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Introduction

India is a country of rich cultural diversity; it is the largest democracy in the world demonstrating unity among diversity of various languages, castes, creed, religions, cultures, traditions and so on. Thus India has a unique identity.

India was named 'Bharat' in the ancient times after the name of the son of King Dushyant and his queen Shakuntala.

The country was extremely prosperous and known for its agriculture, traditional crafts and trade; which attracted many foreigners for the purpose of trade.

However, the foreigners who came for trade started ruling over us in order to exploit our rich resources and thus they ruined our ancient economic and cultural heritage both. Between 1526 to 1858 that

is between the 16th and 19th centuries, the Mughals ruled the entire nation or some regions. Besides, the French, the Portuguese and the Dutch also ruled over some parts for some time.

And, finally the British established their rule over India almost from 1757 to 1947. The period from 1757 to 1858 is known as the period of the East India Company 'raj' (rule) as this company of British origin came here to trade but also established its rule and later from 1858 till the midnight of 14th August, 1947, the British established its government in India.

7.1 Ancient India

The Indian civilization which is known to have emerged from the influences of the invasion of the 'Aryan' tribe and Indus valley civilization and which is also called the 'Harappan' civilization is identified as the ancient age and the remains of this civilization were first found at 'Harappa' and 'Mohenjo-daro'. In Gujarat we see the remains at Lothal and Dholavira.

This civilization gives evidences of organization, prosperity urban planning and development. From the view point of manufacturing activity, India was known for its cloth, muslin, jute, indigo from pre British times. With the British invasion India got tea plantations and even today India is known for her tea exports. In a way, before the British period India was known to have been rich in agriculture, industry and civilization.

Let us look at some of the important economic aspects of India in the pre British and the ancient time.

7.1.1 Occupational Structure : Ancient India was predominantly an agricultural nation. The economy was mainly rural economy. However, some basic industries also existed and the agricultural and industrial sectors were both prosperous.

7.1.1.1 Agriculture : Indian agricultural sector was prosperous and variety of crops were grown. Villages were self reliant and basic necessities like grains, vegetables, fruits, clothes, shoes etc. were produced in the village economy as well as cattle rearing and dairy farming were also undertaken. Thus, village life was happy.

7.1.1.2 Industries : According to historian Rai Chaudhary, prior to 19th century, India was a prominent centre of some items of manufacturing. India was known for cotton, jute, muslin, wool, idols making, indigo, terracota, earthenware etc. some of these goods were also exported.

7.1.1.3 Services : Even before 600 B. C., India had system of minting metal coins. She had a wonderful system of town planning and sewage, stable political system, unity among people. Because of these, trade in agricultural goods and manufactured goods was prosperous. Evidences of these are found at Lothal.

7.1.2 National Income/Economic Prosperity : According to historian Angus Maddison, India was extremely prosperous with share of 25% of the world wealth during the time of Maurya dynasty. During this time, most regions of the geographical area of present India were under one rule. During the Mughal rule, India commanded almost 90% of the wealth of southern Asian region and high taxes and excise were also generated. During the rule of Aurangzeb around 1700 A.D. the national income of India was 10 crore Pounds. Actually the foreigners came to India for her riches only.

Thus the ancient age was a golden age.

7.2 Indian Economy before Independence (During the British Rule)

The East India Company and later the western rulers (French, Dutch, Portuguese and English) came to India getting attracted by her riches. India had wealth, rich scriptures and cohesive social set up. India was famous for trade in cotton, muslin, indigo, spices, and metallurgy (copper, bronze, and brass, and others).

However, during this time there were conflicts among the foreign rulers also to establish their own power over India and they used armed power also. When the British established dominance, our resources were exploited, poverty increased and the ancient riches of India started eroding. However, Indian economy also attained the following:

7.2.1 Railway : British set up the railway infrastructure in India and with the first rail that ran between Boribandar (present day CST) and Thane on 16th of April, 1853. By 1947, India had rail network of 53,000 km. benefiting a population of 68lakhs.

7.2.2 Roadways : The British also created a good length of roads in India. They set up the Public Works Department (PWD) under which significant basic utilities were created. By the end of 19th century, there were a total of 2,78,420 km of roads which increased to 4,47,105 by 1943 of which 32% were concrete ('pukka') roads and 68% were 'kachcha' roads.

7.2.3 Banks : Private sector banks came into being in India from 1770 and by 1946 there were more than 700 banks in India. The Reserve Bank of India (RBI) which is the apex bank today, was set up in 1935.

7.2.4 Social Structure : Certain wrong social practices were abolished during the British rule, For example, prevention of female infanticide, sati pratha etc.

7.2.5 Agriculture : Indian agriculture suffered from high revenues, the system of 'Zamindari' (landlordship) and other acts of the British. There was exploitation of several types and poverty in this sector started increasing. To give an example, after industrial revolution in Britain, the British made Indian farmers grow more indigo to fulfil the need of their textile industry. However if farmers had taken a loan to grow indigo and incurred losses, the British government did not waive off their loans and the farmers started incurring and accumulating debts.

7.2.6 Land Revenues : The East India Company got the rights to collect land revenues from the kings in India and with that also got the rights to collect land revenues from owners of farming lands. Later on, the British government collected land revenues from the farmers through the Zamindars. The government punished the farmers who failed to give revenues by confiscating their land, by charging fines and so on. Land revenues were as high as half of the produce of farmers.

7.2.7 High Rates of Taxes : According to Dadabhai Naoroji's calculations in 1876, the rich paid about 8% of the national income as taxes while the Indians who were poor were made to pay 15% of the national income as taxes.

7.2.8 High Rates of Excise and Customs : High excise was collected on matches, sugar, steel, and silver and all such commodities. Though salt was easily available in India, the British termed as illegal the production of salt by Indians on sea shores and they monopolised salt trade, imported salt to India by levying high custom duties and thus made it an expensive commodity for poor Indians.

To protest against the high excise duties on salt, Gandhiji started the salt satyagraha with the Dandi march.

High duties (upto 15%) were imposed on cotton cloth exports from India so that Indian cotton industry received a setback. Whereas, the cotton cloth imports from Manchester in England came to India at much lower import tariffs of only about 2.5%. The British wanted to export India's long staple cotton to England and sell its manufactured cloth in India.

Thus, India's raw materials were exploited so that British industry could thrive at the cost of Indian industry.

7.2.9 Industrial Policy : The period from 1750 to 1830 was the period of industrial revolution. East India Company had by that time started establishing rule in India and in 1858, the British government established its rule. The British government adopted a policy that made the Indian investor lose confidence. The development of Indian industries was lopsided in character in the sense that only some light and consumer goods industries were started and no attention was given to the machine-manufacturing and heavy engineering and heavy chemical industries and other basic and key industries. The policy was to send raw materials from India to Britain, and sell goods made in Britain to India.

7.2.10 Economic Exploitation : In order to benefit their own economy, the East India Company and later the British government, adopted policies which exploited Indian resources and promoted British industries. Indian agriculture was also exploited by high land revenues.

7.2.11 Exploitation of Artisans : The East India Company exploited artisans by obtaining goods from them at up to 15% to 40% lower prices and sold them in the world at higher prices and made high profits. Besides, after the British government rule, they started selling in India cheap goods manufactured in England and ruined the small scale industries of India.

7.2.12 Investment Pattern : The British made only those investments in India which benefitted Britain. For example, Railways and road networks were created to help movement of raw materials and goods for their industry. Investment in education was made to educate personnel to run the British administration and Indians were prevented from getting technical education. They started colleges for medicine and civil engineering in India for their benefit. They needed civil engineers for public works departments in India and in Britain. They did not promote studies in science and technology in India. Thus they made selective investments in India.

7.2.13 Payment Burden : Various payments were made to British from India's income besides huge salaries of British personnel. These included home charges. There was a huge amount of money which India Paid towards administration, maintenance of the army, war expenses, pensions to retired officers and other expenses accrued by Britain towards maintenance of her colony. These were known as "Home charges" and were paid for almost entirely by India.

The Home charges were made of three components viz, Interest payments for debts incurred in maintaining Indian colony, interest on the railways and civil and military charges.

Finally when British left India in 1947, Indian agriculture, industry and trade were devastated. A country which was once highly prosperous, was impoverished.

7.3 Indian Economy after Independence

Immediately after independence, Indian economy faced some challenges for development. India today exhibits characteristics of a developing country with some areas of lower development and some showing much improvement. Thus in current times, we look at characteristics of India as a less developed and as a developing nation both.

7.3.1 Per Capita Income : According to Human Development Report, the per capita income of India in 2013 at purchasing power parity was \$ 5,150 which was lower than that of developed countries but also lower than many developing countries like China (\$11,477) and Sri Lanka (\$9,250).

This is shown in the table below.

Some Comparative Statistics for PCI(by Purchasing Power Parity)	
Country	PCI (in Dollars)
● Norway	63,909
● USA	52,308
● Germany	43,049
● England	35,002
● China	11,477
● Sri Lanka	9250
● India	5150
● Pakistan	4652
● Bangladesh	2713

Changes in India's PCI in Last few Years		
Year	PCI at Current Prices (in ₹)	PCI at Constant Prices (in ₹)
2011-12	64,316	64,316
2012-13	71,593	66,344
2013-14	80,388	69,959
2014-15	88,533	74,193

Source : Compiled from Economic Survey of India for Various Years

Source: Human Development Report (2014)

7.3.2 Agriculture : India is an agrarian nation. The share of agricultural sector in employment has gradually declined but it is still relatively higher depicting lower economic development. Developed nations have lesser percentage employment in agriculture and higher in the industrial and service sectors.

At the time of independence 72% of the population was dependent on agriculture which declined to 58% in 2001-02 and to 49% in 2013-14 (Human Development Report).

7.3.3 Industry : The contribution of industrial sector in employment and national income has increased over time; however, India is called a completely industrialized nation from the development criteria. The share of industrial sector in employment was 10.6% in 1950-51, which increased to 18.2% in 2001 and further to 24.3% in 2011-12. Its share in national income was 16.6% in 1950-51 and was 26% in 2013-14. (Source: CSO) Besides, the industrial sector contributes $\frac{2}{3}$ rd of the export earnings in the present times. Thus, though the industrial sector is progressing, India cannot be called a completely industrialised nation.

7.3.4 Service Sector : The share of service sector in employment in 1951 was 17.3%, in 2001 it was 25.2% and in 2011-12 it was 27%. The share of service sector in national income (GDP) in 1951 was 30.3%, in 1980-81 it was 38%, in 2000-'01 it was 50.4% and in 2014-15 it was 52.7%. Such increasing share of service sector shows that India is moving fast on the path of growth and development.

7.3.5 Population Growth : The growth rate of population in India has characterized lower development. There has been an average annual increase of 1.5% in population after independence and it signifies population explosion. The population of India in 1901 was 23.84 crores, which increased to 36.1 crores in 1951, 102.7 crores in 2001 and further to 121.02 crores in 2011. Such high growth rate of population has remained a matter of concern.

7.3.6 Poverty : Indian economy is characterised by high levels of absolute poverty. Though percentage of population living below poverty line has declined over years it is still considered high. In 1973-74 percentage of population living below poverty line was 54.9% which declined to 45.3% in 1993-94, to 37.2% in 2004-05 and further to 21.9% in 2011-12.

7.3.7 Unemployment : Structural unemployment constitutes significant proportion of unemployment in India. In 1951, 33 lakh people were unemployed. According to NSSO (National Sample Survey Organization), in 1999-2000, 7.31% of the total population unemployed which increased to 8.2% in the 2004-05. However, this decreased to 6.6% in 2009-10 and further to 5.6 in 2011-12. In the rural areas, the proportion of disguised unemployment is higher. Disguised unemployment can not be exactly measured.

7.3.8 Human Development : Various human development indice measured by indicators like average life expectancy, literacy, gender ratios, and infant mortality rates and so on show that India stands at lower rank in human development. One such index is the Human Development Index and India's HDI in 2000 was 0.463, in 2010 was 0.547, in 2012 was 0.554 and in 2013 was 0.586. These measures on the HDI are considered very low and in 2013 India's rank was the 136th in a list of 187 countries, which is obviously very low.

7.4 Characteristics of India as a Developing Economy

Though some areas of Indian economy mentioned above indicate lower economic development, India cannot be called a less developed nation. Indian economy shows characteristics of a progressing economy, some of which are :

7.4.1 Growth Rate : The growth rate of the economy which is measured by the growth in national output year by year has increased for the Indian economy, especially after LPG. During the period between 1950-51 and 1990-91 the average annual growth rate was around 3.5%. However after the period of economic reforms in 1991, the average annual growth rate has remained above 6.8% which is an important achievement. After 2012-13, the growth rate has slowed down and in 2014-15, the average annual growth rate was less than 5%.

The Net National Income at factor cost (NNP_{FC}) at constant price level in the year 1950-51 was ₹ 2,69,724 crores which increased to ₹ 87,51,834 crores in the year 2013-14. Thus, in a period of 63 years, the NNV has grown by 18 times.

7.4.2 Changing Share of Various Sectors in National Income and Employment : As a nation starts developing, the contribution of its industrial and service sectors in national income and employment increases. It means that now people have to depend less on their traditional sector (agriculture) and with improvements in technology and capital formation they get employment in the relatively more productive sectors viz. Industrial sector and service sector. India's service sector has started growing significantly after the reforms of 1991. The following tables show the increasing share of industrial and service sectors in national income and employment.

Share of Various Sectors in NI

	1950-51	1990-91	2000-01	2014-15 (P)
Agriculture and allied activities	53.1	29.6	22.3	17.6
Industries	16.6	27.7	27.3	29.7
Services (excluding construction)	30.3	42.7	50.4	52.7

Source : Economic Survey (2014-15)

We observe that the share of agriculture in the National income has declined over the years and that of industrial and service sectors has increased.

7.4.3 Per Capita Income : The per capita income of India at constant prices in 1950-51 was ₹ 7,114 which increased to ₹ 39,904 in 2013-14. Thus, in a period of 63 years PCI increased by approximately 5.6 times.

Between the periods from 1950-51 to 1990-91 it increased by about 1.6 percent while after 1991, it increased by 5.5%.

We observe that the share of agriculture in the employment has declined over the years and that of industrial and service sectors has increased.

7.4.4 Level of Employment : In India, employment is reviewed in three sectors as :

7.4.4.1 Primary Sector : This sector includes agriculture and allied activities, dairy farming and animal husbandry.

7.4.4.2 Industrial Sector : This includes manufacturing, construction, mining, quarrying. In other words it includes all production activities.

7.4.4.3 Service Sector : It includes all activities pertaining to trade, banking, transport, information and broadcasting, health, education and so on.

Share of Various Sectors in Employment

	1951	1991	2001	2011-12
Primary/Agricultural Sector	72.1	66.9	56.7	48.9
Secondary/Industrial Sector	10.6	12.7	18.1	24.2
Tertiary/Service Sector	17.3	20.4	25.2	26.9

Source : Economic Survey (2014-15) Volume-II.

In India, year 1951, the contribution of primary sector in employment was 72.1 %, that of industrial sector was 10.6 % and service sector was 17.3 %. In 1991, the contribution of primary sector in employment was 66.9 %. Industrial sector was 12.7 % and service sector was 20.4 %.

While in year 2001, the share of primary sector in employment was 56.7 %, industrial sector was 18.2 % and service sector was 25.2 % and in 2011-12 the share of primary sector in employment was 48.9 % that of secondary sector was 24.3 % and service sector was 26.9 %.

Thus, it is seen that from 1951 to 2011-12, the employment has shifted from primary sector to industrial and service sectors.

7.4.5 Improvement in Basic (Primary) Utilities : India has shown significant improvement in provision of various utilities in the urban as well as in the rural areas like, electricity, water supply, roads, irrigation, transport, communication, health, education and such.

7.4.5.1 Irrigation : In 1950-51 only 22.6 m. hectare of land across the country was irrigated which increased to 63 m. hectares in 2012-13. Thus, about 45% of the total agricultural land has irrigation facilities in present times.

7.4.5.2 Literacy : The literacy rate which was 18.33% in 1951, rose to 73% in 2011 (Source : Economic Survey, 2013-14). In 1950s there were 20 universities and 500 colleges which increased to 719 and 35,000 respectively by 2013-14. This indicates rise in higher education.

7.4.5.3 Electricity : The electricity generation which was around 2300 MW in 1950-51 increased to 2,43,000 MW in 2011-12.

7.4.5.4 Road Network : In present times, India belongs to the list of countries with longest road network. It has approximately 48.6 lakh km. of concrete roads today.

7.4.5.5 Railway : Indian railway network is the fourth largest today with a length of 65,000 km

Thus India is progressing fast and is now a prestigious emerging economy. The per capita consumption of essential commodities has increased, progress is made in areas of science, research and technology development, average life expectancy has increased and so on.

In the International Comparison Programme (ICP) initiated by the World Bank, in 2011 India was identified as the third largest country after USA and China; while in 2005 India was at the 10th position.

Exercise

1. Choose correct option for the following from the options provided :

(1) Railway was started in which year in India ?

(A) 1847 (B) 1853 (C) 1901 (D) 1947

(2) In which year the Reserve Bank of India (RBI) was set up ?

(A) 1847 (B) 1857 (C) 1935 (D) 1947

- (3) According to Human Development Report of 2014, what was India's per capita Income ?
 (A) \$ 5150 (B) \$ 9250 (C) \$ 43,049 (D) \$ 52,308
- (4) In 2014-15 which sector contributed the maximum to national income ?
 (A) Agricultural (B) Industrial (C) Service (D) Foreign Trade
- (5) Which type of unemployment is found in India ?
 (A) Cyclical (B) Structural (C) Absolute (D) Relative
- (6) In 2011 what percentage of population got employment in agricultural sector ?
 (A) 49 % (48.9) (B) 55 % (C) 72 % (D) 27 %
- (7) Indian Railways stands at which rank in the largest railway networks of the world ?
 (A) First (B) Second (C) Third (D) Fourth
- (8) According to census of 2011, what was the percentage of literate people in India ?
 (A) 55 % (B) 62 % (C) 73 % (D) 88 %
- (9) In 2011-12 what was the percentage of poor people in India ?
 (A) 80 % (B) 55 % (C) 37 % (D) 22 %
- (10) Which of following is not a primary service ?
 (A) Education (B) Transport (C) Import-Export (D) Irrigation

2. Answer the following questions in one sentence :

- (1) When was the public works department set up in India ?
- (2) When was banking started in India ?
- (3) Which civilization originated in Ancient India ?
- (4) How much was the employment in agriculture in the year 2011-12.
- (5) Who prepares the Human Development Report ?

3. Answer the following questions in short :

- (1) What is meant by 'Home Charges' ?
- (2) 'India is predominantly an agricultural nation', Explain this statement.
- (3) State the export items in ancient India.

4. Answer the following questions in brief points :

- (1) Write a short note on : Ancient India.
- (2) Write a short note on : Progress of Railways in India.
- (3) Explain the tax policy of British Rule in India.
- (4) Describe the basic utilities of India.
- (5) Write short note on : Share of various sectors in National Income.

5. Answer the following questions in detail :

- (1) Explain the characteristics of India as a developing country.
- (2) Specify the state of Industries of ancient India.
- (3) Explain the state of Indian economy before Independence.
- (4) Explain the state of Indian economy after Independence.

Glossary

Occupational Structure

It is a structure of employment of people in various sectors in the economy viz. Agriculture, industry and service.

National Income

The value of all final goods and services (in all sectors) produced in an economy during a year.

Basic Utilities

Services which are primary to the development of a nation.

Excise

Excise is a one type of tax, which is imposed on people and firms of nation at the time of import and export of commodities.

Land Revenue

A tax on land holding.

Per Capita Income

It is the average share of national income per person in an economy. It is only a mathematical average and does not mean that in reality each person get that share. In reality, some get greater share than this average and others get lower. $PCI = \text{total national income} \div \text{total population}$.

Industrial Policy

Policy which frames rules and regulations for industrial development in order to fulfil goals and objectives of the economy.

Economic Exploitation

The overuse of resources of an economy for selfish benefits by an individual, firm or the state of the same country or of other country is called economic exploitation.

Social Structure

The formation of segments and linkages among these segments in a society.

