

# Unit I- Indian Economy on the Eve of Independence

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## Colonial Rule in India and its Policies

### Objective

In this lesson, we will go through the various policies followed by the British during the colonial rule in India. In addition to this, we will also understand the impact of these policies on the Indian economy.

### Introduction

In your previous classes, you all must have read about the history of British rule in India. You all must be knowing that in the pre-British era, India was a flourishing and a prosperous economy. Agriculture was the main source of occupation for the majority of the Indian population. In fact, Indian agriculture was so prosperous that the French traveller, Bernier, described the Seventeenth Century Bengal as "richer than Egypt".

The production of food grains such as wheat, rice, etc. as well as that of poultry farming products was in abundance. Furthermore, activities such as sheep rearing, domestication of goats and geese, fishing, etc. were also very popular. Also, India was an exporter of cotton, silk, rice, sugar and butter.

In addition to the flourishing agricultural sector, various manufacturing activities were also carried out in India. Indian handicrafts, metals, precious stone works, cotton and silk textile works were world famous. For example, Muslin, a fine variety of cotton textile, in Bengal enjoyed world wide fame and was very popular among foreign travellers. In all it can be said that India was a prosperous economy in every respects.

However, with the advent of British rule, events took a turn. The British established the East India Company in the year 1757, and hence began the colonial rule in India. We all are familiar with what impact the British rule had on India in terms of political, social and cultural upheaval.

***In the subject of economics, we focus on the economic impact of the British rule. That is, we will study the various policies followed by the British and their impact on the various sectors (i.e. agriculture, industry, trade and infrastructure) of the Indian economy.***

***Such a study is important because the structure of present day India has its roots in the colonial period. That is, to understand the present day Indian economy, it is first necessary to understand what India inherited from the colonial rule.***

## Colonial rule in India and its Policies

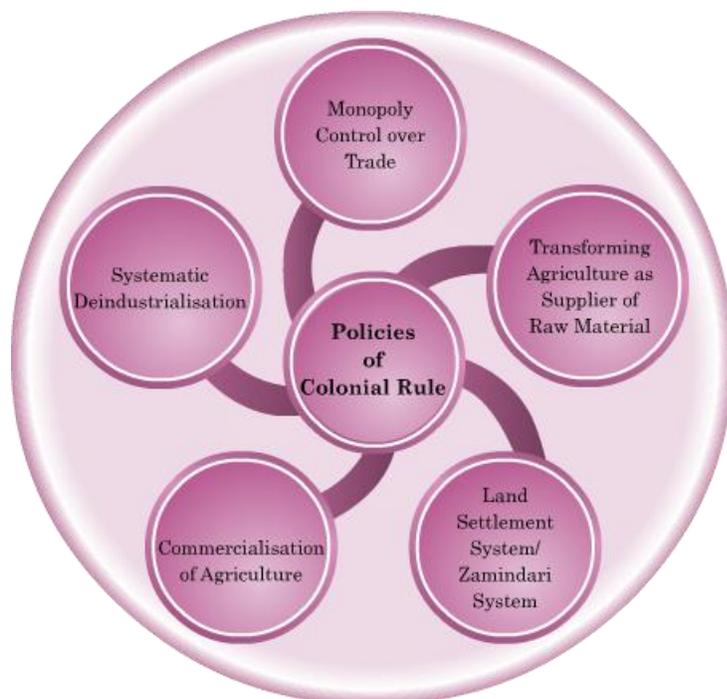
The advent of colonial rule of the British over India can be traced back to the establishment of the East India Company, after the Battle of Plassey, in the year 1757. With this slowly and gradually the British spread their dominance over India and by 1858, the entire India was under the spell of colonial rule.

The British rule left a deep impact on the Indian economy. A point worth noting is that the colonial rule in India coincided with the process of industrialisation in Britain. Thus, the policies framed and followed by the British Government were mainly to compliment or to serve the industrialisation process in Britain.

In this regard, the sole aim of the Colonial government was to reduce India to a mere supplier of raw material for their own thriving industrial base. The policies were concerned mainly with the fortification and advancement of their home country.

They followed highly exploitative policies and were only concerned with their self economic interest, while the interest of the Indian economy were completely ignored. Such policies left a deep impact on the Indian economy. Thereby, the structure of Indian economy changed completely.

The following diagram depicts the major policies that were adopted by the Colonial Government.



The following is a brief discussion of some of the major policies followed by the Colonial government and their impact.

**1. Transforming agriculture sector as a mere supplier of raw material:** The British forced the production of only those agricultural items that could serve as raw material for the products of the British industries. For example, they enforced the production of jute and indigo instead of food grains. Such a policy adversely affected the Indian agriculture sector. Indians who earlier were self-sustained in the production of food grains, now suffered on account of their shortage.

In addition to the agriculture sector, this policy also affected the manufacturing sector. In return of the exports of the raw material, Britain supplied India with its own machine-made finished products. These fine British products provided a stiff competition to the Indian handloom and traditional products in terms of quality. As a result, the handloom and traditional products lost out to the machine made British products. Thus, this policy left the small manufacturing units and the handicrafts sector in a ruined state.

**2. Land settlement system:** In the agriculture sector, the system of land settlement, in the form of **Zamindari System** was introduced. This system was introduced by Lord Cornwallis in Bengal in 1793. Under this system, the Zamindars (or, the landlords) were under an obligation to pay a fixed sum of revenue to the British Government. However, the Zamindars fulfilled their obligation to pay the rent to the British Government by collecting huge rent from the peasants.

They collected the profits and rent from the peasants or the cultivators who cultivated on their farms and in turn paid the revenue collected to the British Government. Moreover, the Zamindars could raise the amount of revenue at any point of time at their will. This implied that the cultivators and peasants were highly exploited at the hands of the Zamindars.

However, neither the Zamindars nor, the British Government did anything to improve the condition of agriculture. The agriculture sector was deprived of any investment and technological upgradations. Thus, this system of Zamindari led to the deterioration of economic condition of the poor farmers and hence, of the mass of Indian population.

**3. Commercialisation of agriculture:** Besides the Zamindari system, the British introduced the system of commercialisation in agriculture. Indian farmers were forced to produce cash crops such as cotton, indigo, jute, etc. instead of the food grains. These cash crops served as raw material to Britain's industrial base.

However, this commercialisation did not benefit the Indian farmers rather led to their deterioration. Extensive production of cash crops meant that the food crops remained short in supply. Thus, while on one hand, the Indian population starved due to the shortage of food grains, the British industries flourished.

**4. Systematic deindustrialisation:** Similar to the agriculture sector, in the industrial sector as well the British Government followed such policies that suited their own interest. The Colonial government followed the policy of systematic deindustrialisation. Under this policy, it allowed free export of Indian raw materials to Britain and free imports of British products to India. On the other hand, exports of Indian handicrafts were subject to heavy tariffs. This policy had the following three important implications.

- i) Free export of Indian raw materials served the expanding industrial base of Britain.
- ii) Free import of British products to India meant that Indian domestic products faced stiff competition from Britain's machine-made products and thereby, suffered due to fall in demand.
- iii) Imposition of heavy tariff on the export of Indian handicrafts made them costlier in the international market and their demand fell drastically. This led to a gradual collapse of the Indian handicraft and the handloom industry.

**5. Monopoly control over trade:** In the foreign trade sector, Britain maintained a monopoly control over India's export and import. More than half of India's foreign trade was restricted to Britain. To further broaden the exploitative control, the British modified the trade policies in accordance to the interests of their home country. In addition to the direction of foreign trade, they also affected the composition of trade from India.

They enforced exports of raw material to British industries at cheap rates and in turn flooded the Indian market with imports of finished machine-made products. In either ways, it was the British industries that benefited at the cost of the domestic producers. Moreover, the revenue generated from the export was used by the Colonial government to meet its own war and administrative expenditure.

Thus, it can be said that the British rule and the policies followed by the Colonial Government led to disintegration and gradual collapse of the Indian economy. In other words, it can be said that the colonial rule left the Indian economy in a backward and stagnant state.

We will study these policies in greater detail in the subsequent lessons.

## **Major features of Indian economy at the time of Independence**

### **Objective**

In this lesson, we will analyse the major features of Indian Economy at the time of independence.

### **Major Features of Indian Economy at the time of Independence**

As a consequence of the British rule, the Indian economy experienced drastic changes in its structure. Their exploitative rule hampered almost every sphere of Indian economy. As a result of which at the time of Independence, the Indian economy was in a state of complete deterioration.

The following diagram summarises the various features of Indian economy at the time of independence.



### 1. **Backwardness of Indian agriculture**

The Indian economy at the time of Independence was **mainly an agrarian economy**, employing nearly 85% of the population. However, despite employing such a large section of population, agriculture sector suffered from **low productivity**. Even while the area under cultivation was large, the level of output remained dismally low. The production was sufficient only for the **self-consumption of the farmers** and hardly anything was left to be sold in the market.

The low level of production can be sensed from the reports of economic survey 2008-09. According to the survey, the production of rice in 1947 was 20 times lower than its level in 2008. Similarly, the productivity of wheat was 4 times lower in 1947 than its level in 2008. Moreover, the agriculture sector was **deprived of any of the modern techniques**. The use of chemical fertilisers, irrigation facilities, etc. was very limited.

Thus, the production in this sector was mainly dependent on monsoon. In times of good monsoon, the production was high and in times of poor monsoon, the production was low. In addition to this, under the **land revenue system** as introduced by the British, there was large scale exploitation of poor peasants at the hands of *Zamindars* (land lords).

Peasants and cultivators were forced to pay huge rent to the landlords. However, on the other hand, the landlords did nothing to improve the condition of agriculture. In other words, it can be said that there existed a **gap between the owners of land and the actual cultivators of land**. That is, the owners of land neither participated in the work of actual cultivation in the fields nor did anything to improve the condition of the cultivators.

This resulted in **backwardness and stagnation** in agriculture. In addition, this sector also suffered from **lack of organised markets**. This implied that the farmers could sell their output only through the channel of middleman. The middlemen purchased the crops from the farmers at a low price and sold the same crops in the market at a very high price. This meant that the farmers could not get the actual worth for their crops. Thus, such a system resulted in the exploitation of the poor farmers.

To sum up, the agricultural sector suffered from various setbacks, immediately at the time of Independence. Thus, India required reforms in the form of abolition of *Zamindari* system, land reforms, reduction in inequality of land ownership and upliftment of peasants.

## 2. **Infant industrial sector**

Under the colonial rule, India could not develop a sound industrial base. British followed the deliberate policy of **systematic deindustrialisation**. Under this policy, it allowed free export of Indian raw material to Britain and free imports of British products to India. On the other hand, exports of Indian handicrafts faced heavy tariff rates. Such a policy had a dual impact on the handicrafts.

While in the domestic market they faced stiff competition from the machine-made products from Britain, on the other hand, in the foreign market their demand fell due to increased prices as a result of the high tariff rates. Thus, India's traditional handicrafts sector suffered a huge setback.

Furthermore, no attempt was ever made to improve the investment in the modern industries. India faced **lack of modern industries**. Although, a few industries such as the textile mill, Tata Iron and Steel (in 1907) and a few paper and sugar mills were established in the country, their progress remained marginal. Moreover, the industrial sector suffered from **lack of capital goods industry**. This meant that there was little scope for further industrialisation in the country. Thus, while on one hand, the handicrafts sector was on the verge of depletion, on the other hand, nothing could be done to revive the modern industries. The growth of the industrial sector can be rightly

termed as **sluggish**. Besides, another setback suffered by the industrial sector was the **limited role of the public sector**. The public sector operated only in some of the key areas such as railways, power generation, development of ports and mass communication.

Thus, at the time of Independence, India faced a meagre industrial sector employing only nearly 10% of the total work force and a **negligible contribution to the Gross Domestic Product**. Thus, at the time of Independence, there was a need to revive the industrial sector by augmenting the capital goods industries and increasing the role of the public sector so as to provide a boost to the growth of this sector.

### 3. Regressed state of foreign trade

India enjoyed great importance in the world trade during the ancient times. Indian cotton silk textile, gems and precious stones, ivory work, etc. were world famous. However, with the colonial rule, the structure, **composition and volume of India's foreign trade was adversely affected**. The British followed restrictive trade and tariff policies and maintained a monopoly control over India's foreign trade. India was converted into an **exporter of primary products**, which served as cheap raw material to Britain's industrial base. In turn, India was made to **import finished machine-made products from Britain**. It was accounted that more than fifty percent of India's foreign trade was restricted to Britain.

An interesting aspect of India's foreign trade during colonial rule was that India enjoyed a huge export surplus. However, this **export surplus was generated from the export of primary products**. This was an indication of low level of development in the country. Due to exports, India faced a shortage of these goods in the domestic market, while the Britain's industries flourished. Also, the revenue generated from this export surplus was never used to develop the domestic economy, rather, was only **used to finance Britain's administrative and war expenditure**.

Thus, it can be said that although at the time of independence, India faced a flourishing trade sector, but was not a beneficiary of this.

### 4. Sound infrastructure

One cannot deny the fact that under colonial rule, India benefited in terms of development of infrastructure, even if it was mainly to serve the colonial interests. **British developed basic infrastructure such as railways, ports, water transport, posts and telegraphs**. Among these, development of railways was their most important contribution. At the time of Independence, **total railway length in India was 50,100 km**. Railways positively affected the Indian economy. It facilitated long distance travel and broke the social and cultural barriers. Moreover, easy transportation encouraged commercialisation of agriculture. This was because the agriculture products could now be easily transported to the ports which were then exported to Britain. Thus, owing to increased transportation the volume of exports expanded. Apart from roads

and railways, British initiated the development of other infrastructure as well such as power, irrigation and telegraph facilities. **In 1950-57, the total power generation in India was 6.6 billion kwh. As regarding irrigation, 17.7% of the total net sown area came under irrigation.** However, the state of **health facilities and education remained critical** and were inadequate.

### 5. **Unbalanced occupation structure**

The occupational structure in India, at the time of Independence, can be rightly termed as unbalanced. **Agriculture was the main source of occupation** in India, and **employed nearly 75% of the population.** As against this, the **manufacturing and service sector employed only 10% and 15% of the total work force respectively.** Thus, while on one hand agricultural sector was relatively developed, the industrial sector was at an infant stage. Besides the variation in the employment in different sectors, there was **regional variation in the occupational structure** as well. While on one hand, states such as Tamil Nadu, Andhra Pradesh, Bombay and West Bengal experienced a fall in agricultural work force, on the other hand, states such as Orissa, Rajasthan and Punjab experienced a rise in agricultural workforce.

### 6. **Poor demographic profile**

On the demographic front, the condition of India was very poor. India was experiencing very **high birth rate as well as high death rate.** Birth rate stood at 48 per thousand while death rate stood at 40 per thousand. Such high birth rate and high death rate at the time of Independence indicate that the **population growth was stagnant.** Moreover, India performed badly in terms of social indicators of infant mortality rate and life expectancy. **Infant mortality rate was as high** as 218 per thousand. Life expectancy was only 32 years. Another indicator of poor demographic profile was the **low level of literacy rate.** Literacy rate was at a low level of 16%. The female literacy rate was still lower at 7%.

Thus, at the time of independence, a due attention was required to improve the demographic profile of the country.

### 7. **Poverty and inequality**

The colonial rule left the population of India in a poor and impoverished state. The policies followed by the British in the agriculture sector in the form of *Zamindari* system and commercialisation of agriculture highly exploited the cultivators and peasants and led them to indebtedness. As a result, the farmers that formed the mass of the population of India were in a state of extreme poverty. On the other hand, there were the *Zamindars* that prospered under the colonial rule and accumulated huge wealth. As a result, there existed high income inequality in the country.

**Thus, it can be said that the Indian economy at the time of Independence, was in**

***a deteriorated and depressed state. Hence, India faced the acute challenge of pulling up the economy from the dismal state and reviving its growth.***

## **State of Indian agriculture, Factors responsible for Backwardness of Agriculture**

### **Objective**

In this lesson, we will go through the following topics.

- State of Indian Agriculture at the Time of Independence
- Characteristics of Indian Agriculture at the Time of Independence
- Causes of Backwardness of Indian Agriculture

### **State of Indian Agriculture at the Time of Independence**

Indian economy has primarily remained an agrarian economy since the ancient times. Agriculture was the major source of occupation and livelihood for the majority of population in India. Prior to the Colonial rule, agriculture can be regarded as a self-sufficient and self-sustaining sector.

Though only conventional techniques of production were used, the production of this sector was able to feed the Indian population. The life of the peasants and cultivators was less distressful as the role of intermediaries was minimal. In other words, agriculture sector in the pre-Colonial era can be said to be in a prosperous state.

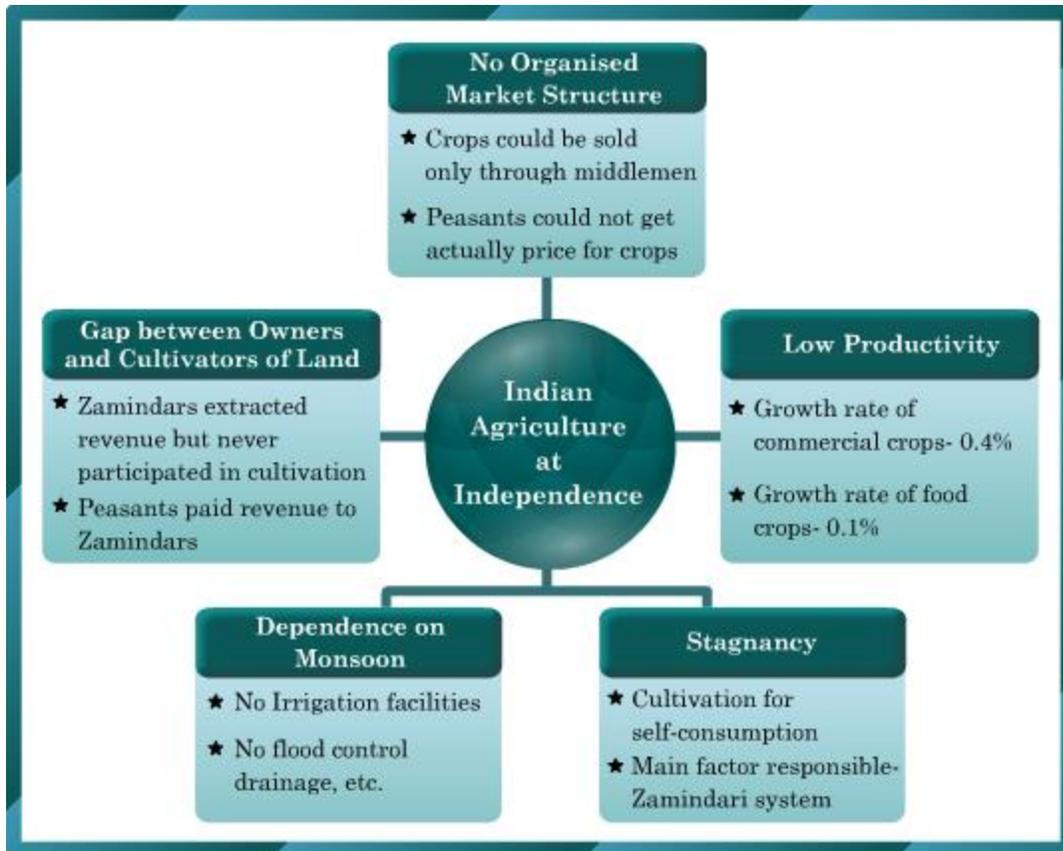
However, with the advent of the Colonial rule in India, the agriculture sector suffered a gradual setback. Though this sector still accounted for the majority section of population (nearly 85%), the growth of this sector was meagre. It suffered from low productivity. The production was subject to vagaries of monsoon and only the conventional techniques of production were used.

A major change, as introduced by the Colonial government was the increased role of the intermediaries. The British introduced the system of land revenue with which the peasants and the cultivators were put to the mercy of landlords (Zamindars). This further pushed the Indian agriculture in a distressed state.

In other words, it can be said that agriculture remained backward and stagnant. This backwardness and stagnancy of agriculture is evident from certain principle characteristics exhibited by this sector.

### **Characteristics of Indian Agriculture at the Time of Independence**

The following diagram depicts the key characteristics of the Indian agriculture sector at the time of independence.



The key characteristics of the agriculture sector at the time of independence are discussed below.

**1. Low productivity:** At the time of independence, even while area under cultivation was sufficiently large, the level of output as well as the productivity (measured in output per hectare of land) remained extremely low. The output of commercial crops grew at a mere 0.4%. The rate of growth of food grains was still lower at only 0.1%. According to the Economic Survey 2008–09, the productivity of wheat was 4 times lower in 1947 than its level in 2008.

Similarly, the production of rice was 20 times lower in 1947 than its level in 2008. The low level of productivity can be attributed to the fact that only the conventional techniques of production were used. The use of irrigation facilities, chemical fertilisers, etc. was negligible. Moreover, the production was highly dependent on the monsoon. Good monsoon meant that the production was high, on the other hand, bad monsoon meant that production was low. As a result, the overall level of production and productivity of food grains remained extremely low. However, it must be noted that in contrast to the productivity of the foodgrains, the productivity of cash crops was relatively higher. This was due to forced commercialisation of agriculture.

**2. Stagnancy:** One cannot deny the fact, that despite employing a large section of population, agriculture as an occupation remained stagnant. The farmers mainly

cultivated for self-consumption and hardly anything was left as market surplus. Thus, the Indian farmers were mainly producing food crops such as wheat and rice, which satisfied their self-consumption needs.

The main factor responsible for stagnancy in agriculture was the Zamindari system. The Zamindars (landlords) collected huge revenue from the peasants and cultivators but never did anything to improve the productivity of land. In other words, there was large scale exploitation of poor peasants at the hands of zamindars. Moreover, despite low production and productivity the farmers stuck to agriculture as an occupation due to lack of alternative means of occupation.

**3. Heavy dependence on monsoon:** Production in the agricultural sector was subject to vagaries of monsoon. Agriculture was deprived of other irrigation systems such as well and canals. Thus, a good monsoon implied good agricultural production, while a bad monsoon implied poor production. As a result, the production and productivity suffered. Lack of other facilities such as flood control, drainage, desalinisation of soil, etc. made agricultural production even more vulnerable.

**4. Gap between owners of land and cultivators of land:** Agriculture, during the colonial rule exhibited a gap between the owners of land (*zamindars*) and the actual cultivators of land. The agricultural system was such that while Zamindars never participated in the actual production process they could extract a large share of output from the actual cultivators (farmers). The poor peasants were forced to pay huge revenue (*lagan*) to the Zamindars in the form of money as well as in the form of food grains.

However, they never did anything to improve the condition of the production and productivity. The high revenue reduced the cultivators to just landless labourers. In other words, the main motive of the Zamindars was to maximise their own gains and profits while they never contributed to the cost of output. This implied that while the peasants and cultivators remained impoverished and in a state of absolute poverty, the owners of the land prospered.

**5. No organised market structure:** The agricultural sector suffered from lack of organised markets. The farmers produced mainly for self-consumption and whatever marketable surplus, if produced, could be sold only through the channel of middlemen. The presence of middlemen means that there was exploitation of the peasants and the cultivators. These middlemen purchased the crops from the peasants at a low price and in turn sold the crops in the market at a high price. As a result, the peasants could not get the actual price for their crops.

***All the characteristics described above point towards the meagre growth, stagnation and backwardness of agriculture.***

In the topic that follows we will discuss about the causes of such backwardness and stagnancy in the agriculture sector.

## Causes of Backwardness of Indian Agriculture

Various factors and policies followed under the Colonial rule were responsible for a dismal state of Indian agriculture. The following are some of the causes explaining backwardness and stagnancy of agriculture during the Colonial period.

**1. Introduction of land revenue system:** Under the colonial rule, the various systems of land settlement particularly *Zamindari System* was introduced in the agriculture sector. This system was introduced by Lord Cornwallis in Bengal in 1793. Under this system, the Zamindars were considered as the permanent owners of land. They were bound to pay a fixed sum of revenue to the British Government.

This meant that the Zamindars were under a continuous threat that if they did not deposit the specified revenue with the British Government on a particular date, they would lose their Zamindari rights. However, they shifted their burden of revenue obligation on the peasants. In other words, they extracted the revenue that they were required to pay to the British Government from the tillers or the cultivators of soil. Moreover, the Zamindars could raise the amount of revenue to be extracted at their own will. This implied that the cultivators and tillers of soil were subject to exploitation at the hands of Zamindars.

Profits from cultivation went away from the hands of cultivators to the Zamindars. This implied that hardly anything was left with the farmers as savings and for further investment. However, neither the Zamindars nor the British Government did anything to improve the condition of workers and peasants. Instead, they collected rent from the cultivators irrespective of their economic condition or the level of production in that particular year.

This implied that the peasants were subject to poverty and misery, while the Zamindars and the British Government prospered at their cost. Moreover, despite high degree of exploitation the poor peasants and cultivators could not leave the occupation because of the lack of alternative means of occupation for sustenance of life.

**2. Forceful commercialisation:** Before the Colonial rule, the Indian farmers practiced conventional subsistence farming. They grew food crops such as rice and wheat mainly for the purpose of self consumption. However, with the advent of British rule, the system of commercialisation was introduced in the Indian agriculture. The farmers were forced to shift from production of food crops to production of commercial crops (particularly, indigo). The cash crops grown in India served as raw material to the Britain's industrial base.

For example, indigo was required by the British industries to dye textiles. However this commercialisation did not benefited the peasants rather pushed them into indebtedness. While earlier they could fulfil their demand for food from their own grain production now they required cash for the same. This implied that, while on one hand,

Indian population suffered due to shortage of food grains and growing indebtedness of the peasants, on the other hand, British industries flourished.

**3. Lack of irrigation facilities and other resources:** Indian agriculture was deprived of basic facilities such as irrigation and flood control. This meant that agriculture was left to the vagaries of monsoon. Such high dependence on monsoon hampered the productivity to a large extent. Moreover, other factors such as frequent occurrence of famines, desalination of soil further worsened the situation. As a result, the agriculture performance deteriorated and it was made more vulnerable.

Thus, we see that the policies followed by the British left the agriculture sector in a deteriorated state.

### **State of Indian Industrial Sector on the Eve of Independence – Systematic Deindustrialisation Policy**

#### **Objective**

In this lesson, we will analyse the state of Indian industrial sector at the time of independence.

### **State of Indian Industrial Sector at the Time of Independence- Systematic Deindustrialisation Policy**

Similar to the agriculture sector, under the Colonial rule, the growth of Indian manufacturing activities were also hampered. Under the British rule, India could never develop a sound industrial base. On one hand, while the world famous Indian handicrafts sector declined, on the other hand, no modern industries could ever be established to cover the loss.

The British government followed the policy of **Systematic Deindustrialisation**. This policy had the following **two-fold motive**.

1. **Making India a supplier of raw materials:** The British government intended to reduce India to a mere supplier of cheap raw material for its own flourishing industrial base.
2. **Making India a market for finished goods:** Another important objective of the British government was to turn India into a virgin market for the machine made finished products produced by the British industries.

#### **Implications of Systematic De-industrialisation**

Such a policy of systematic deindustrialisation had the following **two important implications**.

## 1. ***Decay of traditional Indian handicrafts***

## 2. ***Dismal state of modern industries***

Let us discuss the two implications of the policy of deindustrialisation in greater detail.

### **Decay of Traditional Indian Handicrafts**

Prior to the Colonial rule, Indian handicrafts and stone works occupied an important place in the industrial sector. Indian crafts work and precious stone works were world famous. However, the various policies followed by the British in the industrial sector led to a gradual downfall of the traditional Indian handicrafts. The following are the factors responsible for decay of the Indian handicrafts.

1. ***Discriminatory tariff policy***: The colonial rule in India, corresponded with the industrialisation in Britain. The flourishing British industries required raw materials for the production and also a market to sell their finished machine-made products. British rule used India both as a source of cheap raw material as well as an easy accessible market for their finished products. To achieve this twin-fold objective, the British Government followed discriminatory tariff policy.

On one hand, they imposed heavy tariffs (export duties) on India's export of handicraft products, while on the other hand, allowed free export of India's raw material to Britain and free import of British products into India. Free export of Indian raw materials served the expanding industrial base of Britain.

As against this, the free import of British products to India meant that Indian domestic products faced stiff competition from Britain's machine made products. On the other hand, imposition of heavy tariff on the export of Indian handicrafts made them costlier in the international market and their demand fell drastically. Thus, the Indian handicraft and the handloom industry collapsed.

2. ***Competition from machine-made Britain goods***: The Colonial government allowed free import of Britain's industrial products in India. British finished goods were comparatively at comparatively low cost and superior in quality than the Indian handicrafts. Thus, the Indian handicrafts faced stiff competition from Britain's machine-made finished textile products. This narrowed the market for Indian industries. Thus, the Indian handicrafts industry broke down.

3. ***Emergence of new class***: Under the Colonial rule, the British culture and western lifestyle was popularised in India. There emerged a new class of people (consisting mainly of *zamindars*), who started favouring high quality British goods over Indian goods.

They used to spend lavishly on British goods. In other words, there was a change in demand pattern towards the British industrial products. This provided impetus for the

development of British industries at the cost of the domestic industries. This led to the gradual decline of Indian industries.

4. **Disappearance of princely states:** Prior to advent of British rule, India was divided into various princely states. These states were ruled by the *nawabs*, *raj*as, princes and emperors. They always patronised the handicrafts industries as a result of which, Indian handicrafts gained international fame.

But during the British rule, these princely states were ruined, thereby ruining the protection enjoyed by the handicraft industries. Thus, gradually the Indian handicrafts industry deteriorated.

5. **Development of railways:** One cannot deny the fact that the development of railways was the most important contribution of the British Government to India. However, they used the railways for their own interest. Railways eased the transportation of finished goods from Britain to different parts of India.

This implied that the scope of market widened for their products and it gained even more popularity. This increased the competition for Indian handicrafts which eventually lost out and collapsed.

The following diagram summarises the above mentioned points.



### Dismal State of Modern Industries

Modern industries in India were in a distressed state. Although during the second half of nineteenth century there emerged some modern industries, however, at the initial stage this development was confined mainly to cotton and jute textile mills. Cotton textile mills were mainly concentrated in western parts of the country (Maharashtra and Gujrat),

whereas the jute industries were concentrated mainly in Bengal.

In 1907, with the establishment of Tata Iron and Steel Company, the emergence of iron and steel industry also started in India. In addition to this, sugar and paper mill, cement industry were also established. However, the growth of these industries was meagre and made a negligible contribution to GDP. Moreover, there were no capital goods industries in the country.

Another drawback of the Indian industrial sector was the limited role of public sector. The public sector operated only in some of the key areas such as railways, power generation, development of ports and mass communication. On the whole, it can be said that the industrial sector was in a dismal state.

## **State of India's Foreign Trade Under the Colonial Rule**

### **Objective**

In this lesson we will study the state of India's foreign trade under the colonial rule.

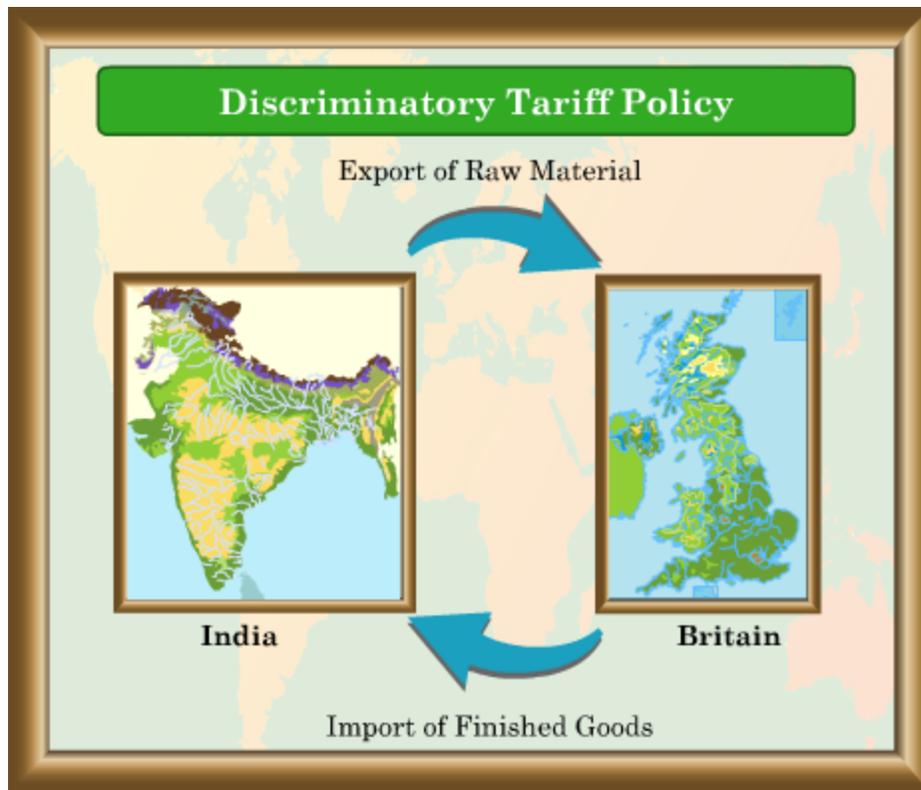
### **State of India's Foreign Trade Under the Colonial Rule**

India occupied a prominent place in the world trade since the ancient times. Indian cotton and silk textile, gems and precious stones work, ivory and stone work were world famous.

However, ***the trade and tariff policies pursued by the British Government adversely affected the composition, direction and volume of India's foreign trade.*** The trade and tariff policies were moulded by the Colonial government so as to serve their own interest. The following are the factors that led to a distressed state of foreign trade sector.

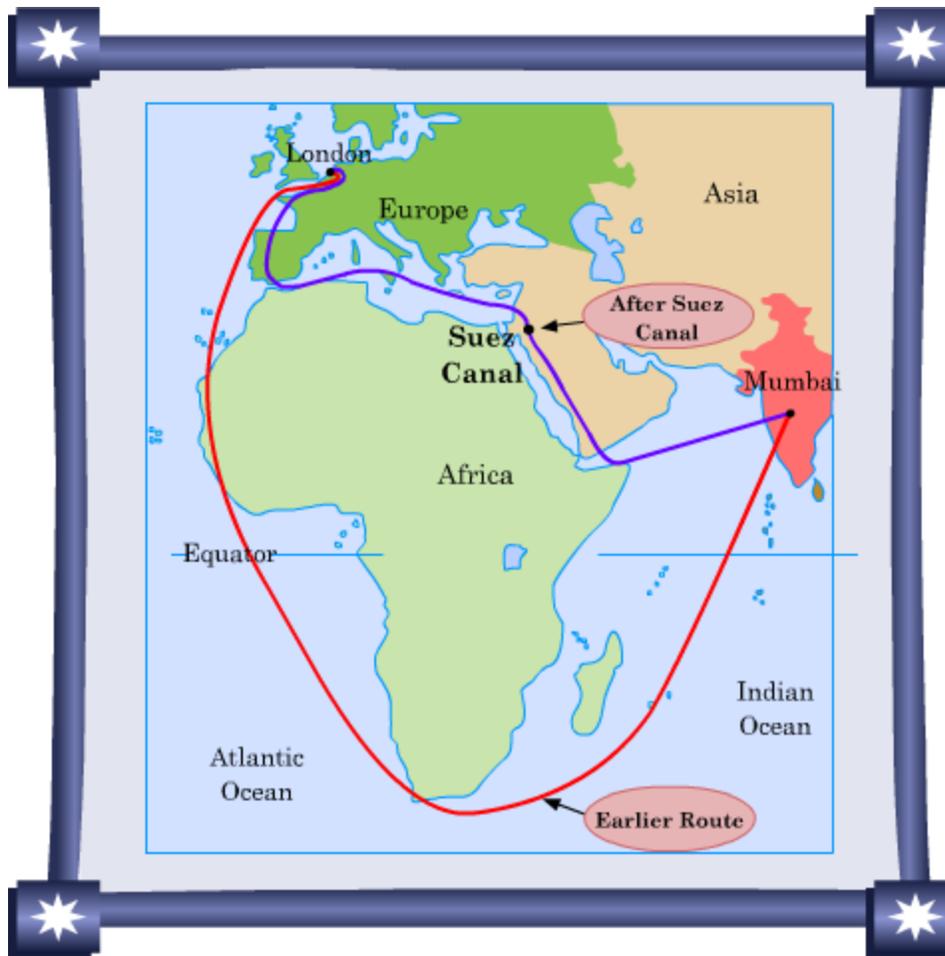
**1. Discriminatory tariff policy:** The British government followed a discriminatory tariff policy. Under the policy, they ***imposed heavy tariffs (export duties) on India's export of handicraft products, while allowing free export of India's raw material to Britain and free import of British products to India.***

This made the Indian exports costlier in the international market and their demand fell drastically. ***India was converted into an exporter of primary products*** (such as sugar, silk, jute, indigo, cotton, wool, etc.) ***and importer of British finished goods*** (such as cotton, silk and woollen clothes, capital goods and other finished goods).



**2. Monopoly control over trade:** The British rule affected not only the composition of trade, but also the **direction of foreign trade**. In the form of their exploitative policy, the British maintained a monopoly control over India's foreign trade. At that time, more than half of India's foreign trade was restricted to Britain and the rest was directed towards China, Persia and Sri Lanka. Export of Indian primary products served as raw material to the British industry while, the import of finished goods provided an easily accessible market to the British industry.

**3. Opening of Suez Canal:** The monopoly control by the British Government was further intensified by the opening up of Suez canal in 1869. Suez Canal is an important artificial waterway running from North to South across Isthmus of Suez in North-eastern Egypt. This canal provided a direct ship route between India and Britain avoiding the need to go via the African continent. With the opening up of this canal, the cost of transportation between India and Britain reduced significantly. This resulted in a fast movement of goods between the countries. As a consequence, the trade between India and Britain further intensified.



An interesting aspect of India's foreign trade during the colonial rule was that **India enjoyed a huge export surplus**. However, it should be noted that such an export surplus was generated **on account of the export of primary products**. Thus, while the primary goods served as raw material to the British industries, several essential commodities including food grains remained in short supply in the domestic market. Furthermore, the **revenue generated from the export surplus was never used to develop the Indian economy**. Rather, it was used to meet the administrative expenditure and other colonial pursuits of the British Government. The revenue was also used to finance expenses on war fought by the British. In addition, there was hardly any flow of gold and silver into India. This, according to Dada bhai Naroji, implied huge **Drain of Wealth**.

## State of India's Occupational Structure on the Eve of Independence

### Objective

In this lesson, we will analyse the state of India's occupational structure at the time of independence.

## **State of India's Occupational Structure at the Time of Independence**

Occupational structure refers to the distribution of population engaged in different occupations. In other words, occupation structure describes the number of people working/engaged in primary, secondary and tertiary sectors of the economy. During the British rule, the occupational structure in India did not change much.

The salient features of occupational structure of India at the time of independence are as follows.

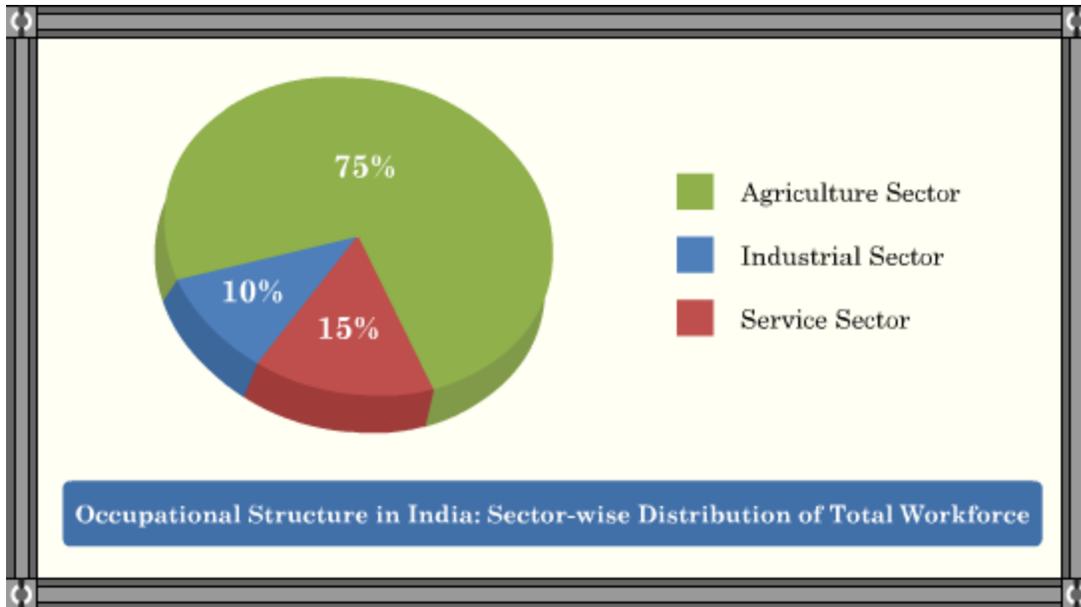
### **1. *Agriculture- The primary occupation***

At the time of independence, India was an agrarian economy. Nearly, 75% of the total workforce was dependent on agriculture to sustain livelihood. Such high dependence on agriculture indicates backwardness of Indian economy at the time of independence. However, despite being the major source of occupation, agriculture suffered from low production and low productivity.

The growth rate of the sector was at a meagre 0.4%. The introduction of *Zamindari* system further worsened the situation. This sector suffered from lack of investment. The revenue earned by the peasants and cultivators was barely enough to sustain livelihood. Moreover, despite the low growth rate, the poor peasants and cultivators stuck to the occupation due to lack of alternative means of livelihood.

### **2. *Industry and service -The bleak occupation***

In contrast to the agricultural sector, the manufacturing sector and the service sector accounted for only a small fraction of the total workforce. Merely 10% of the total workforce was engaged in the manufacturing and industrial sector. Similarly, the service sector accounted for only 15% of the total workforce. However, similar to the agriculture sector, the industrial sector also suffered from low growth rate. This was due to the lack of investment initiatives and unfavourable tariff structure as introduced by the British. The Indian industrial sector failed to contribute much to India's GDP. This indicated the underdeveloped state of Indian economy.



### **Unbalanced Growth**

The three sectors of the Indian economy i.e. agriculture, industrial and tertiary sector showed unbalanced growth in the sense that they were not equally developed. While the agriculture sector was relatively developed, the other two sectors were at an infant stage. In addition to this, there also persisted regional variation in the occupational structure in India.

While on one hand, states such as Tamil Nadu, Andhra Pradesh, Kerala, Bengal and Bombay experienced a fall in the agricultural workforce with a gradual rise in the dependence on the manufacturing and service sector, on the other hand, states such as Orissa, Rajasthan and Punjab experienced a rise in the agricultural workforce.

States	
Rise in Industrial Workforce	Rise in Agriculture Workforce
➤ Tamil Nadu	➤ Orissa
➤ Andhra Pradesh	➤ Rajasthan
➤ Kerala	➤ Punjab
➤ West Bengal	
➤ Mumbai	

Hence, it can be said that an analysis of the occupational structure in India at the time of Independence, points towards the underdeveloped state of Indian economy along with regional disparity in terms of occupational structure.

## Demographic profile of India during British Rule, Demographic Transition

### Objective

In this lesson, we will analyse the demographic profile of India during the British rule.

### Theory of Demographic Transition

Demographic profile of a country refers to the study of various characteristics of the population over a period of time. In other words, demographic profile refers to the analysis of various statistics or facts related to the population of a country.

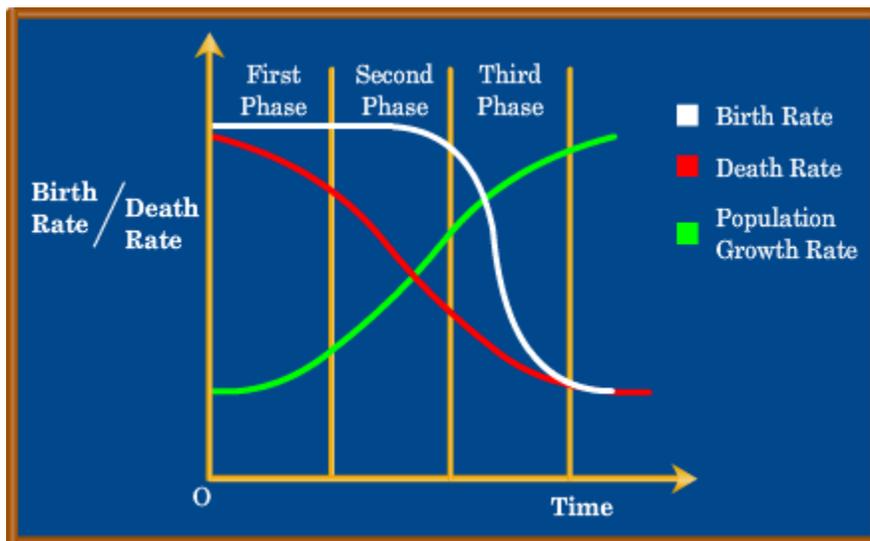
A study of the pattern of growth rate of population and its characteristics for various countries over several years reveals that over a period of time, as a country develops, its population depicts certain peculiar characteristics at certain intervals of time. Based on this fact the **theory of Demographic Transition** was developed. According to this theory, every country passes through the following three phases of demographic transition.

**First Phase**- This phase is marked by high birth rate as well as high death rate. Consequently, the rate of growth of population is low. In this phase, the country is in the initial phase of development and features such as massive poverty, low standard

and quality of living, low survival rate are prevalent in the country. Such a state is marked by high infant mortality, low life expectancy, low literacy, etc.

*Second Phase*- In this phase, the country starts developing at a rapid pace. There are advancements in health and sanitation facilities, improvement in the literacy rate, etc. As a result of these advancements the death rate starts falling while the birth rate still remains at a high level. Falling death rate coupled with high birth rate leads to high rate of population growth.

*Third Phase*- In the third phase, with further developments in the country both birth rate as well as death rate fall. This results in low rate of population growth.



### Demographic Profile of India During the British Rule

To initiate the analysis of demographic profile in India, the first official census was conducted in the year 1881. Since then census is conducted every 10 years. It involves a detailed estimation of the population size, along with a complete demographic profile of the country.

During the colonial rule, India's demographic condition depicted a stagnant and backward economy. Pre-colonial India was in the first phase of demographic transition. Both the birth rate as well as the death rate were as high as 48 per thousand and 40 per thousand, respectively. Due to high birth rate and high death rate, the population growth rate was stagnant. The infant mortality rate was also very high at 218 per thousand. The Life expectancy was quite low at 32 years. In addition, the literacy rate was also very low at just 16 percent. Also, the society suffered from gender bias. Low literacy rate and gender bias indicated social backwardness of the country. India was featured with massive poverty, low standard of living and low survival rate in the country. The main reason for such a demographic condition of India was the lack of health care facilities and lack of health awareness.

The first phase of demographic transition continued till the year 1921. The year **1921** is regarded as the defining year or the '**Year of Great Divide**'. With this year, India entered the second phase of demographic transition. After 1921 India witnessed continuous rise in the population growth rate. In other words, after 1921, India's population growth rate never declined and showed a consistent upward trend.

For example, during the 10 year period from the year 1921 to 1931 India witnessed an addition of 2.76 crore to its population. The next census in 1941 showed an increase of 3.96 crore in the population. After 1951, India witnessed an immensely high population growth rate or 'population explosion'.

At the time of independence, India faced a serious challenge in terms of demographic condition and the immediate concern was to reduce the population growth rate along with improvements in other demographic indicators. India is yet to enter the third phase of demographic transition.

## **Infrastructure Development in India during the British Rule**

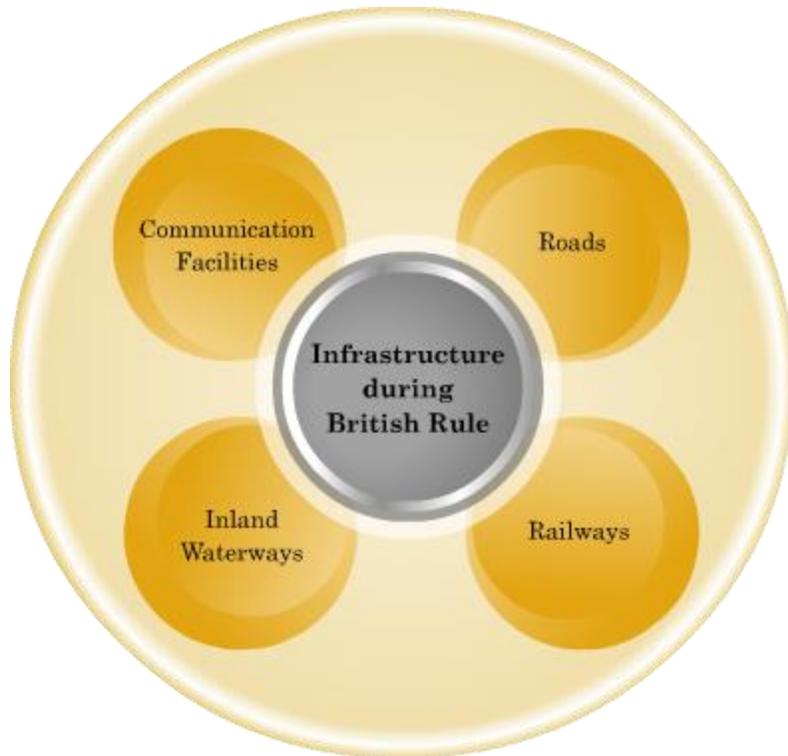
### **Objective**

In this lesson, we will go analyse the state of infrastructure development in India during the British rule.

### **Infrastructure Development in India During the British Rule**

Infrastructure refers to the basic economic and social elements which are essential for the growth and development of a nation. In other words, infrastructure includes all the basic amenities such as transportation, communication, health, education, services, etc. which forms an integral part of the development of an economy.

One cannot deny the fact that under the British rule, there was significant infrastructure development in the country. However, the bonafide motive of the British behind the infrastructure development was only to serve their own colonial interest rather than development of the Indian economy. The following points highlight the development of infrastructure in India during the British rule.



1. **Development of roads:** The British initiated the construction of roads in India. The roads served the purpose of facilitating transportation of raw materials from different parts of the country to the ports. However, the roads were developed only on those routes that served the economic interest of the British. On the other hand, the majority of the regions suffered due to lack of connectivity, particularly at the time of natural calamity, war, etc. Besides, there was lack of all-weather roads.

2. **Development of railways:** The Colonial government introduced railways in the country. The first railway train started in India in the year 1853. Railways were developed mainly for two purposes, firstly, for the transportation of finished goods of British industries to the interiors of India and secondly, for the transportation of raw materials from different regions of India to the ports.

In this way, the railways helped in the expansion of markets for the finished products of British industries. Further, the railways facilitated the commercialisation of agriculture. For instance, cash crops such as indigo that were required by the British industries could now be easily transported.

This commercialisation of agriculture helped in increasing the exports for the country. However, India could not benefit from the increased exports, rather the self-sufficiency of the farmers in food grains got hampered.

Although railways were introduced by the British with their interest for self-economic development, but it also had certain social benefits for India. Railways narrowed the geographical distances to a large extent and made long distance travel easy.

3. **Development of inland waterways:** Similar to the introduction of and development of roads and railways, British also initiated the development of ***inland waterways*** in the country. Various ports were developed for easy and fast exports and imports. However, the extent of waterways remained limited as their development often proved uneconomical and costly.

4. **Development of communication facilities:** Besides various transportation facilities, British also developed communication facilities in India. The most important of the communication facilities was the post and telegraph facilities. Development of posts and telegraph services enhanced the efficiency and effectiveness of the British administration. However, the development of these services also served the general public.

Thus, it can be said that although some of the infrastructural developments were initiated by the British, their aim was to serve their own interest, rather than growth and development of the Indian economy.

## **Positive Impacts of British Rule in India**

### **Objective**

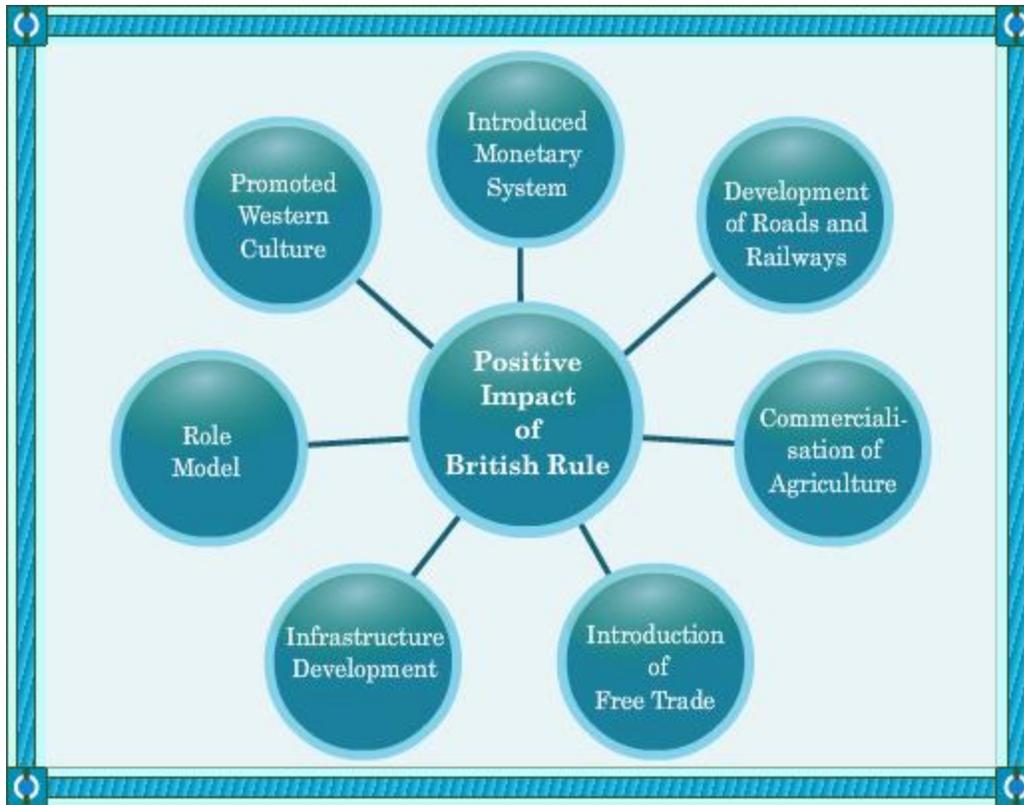
In this lesson, we will analyse the positive impact of British rule in India.

### **Positive Impacts of British Rule in India**

In the last few lessons, we studied the impact of the colonial rule of the British on various sectors of the economy. Analysis reveals that the British rule adversely affected India and left it in a distressed state. However, one cannot deny the fact that although the colonial government largely exploited India, they unintentionally provided India with some benefits as well.

Though the British introduced various structural changes with the exploitative purposes but, these changes, also proved beneficial for the Indian economy to a certain extent.

Some of the positive contributions made by the British in India are highlighted in the below mentioned points.



### **1. Development of railways and roadways**

The introduction of roads and railways by the British proved to be an important step in the development process of Indian economy. Roads and railway network reduced geographical distances to a large extent. In other words, it improved inter-regional connectivity.

Greater connectivity helped enhance cultural integrity in the country. Moreover, a good road and railway network helped in the improvement of trade. Thus, it provided greater scope for the social and economic growth. Furthermore, good connectivity proved helpful in times of natural calamities such as flood, famines, etc. Besides, railways also facilitated commercialisation of agriculture.

### **2. Commercialisation of agriculture**

British forced commercialisation in agriculture in India. The introduction of commercial agriculture was an important breakthrough in the history of Indian agriculture. In the pre-colonial times, the Indian agriculture was of subsistence nature and mainly food crops were produced. But with the commercialisation of agriculture, the agriculture production was carried out as per the market requirements. Thus, commercialisation of agriculture provided greater income earning opportunities for the farmers. This helped in improving the standard of living of the farmers.

### **3. Introduction of free trade**

British forced India to follow free trade pattern during the colonial rule. This is the key concept of globalisation today. The free trade provided domestic industries with a platform to compete with the British industries. The introduction of free trade led to a rapid increase in the volume of India's exports.

### **4. Development of infrastructure**

Development of various infrastructure facilities such as transport, post and telegraph provided social benefits to the country. Such facilities improved connectivity in the country.

### **5. Promoted western culture**

With the advent of British rule, there emerged a new class of people who favoured western products and western style more than the Indian products. Gradually, this western culture spread across the country. Moreover, English as a language was popularised by the British and promoted western form of education. The English language acted as a window to the outside world. This helped in the integration of India with the rest of the world. Today, India is the second largest English speaking nation in the world.

### **6. Administrative Structure**

British under their Colonial rule followed an efficient and effective administrative structure. The ways and techniques of the British administration acted as a role model for the Indian politicians and planners and helped in the planning process in the post-independence period.

### **7. Introduction of monetary system**

Under colonial rule, transformation took place from the barter system to the monetary system. This transition eased transactions in the economy to a greater extent.

Thus, while the colonial rule greatly exploited India and left Indian economy in a distressed state, it also provided India with some positive contributions that proved beneficial in the long run.