

## **-: INDIAN ECONOMY AT THE TIME OF INDEPENDENCE :-**

### **Synopsis of the Chapter**

1. Three phases of the Indian Economy
2. Low level of Economic Development
3. Agricultural Sector
4. Industrial Sector
5. Foreign Trade under the British Rule
6. Demographic Profile during the British Rule
7. Occupational Structure
8. Infrastructure
9. Contributions and Exploitation by British Rule

#### **1. Three phases of the Indian Economy**

- Phase - I : During British Rule (till 1950)  
Phase - II : The Planning Period (1951 to 1990)  
Phase - III : The Reform Period (from 1991 to till date)

### **Characters of Indian Economy at the time of Independence**

1. Low Economic growth (in terms of National Income & per capita Income)
2. Agrarian Economy Cover dependence on Agriculture & Subsistence Agriculture
3. Stagnant & Backward Economy
4. Depleted Economy
5. De Industrialized Economy

#### **2. Low level of Economic Development**

British has adopted all economic policies based on following two objectives :

- (a) Protecting their own interest
- (b) Transforming India into a consumer of finished goods and supplier of raw material

They never made any effort to calculate per Capita Income and National Income : since both remained very low.

- But the per capita output remained below 2% till 1949.
- British has adopted all economic policies based on following two objectives.

### 3. Agricultural Sector

- (a) India remained as an agrarian economy during British Rule with 85% people derived their livelihood from agriculture
- (b) Low agricultural productivity
- (c) Stagnant agriculture due to :
  - defective land settlement system (Zamindari System which aimed collecting tax ignoring the conditions of cultivators)
  - poor irrigation facilities
  - forced payment of agricultural taxes and exploitation by the Zamindars
  - forced revenue settlement system
- (d) Commercialization of Agriculture

Farmers were forced to produce commercial (cash) crops instead of food crops to feed as raw materials for British industries. Hence India always imported food stuff from other countries at a higher cost but sold their raw materials to British at a lower price. Therefore, the landless labourers and small farmers remained as tenants and poor always.

### Production and Productivity of Wheat and Rice :

#### 4. Industrial Sector

- Two fold objective of British to deindustrialize India was :
  - a) Reduce India as an exporter of only raw materials and importer of finished goods.
  - b) Make India a market for their finished products.
- Decline of India handicraft industries to create massive unemployment.
- Development of only agro based industries instead of capital goods industries - in 1970 TISCO was established by J.R.D. TATA, mostly Jute, Cotton, Sugarcane and Textile Mills only were promoted.
- The growth of modern heavy industries & their contribution to GDP .....
- British promoted public sector industries only in the areas of Railway, Transport, Communication, Port and few administrative areas to serve their own interest and establish their own market.

#### 5. Foreign Trade under the British Rule

- The colonial government adopted restricted trade policy in India affected the volume and composition of foreign trade in India.

- India mainly exported low priced agricultural goods like Tea, Coffee, Spices, Wool, Sugar, Jute etc. and imported costly finished goods like Machinery, Clothes, Tools etc. that too mainly from Britain.
- India was compelled to have more than 50% trade with British only through other countries were interested to pay more but denied.
- India generated more export surplus but always faced the shortage of essential goods like food grains, cloths, kerosene in the local market.
- The surplus income received by India through was used for British administrative expenses and military establishment. Hence the Indian resources were drained away completely.

## 6. Demographic Profile during the British Rule

Demography is the study of size and features of population of a country. It provides the data on qualities of population in a nation.

- Population growth was unevenly distributed - First Census was taken in 1881.
- India was in the First stage of demographic transition in 1921. Since the birth rate was low 1921 is treated as The Tear of Great Divide in Indian population history.
- Poor Social Indicators :
  - Low literacy rate - Total 16%, Female 7% (Presently 75% and Female 66%)
  - Life expectancy rate - 44 years (Presently 66 years)
  - Infant Mortality rate - 218 per 1000 (Presently 44)
- Poverty and unemployment was common all across the country

## 7. Occupational Structure

Meaning : Distribution of working population of a country in different structure.

Indicate in which sector the people are working among the three sectors :

(a) Primary      (b) Secondary      (c) Tertiary

It is essential to know the occupational structure to measure the economic growth of a country

- Largest portion of population (75%) were engaged in agriculture
- Industrial Sector provided job for 10% and Service Sector provided job for 15% only.

## 8. Infrastructure

- Colonial Government developed basic infrastructures like railway, postal, transport etc. not to serve the Indian people but to use if for their interest.
- British introduced Railways in 1850 to break the geo culture barriers and to collect raw materials across India.
- Developed good road facilities.
- Invested on Waterways and Sea lanes.

### Questions - Answers

1. Write & explain in brief the characteristics of Indian Economy in the eve of independence.

**Ans.** On the eve of independence, Indian Economy had the following characteristics :

- (i) **Stagnant Economy :** Indian economy was completely a stagnant economy, which shows little or no growth in income.  
Between 1860 - 1945, growth rate of per capita income was as low as 0.5% p.a. and between 1925 - 1950, it was 0.1% p.a.  
On account of this stagnation, bulk of Indian population lived in poverty standard of living of the people remained miserably cost. Epidemics and starvation were a recurring phenomenon.
- (ii) **Backward Economy :** Indian economy was a backward economy on the eve of independence. Backward economy is the one in which per capita income is very low. In 1947 - 1948, per capita income in India was just Rs.230.  
The bulk of the population was very poor, without sufficient food, clothing and shelter unemployment was rampant.
- (iii) **Agricultural Backwardness :** It is highlighted by the following facts :
  - Nearly 72% of the Country's working population was engaged in agriculture. But, its contribution to GDP was only 50%.
  - Productivity was extremely low. Thus, per hectars output of wheat was only 600 kilograms and of rice 710 kilograms.
  - Food grain production was barely enough for subsistence. In 1947-48, it was recorded to be just 527 lakh tonnes.
- (iv) **Industrial Backwardness :** It is highlighted by the following :
  - There was a virtual lack of the basic and heavy industries in the Country.
  - Production of machines was almost negligible.
  - Small scale and cottage industries were almost received.

- For the bulk of its capital goods requirement, the Indian industry was dependent upon imports from Britain.
- (v) **Rampant Poverty :** Bulk of the population was very poor. People were not getting two square meals a day. They lacked shelter and clothing. This also led to widespread unemployment and massive illiteracy.
- (vi) **Poor Infrastructure :** Infrastructure development (including means of communication, transport, power, energy) was extremely low. In 1948, power generation capacity was merely 2100 M.W., length of railway lines was 53,596 km whereas had a coverage of 155 thousand km only.
- (vii) **Heavy Dependence on Imports :** The Country depended on Imports for machinery and other equipment of production. Armed forces also depended heavily on foreign imports for most of the defence equipment. Several consumer goods were also imported.
- (viii) **Limited Urbanisation :** Bulk of the Indian population lived in villages. In 1948, only 14% of population lived in urban areas where 86% lived in rural areas. They lacked opportunities outside agriculture and this compounded their poverty.
- (ix) **Semi-feudal Economy :** Indian economy was neither wholly feudal nor a capitalist economy. It was a mixed or a some feudal economy. Such an economy had the mixture of ..... and capitalism made of production. Feudalistic mode of production leads to low productivity. Low productivity leads to backwardness.
- (x) **Colonial Economy :** Indian economy was colony of British Government. It implied exploitation of Indian economy for the benefit of the British economy. Following observations highlight how Indian economy suffered at the hands of the British Rules.
- British Government curbed domestic industry by imposing taxes. This forced the Indians to buy the British goods.
  - Indian economy was used as a source of raw materials for the British industries. Export of raw material was almost duty-free. Thus, natural resources in India were dependent on the growth of the British industry.
  - Atrocities were committed on the Indian artisans so as to force them to close their cottage industries. This led to destruction of the Indian handicrafts.

## 2. What is Zamindari System? Explain in brief.

**Ans.** Under this system,

- Zamindars were declared as owners of the 30%. They were pay a fixed sum to the government by way of land revenue and were force to extract as much as they withed from the farmers.
- The actual activators got bare minimum for survival. They were left with no surplus for investment in agriculture.
- The zamindars, on the other hand, apart their revenue increase on the luxuries of life. Little or no investment was made for development of agriculture.

### 3. Why did the handicraft industry decline in India?

**Ans.** The handicraft industry declined due to the following reasons :

- a) Discriminatory Tariff Policy of the State. The British rule in India coincided with industrial revolution in Britain. India was the best source of raw materials as well as the best market for this industrial product. Accordingly, a discriminatory tariff policy was pursued. It allowed :
  - i) Tariff free export of raw material from India, and
  - ii) Tariff free import of British industrial products into India

At the same time, heavy duty was placed on the export of Indian handicraft products. As a result, the Indian handicraft products started losing their domestic as well as foreign market.
- b) Disappearance of Princely Courts : Before British rule, princes and emperors ruled different parts of the country. They used to patronize the handicrafts because of which the Indian handicraft industry had acquired international reputation. The beginning of British rule implied the end of princely courts. Consequently, the handicraft started decaying.
- c) Competition from Machine-made products : Machine made products from Britain were low cost products and gave a shift competition to the handicraft products in India. Also, machine made products out - excelled Indian handicraft products in precision and quality. This forced Indian craftsman to shut-down their enterprises.
- d) New patterns of demand : Under British culture, there was a shift in demand from Indian products to British products, as there emerged a class of people which was been to adopt the western lifestyle. This further deteriorated Indian industries.

- e) Introduction of Railways in India : With the introduction of railways, size of the market for the low-cost British products tended to expand while it started shrinking for the high-cost Indian products. This boosted the process of decay of the Indian handicrafts.

**4. What is systematic deindustrialization?**

**Ans.** Systematic deindustrialization describes the status of industry sector during the British rule. It implied two things :

- i) Decay of world famous traditional handicraft industry owing to discriminatory tariff policies of the British Government.
- ii) Bleak growth of modern industry owing to lack of investment opportunities.

**5. What was the two fold motive behind systematic deindustrialization?**

**Ans.** The two-fold motive behind the Systematic De-industrialization during the British rule in India are :

- i) To exploit India's wealth of raw material and primary products (like cotton & jute). It was required to fulfill the emerging needs of industrial inputs in the wake of industrial revolution in Britain.
- ii) To exploit India as a potential market for the industrial products of Britain.

This resulted in destruction of handicrafts in India and boosted the process of industrialization in Britain.

**6. Explain the condition of industry during British period.**

**Ans.** The conditions of industry during British period is highlighted as follows :

- i) Handicraft industry was systematically destroyed by the British Government largely owing to the discriminatory tariff policies.
- ii) Modern industry showed a bleak expansion. It was confined to such strategic areas like railways and means of communication. It helped expansion of the Indian market for the British products.
- iii) Capital goods industry, which is the core element of industrial growth was almost non-existent, due to which industrialization in India remained lopsided.

iv) While the traditional Indian industry (handicrafts) were decaying modern industry remained to an infant stage this again pointed to the backwardness of the Indian economy with little or no evidence of dynamic change.

**7. Explain the condition of foreign trade in India during the British period.**

**Ans.** The conditions of foreign trade during British period can be described as follows :

i) Net exporter of Primary Products and Importer of Finished Goods : Owing to colonial exploitation of the Indian economy. India became net exporter of raw materials and primary products (like raw silk, cotton, jute etc.).

On the other hand, it became net importer of finished goods produced by the British industry. Our imports included cotton, silk and woolen cloths besides several types of capital goods produced in England.

ii) Monopoly control of India's Foreign Trade : During the British rule, exports and imports of the country came under monopoly control of the British Government. In this context, two observations are of critical significance.

- More than 50% of India's Foreign Trade was directed towards Great Britain.
- While exports of primary products from India supplied inputs to the British industry, imports of finished goods from Britain provided a huge market to the British industry.

**8. Write the positive & negative impact of railways in India during the British period.**

**Ans.** Positive impact :

- i) Railways facilitated expansion of the domestic market. Accordingly, exports & imports of the country showed a great rise.
- ii) It facilitated commercialization of agriculture, as goods could then be moved to distant places. This implied a modest change in the outlook of the farmers, as they started viewing agriculture as a business rather than merely as a source of subsistence.

- iii) Railways enabled people to break the barriers of distance and undertake journeys to far off places.
- iv) Faster movement of good grain own the country helped control the spread of famines.

Negative impact :

- i) Railways contribute to colonial exploitation of the Indian economy, became primary goods could be easily transported to ports for the purpose of exports to the British economy.
- ii) Finished goods coming as imports to the Indian economy could be easily transported to the interiors of the country for sale.
- iii) Thus, the spread of railway led to the spread of the domestic market for the British products.

**9. Write about the positive impact of British rule in India.**

**Ans.** The means to achieve the motive of colonial exploitation of the Indian economy yielded some positive side-effects, which are :

- i) Commercial outlook of the farmers : The farmers under British rule started considering market price of the produce as an important determinant of their production decisions.
- ii) New employment opportunities : Spread of railways and roadways opened up new opportunities of economic and social growth.
- iii) Control of famines : Rapid means of transport facilitated rapid movements of food grains to the famine-affected areas.
- iv) Monetary system of exchange : There was a transition from barter system of exchange to monetary system of exchange. Growth of monetary system of exchange facilitated division of labour, specialization, and large-scale production.
- v) Efficient system of administration : The British Government in India left a legacy of an efficient system of administration. This served as a ready reference for our politicians and planners.

## **9. Contributions and Exploitation by British Rule**