

*"India is the pivot of our Empire... If the Empire loses any other part of its Dominion we can survive, but if we lose India, the sun of our Empire will have set."*

*Victor Alexander Vruce, the Viceroy of British India in 1894*

## 1.1 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 stands today in the aftermath of Independence.

However, it is equally important to understand the country's economic past even as you study its present condition and future prospects. So, let us first examine the state of India's economy prior to Independence and consider the various factors that shaped India's post-independence development strategy.

The structure of India's present-day economy is not merely the result of recent developments; its roots are deeply embedded in history—particularly in the period of British colonial rule, which lasted for nearly two centuries until India gained independence on **15 August 1947**.

The sole purpose of British colonial rule in India was to turn the country into a **supplier of raw materials** for Britain's own rapidly expanding modern industrial base.

An understanding of the **exploitative nature** of this colonial relationship is essential for any meaningful assessment of the kind and level of development the Indian economy has achieved over the past seven and a half decades.

## 1.2 Low Level of Economic Development under the Colonial Rule

India had an independent economy before the advent of British rule. Although agriculture was the main source of livelihood for most people, the Indian economy was also characterised by various forms of **manufacturing activities**.

India was particularly renowned for its **handicraft industries**—especially in the fields of **cotton and silk textiles**, **metal work**, and **precious stone crafts**. These products enjoyed a **worldwide market**, due to the **fine quality of materials** used and the **high standard of craftsmanship** evident in all exports from India.

### Box 1.1: Textile Industry in Bengal

**Muslin** is a type of cotton textile that originated in **Bengal**, particularly in and around **Dhaka** (spelled "Dacca" during the pre-independence period), now the capital of **Bangladesh**.

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'**Daccai Muslin**' gained **worldwide fame** as an exquisite cotton textile. The **finest variety**, known as **malmal**, was so delicate and refined that foreign travellers referred to it as *malmal shahi* or *malmal khas*, implying that it was **fit for royalty**.

The **economic policies** pursued by the colonial government were focused more on the **protection and promotion of British economic interests** than on the development of India.

These policies led to a **fundamental transformation** in the structure of the Indian economy—reducing India to a **supplier of raw materials** and a **consumer of finished goods** manufactured in Britain.

Naturally, the colonial government made **no sincere effort** to estimate India's **national or per capita income**. A few individuals did attempt such estimations, but the results were often **conflicting and inconsistent**.

Among the notable estimators were:

- **Dadabhai Naoroji**
- **William Digby**
- **Findlay Shirras**
- **V.K.R.V. Rao**
- **R.C. Desai**

Of these, **V.K.R.V. Rao's estimates** during the colonial period were considered **particularly significant**.

However, **most studies concluded** that during the **first half of the twentieth century**:

The **growth of aggregate real output** was **less than 2%** per year.

The **growth in per capita output** was a **meagre 0.5%** per year.

### 1.3 Agricultural Sector

Under British colonial rule, **India's economy remained fundamentally agrarian**—with about **85% of the population** living in villages and deriving their **livelihood directly or indirectly from agriculture** (See **Box 1.2**).

However, despite agriculture being the main occupation for such a large section of the population, the **agricultural sector experienced stagnation** and, at times, even **deterioration**.

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### Box 1.2: Agriculture During Pre-British India

The **French traveller Bernier** described **17th-century Bengal** in glowing terms:

“The knowledge I have acquired of Bengal in two visits inclines me to believe that it is richer than Egypt. It exports, in abundance, cottons and silks, rice, sugar and butter. It produces amply—for its own consumption—wheat, vegetables, grains, fowls, ducks and geese. It has immense herds of pigs and flocks of sheep and goats. Fish of every kind it has in profusion. From Raj mahal to the sea is an endless number of canals, cut in bygone ages from the Ganges by immense labour for navigation and irrigation.”

**Note:** Contrast this agricultural prosperity in the 17th century with the **agricultural stagnation** that marked India around the time the British left the country—**nearly 200 years later**.

Despite some **absolute growth in agriculture** due to the **expansion of cultivated area**, **agricultural productivity remained very low**.

The stagnation in agriculture was largely the result of the **exploitative land revenue systems** introduced by the British. Chief among these was the **Zamindari System**, particularly implemented in the then **Bengal Presidency** (comprising parts of present-day eastern India).

- Under this system, the **profits from agriculture went to the zamindars**, not the cultivators.
- Most **zamindars did nothing** to improve agricultural conditions.
- Their **only interest was collecting rent**, regardless of the economic condition of the farmers.

The **terms of revenue settlements** made this worse:

- Zamindars had to **deposit a fixed revenue amount by a certain date**, or they risked losing their rights.
- This pressured zamindars to **extract maximum rent**, often **causing great misery and social tension** among cultivators.

In addition to these exploitative systems, other factors further worsened the situation:

**Low levels of technology**

**Lack of irrigation facilities**

**Negligible use of fertilisers**

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All of these contributed to the **dismal levels of productivity** in the agricultural sector.

There was, however, **some evidence of relatively higher yields in certain regions**, especially where **cash crops** were grown. This was due to the **commercialisation of agriculture**, which the British encouraged for their own benefit.

#### 1.4 INDUSTRIAL SECTOR

As in the case of agriculture, India could not develop a sound industrial base under colonial rule. While the country's world-famous **handicraft industries declined**, the British did not allow the rise of any **modern industrial base** to replace them.

##### Colonial Objectives Behind De-Industrialisation

The colonial government followed a deliberate policy of **systematic de-industrialisation** of India, guided by two primary motives:

**1.To turn India into a supplier of raw materials** for Britain's growing modern industries.

**2.To convert India into a vast market** for Britain's finished products, ensuring continued industrial expansion in Britain to its maximum advantage.

As a result:

Indigenous handicraft industries collapsed, leading to **massive unemployment**.

Indian consumers were left with a **demand for goods** that was now filled by **cheap manufactured imports from Britain**.

##### Beginning of Modern Industry in India

From the **second half of the 19th century**, modern industries began to appear in India, but progress was **very slow**.

**Cotton and Jute Textile Mills** were the first to be established:

**Cotton mills**, dominated by Indians, came up in **Maharashtra and Gujarat**.

**Jute mills**, dominated by foreigners, were mainly in **Bengal**.

In the **early 20th century**, the **iron and steel industry** emerged:

**Tata Iron and Steel Company (TISCO)** was founded in **1907**.

After **World War II**, a few more industries—**sugar, cement, paper**, etc.—were established.

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## Limitations of Industrial Development

Despite these developments, India's industrial sector faced several major limitations:

**Lack of Capital Goods Industry:** There was hardly any development in industries producing **machine tools**, essential for further industrialisation.

**Negligible Impact on GDP:** The growth rate of the modern industrial sector and its contribution to **GDP or Gross Value Added** remained very small.

**Public Sector Limitations:** The public sector's operations were extremely limited, restricted to:

**Railways**

**Power generation**

**Communications**

**Ports**

A few other **departmental undertakings**

**Handicraft Replacement Was Inadequate:** The emergence of scattered modern manufacturing units did **not compensate** for the near-total displacement of traditional handicrafts.

## 1.5 FOREIGN TRADE

India has been an important trading nation since ancient times. However, during the colonial period, the **restrictive policies** related to **commodity production, trade, and tariffs** pursued by the British government **adversely affected** the structure, composition, and volume of India's foreign trade.

### Colonial Trade Structure

Under British rule:

- India became an **exporter of primary products** like:
  - Raw silk, cotton, wool, sugar, indigo, jute, etc.
- It turned into an **importer of finished goods** such as:
  - Cotton, silk and woollen clothes
  - Capital goods like light machinery from British factories

For all practical purposes, **Britain had monopoly control** over India's exports and imports.

## Trade Dependence on Britain

- Over **half of India's foreign trade** was with **Britain**.
- The rest was limited to a few countries like:
  - **China, Ceylon (Sri Lanka), and Persia (Iran)**.
- The **opening of the Suez Canal** further **tightened British control** over India's trade routes and economic transactions.  
*(See Box 1.3 in the textbook for details.)*

## Export Surplus: A Double-Edged Sword

A defining feature of India's foreign trade throughout the colonial period was the generation of a **large export surplus**. But this surplus was **economically harmful** for India due to several reasons:

1. **Essential commodities** like food grains, clothes, kerosene, etc., were **scarcely available** in the domestic market.
2. The export surplus **did not bring gold or silver** into India.
3. Instead, it was used to:

**Pay for British administrative expenses** in Britain

**Fund British war efforts**

**Import invisible items**, leading to a significant **drain of Indian wealth**

## 1.6 DEMOGRAPHIC CONDITION

The first systematic collection of information on the population of British India was carried out through the **Census of 1881**. Though limited in accuracy, this census revealed the **uneven nature of population growth** across the country.

### Census Operations and Demographic Transition

After 1881, **census operations were conducted every ten years**.

**Before 1921**, India was in the **first stage of demographic transition**, characterised by:

High birth rate

High death rate

Slow and fluctuating population growth

- **Post-1921**, India entered the **second stage**, marked by:
  - Declining death rates

- Continued high birth rates
- However, even during this stage, **neither the total population nor its growth rate was very high.**

### Poor Social Development Indicators

Several **social indicators** of development during the colonial period were deeply concerning:

- **Literacy Rate:**
  - Overall literacy was **less than 16%**
  - **Female literacy** was extremely low at **around 7%**
- **Public Health Conditions:**
  - Health facilities were either **inaccessible** or **inadequate** for the majority
  - **Water- and air-borne diseases** were widespread, causing high casualties

### Mortality Rates:

**Overall mortality rate** was very high

**Infant mortality rate** was **about 218 per 1,000 live births**  
(Compare this with the present rate of **33 per 1,000**)

### Life Expectancy:

Only **32 years** during the colonial period(Compared to the **current life expectancy** of about **69 years**)

### Widespread Poverty

Though **reliable poverty data** is unavailable for the colonial period, historical evidence confirms that **extensive poverty** prevailed. This contributed significantly to the **poor demographic profile** of India at the time.

## 1.7 OCCUPATIONAL STRUCTURE

During the **colonial period**, India's **occupational structure**—that is, the **distribution of working people across various sectors of the economy**—showed **very little change** over time.

### Sector-wise Distribution of Workforce

- The **agricultural sector** continued to **dominate**, employing **about 70–75%** of the workforce.

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- The **manufacturing sector** accounted for only **around 10%**.
- The **services sector** employed approximately **15-20%** of the population.

This skewed distribution highlights the **overwhelming dependence on agriculture**, with **minimal diversification** into industrial and service-related employment.

### Regional Variations

One of the noticeable features of the occupational structure during this period was the **growing regional disparity**:

- In regions such as the **Madras Presidency** (comprising present-day **Tamil Nadu, Andhra Pradesh, Kerala, and Karnataka**), as well as parts of **Bombay and Bengal**:
  - There was a **decline in agricultural dependence**.
  - A **rise in employment** in **manufacturing and services** sectors was observed.
- In contrast, states like:
  - **Orissa**
  - **Rajasthan**
  - **Punjab**  
witnessed an **increase in workforce share** in the **agricultural sector**, indicating **regional backwardness** in industrial and service sector development.

## 1.8 INFRASTRUCTURE

During the **colonial period**, basic infrastructure such as **railways, ports, roads, water transport, postal services, and telegraphs** was developed in India. However, the **primary aim** of this development was **not to serve the Indian population**, but rather to **further British colonial interests**.

### Roads

Roads built **before British rule** were **not suitable for modern transport**.

Under colonial rule, new roads were constructed mainly to:

- **Mobilise the army** across India.
- **Extract raw materials** from rural areas and transport them to **railway stations or ports** for export.

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There was a **serious shortage of all-weather roads**, especially in rural areas.

- As a result, rural populations suffered greatly during **natural calamities and famines**.

## Railways

- **Introduced in 1850**, the **railways** were considered one of the most significant British contributions to India.
- Their impact on the Indian economy was two-fold:

### 1.Positive Social Impact:

Enabled **long-distance travel**, reducing **geographical and cultural barriers**.

### 2.Negative Economic Consequences:

Promoted the **commercialisation of Indian agriculture**, weakening the **self-sufficiency of village economies**.

Although exports increased, the **benefits did not reach the Indian people**.

Railways mainly served **colonial commercial and administrative needs**.

## Inland and Sea Transport

Efforts were made to develop **inland waterways and sea lanes**, but these were generally **unsatisfactory**:

Example: The **Coast Canal** on the **Orissa coast** was built at great expense but proved **uneconomical**.

It could not compete with the **railway line** running parallel to it and was **eventually abandoned**.

## Communication Systems

- The **electric telegraph system**, though expensive, was introduced **mainly to maintain law and order**.
- **Postal services** did serve a **public purpose**, but remained **inadequate** throughout the colonial period.