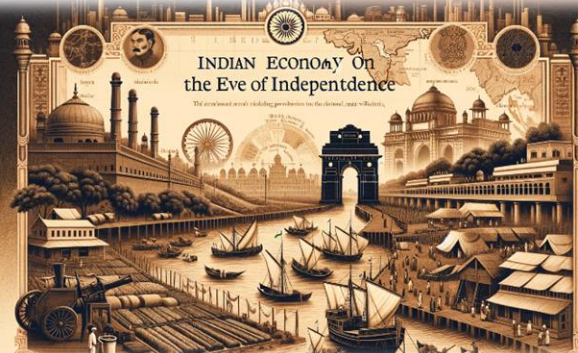


Chapter 01: Indian Economy on The Eve of Independence

The main goal of British rule in India

- ❖ to transform our economy into a supplier of raw material
- ❖ a market for sale of British manufactured goods.



Prior to British Rule,

- Indian economy was a vibrant and prosperous economy.
- On the agricultural front, it was a self-contained rural economy where cultivators themselves were the owners of land.
- Industrial sector was the world-famous handicraft products.
- Our exports enjoyed global reputation. The silk and cotton textiles were famous for their fine quality and the metal & precious stonework were famous for excellent craftsmanship.

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Exploitation and Transformation of Indian Economy during British Rule

The British exploited Indian economy to maximise their economic gains.

- British started using our **natural resources as raw material** for their industrial production in Britain.
- Indian **markets were used as 'demand destination'** for the British goods.

Features of Indian Economy on the Eve of Independence

(1) Stagnant Economy:

- A stagnant economy is the one which shows little or no growth in income.
- The country's growth of aggregate real output during the first half of the twentieth century was less than 2 per cent and growth in per capita output per year was a meagre 0.5 per cent.
- Standard of living of people was miserably low.

(Dada Bhai Noroji was the first person who estimated National Income of India)

(2) Backward Economy:

- An economy is called a backward economy when it has a very low per capita income.
- In 1947-48, the per capita income in India was just ₹ 230.
- The bulk of the population was very poor, without sufficient food, clothing and shelter.
- Widespread unemployment

(3) Dominance of Agriculture:

- Agricultural sector dominated the Indian economy as the principal source of livelihood.
- Nearly 72 per cent of the country's working population was engaged in agriculture.
- The contribution of agriculture to GDP was only 50 percent.

(4) Bleak Industrialisation:

- India's well-known handicrafts was systematically destroyed by British policies.
- small-scale and cottage industries were almost ruined.
- Heavy industry showed a bleak growth,
- We were dependent upon imports from Britain.

(5) Heavy Dependence on Imports:

The country was heavily dependent upon imports-

- machinery and related equipment of production.
- imports of defence equipment.
- several consumer goods like sewing machines, medicines, kerosene oil, bicycles, etc., used to be imported from abroad.

(6) Limited Urbanisation:

At the time of independence, bulk of the population of India lived in villages.

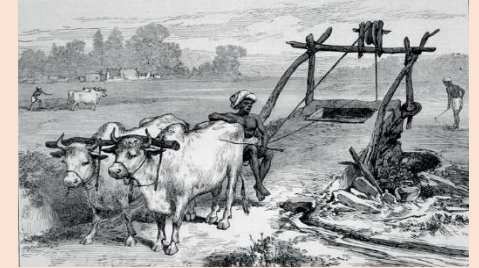
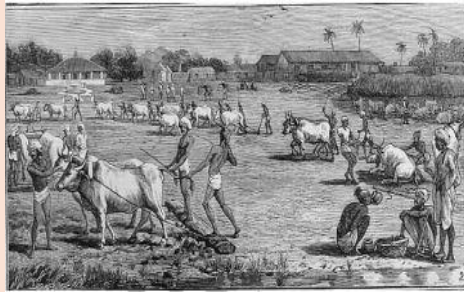
In 1948, only 15 per cent of population lived in urban areas while 85 per cent lived in rural areas Rural population lacked opportunities outside agriculture.

(7) Semi-feudal Economy:

Indian economy was neither wholly feudal nor a capitalist economy. It was a mixed economy or a semi-feudal economy.

AGRICULTURE SECTOR ON THE EVE OF INDEPENDENCE

- Indian economy was primarily an agrarian economy.
- Around 72 percent of the population derived its livelihood from the agriculture



(1) Low Production and Productivity:

Production refers to total output, while productivity refers to output per hectare of land. Both (production as well as productivity) were found to be extremely low on the eve of independence.

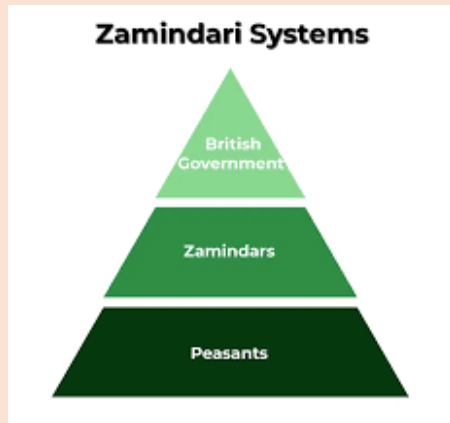
Production and Productivity of Wheat and Rice- A Comparison between the Levels in 1947 and 2021-22

Crop	Productivity (KG per hec.)		Production (In lakh tonnes)	
	1947	2021-22	1947	2021-22
Wheat	660	3,507	64	1,068
Rice	665	2,809	220	1,303

EDUCATION | INSPIRATION | KNOWLEDGE

(2) Exploitative Land Settlement System:

The British government in India introduced a unique system of land settlement known as **ZAMINDARI SYSTEM**.



The distinct features of this system were as these:

- (i) *The zamindars were recognised as permanent owners* of the soil, which implied that the profits generated from the cultivation were to accrue to zamindars instead of the cultivators.
- (ii) The zamindars were to pay a fixed sum to the government as land revenue.
- (iii) The zamindars were free to extract as much from the tillers of the soil as they could.

(the only interest of the zamindars was to ► maximise revenue collection, ignoring the plight of the tillers).

(3) Forced Commercialisation of Agriculture:

Commercialisation of agriculture refers to a shift from subsistence cultivation (cultivation for self-consumption) to cultivation of cash crops for the market. Farmers were forced to grow commercial crops to cope with the needs of the British industry.

(4) Lack of Investment in Agriculture Infrastructure:

The colonial government or zamindars took no interest in promoting investment in agricultural infrastructure.

Agriculture was heavily dependent on rainfall and therefore continued to be uncertain. Flood-control, drainage and de-salination of the soil which could have led to increased productivity of the sector, were totally neglected.

(5) Gulf between Owners of the Soil and Tillers of the Soil:

during the British Raj was characterised by a huge gulf between 'owners of the soil' and 'tillers of the soil on the other'.

- The owners interested in maximising their rental income.
- The tillers of the soil were merely given enough for subsistence.
- The tillers of the soil did not have resources to invest

7) Subsistence Outlook:

Farming was taken mostly as a means of subsistence farming is a form of farming in which the crops are produced to provide for the basic needs of the family.

There is little surplus left for sale in the market.

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INDUSTRIAL SECTOR ON THE EVE OF INDEPENDENCE

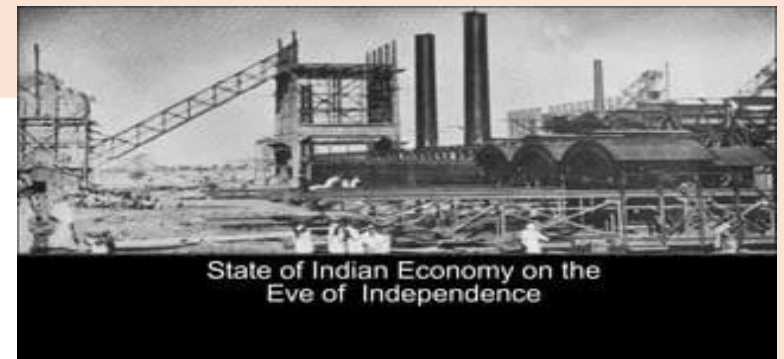
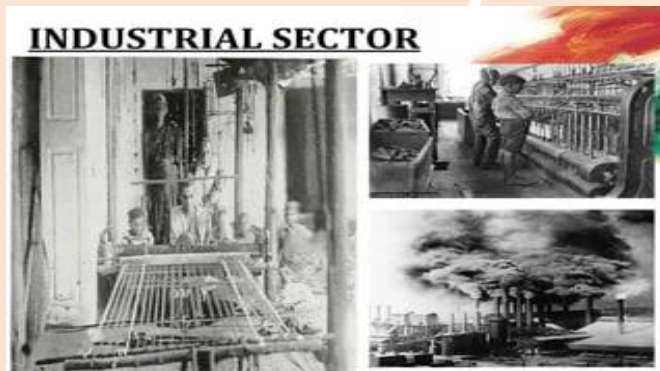
Systematic De-industrialisation

Two-fold motive behind the systematic de-industrialisation:

- To **exploit India's wealth of raw material and primary products** (like cotton and jute).
- To exploit India as a potential market for the industrial products of Britain.

This systemic de-industrialisation led to:

- **Decline of the handicraft industries** and the consequent massive unemployment.
- The penetration of British goods in the Indian markets



Features of the industrial sector during the British rule

(1) Decay of Handicrafts:

Before British Raj, handicraft in India enjoyed a worldwide reputation for excellence and quality. The main reason for the decay of the handicraft:

- Discriminatory tariff policy of the State.
- tariff-free export of raw material from India and import of British industrial products.

- heavy duty was placed on the export of Indian handicraft products
 - Low-priced machine-made goods.
 - Change in tastes and preference.
 - Fall in encouragement to Indian handicrafts.



2) Bleak (Notional) Growth of Modern Industry:

Under the 'British Raj', modern industry saw only a bleak growth.

It was only in second half of the 19th century that the modern industry showed its emergence but in very slow rate.

- cotton mills were set-up, mainly in Maharashtra and Gujarat.
- Jute textile industries were concentrated in Bengal
- Tata Iron and Steel Company (TISCO) was incorporated in 1907.
- After World War II, cement, paper and sugar industries also started coming up.
- Contribution of the new industrial sector in the Gross Value Added¹² (GVA) or Gross Domestic Product of the economy remained extremely low.

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FOREIGN TRADE ON THE EVE OF INDEPENDENCE

Since ancient times The Romans used to call India, “**the sink of world’s bullion**”. Prior to the British rule, India was a well-known exporter of finished goods (such as fine cotton, silk, textiles, iron goods, wooden goods, ivory work and precious stones).

But the British exploited Indian Foreign Trade by its discriminatory policy:

- (1) Net Exporter of Raw Material and Importer of Finished Goods:
- (2) During the British rule, exports and imports of the country came under **monopoly control of the British government**. The control of Britain over India’s foreign trade intensified after the opening of **Suez Canal in 1869**.
- (3) Surplus Trade but only to Benefit the British.
- (4) This surplus was owing largely to the export of primary goods (not the industrial goods) which is a sign of economic backwardness.

DEMOGRAPHIC PROFILE

Demographic conditions during the British rule exhibited all features of a stagnant and backward economy.

(1) Birth Rate and Death Rate

- Both birth rate (BR)- 48 per thousand and
- Death rate (DR)- 40 per thousand.

High BR and High DR suggest a state of massive poverty in the country.



(2) Infant Mortality Rate:

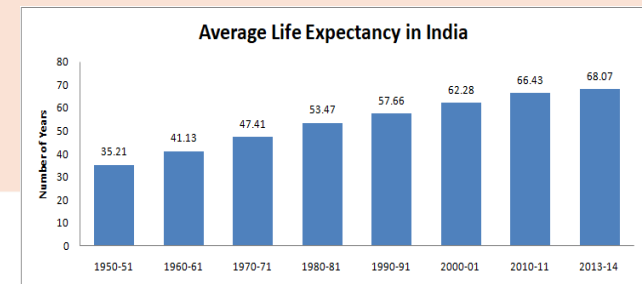
Infant mortality rate was very high. (sign of poor healthcare)

It was about 218/1000 (*while at present, it is 33 per thousand*).

(3) Life Expectancy

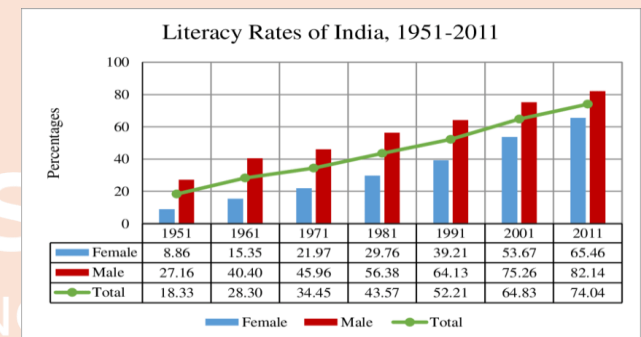
Life expectancy was as low as **32 years**, while presently it is 69 years.

Low life expectancy reflects lack of healthcare facilities, lack of awareness as well as lack of means to avail them.



(4) Literacy Rate

Literacy Rate was **less than 16 percent**, *social backwardness as a reflection of economic backwardness.*



OCCUPATIONAL STRUCTURE

Occupational structure refers to distribution of working population across primary, secondary and tertiary sectors of the economy.

Occupation	India	USA	Japan
Primary Sector	72.7	2	12
Secondary Sector	10.1	32	39
Tertiary Sector	17.2	64	49

OCCUPATIONAL CLASSIFICATION OF WORKERS

Economic Activity	1901	1951	1961	1971	1981	1991	1999 - 2000
1. Primary Sector (Agriculture and Allied activities)	71.7	72.1	71.8	72.2	68.8	66.8	56.7
2. Secondary Sector (Mining, manufacturing, construction, gas, electricity and water supply)	12.6	10.7	12.2	11.2	13.5	12.7	17.5
3. Service Sector (Trade, transport, communication, banking, insurance etc.)	15.7	17.2	16.0	16.7	17.7	20.5	25.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

INFRASTRUCTURE

Infrastructure refers to the elements of **economic change** (like means of transport, communication, banking, power/energy), and the elements of **social change** like growth of educational, health and housing facilities), which serve as a foundation for growth and development of a country.

- (i) **Railways** were introduced in India in 1850 and were developed to transport finished goods from Britain to the interiors of the colonial India with a view to widening the size of the market



- (ii) **Ports** were developed to handle export of raw material to Britain and import of finished goods from Britain.



- (iii) **Post and telegraphs** were developed to enhance administrative efficiency. Doubtless, it served the purpose of maintaining law and order.



- (iv) **Roads** were developed to facilitate transportation of raw material from different parts of the country to the ports.



[Infrastructure – support system required for the growth and development of the economy.]

Was there any Positive Impact of the British Rule in India?

- (1) **Commercial Outlook of the Farmers:** Forced commercialisation of agriculture under the British rule led to a gradual change in the outlook of the farmers. The farmers started considering market price of the produce
- (2) **New Opportunities of Employment:** Spread of railways and roadways opened up new opportunities of economic and social growth.
- (3) **Control of Famines:** Rapid means of transport facilitated rapid movement of food grain to the famine-affected areas. Accordingly, famines were controlled.
- (4) **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, specialisation, and large-scale production.
- (5) **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.

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