

Indian Economy on the Eve of Independence

Origin of British Rule

The British rule over India changed the course of history in India. The foundation of British Empire in India was laid by [Battle of Plassey, fought in 1757](#).

Basic Purpose of British Rule

The main purpose of the British rule in India was to use Indian economy as feeder economy for the development of British economy. They [exploited India's natural as well as human resources](#) for the glory of their own country. Finally, after 200 years of British rule, India [gained independence](#) from them on the [15th August, 1947](#).

Low Level of Economic Development Under Colonial Rule

Before the advent of British rule, Indian economy was characterised with the following features:

1. **Prosperous Economy:** India was an independent, [self-reliant and prosperous economy](#).
2. **Agrarian Economy:** Agriculture was the [main source of livelihood](#) for most people and it engaged about [two-third of the total population](#).
3. **Well Known Handicraft Industries:** India was also known for its [handicraft industries](#) in the fields of cotton and silk textiles, metal and precious stone works, etc. Handicraft products [enjoyed](#) a worldwide market due to its reputation of fine quality of material used and the high standards of craftsmanship.

However, during the [British rule](#), the economic policies pursued by the Colonial Government (British Government) in India, were [concerned more with the protection and promotion of their own economic interests](#), than with the development of the Indian economy. Their policies brought a fundamental change in the structure of Indian economy. Their [two-fold strategy](#) (discussed later in the chapter under the heading 'De-industrialisation Decline of Handicraft Industry') [transformed the country into a supplier of raw materials and consumer of finished industrial products from Britain](#).

Low Level of National Income and Per Capita Income

The [economic condition](#) of a nation can be [judged](#) with the data of national income and per capita income. However, no sincere attempt was made by the British Government [to estimate India's national and per capita income](#).

- Some [individual attempts were made](#) by experts like Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai. But, all these estimates produced conflicting and inconsistent results.
- However, estimates of Dr. Rao on national and per capita incomes were considered very significant.
- Most of the studies revealed that [country's growth of aggregate real output during the first half of the twentieth century was less than 2% and only 0.5% growth in per capita output per year](#).

Agricultural Sector

India's economy under the British colonial rule was overwhelmingly rural and agricultural in character. [Nearly 85%](#) of the country's population lived mostly in villages and derived livelihood, directly or indirectly from agriculture.

Main Reasons for Stagnation in Agricultural Sector

1. Land Settlement System: The most [important reason for stagnation](#) in agricultural sector was the introduction of "[Zamindari System](#)" by the colonial government.

- Under this system, [profits accruing out of agricultural sector went to the zamindars in the form of 'lagaan'](#).
- The [main interest of the zamindars was only to collect lagaan](#) regardless of the economic condition of the cultivator.
- The [dates for depositing specified sums](#) of lagaan to British Government were also [fixed](#), failing which the zamindars were to lose their rights.
- The zamindars and the colonial government did nothing to improve the condition of agriculture.

2. Commercialisation of Agriculture: Commercialisation of agriculture means [production of crops for sale in the market rather than for self consumption](#).

- During the British rule, farmers were given higher price for producing cash crops, like cotton or jute. However, this did not improve the economic condition of farmers because instead of producing food crops, they were producing cash crops, which were to be ultimately used by the British Industries.
- Thus, British rule promoted shifting of crops from food crops to cash crops.

3. Low level of Productivity: [Low levels of technology, lack of irrigation facilities and negligible use of fertilizers](#) resulted in low level of productivity.

- The cultivator had [neither the means nor any incentive](#) to invest in agriculture.
- The zamindar had no roots in the villages, while the [British rule spent little on agricultural, technical or mass education](#).
- All this made it [difficult to introduce modern technology](#), which caused a perpetually low level of productivity.

4. Scarcity of Investment: India's agriculture was [facing scarcity of investment in terracing, flood-control and drainage](#). Although some farmers changed their cropping pattern from food crops to commercial crops, a large section of tenants, small farmers and sharecroppers neither had resources and technology nor had incentive to invest in agriculture.

Industrial Sector

The poor state of Industrial sector during the British rule is illustrated in the following points:

1. De-industrialisation-Divine of Handicraft Industry: British Government systematically destroyed Indian handicraft industries and no modern industrial base was allowed to come up. The primary motive of British rule behind the de-industrialisation was two-fold:

- (i) To get raw materials from India at cheap rates to be used by upcoming modern industries in Britain;
- (ii) To sell finished products of British industries in Indian market at higher prices.

The two-fold policy of British rule was enforced to ensure the maximum advantage of their home country.

2. Adverse effects of decline of Handicraft Industry: Decline of handicraft industries adversely affected the Indian economy in the following ways:

(i) High Level of Unemployment: The decline of Indian handicrafts resulted in unemployment on a mass scale. The displaced artisans were forced to take up agriculture for their livelihood. This increased the burden of population on villages and overcrowding in agriculture.

(ii) Import of Finished Goods: The Indian made goods could not withstand the foreign competition of machine made cheap goods. It resulted in the new demand in Indian consumer market, which was not fulfilled through locally made goods. Rather, this demand was profitably met by increasing imports of manufactured goods from Britain.

3. Lack of Capital Goods Industries: Capital goods industry refer to those industries which can produce machine tools, which are, in turn, used for producing articles for current consumption.

- During the British rule, there was hardly any capital goods industry to promote further industrialisation in India.
- British rulers did not pay any attention for their promotion as they always wanted Indians to be dependent on Britain, for the supply of capital goods and heavy equipments.

4. Low contribution to Gross Domestic Product (GDP): The growth rate of the new industrial sector and its contribution to the GDP or Gross Value Added (GVA) remained very small.

5. Limited role of Public Sector: Due to lack of public investment, India could not develop a sound industrial base under the colonial rule. The Public sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

Foreign Trade

The state of India's foreign trade during British rule is discussed as under:

1. Exporter of Primary Products and Importer of Finished Goods: India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute, etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery, produced in the British Industries.

2. Monopoly Control of British Rule: British Government maintained a monopoly control over India's exports and imports.

- More than ½ of India's foreign trade was restricted to Britain while the rest was allowed with few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).
- The opening of the Suez Canal in 1869 served as a direct route for the ships operating between India and Britain.

3. Drain of Indian wealth during British rule: Under the British rule, India became an exporter of primary products (raw material) and an importer of finished goods. There was huge export surplus due to excess exports. However, export surplus was used:

- To make payments for expenses incurred by an office set up by the colonial government in Britain.
- To meet expenses on war fought by the British government.
- To import invisible items.

Demographic Condition

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

- **1st Official Census:** The first official census was conducted in the year 1881. Though suffering from certain limitations, the census revealed unevenness in India's population growth. From 1881 onwards, census operations were carried out after every ten years.
- 1921: Year of the Great Divide:

The demographic condition during the Colonial rule is described in the following points:

1. High Birth Rate and Death Rate: Birth Rate refers to number of children born per thousand in a year. Death rate refers to number of people dying per thousand persons in a year. Both birth rate and death rate were very high at nearly 48 and 40 per thousand respectively.

2. Extremely Low Literacy rate: Literacy rate refers to total number of literate persons, expressed as a percentage of the total population. The overall literacy level was less than 16%. Out of this, the female literacy level was at a negligible low of about 7%.

3. Poor Health facilities: Public health facilities were either unavailable to large mass of population or, when available, were highly inadequate. As a result, water and air-borne diseases were widespread and took a huge toll on life.

4. High Infant Mortality Rate: Infant mortality rate refers to number of infants dying before reaching one year of age per 1,000 live births in a year. The infant mortality rate was quite alarming - about 218 per thousand, in contrast to 27 (approx.) per thousand in 2022.

5. Low Life Expectancy: Life Expectancy refers to the **average number of years for which people are** expected to live. Life expectancy was also very low - 32 years, in contrast to the present 69 years.

6. Widespread Poverty: There was no reliable data about the extent of poverty. But, there is no doubt that extensive poverty prevailed in India during the colonial period. The **overall standard of living of common people in India was very low and there was widespread poverty in the country.**

Occupational Structure

Occupational structure refers to **distribution of working persons across primary, secondary and tertiary** (service) sectors of the economy. So, all the production units of an economy are grouped into three broad sectors:

- **Primary Sector:** It includes production units **exploiting natural resources** like land, water, subsoil assets, etc. For example, farming, fishing, mining, animal husbandry, forestry, etc.
- **Secondary Sector:** It includes production units which are engaged in **transforming one good into another good**. These units convert raw materials into finished goods. For example, firms engaged in converting sugarcane into sugar, construction companies, power generation, etc. It is called secondary because it depends on primary sector for raw materials.
- **Tertiary Sector:** It includes production units engaged in **providing services**. For example, transport, education, finance, government administration, etc. This sector finds third place because its growth is primarily dependent on primary and secondary sectors.

During the colonial period, the occupational structure of India showed little sign of change. The state of occupational structure during the British rule can be summarized as under:

1. Predominance of Primary Occupation: The agricultural sector accounted for the largest share of workforce with **70-75%**. The manufacturing and service sectors accounted for 10% and 15-20% respectively.

2. Regional Variation: Another striking aspect was the growing regional variation.

- The states of **Tamil Nadu, Andhra Pradesh, Kerala, Karnataka, Maharashtra and West Bengal** witnessed a **decline in dependence of workforce on the agricultural sector** with a commensurate **increase in the manufacturing and service sector**.
- However, during the same time, there had been an **increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab**.

Infrastructure

Infrastructure refers to all such **activities, services and facilities**, which are needed to provide different kinds of services in an economy.

The state of infrastructure as inherited from the British rule is discussed below:

1. Roads: The colonial administration **could not accomplish much** on construction of roads **due to scarcity of funds**.

- The roads that were built, **primarily served the interests of mobilising the army and shifting raw materials**.
- There always remained an acute shortage of all weather roads to reach out to rural areas during the rainy season. As a result, people living in these areas suffered badly during natural calamities and famines.

2. Railways: The **most important contribution** of the British rule was to introduce railways in India in 1850. The railways affected the structure of the Indian economy in two important ways:

(i) Railways **enabled people to undertake long distance travel**. It broke geographical and cultural barriers and promoted national integration.

(ii) It **enhanced commercialisation of Indian agriculture**, which adversely affected the comparative self-sufficiency of the village economies in India.

3. Air and Water Transport: British Government took measures for developing the water and air transport. However, their development was far from satisfactory.

4. Communication: Posts and telegraphs were the **most popular means of communication**. The introduction of the **expensive system of electric telegraph in India served the purpose of maintaining law and order**.

Reasons for Infrastructural Development

The basic objective of British Government to develop infrastructure was not to provide basic amenities to the people, but to serve their own colonial interest.

1. The **Roads were built for mobilizing the army within India and for drawing out raw materials** from the countryside to the nearest railway station or port and to send these to England or other lucrative foreign destinations.

2. Railways were developed by the Britishers mainly for three reasons:

- (i) To have **effective control and administration over the vast Indian territory**;
- (ii) To **earn profits through foreign trade by linking railways with major ports**;
- (iii) To **make profitable investment** of British funds in India.

3. The system of Electric Telegraph was introduced at a **high cost to serve the purpose of maintaining law and order**.

Positive Contribution of British Rule

- 1. Growth in Agricultural Sector:** Although agricultural productivity was very low during the British Rule, but in absolute terms, there was growth in agricultural sector due to expansion of aggregate area under cultivation.
- 2. Better means of transportation:** Development of roads and railways provided cheap and rapid transport system and opened up new opportunities of economic and social growth.
- 3. Check on Famines:** Roads and railways worked as a great check on the occurrence and impact of famines as food supplies could be transported to the affected areas in case of droughts.
- 4. Shift to Monetary Economy:** British rule helped Indian economy to shift from barter system of exchange (exchange of goods for goods) to monetary system of exchange.
- 5. Effective administrative setup:** The British Government had an efficient administration system, which served as a ready reckoner for Indian politicians.

State of Indian Economy on the Eve of Independence

- 1. Colonial Economy:** In India, colonial exploitation has a long history, spread over nearly 200 years.
 - British rule resulted in huge drain of wealth from India, in order to facilitate growing British industry with the supply of raw materials from India.
 - They also encouraged commercialisation of Indian agriculture to transform Indian economy into a British colony.
- 2. Semi-feudal Economy:** By the close of the British period, there were two aspects of the Indian economy.
 - (i) Introduction of Feudal System:** The land settlement system gave birth to feudal relations (landlord-tenant relations). The landlords used to charge very high rate of lagaan and were very cruel to the cultivators.
 - (ii) Introduction of Capitalist System:** The establishment of modern industries led to creation of two classes-capitalist and labourers.
- 3. Stagnant Economy:** A stagnant economy is one which is growing at a very low rate. On the eve of independence, Indian economy was a stagnant economy as country's growth of aggregate real output during the first half of 20th century was less than 2% and growth in per capita output was only 0.5%.
- 4. Backward Economy:** At the end of British rule, Indian economy was backward and underdeveloped. The main reasons for the backwardness of Indian economy were:
 - Low level of productivity;
 - Low per capita income;
 - Traditional methods of agriculture;
 - High birth and death rate;
 - Mass illiteracy.
- 5. Depleted (or Depreciated) Economy:** At the time of independence, Indian economy was a 'Depleted Economy'. Depleted Economy refers to an economy, where no arrangements have been made to replace the physical assets, depreciated due to excessive use.
- 6. Amputated Economy:** The Britishers policy of 'divide and rule' always promoted discrimination between various groups on the basis of religion, caste, language and culture.
 - As a result, on the eve of Independence, country was geographically divided into two parts: India and Pakistan.
 - Partition of the country virtually disrupted the economy due to: (i) Problem of rehabilitation of large number of refugees from Pakistan; and (ii) Shortage of raw material for jute and cotton mills as most of the cotton and jute growing areas went to Pakistan.

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