

## CHAPTER 1

# INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

On the eve of independence, India possessed **low level of economic development** and **stagnant economy** under the colonial rule.

**Colonial Rule:** It refers to a system between two countries under which one country is the colony and the ruling country determines the economic policies of the colony.



In India, the colonial rule stays for around 200 years (1757 – 1947) under which the British exploited the Indian country.

## 1.1 Features of Indian economy before independence

1. **Agriculture** was the main source of employment and livelihood for the people of our country. Around **85%** economy derived their livelihood directly or indirectly from agriculture.



2. The farmer raised only those crops which he needed for his own use and shared the same with the village artisan who supplied him with simple manufacture that he needed for his **domestic consumption.**



3. India was famous for its **handicraft industries** all over the globe.



4. Indian was an **independent, self-reliant and prosperous** economy. ('**Sone Ki chidia**')



## 1.2 Agriculture sector on the eve of independence



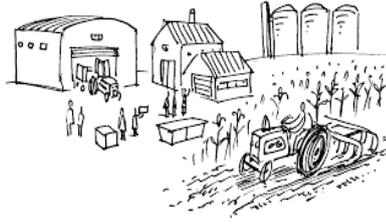
**The characteristics of agricultural sector on the eve of independence were as follows:**

**1. Zamindari system (land tenure system):** Under this system, ownership right of the land was transferred from **farmers to zamindars** i.e. Zamindars were the nominal head of the land they were to pay fixed some to government by way of land revenue and free to extract as much as they wished from the tillers (in the form of lagan).

The *zamindars*, on the other hand, spent their revenue income on the luxuries of life. Little or no investment was made for the development of agriculture.



**2. Commercialization of Agriculture:** It refers to the production of crops for sale rather than for self-consumption. Farmers were given higher prices for **production of cash crops** (like cotton, jute, indigo) so that they could use them as raw material for British industries. High level of prices forced to farmers to produce cash crops rather than food crops.



**3. Low level of productivity:** Productivity refers to the **output per hectare of land**. During colonial period the productivity of Indian agriculture was very low due to following Reasons

## Low level of Productivity

Lack of irrigation facilities

Dependence on rain

No means or incentives to invest in agriculture

Low levels of technology

## Negligible use of fertilizers

- 4. High degree of uncertainty:**-During colonial period, the main source of irrigation was rainfall which resulted in high level of uncertainty. i.e. good rainfall implied good output whereas poor rainfall resulted in low level of output.



### 1.3 Industrial sector on the eve of independence

**State of Industrial sector on the eve of independence can be understood by the following features :**

- **Decay of indigenous handicraft industries**
- **Slow progress (growth) of modern industry**

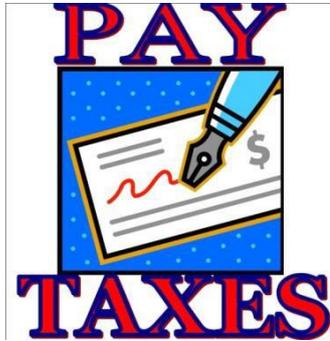
#### **1. Decay of Handicrafts**

- The British rule in India led to the decay of indigenous handicrafts in many ways, discussed as under :

#### **(a) Introduction of discriminatory tariff policy**

- This policy allowed free export of raw materials from India and free import of Britain made goods to India.

- Handicrafts were discouraged by imposing heavy duty on their exports.
- It led to decline of handicrafts both in domestic as well in international market.



### **(b) Low priced machine made goods**

- Machine made goods from Britain were low-priced which gave competition to Indian handicrafts which were comparatively costlier.
- Competition from Britain made goods declined the demand of handicrafts in India.



### **(c) Changes in tastes and preferences**

- Due to impact of British culture, tastes and preferences of people were shifting in favour of British products.
- This led to fall in Indian made goods which were mostly based on Indian handicrafts.



#### (d) Fall in encouragement to Indian handicrafts

- Indian handicrafts were supported by the Indian emperors, princes, nawabs etc. before the British came.
- Because of British rule, these patrons were losing their existence and accordingly Indian handicrafts too were losing the state patronage.



#### 1. Slow Growth of Modern Industry

It is clear from the following points that industrial sector was progressing but it was not at the desired rate:



#### (a) Lopsided growth of industries

- During the second half of the 19th century, modern industry began to take root in India but its progress remained very slow.
- Initially, this development was confined to the setting up of cotton & Jute textile mills and coal mines.

- Subsequently the iron and steel industries began coming up in the beginning of the 20th century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907.
- A few other industries in the fields of sugar, cement, paper etc came up after the second world war.



### **(b) Lack of capital goods industries**

- There was hardly any capital goods industry to promote further industrialisation in India because the British wanted Indians to depend on Britain for capital goods.
- Capital goods industries which could produce machine tools for further production were required for industrialisation.



### **(c) Lower contribution to GDP**

- Growth rate of new industrial sector and its contribution to the Gross Domestic Product (GDP) had been very small. It is because the industrial sector was not progressing at the overall desired rate.

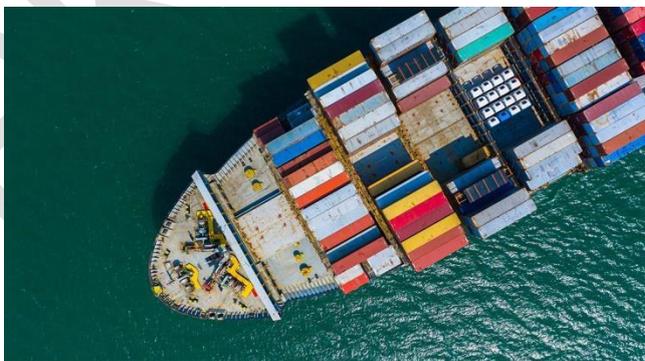
#### (d) Limited area of operation of the public sector

- The industrial sector remained confined to the railways, power generation, communication, ports and some other departmental undertakings only; which was not adequate.



## 1.4 Foreign Trade

Since ancient period, India has been an important trading nation. India was well-known exporter of finished goods like silk, fine cotton, textiles, ivory work, handicrafts, precious stones etc. But the **discriminatory trade and tariff policies** of the British brought it to an end.



**The condition of Foreign Trade is explained below:**

**1. Exporter of primary products and importer of finished goods:** During colonial rule, India became the exporter of raw materials (such as raw silk, cotton, indigo, jute etc.) which were of low cost and became the importer of finished goods (such as capital goods, woolen clothes, silk clothes and other machine made products) which were of high cost. Due to this the economic condition of our economy started to decline.

**2. Monopoly control on trade by the British:** During colonial period the British government maintained a monopoly control over Indian trade policies.

- ❖ Majority of trade was restricted to Britain (more than 1/2) while the rest was allowed with some other countries only (such as china, Sri Lanka (Ceylon) and Iran (Persia))
- ❖ Opening of Suez Canal in 1869 provides a direct trade route for ships operating between Britain and India.



**3. Economic exploitation:** Due to the exporter of raw material, India had a huge export surplus. But the amount of export surplus did not give any push to Indian economy as the amount of surplus was used by the government in non- developing activities, such as:

- To meet expenses of war fought by the British government.
- To make payment of office setup of colonial government.
- To make trade of invisible items (services).



## 1.5 Demographic Profile

Demography refers to the study of various aspects of population, such as age, sex, education level, income level, marital status, birth rate, death rate etc.



Birth Rate



sex ratio



Death Rate

### DURING THE BRITISH RULE-

#### 1. High birth rate and death rate:

**Birth rate** refers to the number of children born per thousand individuals in a year.

**Death rate** refers to the number of people dying per thousand persons in a year.

During colonial period both birth rate and death rate were very high (nearly 48 and 40) which means India was at the **First stage** of demographic transition (before 1921). Year 1921, is regarded as the **year of Great Divide** as thereupon India started its entry into the second stage of demographic transition.



### 3. Low literacy rate:

**Literacy rate** refers to the number of persons who are 7 or above, who have the ability to read, write and understand any one language.

During colonial period the overall literacy rate of the economy was less than **16 per cent**. Moreover, the **female literacy** rate was about **7 per cent**.



### 4. High infant mortality rate:

**Infant mortality** rate refers to the number of infant dying before the age of 1 year per thousand live births annually.

The IMR during colonial period was about **218 per thousand** (before 1921).

### 5. Poor health facilities:

Public health facilities were either unavailable or when available, were highly inadequate; due to which water and air-borne disease were widespread and took a huge toll on life.



### 6. Low life expectancy:

It refers the **average number of years for which a person is expected to live**.

Due to poor health facilities, the life expectancy during colonial rule was as low as 44 years, whereas as per the latest WHO data published in 2018, the current overall life expectancy of India is 68.8 years.

### 7. High level of poverty:

During colonial period, India faced the condition of extensive poverty. Per capita consumption was very low. The overall standard of living of common people of India was very low



## 1.6 Occupational Structure



**It refers to the distribution of working persons across different industries and sectors.**

### 1. Predominance of agriculture:

As colonial government aimed at making India an exporter of raw material,

consequently, about **72.7%** of working population was engaged in agriculture. As the income generation rate of agriculture sector was very low, this predominance reflected backwardness of the economy.



## 2. Unbalanced growth:

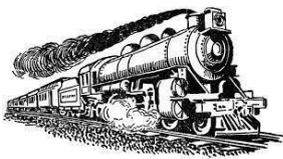
Growth of an economy is said to be balanced when all the 3 sectors are equally developed. But in case of Indian economy only primary sector was the main source of employment, whereas secondary and tertiary sector were in their infant stage of growth.



## 1.7 Infrastructure

## Economic infrastructure

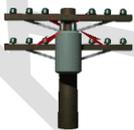
### Railways



### Transport



### Power



## Social infrastructure

### Education



### Water supply



**INFRASTRUCTURE**- refers to the basic **physical and organizational structure and facilities** (buildings, roads, power supplies etc.) needed for the operation of an economy.

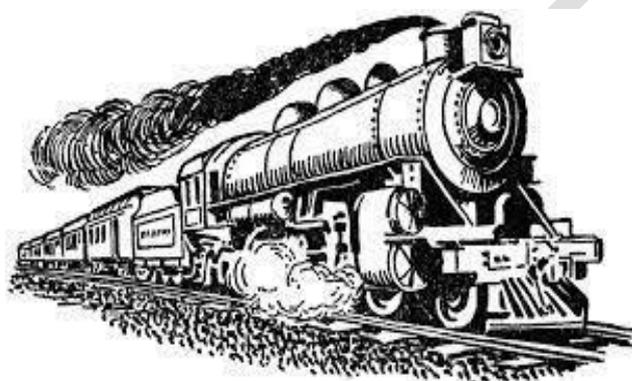
The state of infrastructure was very poor during colonial period, although some efforts were taken by the British government to improve the condition of

infrastructure in the economy (railways, port, post and telegrams, roads etc.) so that it could serve economic benefits to them.

**The conditions of infrastructure is explained here:-**

### **1. Railways:**

One of the biggest contributions of colonial rule was the introduction of railways in India in **1850**. It helps to remove geographical and cultural barriers in the economy. Although the benefits of railways was mostly restricted to the British during colonial period, but, it also helped in developing the Indian economy in the post-colonial period.



### **2. Roads:**

The construction of roads during colonial rule was very limited (due to scarcity of funds). The roads that were built, primarily served the interests of mobilizing the army and shifting of raw materials so that they could be transported to Britain via posts.



### **3. Air and water transport:**

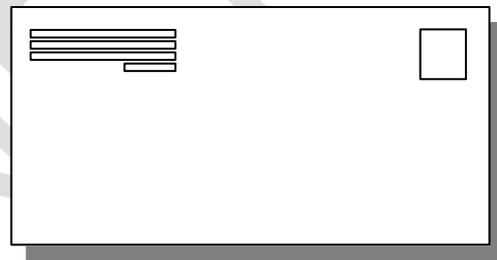
The colonial government took various measures for developing the ports and air

transport. But the development was far from satisfactory in measures of overall development.



#### 4. Communication:

During colonial period, posts and telegraphs were the most popular means of communication. The system of electricity was introduced at a high cost to serve the purpose of maintaining law and order. Despite serving as a useful public purpose, the postal service remained thoroughly inadequate.



### 1.8 Positive contribution of British rule

As every coin has 2 sides, similarly the colonial rule led to some positive impacts on our economy which are as follows -

### 1. Introduction of railways:-

The first and the most efficient contribution was the introduction of railways in India. The British introduced railways so that they could transport their products and the raw materials easily from one place to another but in post-colonial period railways turned out to be the key factor for boosting the economy.

### 2. Commercialization of agriculture:-

Under pre-colonial period, farmers grew crops just to sustain themselves and other people of the village. But forced commercialization of agriculture under colonial rule brings new opportunities for farmers in the market.



### 3. Monetary system of exchange:-

Barter system of exchange was no longer effective in the economy. The British brought in a new system of exchange popularly known as **monetary system** of exchange (**Introduction of money**).



### 4. Effective system of administration:-

The colonial government left a legacy of an efficient system of administration, which served to be a readymade foundation for our economic and political planners.