

Chapter 1

Indian economy on the eve of Independence

Status of Indian Economy before the British colonial government

- India had an independent economy before British rule.
- Agriculture was the main source of livelihood for the majority of the population, even though the country's economy was characterised by various kinds of manufacturing activities.
- India had the great repute of its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. due to fine quality of material used and the high standards of craftsmanship.

Low-level economic development under the colonial rule

- The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interest of their home country than with the development of the Indian economy.
- Such policies brought about a fundamental change in the structure of the Indian economy-transforming India into the supplier of raw materials and consumer of finished industrial products from Britain.
- The colonial government never made any sincere attempts to estimate India's national and Per capita income.
- Some notable estimators-Dadabhai Naoroji, William Digby, Findlay Shiras, V.K.R.V. Rao and R.C. Desai attempted to measure India's national and Per capita income, yielding inconsistent results.

Low Growth Rate during the colonial period

The country's growth of aggregate real output during the first half of the twentieth century was less than 2% coupled with a meagre 0.5% growth in per capita output per year.

Agriculture on the eve of independence

- The Indian economy was agrarian- 70%-75% of the population directly engaged in the agricultural sector and about 85% of the population residing in villages derived its livelihood directly or indirectly from the agriculture sector.
- Despite this fact, India frequently faces an acute shortage of food and faced Stagnancy in the agriculture sector. Conditions of Farmers was miserable.
- Although India was Agrarian economy, the country faces continuous stagnancy in the agricultural sector. Even though in absolute terms the sector experienced some growth, but it was due to the expansion of the aggregate area under cultivation.

Features of Indian agrarian sector which leads for stagnancy and miserable condition of Farmers (Peasants):

- Unfair Land Revenue Systems, such as Zamindari, Ryotwari and Mahalwari.
- Forced Commercialisation of Agriculture in which food crop was replaced by cash crops like Indigo, cotton, tea, and coffee.

- ❑ There was almost negligible use of technology, most of the farmers were using obsolete technology
- ❑ Lack of Irrigation facilities (Most farmers were depending on monsoon for irrigation)
- ❑ Negligible use of fertilisers.
- ❑ India's agriculture was starved of investment in terracing, flood-control, drainage, and desalinization of soil.

Zamindari System

Zamindars acts as the intermediaries between farmers and Britishers. They were declared the proprietor of land on condition of fixed revenue payments to the British regime on the fixed date, failing to which the zamindars were to lose their rights.

However, Rent was not fixed by the government and Zamindars were free to collect any rent from farmers. Main Interest of the Zamindars was to collect rent only regardless of the economic condition of farmers.

Consequences of the unfair revenue system such as the Zamindari System:

- ❑ Zamindars and Colonial Government did nothing to improve the condition of agriculture.
- ❑ Farmers were like a tenant on their land, always in fear to lose their land.
- ❑ Immense social tension had been created between farmers and zamindars.
- ❑ India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation of soil.

The commercialisation of the crop: The process under which food crop is replaced by cash crop, it is said to be Commercialisation of the crop.

Forced Commercialisation of Crop in India

Britishers forced Commercialisation of the crop to Indian Farmers to fulfil the demand for raw material for emerging Industries in Britain. For example, Farmers were forced to produce Indigo, which is used by the textile industry of Britain for dying.

Impact of Commercialisation of the crop on Indian Farmers

- ❑ The commercialisation of Indian Crop hardly helped farmers in improving their economic condition
- ❑ Instead of producing food crops, now they were forced to produce cash crops like Cotton and Indigo which were to be ultimately used by British Textile industries back home.
- ❑ The commercialisation of crop adversely affected self-sufficiency of the village economy and acted as a major factor in bringing the declining state in the rural economy.
- ❑ It is seen that productivity of cash crop increases substantially and food crops fall, Country had to pay its cost by facing frequent famines.

Industrial sector on the eve of independence

Due to unfair British policies, India's world-famous handicraft industries declined, and no corresponding modern industrial base was allowed to come up to take pride of place so long enjoyed by the former.

Deindustrialisation

As discussed earlier, 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 rather than the development of the Indian economy. Deindustrialization was only its extension.

Meaning of Deindustrialisation

It is the process of the reduction of production capacity and industrial activity in an economy or region.

Deindustrialisation in India Britishers followed the policy of systematically de Industrialising India:

Motive behind the deindustrialisation by the British government

The primary motive behind the deindustrialisation by the British government was two-fold:

1. To get raw materials from India at a cheap rate and thus to reduce India to a mere exporter of raw materials to the British industries.
2. To sell British manufactured goods in the Indian Consumer Market which was now deprived of the supply of locally made goods.

How Britishers successfully implemented the policy of deindustrialisation in India?

- ❑ Britishers deprived Indian Industries of modern technologies for decades.
- ❑ Colonial Government exported raw material to Britain, for meeting the increased demand of British industries due to the mass production revolution in Europe, this cause acute shortage and rise in the price of raw material for indigenous handicraft industry.
- ❑ Unfair Trade policy: Government increased the export duty of finished goods causing a rise in the price of Indian Finished goods in the international market, hampers Indian handicraft industries.
- ❑ The colonial government waived off Import duty on finished goods from Britain, due to which domestic handicraft industries had to compete with better quality and cheap machine-made products and forced them to shut down in the absence of demand.

Modern Industries

- ❑ During the second half of the nineteen, the modern industries began to take root in India,
- ❑ 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.
- ❑ Some other modern industries namely (Cement, Paper, fertilizers and sugar) root up in India after II world war majorly in Madras Presidency.
- ❑ There was hardly any capital goods industry to help promote further industrialization in India.
- ❑ The iron and steel industries began coming up at the beginning of the twentieth century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907.

Shortfalls of Industrial Policy of Britishers:

The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. It was no substitute to the near wholesale

displacement of the country's traditional handicraft industries.

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.

There was hardly any capital goods industry to help promote further industrialisation in India.

Foreign Trade

Foreign Trade before the British rule

- India had great repute in the international market before the dawn of British rule.
- 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 based on the reputation of the fine quality of material used and the high standards of craftsmanship seen in all imports from India.

Impact of British Rule on Foreign trade

- 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.
- India became an exporter of primary products such as raw silk, cotton, wool, 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.
- More than half of India's foreign trade was restricted to Britain while the rest was allowed with few countries namely China, Ceylon (Sri Lanka), Persia (Iran).
- The opening of the Suez Canal further intensified British control over India's foreign trade (it reduced the distance between the two countries i.e. India and Britain by 7000 km).

Export-Surplus and Wealth Drain during Colonial Rule

- The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus (Situation when country's exports exceed import).
- But this 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
- Moreover, 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, again fought by the British government, and the import of invisible items, all of which led to the drain of Indian wealth.

Demographic Condition on the eve of independence

Demographic Transition

Demographic transition is a model used to represent the movement of high birth and death rates to low birth and death rates as a country develops from a pre-industrial to

an industrialized economic system.

It has 4 Stages:

Stage 1: Pre-Transition Period

In stage one (pre-industrial society), death rates and birth rates are high. Therefore, the population remain stagnant during this phase.

Stage 2: Early transition

In stage two, that of a developing country, the death rates drop quickly due to improvements in food supply and sanitation, which increase life expectancies and reduce disease, without the corresponding fall in the birth rate.

This stage experiences a large increase in population (Population Explosion)

Stage 3: Late Transition

In stage three, birth rates fall due to various fertility factors such as access to contraception, urbanisation, a reduction in subsistence agriculture, an increase in the status and education of women, an increase in parental investment in the education of children and other social changes.

Population growth begins to decelerate.

Stage 4: Post transition

Post-transitional societies are characterised by low birth and low death rates. Population growth is negligible, or even enters a decline.

Demographic Transition in India

- The population of British India were first collected through a census in 1881.
 - Census of 1881 revealed the unevenness in India's population growth. India Witness very high birth rate and death rate during this period, this implies India was on stage 1 of demographic transition.
 - 1921 is considered as the year of great divide because after 1921 India has experienced continuous growth in population, as death rate falls due to improvement in health facilities while the birth rate remained high. This clearly indicates the demographic transition to stage 2.
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Literacy Rate

- The overall literacy level was less than 16 per cent. Out of this, the female literacy level was at a negligible low of about seven per cent.
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Health

- Public health facilities were either unavailable to large chunks of population or, when available, were highly inadequate.
- Consequently, water and air-borne diseases were rampant and took a huge toll on life.

Infant Mortality Rate

- **The infant mortality rate was quite alarming, about 218 per thousand in contrast to the present infant mortality rate of 40 per thousand.**
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Life Expectancy

- **Life expectancy was also very low—44 years in contrast to the present 68**

Occupational Structure

“Occupational Structure refers to the aggregate distribution of occupations in society, classified according to skill level, economic function, or social status.”

The occupational structure of India on the eve of independence

- The agricultural sector accounted for the largest share of the workforce at a high of 70-75%. It indicates a backward occupational structure.
- The manufacturing and the services sectors accounted for only 10% and 15-20% respectively.
- There was 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 on the agriculture sector and a commensurate increase in the manufacturing and the services sectors.
- However, there had been an increase in the share of the workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

Infrastructure

“**Infrastructure** refers to the supporting structure to industries and helps to increase production. It includes transportation, communication, banking, power, roadways, railways etc.”

Infrastructure in India on the eve of independence

Britishers developed basic modern infrastructures such as roads, railways, water transport, ports, posts and telegraph.

Introduction of railways:

The British introduced the railway system in 1850 in India. The railways affected the structure of the Indian economy in two important ways:

1. It enabled people to undertake long-distance travel and thereby break geographical and cultural barriers.
2. It fostered commercialisation of Indian agriculture. However, it adversely affected the self-sufficiency of the village economies in India as now they are forced to produce cash crops. It reduced food production and the country faced severe and frequent famines.

Construction of Roads fit for Modern transportation:

Roads constructed in India prior to the advent of the British rule were not fit for modern transport. The roads that were built 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 England or other lucrative foreign destinations.

Inland waterways, Sea lanes and Ports

Britishers also took measures to develop the inland waterways and sea lanes. However, the inland waterways proved uneconomical. For example, Coast Canal on the Orissa coast was built at a huge cost to the government exchequer, yet, it failed to compete with the railways, which soon traversed in the region running parallel to the canal and had to be ultimately abandoned.

Ports were developed with the main motive of drawing out raw material to their home country England and other lucrative foreign destinations.

Postal services

One of the most important contributions by the British government is the introduction of postal services. It served a useful public purpose, but it was inadequate.

Electric Telegraph:

The British government also introduced expensive electric telegraph. However, the main purpose of this was to serve the purpose of maintaining law and order.

Real Motive behind Infrastructure

The real motive behind the development of Infrastructure was not to provide amenities to the Indians but to satisfy its own colonial interest.

- The roads, inland waterways, sea lanes, railways were built primarily with a motive to mobilise army within India and for drawing out raw materials to port to export them to England and other lucrative destinations to maximise their profit.
- Electronic Telegraph services were introduced to serve the fast communication requirement for military, maintain law and order.

Railways: An important contribution of the British.

- The British introduced railways in India in 1850 and it is considered as one of its most important contributions.

Railways affected the Indian economy in two ways:

- It enabled people to undertake long-distance travel and break geographical and cultural barriers.
- It fostered Commercialisation of Indian agriculture and helps to expand the volume of India's export, but its benefits rarely accrued to the Indian people. Moreover, it adversely affected the self-sufficiency of the village economies in India.

It is very much evident that social benefits, which the Indian people gained by the introduction of railways, were thus outweighed by the country's huge economic loss.

CONCLUSION

- The agricultural sector was directly engaged 70-75% labour and despite it suffered extremely low productivity.
- The industrial sector did not flourish, that is, it was not modernized and diversified

under the British rule.

- Foreign trade was oriented in such a way, that it feeds only British industries.
- The infrastructure was developed with the motive of the development of the economy of their home country.
- There were acute poverty and unemployment among the Indian people.
- In the whole, the country was facing economic and social challenges.

Few positives of British rule in India.

- Britain introduced a modern, Western-style infrastructure to all aspects and levels of Indian affairs, which was far more efficient and sophisticated than the creaky, monolithic systems before British rule.
- Britain also provided India with modern technology, such as the railway network, electricity and, later, air transport.
- They commercialized Indian agriculture, which now helps us in competing with other economies.
- They gave birth to communication services in India like postal service, electric telegraph, which further developed.

NCERT Question and Answers of Indian Economy on the Eve of Independence

1. What was the state of Indian Economy before the British Rule?

India had an independent economy before British rule.

- ☐ Agriculture was the main source of livelihood for the majority of the population, even though the country's economy was characterised by various kinds of manufacturing activities.
- ☐ India had the great repute of its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. due to fine quality of material used and the high standards of craftsmanship.

2. What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?

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

- ☐ Such policies brought about a fundamental change in the structure of the Indian economy- transforming India into the supplier of raw materials and consumer of finished industrial products from Britain.
- ☐ **Deindustrialisation:** India could not develop its industrial sector under colonial rule. This is because the colonial government followed the *policy of systematic Deindustrialisation*.
- ☐ India's Per capita Income was a mere half percent growth rate while Growth of GDP was less than 2 %.

3. Name some notable economists who estimated India's per capita income during the colonial period. Dadabhai Naoroji:, William Digway.

4. some modern industries which were in operation in our country at the time of independence.

Modern industries which were in operation during the second half of the 19th century:

- Cotton textile industries: These were mostly set up by Indians and were located in Maharashtra and Gujarat.
- Jute industries: These were mostly dominated by foreigners and mainly concentrated in Bengal.
- Iron and steel industries: These were set up at the beginning of the 20th century. The Tata Iron and Steel Company (TISCO) was established in India in 1907.
- Sugar industry, cement industry and paper industry: These were set up after the Second World War mainly in Madras presidency.

5. What were the main causes of India's agricultural stagnation during the colonial period? Although India was Agrarian economy, the country faces continuous stagnancy in the agricultural sector. Even though in absolute terms the sector experienced some growth, but it was due to the expansion of the aggregate area under cultivation.

Features of Indian agrarian sector which leads for stagnancy and miserable condition of Farmers (Peasants):

- a. Unfair Land Revenue Systems, such as Zamindari, Ryotwari and Mahalwari.
- b. Forced Commercialisation of Agriculture in which food crop was replaced by cash crops like Indigo, cotton, tea and coffee.
- c. There was almost negligible use of technology, most of the farmers were using obsolete technology
- d. Lack of Irrigation facilities (Most farmers were depending on monsoon for irrigation)
- e. Negligible use of fertilisers.
- f. India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation of soil.

6. What was the two-fold motive behind the systematic de-industrialisation effected by the British in pre-independent India?

Meaning of Deindustrialisation

It is the process of the reduction of production capacity and industrial activity in an economy or region. Deindustrialisation in India

Britishers followed the policy of systematically de Industrialising India. The primary motive behind the deindustrialization by the

1. To get raw materials from India at a cheap rate and thus to reduce India to a mere exporter of raw materials to the British industries.

2. To sell British manufactured goods in the Indian Consumer Market which was now deprived of the supply of locally made goods.

7. The traditional handicrafts industries were ruined under British rule. Do you agree with this view? Give reasons in support of your answer.

Before British rule, India was particularly 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 based on the reputation of the fine quality of material used and the high standards of craftsmanship seen in all imports from India. However, the policies introduced by the colonial government significantly reduced the demand for handicraft products.

- ☐ Indian Industries are deprived of modern technologies for decades.
- ☐ Colonial Government exported raw material to Britain, for meeting the increased demand of British industries due to mass production revolution in Europe, this cause acute shortage and rise in the price of raw material for indigenous handicraft industry.
- ☐ Unfair Trade policy: Government increased export duty of finished goods causing the rise in the price of Indian Finished goods in the international market, hampers Indian handicraft industries.
- ☐ The colonial government waived off Import duty on finished goods from the British government. Due to which domestic handicraft industries had to compete with better quality and cheap machine- made products and forced them to shut down in the absence of demand.

8. What objectives did the British intend to achieve through their policies of infrastructure development in India?

Infrastructure such as water transport, power, railways, roads, irrigation, posts and telegraphs were developed under the colonial rule. The objective of infrastructure development was not for the welfare of the Indian economy but to serve its own economic interests. The following points elaborate on the objectives which Britain intended to achieve through the policies of infrastructure development in India.

Roadways: Roads were built to mobilise the army from one place to another and to draw out raw materials from the countryside to the nearest railway station or ports.

Railways: In 1850, the railways were introduced in India which helped in the commercialisation of Indian agriculture. They also enabled the movement of Britain-made to finished goods to different places of India.

Communication: Development of a modern system of communication such as the introduction of the telegraph aimed to control the law and order in the country. This facilitated the integration of different parts of India and helped to develop trade, commerce and industry.

9. Critically appraise some of the shortfalls of the industrial policy pursued by the British colonial administration.

There was hardly any capital goods industry to help promote further industrialization in India. During the second half of the nineteen, the modern industry began to take root in India, 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.

Some other modern industries namely (Cement, Paper, fertilizers and sugar) root up in India after II world war. But It was no substitute of wholesale displacement of Indian Handicraft Industry ruined by Britishers.

The growth rate of the new industrial sector and its contribution to the GDP remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector.

10. What do you understand by the 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 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, again fought by the British government, and the import of invisible items**, all of which led to the drain of Indian wealth.

11. Which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage?

1921 is regarded as the year of the great divide or the defining year to mark the demographic transition from the first to the second decisive stage.

This is because of the stagnant population growth before 1921. In the first decisive stage till 1921, there was a high birth and death rate, i.e. a low expectancy rate. The higher death rate caused a dip in the growing population of India before the period of 1921.

After 1921, there has been a significant increase in the population because of a low death rate and a higher birth rate in India.

12. Give a quantitative appraisal of India's demographic profile during the colonial period.

- ☐ The overall literacy level was less than 16 per cent. Out of this, the female literacy level was at a negligible low of about seven per cent.
- ☐ Public health facilities were either unavailable to large chunks of population or, when available, were highly inadequate. Consequently, water and air-borne diseases were rampant and took a huge toll on life.
- ☐ The infant mortality rate was quite alarming, about 218 per thousand in contrast to the present infant mortality rate of 40 per thousand.
- ☐ Life expectancy was also very low—44 years in contrast to the present 68 years
- ☐ It revealed the unevenness in India's population growth. India Witness very high birth rate and death rate during this period.
- ☐ 1921 is considered as the year of great divide because after 1921 India has experienced continuous growth in population due to improvement in health facilities.

13. Highlight the salient features of India's pre-independence occupational structure.

Occupational Structure refers to the aggregate distribution of occupations in society, classified according to skill level, economic function, or social status.

- ☐ The agricultural sector accounted for the largest share of the workforce at a high of 70-75%. Hence it indicates backward occupational structure.
- ☐ The manufacturing and the services sectors accounted for only 10% and 15-20% respectively.
- ☐ There was growing regional variation, parts of the Madras Presidency, Bombay and Bengal witnessed a decline in the dependence on the agriculture sector and an increase in other sectors.
- ☐ However, there had been an increase in the share of the workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

14. Underscore some of India's most crucial economic challenges at the time of independence.

Most crucial economic challenges at the time of independence:

- ☐ Low level of agricultural productivity: At the time of independence, India was an agrarian economy with 70%-75% workforce directly engaged in the agricultural sector and 85% of its workforce resides in villages who are directly or indirectly depend on agriculture.
The British government took advantage of India's agricultural sector for its profitability. Hence, India's agricultural sector was badly exploited and experienced stagnancy, a low level of productivity and a lack of investment.
- ☐ Slow progress in the industrial sector: Although India was popular for its handicraft industries such as cotton and silk textiles, it could not develop its industrial sector under British rule. This is because India faced tough competition from the British industries and lacked capital, infrastructure and technology which were required for the development of the industrial sector.
- ☐ Poverty: The plight of the Indian population at the time of independence was poor as the colonial government used India's wealth for the development of its home country.

15. When was India's first official census operation undertaken?

- ☐ India's first official census operation was undertaken in 1881

16. Indicate the volume and direction of trade at the time of independence.

The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this 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

India's more than 50% trade was confined to Britain only and remaining was with neighbouring countries SriLanka, China and Iran.

Opening of Suez Canal Further Intensifies British control over India.

17. Were there any positive contributions made by the British in India? Discuss Positive contributions made by British:

Introduction of railways: The British introduced the railway system and a huge network of transportation. This helped in the economic and social growth of India.

Development of means of communication: The colonial government introduced the most modern and well-organised system of communication. In 1852, the first telegraph line was operated in India.

Introduction of the laws and the justice system: The colonial government outlined a system of laws and established courts for justice. This helped in maintaining law and justice in the country.

Political and economic unification of the country: Under the British rule, the political and economic unification was first established in India. This played a vital role in the process of political and economic development.

The commercialisation of agriculture: Before the British rule, farming was mainly for subsistence in India. The colonial government took steps to commercialise agriculture. This changed the attitude of Indian farmers and they started producing agricultural products according to requirements.

18. When were the railways Introduced by Britishers? How it Affects the Indian Economy?

The British introduced railways in India in 1850 and it is considered as one of its most important contributions.

It affected the Indian economy in two ways:

- It enabled people to undertake long-distance travel and break geographical and cultural barriers.

It fostered Commercialization of Indian agriculture which adversely affected the self-sufficiency of the village economies in India.