



Unit 6

**Development Experience (1947-90)
and Economic Reforms since 1991**

12 Marks

CBSE Syllabus

- A brief introduction of the state of Indian economy on the eve of independence
- Common goals of Five Year Plans
- Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy, etc.), industry (industrial licensing, etc.) and foreign trade
- Economic Reforms since 1991: Features and appraisals of liberalisation, globalisation and privatisation (LPG policy)
- Concepts of demonetization and GST



Chapter 1

**Indian Economy on the Eve of
Independence**

Introduction

The primary objective of this book, *Indian Economic Development*, is to familiarise you with the basic features of the Indian economy, and its development, as it is today, in the aftermath of Independence. However, it is equally important to know something about the country's economic past. So, let us first look at the state of India's economy prior to the country's independence and form an idea of the various considerations that shaped India's post-independence development strategy.

The structure of India's present day economy has its roots steeped in the period when India was under British rule, which lasted for almost two centuries before India finally won its independence on 15th August, 1947.

The sole purpose of the British colonial rule in India was to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base.

An understanding of the Indian economy before independence is necessary to know and appreciate the level of economic development achieved during the post-independence period, i.e. over the last seven decades.

1.1

Low Level of Economic Development Under the Colonial Rule

India had an independent economy before the advent of the British rule

Agriculture was the main source of livelihood for most people, yet the country's economy was also characterised by various kinds of manufacturing activities.

India was well-known for its handicraft industries: India was well-known for its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. These products enjoyed a worldwide market because of:

- the reputation of the fine quality of material used and
- the high standards of craftsmanship.



Focus of the economic policies pursued by the colonial government in India

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy.

Impact of these policies on Indian Economy:

1. Such policies brought about a fundamental change in the structure of the Indian economy — transforming the country into supplier of raw materials and consumer of finished industrial products from Britain.

2. The colonial government never made any sincere attempt to estimate India's national income and per capital income. Some notable economists who estimated India's national income and per capita income during the colonial period were — Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai. But their attempts to measure such incomes yielded conflicting and inconsistent results. It was V.K.R.V. Rao, whose estimates during the colonial period was considered very significant.

However, most studies did find that the country's growth rate of aggregate real GDP during the first half of the twentieth century was only less than 2% per year and per capita real GDP was about 0.5% per year.

India's economy under the British colonial rule remained fundamentally agrarian — about 85 per cent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture.

Low Agricultural productivity under the British colonial rule

Under the British colonial rule, though in absolute terms, the agricultural sector experienced some growth due to the expansion of the aggregate area under cultivation, however, the productivity became low. The agricultural sector continued to experience stagnation and deterioration despite the fact that the largest section of Indian population depended on it for sustenance.

Causes of India's agricultural stagnation and low productivity

1. Zamindari system of revenue settlement

The stagnation in the agricultural sector was caused mainly because of the various systems of land settlement or revenue settlement that were introduced by the colonial government, particularly, the zamindari system which was implemented in the Bengal Presidency comprising parts of India's present-day eastern states.

- The profit accruing out of the agriculture sector went to the zamindars instead of the cultivators. However, nothing was done to improve the condition of agriculture.

1.3 Industrial Sector during the British Colonial Rule

Collapse of India's world famous handicraft industries during the British rule

The rule of the British-India government led to the collapse of India's world famous handicraft industries without contributing, in any significant manner, to its replacement by a modern industrial base.

Effects of decline of the country's world famous indigenous handicraft industries:

1. It created massive unemployment in India.
2. It also created a new demand in the Indian consumer market – the increasing imports of cheap manufactured goods from Britain.

The two-fold motive behind the systematic deindustrialisation effected by the British

First, the intention was to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and,

Second, to turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country — Britain.

Modern industrial sector during the second half of the nineteenth century

The modern industry began to take root in India during the second half of the nineteenth century.

- Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills dominated by the foreigners were mainly concentrated in Bengal.
- Subsequently, the iron and steel industries began coming up in the beginning of the twentieth 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.

Shortfalls of the industrial policy pursued by the British colonial administration

1. **Slow progress:** The progress of the modern industry remained very slow.
2. **Lack of capital goods industry:** There was hardly any capital goods industry to help promote industrialisation in India.

Capital goods industry means industries which can produce machine tools which are, in turn, used for producing articles for current consumption.

3. **No substitute to the country's traditional handicraft industries:** The establishment of a few manufacturing units was no substitute to the near wholesale displacement of the country's traditional handicraft industries.
4. **Low growth rate:** The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.
5. **Limited area of operation of the public sector:** Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

1.4 India's Foreign Trade During the British Colonial Period

Structure, volume and direction of India's foreign trade during the colonial period

The restrictive policies of commodity production, trade and tariff* pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.

Structure and composition of foreign trade

India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in the factories of Britain.

For all practical purposes, Britain maintained a monopoly control over India's exports and imports.

The opening of the Suez Canal further intensified British control over India's foreign trade.

Volume and direction of India's foreign trade

More than 50% of India's foreign trade was restricted to Britain while the remaining was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).

Drain of Indian wealth during the colonial period

The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this export surplus came at a huge cost to the country's economy.

- Several essential commodities – food grains, clothes, kerosene etc. – were scarcely available in the domestic market.
- Furthermore, this export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, and the import of invisible items, all of which led to the drain of Indian wealth.

Various details about the population of British India were first collected through a census in 1881. It revealed the unevenness in India's population growth. Subsequently, operations were carried out. Before 1921, India was in the first stage of demographic transition¹. The second stage of transition began after 1921.

Quantitative appraisal of India's demographic profile during the colonial period

Neither the total population of India nor the rate of population growth during the second stage of demographic transition was very high. The various social development indicators were also not quite encouraging.

- 1. Low level of literacy:** The overall literacy level was less than 16%. Out of this, the female literacy level was at a negligible low of about 7%.

1.6 Occupational Structure during the Colonial Period

The occupational structure means the distribution of working persons across different industries and sectors – the agricultural sector, the manufacturing sector and the services sector.

The salient features of India's pre-independence occupational structure

1. Little sign of change

The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively.

2. Growing regional variation

Parts of the Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors. However, there had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.

1.7 Infrastructure Development in India under the Colonial Regime

Some efforts were made by the colonial regime to improve infrastructure facilities in India such as railways, ports, water transport, posts and telegraphs but these efforts were spiced with selfish motives. The real objective of the British behind infrastructure development in India was to subserve various colonial interests, and not to provide basic amenities to the people.

Construction of all weather roads by the British

Roads constructed in India prior to the advent of the British rule were not fit for modern transport. There always remained an acute shortage of all weather roads to reach out to the rural areas during the rainy season. Naturally, therefore, people mostly living in these areas suffered grievously during natural calamities and famines.

The British constructed modern roads in India, which primarily served the purposes of:

- mobilising the army within India and
- drawing out raw materials from the countryside to the nearest railway station or the port to send these to far away England or other foreign destinations.

Introduction of the railways in India

The British introduced the railways in India in 1850 and it is considered as one of their most important contributions. The railways affected the structure of the Indian economy in two important ways.

On the one hand, it enabled people to undertake long distance travel and thereby break geographical and cultural barriers while

on the other hand, it fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India.

The volume of India's exports undoubtedly expanded but its benefits rarely accrued to the Indian people.

Thus, the social benefits, which the Indian people gained owing to the introduction of the railways, were outweighed by the country's huge economic loss.

Development of the inland trade and sea lanes

Along with the development of roads and railways, the British also took measures for developing the inland trade and sea lanes. However, these measures were far from satisfactory.

1. The inland waterways also proved uneconomical as in the case of the Coast Canal on the Orissa coast. Though the canal was built at a huge cost to the government, yet it failed to compete with the railways, which had to be ultimately abandoned.



First Railway Bridge linking Bombay with Thane, 1854

CONCLUSION

By the time India won its independence, the impact of the two-century long British colonial rule was already showing on all aspects of the Indian economy. The agricultural sector was already saddled with surplus labour and extremely low productivity. The industrial sector was crying for modernisation, diversification, capacity building and increased public investment. Foreign trade was oriented to feed the Industrial Revolution in Britain. Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation. Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy. In a nutshell, the social and economic challenges before the country were enormous.

Sequence of Events

Sequence	Event	Year
I	Introduction of the railways in India by the British	1850
II	Opening of the Suez Canal	1869
III	Various details about the population of British India were first collected through a census	1881
IV	The Tata Iron and Steel Company (TISCO) was incorporated	1907
V	Second stage of demographic transition in India	1921



Key Terms

Commercialisation of agriculture: Change in the cropping pattern from food crops to commercial crops/cash crops is called commercialisation of agriculture.

Capital goods industry: Capital goods industry means the industry which can produce machine tools which are, in turn, used for producing articles for current consumption.

Occupational Structure: It refers to the distribution of working persons across different industries and sectors – agriculture, manufacturing and services sectors.

Objective Type Questions

1. The sole purpose of the British colonial rule in India was _____ . *(Complete the sentence)*
2. Before the advent of the British rule, India was well-known for its handicraft industries in the fields of _____ .
(Complete the sentence)
3. Before the advent of the British rule, India was well-known for its handicraft industries in the fields of cotton and silk textiles, metal and precious works etc. These products enjoyed a worldwide market due to:
(Choose the correct alternative)
 - (a) reputation of the fine quality of material used.
 - (b) high standards of craftsmanship seen in all imports from India
 - (c) Both (a) and (b)
 - (d) wide exports market.
4. The economic policies pursued by the colonial government in India were concerned with the protection and promotion of the economic interests of their home country. How did these policies affect the Indian Economy? *(Choose the correct alternative)*
 - (a) Higher rate of growth of industries, especially Handicraft Industries.
 - (b) It transformed the country into supplier of raw materials.
 - (c) The country became consumer of finished products from Britain.
 - (d) Both (b) and (c)
5. The country's growth rate of aggregate real output during the first half of the twentieth century was only (i) _____ and per capita real output was (ii) _____ .
(Fill up the blanks with correct answers)
6. Under the British colonial rule, the agricultural production decreased. *True/False? Give reason.*
7. The stagnation in the agricultural sector during the colonial rule was caused mainly because of _____ that were introduced by the colonial government.
(Fill up the blank with correct answer)

8. Which of the following is the cause of India's agricultural stagnation and low productivity? *(Choose the correct alternative)*
- (a) Various systems or terms of revenue settlement.
 - (b) Low levels of technology and lack of irrigation facilities.
 - (c) Lack of resources to investing terracing flood control, drainage and desalinisation of soil.
 - (d) All of the above
9. Under the zamindari system, the main interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators. To a very great extent, the terms of _____ were responsible for the zamindars adopting such an attitude. *(Fill up the blank with correct answer)*
10. During the British colonial rule, though agricultural productivity became low, there was some evidence of a relatively higher yield of cash crops in certain areas of the country due to _____. *(Complete the sentence)*
11. Commercialisation of agriculture helped farmers in improving their economic condition. *True/False? Give reason.*
12. India developed a sound industrial base under the colonial rule. *True/False? Give reason.*
13. The British rule led to the collapse of India's world famous handicraft industries. What was its effect on Indian economy? *(Choose the correct alternative)*
- (a) Massive unemployment in India
 - (b) Increasing imports of cheap manufactured goods from Britain.
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
14. During the second half of the 19th century, modern industry began to take root in India. *True/False? Give reason.*
15. During the second half of the 19th century, the cotton textile mills, mainly dominated by Indians, were located in _____, while jute mills dominated by the foreigners were mainly concentrated in _____. *(Fill up the blanks with correct answers)*
16. During the British rule, the iron and steel industries began coming up in the beginning of the twentieth century. _____ was incorporated in 1907. *(Fill up the blank with correct answer)*

ANSWER

1. to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base.
2. cotton and silk textiles, metal and precious stone works etc.
3. (c) Both (a) and (b)
4. (d) Both (b) and (c)
5. (i)less than 2% per year (ii)about 0.5% per year
6. False: in absolute terms, the agricultural sector experienced some growth due to the expansion of the aggregate area under cultivation and due to relatively higher yield of cash crops in certain areas of the country.
7. land settlement systems
8. (d)All of the above
9. revenue settlement
10. commercialisation of agriculture.
11. False: Instead of producing food crops, now they were producing cash crops which were to be ultimately used by British industries back home.
12. False: Even the country's world famous handicraft industries declined.

13. (c) Both (a) and (b)
14. True: But its progress remained very slow. Initially, this development was confined to the setting up of cotton and jute textile mills. Subsequently, the iron and steel industries began coming up in the beginning of the 20th century. A few other industries in the fields of sugar,, cement, paper, etc. came up after the Second World War.
15. (i) the western parts of the country, namely Maharashtra and Gujarat (ii) Bengal
16. The Tata Iron and Steel Company (TISCO)

2. Lack of irrigation facilities and low levels of technology

Low levels of technology, lack of irrigation facilities and negligible use of fertilisers were responsible for the plight of the farmers and contributed to the dismal level of agricultural productivity.

Though there was some evidence of a relatively higher yield of cash crops¹ in certain areas of the country due to commercialisation of agriculture. But this could hardly help farmers in improving their economic condition as, instead of producing food crops, now they were producing cash crops which were to be ultimately used by British industries back home.

3. Lack of resources

India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation² of soil. While a small section of farmers changed their cropping pattern from food crops to commercial crops, a large section of tenants, small farmers and sharecroppers neither had resources and technology nor had incentive to invest in agriculture.