

Chapter 1: Indian Economy on the eve of Independence

Agricultural Sector on the Eve of Independence

Characteristics of Indian agricultural sector on the eve on independence

- a) **Low level of productivity**- The level of productivity was extremely low during this time, thus characterizing agriculture as backward. Low productivity implied low level of output despite large area under cultivation.

Crop	Productivity (kg per hectare)		Production (in lakh tones)	
	1947	2008-09	1947	2008-09
Wheat	660	2,806	64	776
Rice	110	2,177	17	994

- b) **High degree of Vulnerability**- There was high degree of vulnerability in agriculture as it was excessively dependent upon rainfall. No effort was made under the British rule to develop a permanent means of irrigation (well, canals, etc).
- c) **A Wedge between Owners and Tillers of Soil**- The owners were seldom the actual tillers of soil. Owners shared the output, but hardly shared the cost of output, i.e. they were only interested in maximizing their rental income. On the other hand, the tillers were barely given enough for their subsistence. Therefore, backwardness and stagnation of agriculture was the consequence of this.

Factors causing Backwardness and Stagnation of Indian Agriculture during the British Rule

- a) **Land Revenue System under the British Raj**- The British government invented a unique system of land revenue, by setting up a relationship between the government, owner and tiller of the soil. This was known as the **Zamindari system of land revenue**. According to this system,
- Zamindars were recognized as permanent owners of the soil,
 - Zamindars were to pay a fixed sum of land revenue to the government,
 - Zamindars were totally free to appropriate any amount from the tillers of soil.

Thus, the Zamindars attempted maximum exploitation of the tillers of the soil. This ejection of the tillers reduced them to the status of landless labourers.

- b) **Forced Commercialization of Agriculture**- The farmers were forced to shift from the conventional crops (wheat, rice, etc) to commercial crops (indigo, etc). This was due to the demand by the textile industry in Britain. Very often, these farmers were forced to accept advance payments for the cultivation of indigo. This forced commercialization exposed the farmers to the uncertainties of the market.

Industrial Sector on the Eve of Independence

There was a '**Systematic de-industrialization**' during the British rule. There was a decay of world famous traditional handicraft industry, and slow growth of modern industry owing to lack of investment opportunities.

Decay of Handicrafts- Some important causes

- a) **Discriminatory Tariff Policy of the State**- British allowed tariff free export of raw material from India and tariff free import of British industrial products into India, but placed a heavy duty on the export of Indian handicraft products.
- b) **Disappearance of Princely Courts**- The beginning of British rule implied the end of princely courts, and therefore the end of state patronage to the handicrafts which consequently started decaying.
- c) **Competition from Machine-made Products**- The machine-made products from Britain were low cost products, with a better quality and gave a stiff competition to the handicraft products in India. This forced the Indian craftsmen to shut-down their enterprises forever.
- d) **New Patterns of Demand**- A new class emerged in India which was keen to adopt western lifestyle. This changed the pattern of demand against the Indian products and in favour of the British products.
- e) **Introduction of Railways in India**- The British government introduced the railways in India, to facilitate transportation of the British products across different parts of the country. This facilitated the market size to expand for the low-cost British products and decline for the high cost Indian products.

Bleak growth of the Modern Industry

- The growth of modern industry was slow because no action was taken by the British government to industrialize the Indian economy.
- Some textile mills came up, followed by a few iron and steel enterprises. Subsequently, few sugar, cement and paper mills were established.

- World wars- I and II created a world-wide scarcity of industrial goods, thus prices started rising and the rich classes in India started exploiting in this situation.
- There were no Capital goods industry which produced goods like machines and industrial plants, used for further industrialization. As it requires huge investment, it was beyond the reach of Indian investors.

Foreign Trade under the British Rule

- India was a well known **exporter of finished goods** (fine cotton, iron goods, wooden goods, silk textiles, etc). However, the British rule in India converted India into a net exporter of raw materials and importer of finished goods. This was due to the discriminatory policy pursued by the British government.
- There was a significant shift in the **composition of India's foreign trade** as well as in the direction of trade.
- More than **50% of India's exports** and imports were **restricted** to be between India and Britain.
- **Exports of primary products** from India supplied inputs to the British industry, while **imports of finished goods** from Britain provided a huge market to the British industry.
- During British regime, **India's exports exceeded her imports**, implying a surplus of balance of trade. But this surplus owed largely to the export of **primary** goods and not the industrial goods, which is a sign of economic backwardness.
- Due to export of primary goods, there was a **shortage in the domestic market**.
- The **trade surplus** was not used for economic growth and development of the country; instead it was used to **meet administrative expenses** of the British government in India, and to meet expenses on war fought by the British government.
- This implied a huge **drain of Indian wealth**.

Demographic Profile during the British Rule

- The demographic conditions during the British rule exhibited all features of a **stagnant** and backward economy.
- Both **Birth rate** and **Death rate** were very high, nearly **48 and 40 per thousand respectively**. This depicted massive poverty prevailing in the country. This also implied low survival rate, hence growth rate of population was very modest.

- **Infant mortality rate** was very high. It was about **218 per thousand**, implying extreme poverty.
- **Life expectancy** was as low as **32 years**. This reflects lack of health care facilities, awareness and means for health care.
- **Literacy rate** was **16%** reflecting social backwardness. **Female literacy** was more miserable- **only 7%**.

Demographic Transition

Year	Population (in Crore)
1891	23.87
1901	23.83
1911	25.21
1921	25.14

Occupational Structure on the Eve of Independence

Occupational structure refers to the distribution of the working population across the three sectors of the economy, i.e. primary, secondary and tertiary. The following table depicts the occupational distribution of India at the time of Independence.

Occupation	1951 (in %)
1. Primary sector	72.7
(i) Agriculture	50.0
(ii) Agricultural labour	19.7
(iii) Forestry, Fisheries, Animal husbandry, Plantation	2.4
(iv) Mining	0.6
2. Secondary sector	10.1
(v) Small and large scale industries	9.0
(vi) Building construction	1.1
3. Tertiary sector	17.2
(vii) Trade and Commerce	5.2

(viii) Transport, storage and communication	1.4
(ix) Other services	10.6
ALL	100.0

Infrastructure on the Eve of independence

- Infrastructure refers to the elements of economic change (communication, power/energy, etc) as well as elements of social change (education, health, etc) which serves as a foundation for growth and development of a country.
- **Railways** were a major breakthrough followed by the development of posts and telegraphs, ports and some roads.
- Underlying motive of the British government was to foster their colonial interest, rather than to accelerate the growth process of the Indian economy.
- **Railways** were developed to **transport finished goods** from Britain to the interiors of India to widen their size of market.
- **Roads** were developed to facilitate transportation of raw material from different parts of the country to the ports, and ports were developed to handle imports and exports between India and Britain.
- **Post and telegraphs** were developed to enhance administrative efficiency.

Impact of British Rule in India

The motive of the British was colonial exploitation of the Indian economy. However, in the means to achieve this did yield some positive side-effects. They were:

- **Commercial agriculture** became a practical proposition. It implied a good breakthrough in agriculture, even when it challenged self-sufficiency in food grain production.
- Spread of **railways** and **roadways** opened up opportunities of economic and social growth.
- Spread of the **means of transport** caused a **check on the spread of famines in India**. Food supplies could be rushed to drought- hit areas.
- There was a significant transition from barter system of exchange to **monetary system of exchange**.
- British Raj in India left a legacy of an efficient administrative set up.