Unit-1 Economic Development Since Independence

Features of Indian Economy on the Eve of Independence:

1. Indian economy - underdeveloped - On the eve of independence, Indian economy was underdeveloped economy. As an underdeveloped economy, Indian economy had the following features -

(a) Low per capita income - Underdeveloped economies have low per capita income. India has no exception to it. In 1947-48, per capita income was Rs. 230. People were poor. They were not getting fair square meals a day. They had no shelter and clothing. Most of the people were unemployed.

(b) Poor infrastructure - On the eve of independence infrastructural development which comprised of communication and transport and electricity etc. was very poor.

(c) Dependence of imports - The country had to heavily depend on imports. Armed forces of the country also depended on foreign imports. Moreover, several consumer goods like sewing machines, medicines, oil, bicycles etc. were imported ~~on~~ from abroad.

(d) Illiteracy - Illiteracy was both cause and effect of poverty. Due to illiteracy, people were unable to use new techniques in agriculture and industry. They were unable to organize trade and commerce on modern lines. In 1948, rate of illiteracy was 18%. Thus 82% of the population was illiterate.

(e) Agricultural economy - Indian economy was predominantly agricultural. In 1948, about 70% population was engaged in agriculture. Moreover, agriculture constituted 50% of national income. But agriculture itself was backward. Regarding productivity, it was 110 kg/hectare for rice in 1947 as against 748 kg in Japan.

(f) Low development of industries - There was very little development of industries. Large industries used to produce consumer goods. Basic and and key industries were very less in number.

2. Stagnant economy – during the British period, Indian economy remained almost stagnant. There was very slow growth of economy. This was clear from the fact that for almost a century, the average annual growth rate of per capita income in India was not more than 0.5%. The high growth rate of population tended to make it difficult to maintain even the proposed growth rate. In fact poverty was wide-spread and about 40% people were living below poverty line. The causes of stagnation and backwardness are laissez faire, commer-cialization of agriculture, neglect of irrigation, destruc-tion of cottage and handicraft and economic drainage and discriminatory tariff policy.

3. Semi-feudal economy – during the British rule, Indian economy had a mixed mode of production. Feudalism was more prominant than other modes of production. A substantial developed capitalistic sector had emerged. Handicraftsman had lost their independent status and were engaged in a simple commodity production. Bonded labour force was prevalant in agriculture. Primitive social organizations existed in areas inhabited by the tribals.

4. Depreciated economy – On the eve of independence Indian economy was depreciated. In every economy, extensive use of factors of production inevitably leads to their wear and tear. If no arrangements are made to replace the depreciated factors then the stock of gross capital declines. This results into the fall in production capacity. Such an economy is called depreciated economy. After the second World War, Indian economy also turned into a depreciated economy. during World war-2 India had supplied large quantity of goods to Britishers. India was paid for it in terms of sterling. But due to lack of real capital, its production capacity declined.

5. Pre-dominance of agriculture – Agriculture is the main sector of Indian economy, which is in total contrast to the economic structure of a developed economy. More than

70 percent of the total population is engaged in agricultural activities while the picture is absolutely different in advanced countries. Therefore, the essence of Indian economy is an agrarian economy.

6. Underutilized natural resources - It has been rightly stated that India is a rich country inhabited by poor people. It means that the country possesses abundant stock of natural resources but the problem is that these resources are not fully utilized for the production of material goods and services. The result is poverty of the people. The vicious circle of poverty moves for year to year together.

7. Heavy population pressure - Population is a major factor influencing the nature of a country's economy. Over-population creates complex economic problems. The income per-capita is low, the efficiency of labour is not satisfactory and there is an ~~acture~~ acute housing shortage. Unemployment and low standard of living dominate the scene. In India, the rate of growth of population was about 1.25% per annum during 1941-51.

8. Capital deficiency - Deficiency of capital is another basic characteristics of Indian economy. In case of physical capital, its total stock is not adequate for equipping well to the entire labour. The major reason of low level of capital formation in India were (i) low inducement to invest and (ii) low propensity and capacity to save.

9. Famines - In the pre-British period famines had been occuring. These famines showed an unbridled increase in the 18th and 19th centuries. Between 1765-1858 the country experienced 12 famines and 4 scarcities. Similarly, between 1860-1908, 20 famines spread their wings. In 1943 Bengal famine shook the foundation of the country. William Digby estimated that during 1854-1901, 28.8 million persons died due to famines. In the famine of 1899-1900, 2.5 million persons died of starvation.

10. Industrial backwardness - On the eve of independence Indian economy was backward from industrial point of view there was deficiency of basic and heavy industries. Among heavy industries, there was Tata Iron and Steel Industry. The production of machines in the country was negligible. Statistics reveal

that in 1947 total production of iron and steel was 9 lakh tonnes.

11. <u>Low levels of living</u> – India has been, and even today is one among the poorest countries of the world. Other than few rich people, the common masses forced to lead a miserable life. Almost half of country's population is below the poverty line. Quantity of goods available per head of population is meager and the quality is invariably indifferent. Nutritional content of consumption is grossly inadequate and hunger, starvation and disease are fairly widespread.

12. <u>Lack of social overhead capital</u> – Social Overhead Capital comprises of such industries which help in the growth of other industries. social overhead capital or infrastructure as it is now sources of energy, communication, banking etc. Unfortunately not much attention was paid ~~on~~ to this during the British rule and consequently the development of industries in India remained slow and tardy.

13. <u>Widespread unemployment</u> – Unemployment in India is a direct outcome of rapidly increasing population. More people need more jobs but the underdeveloped economy of India can not accommodate them. This naturally leads to widespread unemployment. Thus unemployment becomes an all round problem in the country.

14. <u>Income disparities</u> – The gap between wealth and poverty is exceedingly wide in India. A handful of rich persons get a relatively large share of the total income while the large mass of poor population gets a relatively small portion of it. Inequalities of income are to be seen in the form of unequal distribution of land in the agricultural sector and concentration of economic power in non-agricultural sector.

15. <u>Absence of enterprise and initiative</u> – In India, enterprise and initiative are inhabited by the social system which denies opportunities for creative faculties. The force of custom, the rigidity atmosphere inimical to enterprise experimentation and innovation. Whatever little entrepreneurship exists tends to become monopolistic and quasi monopolistic.

Agricultural Sector on the Eve of Independence:

India's agricultural sector (on the eve of independence) exhibited four principal characteristics. These are as under –

1. **Low productivity** – Level of productivity (output per hectare of land) was extremely low. Low productivity implied low output, despite large area under cultivation. The table below shows production and productivity levels in 1947 for wheat and rice, compared with their levels in 2015–16.

Production and Productivity of wheat and rice – A comparison between the levels in 1947 and 2015-16

Crop	Productivity (kg per hectare)		Production (in lakh tonnes)	
	1947	2015–16	1947	2015–16
1. Wheat	660	3,093	64	935
2. Rice	665	2,404	220	1,032

The above table shows that productivity of wheat was nearly 4.7 times lower in 1947 compared with its level in 2015–16. Productivity of rice was nearly 3.6 times lower in 1947 compared with its level in 2015-16. Likewise, level of output of wheat was nearly 14.6 times lower, and that of rice was nearly 4.7 times lower in 1947 compared with their levels in 2015–16.

2. **High vulnerability** – Agriculture showed a high degree of vulnerability. Because it was excessively dependent upon rainfall. Good rainfall implied good output, while poor rainfall implied poor output. No effort was ever made under the British rule to develop permanent means of irrigation (including wells and canals).

3. **A wedge between owners of the soil and tillers of the soil** – Agriculture, during the British Raj was characterised by a wedge between owners of the soil on the one hand and tillers of the soil on the other. While the owners shared the output,

they seldom shared the cost of output. They were merely interested in maximising their rental income (in terms of share of output). The tillers of the soil were merely given enough for subsistence.

4. Small and fragmented landholdings – Landholdings were both small as well as fragmented. Accordingly, most landholdings were uneconomic; yielding low output at high cost.

What do these characteristics of Indian agriculture point to? Obviously, these point to the fact that the Indian agriculture (on the eve of independence) was both backward as well as stagnant. Backward is indicated by; (i) low productivity, and (ii) high vulnerability. Stagnation is indicated by a wedge between the owners of the soil and the tillers of the soil. The owners were crop sharers, not the cost sharers. The appropriated the entire surplus, after paying to the tillers what was barely enough for their subsistence. But they never invested this surplus in the growth of agriculture. Accordingly, agriculture continued to remain backward. Implying that it remained stagnant over a long period of time.

• Factors Causing Backwardness and Stagnation of Indian Agriculture During the British Period:

We can identify two principal factors that contributed to the backwardness and stagnation of Indian agriculture during the British rule. These are –

1. Land revenue system under the British Raj – The British government in India introduced a unique system of land revenue. It set up a triangular relationship among the government, the owner of the soil and the tiller of the soil. This was popularly known as Zamindari system ~~and the tiller of the soil~~ of Land Revenue. The distinct features of this system were as these –

(i) the Zamindars were recognised as permanent owners of the soil.
(ii) the Zamindars were to pay a fixed sum to the government as land revenue and
(iii) the Zamindars were free to extract as much from the tillers of the soil as they could.

The implications were seriously damaging for the farmers and the farming. Most importantly; ~~(i) It~~
(i) It led to unlimited exploitation of the tillers of the soil by the Zamindars.
(ii) Rates of land revenue were frequently raised by Zamindars.
(iii) Inability of the tillers to pay high rates led to their eviction.
(iv) Tillers were reduced to the status of landless labourers.
(v) As landless labourers, the tillers merely got subsistence wage (in kind).

Backwardness of the tillers (as landless labourers) led to backwardness of agriculture. Their perpetual backwardness led to stagnation of agriculture. They had no means (as well as no permanent interest) in improving agriculture. The Zaminders, on the other hand indulged in extravagance. They led a lavish life. They spent their revenue income on luxuries living and hardly convert their revenue income into investment in agriculture. Agriculture had to remain backward as well as stagnant.

2. Forced commercialization of agriculture - Commercialisation of agriculture refers to a shift from cultivation for self consumption to cultivation for the market. Farmers were forced to shift to commercial crops (indigo, in particular) from the conventional subsistence crops (like rice and wheat). Reason - Indigo was required by the textile industry in Britain for dying/bleaching of textile.

The farmers were lured or forced to accept advance payments for the cultivation of indigo. It exposed the subsistence farmers to uncertainities of the market.

While earlier they would grow grain for their family consumption, now they needed cash ~~for~~ to buy it from the market. But they would seldom have cash owing to their ~~mout~~ mounting indebtedness. Consequence — Perpetual indebtedness of the farmers and perpetual stagnation of farming.

Briefly, on the eve of independence, Indian agriculture was both backward as well as stagnant (non-vibrant). Low productivity and high vulnerability indicated backwardness. A rising wedge between the owners and the tillers by the Zamindars was the root cause of backwardness and stagnation. Forced commercialisation of agriculture (through advanced payments for the growth of commercial crops like indigo) exposed the marginal tillers to uncertainties of the market. This only compounded their poverty through perpetual indebtedness. Perpetual poverty of the farmers implied perpetual backwardness (as well as stagnation) of agriculture. Partition of the country in 1947 struck the final. The bulk of fertile land went to Pakistan, while the bulk of population remained in India. This increased pressure of population on land, which led to further erosion of productivity and multiplication of poverty.

- Industrial Sector on the Eve of Independence:

"Systematic de-industrialisation" is the term that describes the status of industrial sector during the British rule. It implied two things: (i) decay of world famous traditional handicrafts industry, and (ii) bleak growth of modern industry.

Decay of handicrafts — Prior to the British rule, handicraft in India enjoyed the worldwide reputation of excellence and quality. But, the British Raj contributed to their decays as a matter of economic and political policies. Following observations highlight how Indian handicrafts were systematically destroyed owing to discriminatory policies of the British govt.

besides other factors –

1. Discriminatory tariff policy of the state – The British rule in India coincided with industrial revolution in Britain. The British needed raw materials for their expanding industry, as well as market for their final products. They found India as a lucrative source of raw material, and a promising market for their industrial products. A discriminatory tariff policy was pursued. It allowed tariff-free export of raw materials from India and tariff-free import of British industrial products into India, but placed a heavy duty on the export of Indian handicraft products. As a consequence, while the British products started dominating the Indian markets, the Indian handicrafts products started losing their domestic as well as foreign market. Loss of market implied the loss of inducement to invest. Decay of handicrafts was the end-result.

2. Disaperance of princely courts – Prior to British rule, nawabs, rajas princes and emperors ruled different parts of the ~~courts~~ country. They used to partsonise the handicrafts, enabling the domestic crafts to acquire international reputation. The beginning of British rule implied the end of princely courts, and therefore, the end of state patronage to the handicrafts. Consequently, the handicrafts started decaying.

3. Competition from machine-made products – Machine-made products from Britain were low-cost products in India. Also, machine-made products out-classed Indian handicrafts products in precision and quality. Competition forced the Indian craftsmen to shut-down their enterprises forever.

4. New patterns of demand – Owing to the impact of British culture, a new class emerged in India which was keen to adopt the western lifestyle. This changed the pattern of demand against the Indian products and in favour of the British products. In the process, the Indian industry tended to perish.

5. Introduction of railways in India – Guided by self-interest, the British government introduced railways in India. This was to widen market for the British products in India. With the introduction of Railways, the size of the market for the low-cost British products started expanding while it started shrinking for the high-cost Indian products. This hastened the process of decay of the Indian handicrafts.

Briefly, the British government converted the Indian economy into a colonial market for the British industrial goods. Implying, exploitation of the Indian market as: ⓐ a source of raw material (for the British industry) and ⓑ a destination of demand for the British products. In the process, the handicrafts industry in India was marginalised and finally perished.

Bleak growth of modern industry – Under the 'British Raj' modern industry showed only a bleak growth. It was only in second half of the 19th century that the modern industry showed its emergence. But its growth was slow and tardy. No initiative was ever taken by the British government to industrialise the Indian economy. A few textile mills were established followed by some iron and steel enterprise (Tata Iron & Steel Company was founded in 1907). Subsequently, a few sugar, cement and paper mills were established. But, it was not owing to any state initiative. Instead, it was due to the changing economic scenario in the wake of World Wars I and II. These wars created a worldwide scarcity of industrial goods. The investors in India exploited the situation by establishing iron and steel, cement and paper industries. The state participation in the process of modern industrialisation was very limited. It confined only to the areas which would enlarge the size of the market for the British products in India. These areas included: (i) Rail-ways (ii) Power generation, (iii) Development of ports, and (iv) The means of communication.

• Long Period and Short Period Goals of Planning in India:

Planning in India was launched as a five-yearly exercise. So, planning came to be popularly known as Five Year Plans. First Five Year Plan was launched on April 1, 1951, ending on March 31, 1956. Since then ~~the~~ we have successfully completed 11 Five Year Plans and the 12th plan has been launched w.e.f. April 2012. Of course, in between the period April 1, 1966 – March 31, 1969, there was one annual plan during April 1, 1979 – March 31, 1980, and there were two annual period April 1, 1990 – March 31, 1992. But annual plans were formulated not as an alternative to FYPs. These were just a stop-gap arrangement when the Five Year Plan could not be launched owing to certain administrative compulsions.

Five Year Plans in India have been pursued with a well-defined set of objectives. These are broadly classified as long period and short period objectives.

Long period goals are common to all the Five Year Plans and are therefore generally studied as Common Goals of Five Year Plans or Objectives of Planning. Short period goals are plan-specific and are generally studied as Objectives of Plans. Depending on the ground realities, each plan is designed as a distinct plan with a distinct set of objectives. It must, however, be made amply clear that objectives of plans (referring to specific short period objectives of each plan) and objectives of planning complement each other. Truly speaking, short period objectives refers to 'plan-to-plan strategy' with a view to achieving the long period objectives of planning, as the common goals of Five Year Plans.

Long period goals/objectives –

Planning in India focuses on five long period goals/objectives as under –

1. GDP growth – Increase in GDP implies increase in the level of output in the economy. It implies an increase in the flow of goods and services in the economy. When

The increase in the flow of goods and services is consistent over a long period of time, it is called 'economic growth'. GDP growth becomes meaningless if it is overshadow by the growth rate of output, per capita GDP (indicating per capita availability of goods and services) may not increase. In a situation when per capita GDP is not rising (even when GDP is rising), quality of life of the people would not improve.

Increase in GDP (and per capita GDP) is an important objective of Five Year Plans in India. Per capita availability of goods and services must consistently increase, implying an increase in standard of living of the people over a long period of time.

Increasing in GDP depends on two factors: ① Increase in resource-base of the country, and ⓘ Increase in productivity (output per unit of input). Accordingly, planning in India is to ensure that natural resources are fully exploled and production technology is continuously implored and updated.

It may be noted in this context that economic growth (as indicated by GDP) should be accompanied with a change in structural composition of output refers to relative shares of primary, secondary and tertiary sectors in GDP. As growth proceeds, relative shares of the secondary and tertiary sectors must increase while that of primary sector must decline.

2. Full employment – It is another long period objective of Five Year Plans. Full employment refers to a situation when all the people in the working age group (referring to those who are able to work and willing to work at the market wage rate) are getting work. In other words, those who are able to work and are willing to work must get work. This is a social objective of planning. It implies that the process of economic growth in the country should not be hijacked by richer sections

of the society. Instead, there must be a high rate of participation so that the process of growth becomes 'inclu-sive' (and the fruits of growth are fairly distributed across all sections of the society). Two countries may achieve the same rate of economic growth (in terms of increase in per capita GDP) but in country A many may be unemployed, while in country B unemployment may be negligible. Country A is achieving jobless growth. It is growth without social justice. Country B is achieving growth with social justice, as most people are participating in the process of growth.

Jobless growth triggers social unrest. Ultimately, it hits the very process of growth: (i) directly by destroying national property, and (ii) indirectly through diversion of funds to the maintenance of law and order in the country. Thus, 'full employment' as a common goal of Five Year Plans is as important as growth itself.

3. Equitable distribution or equity – Economic growth would become a meaningless exercise if the benefits of it accrue to only a handful of people in the society.

Growth that causes a wedge between rich and poor as the growth that causes 'economic divide' finds no justification in terms of goals of Planning. Benefits of growth must spread across larger sections of the society, so that the distribution of income becomes equitable. Equitable distribution income implies social equality and this is one of the principal objectives or goals of planning in India.

Here we must appreciate the distinction between 'equal' ~~and~~ distribution and 'equitable' distribution. Equal distribution would mean every individual in the society gets the same share in the country's national income. It would imply a situation when a doctor gets the same salary as a ~~clerck~~ clerk in the hospital. No society would ever seek a situation like that.

Equitable distribution, on the other hand, refers to a situation when differences in income are allowed but only within certain limits. These differences are to be proportionate to the differences in qualifi-cations and skills of different individuals in the society. When a doctor gets ₹ 50,000 to perform a surgery (lasting for 1 hour) while, on the other hand, a factory worker gets ₹ 50,000 for the entire year (working 8 hours a day), the difference in income is too large to be socially justified. Such differences (which are socially unwarranted) must be corrected. 'Equity' (in terms of equitable distribution of income) implies that economic growth is related to social justice. It is only when economic growth is related to social justice that 'growth' is converted into 'deve-lopment'. Planning in India focuses on 'growth with social justice'.

4. Modernisation – It refers to updation and adoption of updated technology in the ~~purchase~~ process of growth. As noted earlier, output can be increased either by increasing the pool of resources (implying production capacity) or by using innovative technology. Modern age is the age of science and innovations. Science has offered us new ways of doing things, such that productivity in farms ~~has offered us new ways of~~ and factories has shown us an exponential rise over time. Green Revolution and factories has shown an exponential rise over time. Green Revolution in Indian agriculture is a well known example of how technology can transform a country from a net importer of foodgrains to a net exporter of foodgrains. Global IT revolution