnant, backward and agriculture based one. Following were the characteristics of Indian economy at that time:

1. Underdeveloped Economy:

At the time of independence Indian economy was underdeveloped. Level of per capita income was very low and industrial development was also very low. Infrastructure facilities were less developed. Economy was import dependent. Poverty, unemployment and illiteracy were the social challenges.

2. Stagnant Economy:

Growth of India was completely disappeared at the time of independence. Agriculture production and productivity were very low, growth rate decreased, exploitation tendency increased and there was downfall of Indian industries. There was no technological development.

3. Semi-feudalist Economy:

British government introduced zamindari, zagirdari and mahalwari land systems and adopted capitalism in India which developed intermediaries who exploited farmers. Thus, efficient artisans, farmers and salaried labourers became slaves.

4. Backward Economy:

Due to excessive exploitation of resources, productive capacity decreased. Modern industries became less developed and socio-economic infrastructures were underdeveloped.

5. Effect of Partition:

On August 15, 1947 country was partitioned as India and Pakistan. As result of partition India got 77% land area and 82% population. This partition was not favourable to India from the point of view of agriculture but was favourable from point of view of industries.

Causes of Underdevelopment of Indian Economy in British Period:

These causes were as below:

1. Anti development economic and political

policies of land system and rent in British period.

2. Downfall of industries.
3. Defective trade policies.
4. Development of pro-British infrastructure.
5. Backwardness of social indicators of education, health, etc.

Conclusion :

British rule of about 200 years destroyed every sector of Indian economy. Excess labour, low productivity and lower technological level were found in Indian agriculture. There was shortage of industrial development and public investment. Foreign trade fulfilled the British objective only. There was need of expansion of infrastructures and effective policies to tackle problems of poverty and unemployment.

Important Points:

- Before British rule Indian economy was rich in socio-economic sphere.
- Economic and trade policies of British period were not favourable to India.
- Objective of British economic policies was to protect interest of England.
- Indian economy was changed into agricultural economy.
- Indian agriculture became stagnant and agriculture productivity decreased.
- Land systems of zamindari, zagirdari, etc. were introduced in Indian agriculture.
- Dual objectives of British trade policies to make India an exporter of raw material and an importer of finished goods.
- Indian famous handcraft industries were destroyed because of British defective policies and modern industries were not developed.

- There was no development of social infrastructure.
- British government developed railway, road, water transport, post and telegraphs, etc. but only for own purpose and interest.
- In British period, Indian economy became stagnant, semi feudalistic and backward.

Questions for Exercise

Objective Type Questions:

- Before British rule Indian economy was:
(a) Prosperous/rich (b) Backward
(c) Semi feudalistic (d) Undeveloped ()
- Main source of living before independence was:
(a) Agriculture (b) Trade
(c) Cottage industries (d) Service ()
- In which century India was the richest country ?
(a) 15th (b) 16th
(c) 17th (d) 18th ()
- At the time of independence most of the land was owned by-
(a) Farmers (b) Zagirdars
(c) Labourers (d) All of the above ()
- In which period the work of railway lines started in 1853 ?
(a) British colonial period.
(b) Mughal Rulers period.
(c) Kings' Period
(d) After independence ()
- What was the material of which India became exporter in British period ?
- Where were the cotton mills started in 19th century ?
- What was the number of joint capital banks in India upto 1870?
- In which year the first census of India took place in British period?
- Name the land systems of India at the time of independence.

Short Answer Questions:

- Explain the position of Indian industries at the time of independence.
- Explain the position of economic infrastructure in India at the time of independence.
- Clarify the position of export-import of India in British period.
- Explain the position of social infrastructure in India at the time of independence.

Essay Type Questions:

- Discuss the British Policy regarding development of agriculture and industry at the time of British era.
- Describe the main characteristics of Indian economy at the time of independence.

Answer to Objective Type Questions:

(1) a (2) a (3) c (4) b (5) a

Reference Books :

- Development of Indian Economy (2013), N.C.E.R.T.; Rajasthan Pathya Pustak Mandal, Chapter-I.
- Mishra-Puri: Indian Economy, Himalaya Publication House, Ed. 14, 2002, Chapter-4.

Very Short Answer Questions:

- How was the condition of farmers before independence?