YOUR BUDDY FOR UPSC PRELIMS - LAWXPERTSMV INDIA

MACRO-ECONOMICS (NCERT XI INDIAN ECONOMIC DEVELOPMENT

CHAPTER 1: INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

– LOW LEVEL OF ECONOMIC DEVELOPMENT UNDER THE COLONIALRULE
– AGRICULTURAL SECTOR
– INDUSTRIAL SECTOR
– FOREIGN TRADE
– DEMOGRAPHIC CONDITION
– OCCUPATIONAL STRUCTURE
– INFRASTRUCTURE

WHY ONE SHOULD READ ABOUT THE STATE OF ECONOMY BEFORE INDEPENDENCE>
An understanding of the economy before independence is necessary to
know and appreciate the level of development achieved during the postindependence period.

Economy of a country includes all production, distribution or economic activities that relates with people an determines the standard of living.

On the eve of independence Indian economy was in a **very bad shape** due to the presence of British colonial rule. The Britishers generally framed policies that favoured England. Thus, in 1947, when British transferred power back to India, we inherited a crippled economy.

India's National and Per Capital Income Under Colonial Rule: There were no efforts from the part of the colonial government to measure the national and per capital income of India.

Low Economic Growth : Under Colonial Rule India had an independent economy before the arrival of British rule. But the Britishers, dominated it for over a period of 200 years. Britishers framed policies that protected and promoted the economic interests of their own country. They transformed India into supplier of raw materials and consumer of finished goods from the factories of Britain. Such policies affected Indian economy very adversely. In this context, we will discuss the conditions of certain sectors that were badly affected by the presence of colonial rule, i.e. on the eve of independence.

State of Agriculture : Sector Agriculture was the main source of livelihood for most of the people of India, and about 85% of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture. Inspite of such a large segment of the population being dependent of agriculture, either directly or indirectly, this sector was facing stagnation and constant deterioration, as is brought forward through the following points.

1. Low Level of Productivity : Productivity, i.e. output per hectare of land was very low. This led to a low level of output, inspite of a large

2. High Degree of Vulnerability : " Agriculture was vulnerable to climatic factors and mostly affected by erratic rainfall. Poor rainfall generally led to a low level of output and also to crop failures. No effort was made by British Government to provide permanent source of irrigation facilities for the farmers.

The reasons for stagnation of agricultural sector were

(i) Land Revenue System : The Britishers introduced the zamindari system. The zamindars were recognised as permanent owners of the soil. Zamindars were to pay a fixed sum to the government as land revenue and they were absolutely free to extract as much from the tillers of the soil as they could. Their main interest was in rent collection regardless of the economic conditions of cultivators and this caused misery and social tension among the latter. Apart from this there are two more systems namely*, the Ryotwari and the Mahalwari were prevalent.*

(ii) Lacking of Resources : Because the tillers had to pay huge amount of rent, referred to as 'Lagaan', they were not left with any surplus to be able to provide for resources needed in agriculture in the form of fertilisers or providing for irrigation facilities. This further lowered the agricultural productivity.

(iii) Commercialisation of Agriculture : Commercialisation of agriculture refers to shift from cultivation for self-consumption to cultivation for sale in the market. Instead of producing food crops, farmers were producing cash crops, which were ultimately to be used by British industries.

State of Industrial Sector : In the pre-british period, India was particularly well-known for its handicraft industries, in the fields of cotton and silk textiles, metal and precious stone works, etc. These products enjoyed a worldwide market based on the reputation of the quality of material used and the high standards of craftsmanship. But the Britishers followed a policy of systematic de-industrialisation by creating circumstances conducive to the decay of handicraft industry and not taking any steps to promote modern industry and reduced India to a mere exporter of raw material and importer of finished goods.

The following points bring forward the state of the industrial sector at the eve of independence.

1. Decay of Handicraft Industry : The traditional handicraft industry in India enjoyed worldwide reputation, but the British misrule in India led to the decline of Indian handicraft industry.

The Britishers adopted the following policies to systematically destroy the handicraft industry.

(i) Discriminatory Tariff Policy of the State : The Britishers followed a discriminatory tariff policy by allowing tariff free exports of raw material from India (to provide for the requirements of their industries in Britain) and tariff free import of British Industrial products (to promote British goods in India), but placed a heavy duty on the export of handicraft products. So, Indian handicraft products started loosing their domestic as well as foreign markets.

(ii) Competition from Machine-made Products : Machine-made products from Britain were cheap and better in quality than the handicraft products. This competition forced many a handicrafts to shut down their business.

(iii) Introduction of Railways in India : The Britishers introduced Railways in India, to expand the market of its low priced industrial products. Consequently, the demand of high-priced handicraft products started to fall, thus leading to the downfall of handicraft industry.

2. Slow Growth of Modern Industry : Under second half of 19th. century, modern industry showed slow growth. This development was conned to the setting up of cotton and jute textile mills. Subsequently, the iron and steel industries began coming up in the beginning of the 20th century. In this context, the Tata Iron and Steel Company (TISCO) was incorporated in August, 1907 in India. It established its first plant in Jamshedpur [Bihar, at present Jharkhand]. But, these industries were the result of private endeavour.

The state participation in the process of modem industrialisation was very limited, as is evident from the following points

(i) Limited Growth of Public Sector Enterprises : The public sector enterprises such as railways, power, post and telegraph were connected to areas which would enlarge the size of market for British products in India.

(ii) Lopsided Industrial Structure : The industrial growth was lopsided, in the sense that consumer goods industry was not adequately supported by the capital goods industry.

(iii) Lack of Basic and Heavy Industries : No priority was given for the development of basic and heavy industries. Tata Iron and Steel Mills was the only basic industry in India. Textile Industry in Bengal Muslin is a type of cotton textile which had its origin in Bengal,particularly, places in and around Dhaka (now the capital city of Bangladesh). Daccai Muslin had gained worldwide fame as an exquisite type of cotton textile. The nest variety of muslin was called malmal. Foreign travellers also used to refer to it as malmal shahi or malmal khas meaning that it was worn by or t for, the royalty. State of Foreign Trade India has been an important trading nation since ancient times. But when the restrictive policies of commodity production, trade and tariff were imposed by the colonial government, it adversely affected the structure, composition and volume of India's foreign trade.

Following were the reasons behind the poor growth of foreign trade

1. Exporter of Primary Products and Importer of Finished Goods Under the colonial rule, 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.

2. Britain's Monopoly Control Britain maintained a monopoly control over India's exports and imports. Due to this, 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 Suez Canal in 1869 further intensified British control over India's foreign trade.

3. Drain of India's Wealth An important characteristic of foreign trade throughout the colonial period was the generation of a large export surplus. Several essential commodities like food grains, kerosene, were scarcely available in the domestic market. Also, this surplus was not used in any developmental activity of India. Rather, it was used to maintain the administrative set-up of the Britishers or bear the expenses of war taught by Britain. All of this, led to the drain of Indian wealth.

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 began after 1921. However neither the total population of India nor the rate of population growth at this stage was very high. Though suffering from certain limitations, it revealed the Unevenness in India's population growth. The population grew at a rate of 1.2% up to the year 1951.

On the eve of independence the demographic condition was as follows (i) The overall literacy level was less than 16%. (ii) The female literacy level was at a negligible low rate of about 7%. (iii) Public health facilities were either unavailable to large chunks of population or when available, were highly inadequate. Infant mortality rate was 218 per thousand in contrast to present infant mortality rate of 63 per thousand. (iv) Life expectancy was very low 44 years in contrast to the present 66 years. (v) Both birth rate and death rate were very high at 48 and 40 per thousand of persons respectively.

State of Occupational Structure : During the colonial period, the occupational structure of India exhibited its backwardness. The agricultural sector accounted for the largest share of the work force which remained at a high of 70-75% of the work force and the manufacturing and services sectors accounted for only 10 and 15-20% respectively.

There existed a growing regional disparity with few states such as Orissa, Rajasthan and Punjab witnessing an increase in agricultural workforce while the states which were the parts of Madras presidency. Bombay and Bengal witnessed a decline in the percentage of work force dependent on agriculture.

State of Infrastructure: Infrastructure comprises of such industries which help in the growth of other industries. Under the colonial period, basic infrastructure such as railways, port per transport, posts and telegraphs developed. However, the real motive behind this development was not to provide basic amenities to the people but to sub serve various colonial interests.

The state of infrastructure under the colonial rule can be understood with the help of following points

1. Roads : Roads constructed before independence were not fit for modern transport. It was very difficult to reach rural areas during rainy season. The roads were built only to serve the purpose of mobilising the army within India and transporting raw materials from the countryside to the nearest railway station or the port for exporting it.

2. Railways : British rulers introduced railways in India in 1850 and it began its operation in 1853. It is considered as one of the important contribution of Britishers.

The railways affected the structure of the Indian economy in the following two ways (i) It enabled people to undertake long distance travel and thereby break geographical and cultural barriers. (ii) It fostered commercialisation of Indian agriculture which adversely affected the self-suciency of the village economies in India. So, the social .benets provided by the Railways was outweighed by the country's huge economic loss.

3. Water and Air Transport : The colonial rulers took measures for the development of water transport. The inland waterways, at times, also proved uneconomical as in the case of the coast canal on the Orissa coast. The main purpose behind their development was to serve Britain's colonial interest. The colonial government also showed way to the air transport in 1932 by establishing Tata Airlines. Thus, in this way it inaugurated the aviation sector in India.

4. Communication : Modern postal system started in India in 1837. The first telegraphy line was opened in 1857. The introduction of the expensive system of electric telegraph in India served the purpose of maintaining law and order.

CONCLUSION : By the time India won its independence, the impact of the two-century long British colonial rule was already showing on all aspects of the Indian economy.

- The agricultural sector was already saddled with surplus labour and extremely low productivity.
- The industrial sector was crying for modernisation, diversification, capacity building and increased public investment.

- Foreign trade was oriented to feed the Industrial Revolution in Britain.
- Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation.
- Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.
- In a nutshell, the social and economic challenges before the country were enormous.

CHAPTER 2 : INDIAN ECONOMY 1950-1990

– THE GOALS OF FIVE YEAR PLANS
– AGRICULTURE
– INDUSTRY AND TRADE
– TRADE POLICY: IMPORT SUBSTITUTION

INTRODUCTION : After independence, leaders of Independent India were to choose the type of economic system most suitable for our nation, a system which would promote the welfare of all rather than a few. Therefore capitalism is **shunned. If socialism** is adopted this would **end the realm of private property. They wanted to seek a balance between these two.**

Types of Economic Systems		
Every society has to answer three questions	CAPITALISM	SOCIALISM
What goods and services should be produced in the country?	In a market economy, also called capitalism, only those consumer goods will be produced that are in demand, i.e., goods that can be sold profitably either in the domestic or in the foreign markets.	In a socialist society the government decides what goods are to be produced in accordance with the needs of society.
How should the goods and services be produced? Should producers use more human labour or more capital (machines) for producing things?	If labour is cheaper than capital, more labour-intensive methods of production will be used and vice-versa.	The government decides how goods are to be produced and how they should be distributed.
How should the goods and services be distributed among people?	In a capitalist society the goods produced are distributed among people not on the basis of what people need but on the basis of Purchasing Power—the ability to buy goods and services. That is, one	In principle, distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase.