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Unit 1 - Introduction

Name: \_\_\_\_\_

Date: \_\_/\_\_/\_\_

### **Introduction**

The primary objective of this book, Indian Economic Development, is to familiarise you with the basic features of the Indian economy, and its development, as it is today, in the aftermath of Independence. However, it is equally important to know something about the country's economic past even as you learn about its present state and prospects

### **Low Level Of Economic Development Under The Colonial Rule**

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy — transforming the country into a net supplier of raw materials and consumer of finished industrial products from Britain. Obviously, the colonial government never made any sincere attempt to estimate India's national and per capita income

Some individual attempts which were made to measure such incomes yielded conflicting and inconsistent results. Among the notable estimators — Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai — it was Rao whose estimates of the national and per capita incomes during the colonial period were considered very significant. However, most studies did find that the country's growth of aggregate real output during the first half of the twentieth century was less than two per cent coupled with a meagre half per cent growth in per capita output per year.

## **Industrial Sector**

Even as the country's world-famous handicraft industries declined, no corresponding modern industrial base could come up to take pride of place so long enjoyed by the former. The primary motive of the colonial government behind this policy of systematically deindustrialising India was two-fold.

The intention was, first, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and, second, to turn India into a sprawling market for the finished products of those industries.

During the second half of the nineteenth century, modern industry began to take root in India, but its progress remained very slow. Subsequently, the iron and steel industries began coming up in the beginning of the twentieth century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907. A few other industries in the fields of sugar, cement, paper etc. came up after the Second World War.

However, there was hardly any capital goods industry to help promote further industrialisation in India. Capital goods industry means industries which can produce machine tools which are, in turn, used for producing articles for current consumption.

## **Agriculture Sector**

India's economy under the British colonial rule remained fundamentally agrarian — about 85 per cent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture.

Agricultural productivity became incrementally low though, in absolute terms, the sector experienced some growth due to the expansion of the aggregate area under cultivation. This stagnation in the agricultural sector was caused mainly because of the various systems of land settlement that were introduced by the colonial government.

Particularly, under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivators.

To a very great extent, the terms of the revenue settlement were also responsible for the zamindars adopting such an attitude; dates for depositing specified sums of revenue were fixed, failing which the zamindars were to lose their rights. Besides this, low levels of technology, lack of irrigation facilities and negligible use of fertilisers, all added up to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity

### **Foreign Trade**

India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade. Consequently, 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 factories of Britain.

For all practical purposes, Britain maintained a monopoly control over India's exports and imports. As a result, more than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran). The opening of the Suez Canal further intensified British control over India's foreign trade. The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy

### **Demographic Condition**

Various details about the population of British India were first collected through a census in 1881. Before 1921, India was in the first stage of demographic transition. The second stage of transition began after 1921. However, neither the total population of India nor the rate of population growth at this stage was very high.

Public health facilities were either unavailable to large chunks of population or, when available, were highly inadequate. Consequently, water and air-borne diseases were rampant and took a huge toll on life. No wonder, the overall mortality rate was very high and in that, particularly, the infant mortality rate was quite alarming—about 218 per thousand in contrast to the present infant mortality rate of 63 per thousand. Life expectancy was also very low—32 years in contrast to the present 63 years.

### **Occupational Structure**

During the colonial period, the occupational structure of India, i.e., distribution of working persons across different industries and sectors, showed little sign of change. The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively.

Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Maharashtra and West Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors.

## **Infrastructure**

Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop. However, the real motive behind this development was not to provide basic amenities to the people but to support various colonial interests. Roads constructed in India prior to the advent of the British rule were not fit for modern transport. The colonial administration also could not accomplish much on this front due to a shortage of funds.

There always remained an acute shortage of all-weather roads to reach out to the rural areas during the rainy season. Naturally, therefore, people mostly living in these areas suffered grievously during natural calamities and famines.

The British introduced the railways in India in 1850 and it is considered as one of their most important contributions. The railways affected the structure of the Indian economy in two important ways. On the one hand it enabled people to undertake long distance travel and thereby break geographical and cultural barriers while, on the other hand, it fostered commercialisation of Indian agriculture which adversely affected the comparative self-sufficiency of the village economies in India.

Along with the development of roads and railways, the colonial dispensation also took measures for developing the inland trade and sea lanes. However, these measures were far