

## 1. Details of module and its structure

Module Detail	
Subject Name	Economics
Course Name	Indian Economic Development 01 (Class XI, Semester - 1)
Module Name/Title	Indian Economy on the Eve of Independence
Module Id	keec_10101
Pre-requisites	Knowledge about terms like colonial Rule, National Income, sectors of economy.
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none"><li>• Various features of Indian Economy at the time of its independence.</li><li>• Explain the factors responsible for underdevelopment of Indian Economy.</li></ul>
Keywords	Commercialization of agriculture, Cotton and jute textile mills, Demographic Transition, Handicrafts, Infant mortality rate, Life expectancy, Land settlement, Railways, Telegraph, Zamindari system.

## 2. Development Team

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### **Introduction**

Even after nearly seven decades of independence between 1947 to 2017, India is still listed among the low-income countries in the world. One of the major factors responsible for India's current economic status has been the historical developments that the country experienced. When the British left India in 1947 after almost two hundred years of rule, the Indian government inherited an economy which was the outcome of their vision. Hence it is necessary to study economic development that took place under the British government. Our analysis will focus on demographic condition, occupational structure and infrastructure, state of agriculture, industrial situation and foreign trade in India at the time of independence.

### **Demographic Condition**

The demographic condition of an economy is studied under the various heads such as growth of population, literacy level, mortality rates etc. The first census in India was conducted in 1872 in a non-synchronous manner. But various details about the population of British India were first collected through a census in 1881. Despite certain limitations, it revealed the unevenness in India's population growth. Subsequently, every ten years such census operations were conducted.

The Theory of Demographic Transition has three stages:  
Stage I, where both the Birth Rate and Death Rate are high.  
Stage II, where Birth Rate is high and Death Rate is low.  
Stage III, where both Birth Rate and Death Rate are low.

Comparing it to the theory of Demographic Transition, it can be easily verified that between 1881-1921, India was in the first stage of demographic transition. During this period the growth of population was negligible as both birth and death rates were very high and close to each other. The second stage of demographic transition began after 21 which witnessed higher growth of population. The second stage is marked by high birth rate and low death rate thus causing population to grow very fast. Between 1921 to the first census of independent India in 1951, population increased from about 25 crores to about 36 crores. So, at the time of independence India was already under the threat of heavy population pressure.

The various social development indicators such as literacy rate and mortality rates were also not encouraging at all. The overall literacy level was less than 16 per cent. Out of this, the female literacy level was quite negligible at about seven per cent. 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 infant mortality rate of 41 per thousand in 2016. Life expectancy was also very low—32 years in contrast to nearly 69 years as on 2016. This indicates that Public health facilities were totally inadequate. Consequently, water and air-borne diseases were rampant and took a huge toll on life.

### **Occupational Structure**

Occupational structure refers to distribution of working persons across different industries and sectors. It showed little sign of change during British rule. 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 percent respectively. It has been observed in various developed economies that higher the level of economic development higher the percentage of work force shift out from the agricultural sector to industrial and service sectors over time. This trend in the occupational

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structure of India was missing during the two centuries of British rule indicating that India remained an agrarian economy at the time of independence. There are two important factors responsible for this. One, before the invasion of the British, Indian handicrafts industries flourished under the Mughal Empire and the local Kings and Rulers. When the British invaded the country, they overpowered the Mughal Empire and defeated the local Kings or Rulers thus destroying the handicraft industries. As a result, the workers working in these industries were forced to move towards the rural areas and adopt agriculture as their main livelihood. Second, the British administration in India encouraged people to work in agriculture by paying the farmers in cash to supply raw materials needed for industries running in England. So agriculture remained the major occupation in India.

There was also significant regional variation in the distribution of work force. Maharashtra, West Bengal and parts of the then Madras Presidency which comprised areas of present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka, witnessed a decline in the percentage of the workforce that engaged in the agricultural sector with a commensurate increase in the manufacturing and the services sectors. On the other hand, other states such as Orissa, Rajasthan and Punjab witnessed an increase in the share of work force in agriculture during the same time.

### **Infrastructure**

One positive aspect of British rule is that there was creation of basic infrastructure such as railways, ports, water transport, posts and telegraphs. In fact the introduction of the railways in India in 1850 is considered as one of their most important contributions. The railways played a major role in national integration as it did enable people of India to undertake long distance travel and thereby break geographical and cultural barriers.

However, the real motive behind this development was to sub serve various colonial interests in the following ways.

1. Railways and roads were needed to transport the raw materials from countryside to the nearest port and from there to England. These raw materials, after reaching in England, used to be processed in industries there to produce finished goods. These goods were then exported back to India and other British colonies and countries. Once the finished goods reached the ports of India, these were then transported by

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the road and railways network to various parts of the country for sale to Indian consumers at higher prices. India became a big market for the British goods. So as a supplier of raw materials and consumer of British goods, India was called the “feeder economy”.

2. As you know that the British also colonized other countries where they used to fight wars. For that they were always recruiting people to build their army to fight the wars. Hence it was essential for them to construct road and railways network to mobilize the army within India.
3. The road and railways network were also used to transport the finished goods and other items to the port from where these were further exported to other colonies and countries. This way the British administration earned lots of foreign exchange.
4. Whatever infrastructures were created during the British rule, India did not benefit much from these facilities as expected as such facilities were inadequate and limited. It is evident from the fact that there always remained an acute shortage of all-weather roads to reach out to the rural areas, particularly, during the rainy season. Most of rural India remained cut off from the main stream. Naturally, therefore, people living in these areas suffered grievously during natural calamities and famines which occurred frequently during the British period. The social benefits, which the Indian people gained owing to the introduction of the railways, were thus outweighed by the country’s huge economic loss.

Besides roads and railways, the colonial dispensation also took measures for developing the inland trade and sea lanes. However, these measures were far from satisfactory. The inland waterways, at times, also proved uneconomical. For example, take the case of the Coast Canal on the Orissa coast. Though the canal was built at a huge cost to the government exchequer, its use was very limited or non-existent. The main reason being that it failed to compete with the railways, which soon traversed the region running parallel to the canal. Hence the project was ultimately, abandoned.

Another important development in infrastructure creation by the British in India was establishment of telecommunications system through the introduction of the [telegraph](#). In

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1850, the first experimental electric telegraph line was started between [Calcutta](#) (now Kolkata) and [Diamond Harbor](#). In 1851, it was opened for the use of the [British East India Company](#). In 1853 some parts of India were connected through telegraph lines which include Kolkata (then Calcutta) and Peshawar, Agra, Mumbai (then Bombay) and Chennai (then Madras). In 1854 a separate department was opened to provide telegraph facilities to the public. The first formal telephone service was established in the country in 1881 when the [Oriental Telephone Company](#) Limited of England was granted license by the government to establish telephone exchanges at [Calcutta](#), [Bombay](#), [Madras](#) and [Ahmedabad](#). Even though the electric telegraph service was an important development, it was mostly used for maintaining law and order. In fact, both the telegraph and postal services, despite serving a useful public purpose, remained all through inadequate.

### **State of Agriculture**

Before the British came to India, the agricultural situation in the country was very satisfactory. According to the French traveller Bernier, there happened to be endless number of canals, emerging from the Ganges for navigation and irrigation in Bengal which used to amply produce wheat, vegetables, grains, fowls, ducks and geese for its own consumption. It also exported, in abundance, cottons and silks, rice, sugar and butter. It had immense herds of pigs, flocks of sheep and goats and fish of every kind. As per Bernier, Bengal was even richer than Egypt.

However, on the contrary Indian agriculture suffered from stagnation under the British rule. Besides some improvement in production taking place due to expansion of area under cultivation, productivity in the agricultural sector remained low. Many factors were responsible for it. One, destruction of handicrafts industries in urban areas forced people to settle in rural areas and adopt agriculture as major occupation. Two, the industries in England required raw materials from India such as indigo, cotton etc. For this the British agents used to purchase these raw materials from the farmers by paying them cash. So, attracted by cash the farmers started cultivation of these crops by shifting resources from food grains production. This development of 'crop for cash' is called "Commercialization of

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Indian Agriculture". Three, both these factors created heavy population pressure on agriculture with 85 per cent of the population depending on this sector. At the time of independence this figure was nearly 75 percent which was still very high. Heavy population pressure was responsible for large scale unemployment as well. Four, the colonial government introduced zamindari system of land settlement in Bengal presidency to collect land revenue. Other similar types of settlement were also introduced in other parts of the country. These zamindars were asked to collect and deposit a fixed amount of revenue failing which they were to lose their status. So, the zamindars put all their efforts, including use of force, to meet the target of revenue collection rather than working for the development of poor farmers. Five, 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 low level of agricultural productivity. Six, a sizeable portion of the undivided country's highly irrigated and fertile land went to Pakistan. India's jute industry which enjoyed a near monopoly in the world market that time also suffered since almost the whole of the jute producing area became part of East Pakistan (now Bangladesh).

### **State of Industry**

Some modern industries did come up during the British rule during the second half of the nineteenth century. Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills were mostly located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills were mainly concentrated in Bengal. While the cotton mills were mostly owned by the Indians, the jute mills were mostly foreign owned. The most significant development however, took place in the beginning of twentieth century when the Tata Iron and Steel Company (TISCO) was incorporated in 1907. A few other industries in the fields of sugar, cement, paper etc. also came up after the Second World War.

However, there was hardly any capital goods industry such as manufacturing of machine tools to help promote further industrialisation in India. So, like agriculture, the India did not do well to develop its industrial base. The advent of British caused destruction of the handicrafts industries due to internal wars as said earlier. This created massive unemployment and forced people to move towards rural area and adopt agriculture as

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occupation which in turn created heavy burden on agriculture itself. The establishment of a few manufacturing units here and there was no substitute to this wholesale displacement of the traditional handicraft industries. Furthermore, the growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.

The fact is that the colonial policy happened to be against industrialization in India for two specific reasons. One, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and, two, to turn India into a sprawling market for the finished products of those industries.

### **State of Foreign Trade**

The conditions prevailing in agriculture and industrial sectors did affect the foreign trade of the country. Commercialization of agriculture forced India to become an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. The main destination of export happened to be England where industries used these raw materials to produce consumer goods and export them back to India. Since India did not have enough industries to produce finished consumer goods, it became an importer of goods like cotton, silk and woollen clothes and capital goods like light machinery from Britain. So for all practical purposes, Britain maintained a monopoly control over India's exports and imports. It was found that more than half of India's foreign trade was restricted to Britain only. The opening of the Suez Canal in 1869 further intensified British control over India's foreign trade. Even though India could generate export surplus, there was hardly any inflow of gold or foreign currency as the surplus was used by the British administration to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on wars fought by the British government in different parts of the world to pursue colonialism, and the import of invisible items. This way the British used foreign trade to drain out the wealth of India.

The other countries with which India had trading relationship included China, Ceylon (Sri Lanka) and Persia (Iran).



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## **Conclusion**

India had already entered the second stage of demographic transition with high population growth that began from census of 1921. The quality of life indicated by educational achievements and health care was very poor. While as high as 84 per cent of the population was illiterate, the life expectancy was as low as 32 years. Infant mortality rate was alarmingly high at 281 per thousand. Creation of railways is an important infrastructure gifted by the British administration to India. However, its main purpose was to transport raw materials and army to serve the colonial interest more than that of people of India. Nearly three fourth of the total work force of India depended on agriculture thus making the country primary producing and industrially backward. Indian agriculture suffered due to heavy population pressure, prevalence of Zamindari system and commercialization. Britain remained India's major trading partner and exploited foreign trade to drain out India's wealth.