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Analysis of Indian Economy: Before and After Independence

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Abstract

The impact of British economic policies was disastrous for Indian economic development and it marred the life of all sections, particularly the labor sections and put them into the life of poverty and destitution. In the present paper, there is analysis of Indian economic situations before and after independence. The main gainers from the British regime were the so called 'middle' class of Indian capitalists and professionals, and the noble villagers. Most of these were high caste Hindus though the Parsis and Sikhs did fairly well. The main losers were the Muslims who had formed the major part of the Moghul aristocracy, officer corps, lawyers, and artisans in the luxury handicrafts. The basic foundations of the Indian Economy began after the independence. India begins a new project upon its path of development by certain initiatives, by making five years plans. At present, the Union Budget, the Economic Survey termed external environment as challenging but projected a 7-7.75 per cent GDP growth rate in the next fiscal which could accelerate to eight per cent in a couple of years. The Economic Survey for 2015-16, which was passed recently by Parliament, also made a case for carrying forward the reform process to achieve macro-economic stability.

Keywords: Indian economy, Britishers and Government.

1. Introduction

In the beginning, our country India was rich in economy, culture and polity. But it was due to advent of foreigners that it gradually got pushed into backwardness. This is what is believed by most of the Indian researchers. However, the most British researchers attribute economic stagnation during the British period to: over population, religion, caste, social attitude, value system and other social institutions. This approach was called as colonial approach (Knowles, 1928; Anstey, 1952).

But the national scholars (Sarkar, 1985; Naoroji, 1901 and 1996; Chandra, 1981; Dutt, 1970; Ambedkar, 1925) rejected the statements of British administrators and writers of colonial schools with regard to India's economic underdevelopment, and strongly argued with suitable explanations that the economic policies of the British rule in India were primarily responsible for the country's bad economic conditions. According to them, the British rulers of India consciously shattered the country's economy, appro-priated her wealth and drained it out to England and created all possible working to its development.

In reporting a meeting of the Anti-Opium Society in 1888, a London paper stated:

"So far is wefr.onz taxing ourselves for India's benefit that we are regularly taxing India, for our own benefit? The proceeds of the opium monopoly and of the salt tax together only amount to ten millions, while the home charges of the Indian Government are fourteen millions sterling. But while we as a nation are thus pocketing one-fourth of the Indian revenue, we still have the effrontery lo talk of the sin of the opium trade and the barbarity of the salt tax."

Before the 1914-18 War, India financed more than two-fifths of Britain's total deficits, to ensure Britain's balance of payments surplus. By the end of the 1939-45 war, Malaysia's rubber and tin, African's gold and other minerals, and particularly the Middle East's oil, became added means by which Britishers maintained her balance of payments. As Clive himself said, India was

"A country of inexhaustible riches and one which cannot fail to make its masters the richest corporation in the world".

But the continuous transfer of so much wealth involved a constant drain of huge quantities of gold, silver, precious stones and other goods. The shortage of capital, particularly silver currency created to the destruction of internal trade and industry. The national scholars concluded that the decay of traditional industries, inadequate development of modern industries and increasing dependence of the people on agriculture during the British period were only due to the overall impact of bad British policies. The leaders and thinkers (i.e., Nehru, 1988), scholars (i.e., Dutt, 1970; Roy, 1997) have said that India was in transitional phase of progress before the advent of the Britishers and the capitalist development might have taken place in this country, if they could have escaped the colonial exploitation in the eighteenth and nineteenth centuries. But, D. R. Gadgil (1948), was not satisfied by the argument as according to him a number of factors which acted in India's pre-capitalist economy would not have permitted its development along the capitalist way.

Some of the British policies which hindered India's path of economic development are as follows:

1.1 Land System Policy

The growth of a new land system in India affected the India's economy. In 1793, Lord Cornwallis introduced permanent settlement in Bengal and neighboring states. By introducing this new Zamindari system, the peasants lost their ownership right over the land which in the past belonged to them. Since the Zamindars enjoyed the right to raise the rent they mercilessly exploited the tenants. After some times, the British extended the settlement policy to other states and created Zamindars there too, but they changed it to 'temporary settlement' under which land revenue would be reassessed after a period ranging between 25-40 years.

By a different land system called Ryotwari settlement was evolved for large parts of Bombay and Madras which subsequently was extended to North-Eastern and North-Western India. By this system, each peasant holding a plot of land was recognized as the landlord and made directly responsible to the state for the annual land revenue payment. The conditions of farmers under the Ryotwari system should not have been as bad as under the Zamindari system. The greed of the Britishers was responsible for the sad situations of farmers under this system.

So in the both cases, the land rents fixed were excessive and both the systems were instrumental in destruction of the organic village community based on customs and traditions (Datt and Sundharam, 2000). But the Zamindari system made the landlords the master of the village communities, the Ryotwari system cut through the heart of the village communities by making separate arrangements between each peasant cultivators and the state (Thorner and Thorner, 1974). There was a built in depressor and the economy move downwards. The exploitation of peasant under the Mahalwari system, in which all villagers collectively deposit the land revenue, was somewhat less practiced but this land tenure system was confined only to small parts of the country.

An eminent scholar, Bhatt remarks:

"*The capacity of the Indian cultivators to save and invest for increasing the productivity of land was considerably reduced because of the excessive and uncertain land taxes*" (Bhatt, 1963).

According to Mishra and Puri,

"*Due to defective land tenure system, virtually no investment was made in agriculture and the farm technology remained backward. Moreover, the size of holdings and the system of distribution of agricultural produce went against any improvement in agricultural production*" (Mishra and Puri, 1989).

1.2 Industry and Commerce Policies

The Britishers also ruined Indian economy through its industrial and commercial policies which favored the Britishers at the cost of Indian economy. At the instance of the newly emerged class, the British government levied protective tariffs on Indian manufacturers making their imports in England difficult. Until 1813, Indian cotton textiles sold to the British markets was about half the prices of the British cotton. So, the British government felt it necessary to levy protection. Despite of the protection levied when the Britishers failed to check entry of Indian cotton into it, it banned the use of Indian products.

"*Had this not been the case, had not such prohibitory duties and decrees existed, the Mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power steam. They were created by the sacrifice of the Indian manufacture*" (Wilson, 1970).

In the same manner, a deliberate policy was pursued to destroy other industries in India. The Court of Director opposed the use of Indian ships in trade between England and India which not only obstructed India's export to Britain, but also created a serious setback for the Indian shipping industry thereby serving the twin targets of Britishers. Tata wanted to set up an iron and steel plant in Central Provinces in 1880's but the government did not give him permission, preventing India to develop iron and steel industry. By the development of railway systems, iron and steel industries were developed in Western European countries and the UK. Hence, India lost the opportunity due to the negative approach of the Britishers. Also a big setback of Indian economy was the commercialization of agriculture to supply raw materials to British manufacturers. It led into two negative things for the Indians. First, it led to shortage of food grains especially during famine. In fact, according to historians the British created famine in India through its inhuman policy. Secondly, the manufactured engine goods with lot of incentives and privileges they received flooded into Indian markets; so, they destroyed Indian cottage and handloom industry. These were the important policies of British Empire through which it exploited India. India was the mute spectator to her own destruction by some foreign power. A historian Wilson had said,

"*Had India been independent, she would have retaliated, would have proposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation".*

The act of self-defence was not permitted to us; we were at the mercy of the stranger. British goods were forced upon us without paying any duty, and the Indian manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms (Dutt, 1963).

1.3 Revenue and Expenditure Policies

To maintain the political power, the British rulers always considered it was necessary to maintain a big army. In the nineteenth century, the expenditure on army was the largest single item, which accounted for roughly one-third of the total government expenditure. In addition to it, the expenditure on the British army stationed in India had to be borne by the Indian government. The pensions of army officers, expenditure on the office of the secretary of state for India, salaries of the members of the Indian council, expenditure on the India office and payment to the Bank of England for debt management were other expenditure which had little concern with India. Hence actually, India had to pay even for the imperialist growth of Britain in different parts of the world. The British government charged India for expenditures which were not even remotely concerned with the people of the country. All these expenditures were arbitrarily treated as the loans granted to India. The Indian revenue swelled from L 33 million to L 52 million a year during the first thirteen years of Crown administration and that deficit accumulated from 1866 to 1870 amounting to L 11.5 million. A home debt of L 3,00,00,000 was brought into existence between 1857 and 1860. (Jenks, 1927)

1.4 Drain of Wealth

A famous Indian reformer Dadabhai Naoroji emphasized that the drain of wealth and capital from the country was responsible for absence of development of India. According to him,

"The drain consist of two elements – first, that arising from the remittances by European officials of their savings, and for their expenditure in England for their various wants both

there and in India: from pensions and salaries paid in England, and second that arising from remittance by non-official Europeans" (Naoroji, 1901).

According to him, the drain amounted to L50 crores from 1835 to 1873. In his opinion the total drain from 1834 to 1839 amounted to L85 crore. In his estimates, the profits earned by the British capitalist from the capital invested in India have not been included. K.T. Shah and K.J. Khambata presented estimates of drain in the early decade of the twentieth century. In their opinion Britain appropriated annually under one head or in the other over 10 per cent of India's Gross National Income (Dutt, 1970).

Due to inhuman and exploitative British policies, the people were adversely affected. It effected more on the life of poor and labor. It created devastating famine for their misery. Extensive descriptions of poverty under the British rule have been presented by the scholars such as Naoroji, Dutt, Ray etc. According to Naoroji: "India is suffering seriously in several ways and is sinking in poverty" (Naoroji, 1901 and 1996) and that "masses of India do not get enough to provide the basic necessities of Life". He further said:

"The fact was that Indian Natives were more helots. They were worse than American slaves, for the latter were at least taken care of by their masters whose property they were" (ibid.: 652).

Sir W. Hunter, the then Director General of Statistics to the Government of India, wrote in his England's work in India that

"forty million of the people of India habitually go through life of insufficient food" (Ray, 1895: 149).

Sir Charles Elliot, the P. W. member of the Governor General's Council, had remarked:

"*I do not hesitate to say that half the agricul-tural population never knows from one year end to another what it is to have a full meal"* (Joshi, 1912).

R. K. Mukherjee, one of the famous sociologists in India, has constructed an index of real wages for the United Provinces for various years during the period 1600 to 1938 on the basis of available historical material. According to his estimates, the real wages of both skilled and unskilled workers steadily declined during the British rule. The real wages of skilled workers in 1928 were roughly 50 per cent of what they were in 1807. The decline in real wages of the unskilled workers was much more as they were not even 40 per cent of the real wages in 1807 (Mukherjee, 1948).

Some positive things did also happen during British period. The Railways you see today was first introduced by the British government in 1850. Between 1850-1855 the first jute mill, the first cotton mill and the first coal mine were established. In the later years the length of Railway lines and the number of the above said mills kept increasing. The British government also established telecommunication, telegraph, post offices in the country.

2. Economy after Independence

India became an independent nation on August 15, 1947.Prior to that the Indian subcontinent was under the British rule for nearly two centuries which is a very long period to sufficiently influence every aspect of the country such as politics, culture, social system, economy etc. On 14 August 1947, Nehru had said:

"Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge. The achievement we celebrate today is but a step, an opening of opportunity, to the great triumph and achievements that await us."

He reminded the country that the tasks ahead included

"*the ending of poverty and ignorance and disease and inequality of opportunity".*

These were the basic foundations on which India begin a new project upon its path of development since gaining independence in 1947. India inherited the economy from the British who were ruling this country for their own gain. The Britishers were never interested in the development of

India or its citizens. Their aim was to exploit the resources of India and take away as much as possible to their country England. That was the reason why railway lines were laid so that things can be transported to port areas for shipment to England. Even if construction of railways was a positive contribution, it was mostly used to serve the British interest. At the time of independence, Indian economy was generally rural and agricultural. At the beginning years of the First Five-year Plan, contribution of the primary sector in GDP at factor cost was largest followed by tertiary sector and secondary sector respectively? Thereafter the major drive towards diversification and modernization of the Indian economy in the following plans resulted in increased shares of the secondary and tertiary sectors and declined share of the primary sector in the national product. The share of the primary sector in GDP at factor cost declined from 54.56% in 1950-51 to 27.87% in 1999-00 while share of the secondary sector was 16.11% in 1950-51 and increased to 25.98% in 1999-00. The share of the tertiary sector increased from around 29% to 46% during this period. Indian economy also experienced a major structural change within the industrial sector as a result of the major drive for industrial diversification in the mid-fifties.

Whereas, the share of the capital goods industries and the basic goods industries in the total industrial value added increased more or less rapidly, the share of the consumer goods in total industrial value added declined considerably. The objective of India’s development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty as given in the constitution. These objectives were to be achieved within a democratic political framework by using the mechanism of a mixed economy. India initiated planning for national economic development with the establishment of the Planning Commission. The aim of the First Five Year Plan (1951-56) was to raise domestic savings for growth and to help the economy resurrect itself from colonial rule. The real break with the past in planning came with the Second Five Year Plan (Nehru-Mahalanobis Plan). The industrialization strategy given by Professor Mahalanobis placed emphasis on the development of heavy industries and envisaged a dominant role for the public sector in the economy. The entrepreneurial role of the state was evoked to develop the industrial sector of country.

3. Current Economic Situation

India is set to emerge as the world’s fastest-growing major economy by 2015 ahead of China, as per the recent report by The World Bank. India’s Gross Domestic Product (GDP) is expected to grow at 7.5 per cent in FY 2015-16, as per the report. The improvement in India’s economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms, RBI's inflation focus supported by benign global commodity prices. Some overviews on different factors are as follows:

3.1 Market size

By a report given by IMF World Economic Outlook April, 2015, India ranks seventh globally in terms of GDP at current prices and is expected to grow at 7.5 per cent in 2016. India’s economy has witnessed a significant economic growth in the recent past, growing by 7.3 per cent in financial year 2015 as against 6.9 per cent in financial year 2014. The size of the Indian economy is estimated to be at Rs. 129.57 trillion (US$ 2.01 trillion) for the year 2014 as comparing to Rs. 118.23 trillion (US$ 1.84 trillion) in 2013.

The steps taken by the government in recent times have shown positive results as India's gross domestic product (GDP) at factor cost at constant (2011-12) prices 2014-15 is Rs 106.4 trillion (US$ 1.596 trillion), as against Rs. 99.21 trillion (US$ 1.488 trillion) in 2013-14, registering a growth rate of 7.3 per cent. The economic activities which witnessed significant growth were ‘financing, insurance, real estate and business services’ at 11.5 per cent and ‘trade, hotels, transport, communication services’ at 10.7 per cent.

According to a Goldman Sachs report released in September 2015,

“India could grow at a potential 8 per cent on average during from fiscal 2016 to 2020 powered by greater access to banking, technology adoption, urbanization and other structural reforms”.

3.2 Investments & Developments

By the improvement in the economic scenario, there have been various investments leading to increased M&A activity. Some of them are as follows:

India has emerged as one of the strongest performers with respect to deals across the world in terms of mergers and acquisitions (M&A). M&A activity increased in 2014 with deals worth US$ 38.1 billion being concluded, compared to US$ 28.2 billion in 2013 and US$ 35.4 billion in 2012. The total transaction value for the month of November 2015 was US$ 2.97 billion involving a total of 47 transactions. In the M&A space, Telecom was the dominant sector, amounting to 40 per cent of the total transaction value. Also, Private equity (PE) investments increased 86 per cent year to year by US$ 1.43 billion.

- India's Index of Industrial Production (IIP) grew by 9.8 per cent in October, 2015 as compared to 3.8 per cent in September 2015.
- India's Consumer Price Index (CPI) inflation rate increased to 5.41 per cent in November 2015 as compared to 5 per cent in October 2015. Also, the India's Wholesale Price Index (WPI) inflation rate remained negative at 1.99 per cent for the thirteenth consecutive month in November 2015 as against negative 3.81 per cent in previous month.
- India's consumer confidence continues at highest globally for the sixth quarter in a row, riding on positive economic environment and low inflation rate. The country's confidence score was 131 in the three months ended September 2015, same as that of the previous quarter.
- India's current account deficit in the July-September 2015 quarter at US$ 8.2 billion was bigger than the US$ 6.2 billion in the previous quarter. However, it was lower than the US$ 10.9 billion deficit recorded in same last year period.
- India's foreign exchange reserves were US$ 352.5 billion in the week up to December 11, 2015, an increase of US$ 408 million for the past week.
- To increased investor confidence, net Foreign Direct Investment (FDI) inflows touched a record high of US$ 34.9 billion in 2015 compared to US$ 21.6 billion in the previous fiscal year (Nomura report). The report said that the net FDI inflows reached to 1.7 per cent of the GDP in 2015 from 1.1 per cent in the past fiscal year.

4. Government Initiatives

Lot of foreign companies is setting up their facilities in India on account of various government initiatives like Make in India, Digital India etc. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of Indian economy. This initiative is expected to increase the purchasing power of an average Indian consumer, which will further boost demand, and hence spur development, in addition to benefiting investors. Also, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to high up the digital literacy. Finance Minister Mr. A. Jaitley stated:

"the government is looking at a number of reforms and resolution of pending tax disputes to attract investments".

At present, the manufacturing sector in India contributes over 15 per cent of the GDP. The Government of India, under the Make in India initiative, is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP. The government's initiatives plans for investment have been undertaken which are as follows:

- The British telecom giant Vodafone, India's second largest telecom operator, plans to invest over Rs 13,000 crore (US$ 1.96 billion) in India, to upgrade and expand its network and also for its payments bank operations.

- The Chinese smart phone handset maker, Vivo, has set up an assembly unit in India at Greater Noida which will initially manufacture 150,000 smart phones a month, to produce three smart phone models, namely Y11, Y21 and Y15S.
- The Foxconn Technology group, Taiwan's electronics manufacturer, is planning to manufacture Apple iPhones in India. Besides, Foxconn aims to establish 10-12 facilities in India including data centers and factories by 2020.
- US-based First Solar Inc and China's Trina Solar have plans to set up manufacturing facilities in India. Clean energy investments in India increased to US$ 7.9 billion in 2014 to help the country maintain its position as the seventh largest clean energy investor in the world.
- The city, Hyderabad is set to become the mobile phone manufacturing hub in India and is expected to create 150,000 – 200,000 jobs. Besides, the Telangana Government aims to double IT exports to Rs 1.2 trillion (US$ 18.7 billion) up to 2019.
- General Motors plans to invest US$1 billion in India by 2020, for increasing the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.
- Hyundai Heavy Industries (HHI) and Hindustan Shipyard Ltd have joined hands to build warships in India. Also, Samsung Heavy Industries and Kochi Shipyard will be making Liquefied Natural Gas (LNG) tankers.
- JSW Group plans to expand its cement production capacity to 30 MTPA from 5 MTPA by setting up grinding units nearer to its steel plants.

By the Digital India initiative the different steps have been taken by the Government of India. Some of them are as follows:

- The Government of India has started a digital employment exchange that will allow the industrial enterprises to find suitable workers and the job-seekers to get employment. The core purpose of the initiative is to strengthen the communication between the stakeholders and to improve the efficiencies in service delivery for the MSME ministry. According to officials at the MSME ministry over 200,000 people have so far registered on the website.
- The Ministry of Human Resource Development recently launched Kendriya Vidyalaya Sangthan's (KVS) e-initiative 'KV Shaala Darpan' aimed to providing information about students electronically on a single platform. The program is a step towards realising Digital India and will depict good governance.
- The Government of India announced that all the major tourist spots like Sarnath, Bodhgaya and Taj Mahal will have a Wi-Fi facility as part of digital India initiative. Also, the Government has started providing free Wi-Fi services at Varanasi ghats.

By the recommendations of the Foreign Investment Promotion Board (FIPB), the Government of India has recently approved 18 proposals of FDI amounting to Rs 5,000 crore (US$ 770 million) approx. on September 30, 2015. The Government of India has also launched an initiative to create 100 smart cities as well as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) for 500 cities with an outlay of Rs 48,000 crore (US$ 7.47 billion) and Rs 50,000 crore (US$ 7.78 billion) crore respectively. Smart cities are satellite towns of larger cities which will consist of modern infrastructure and will be digitally connected. The program was formally launched on June 25, 2015. The Phase I for Smart City Kochi (SCK) will be built on a total area of 650,000 sq. ft., having floor space greater than 100,000 sq. ft. Also, it will also give a total of 6,000 jobs in the IT sector.

5. Conclusion

Hence, it can be concluded that the overall impact of British economic policies was disastrous for Indian economic development and it marred the life of all sections, particularly the labor sections and put them into the life of poverty and destitution. Thus the main gainers from the British regime (apart from the British) were the so called 'middle' class of Indian capitalists and professionals, and the village squirearchy. Most of these were high caste Hindus though the Parsis and Sikhs did fairly well.

The main losers were the Muslims who had formed the major part of the Moghul aristocracy, officer corps, lawyers, and artisans in the luxury handicrafts. The basic foundations of the Indian Economy began after the independence. India begins a new project upon its path of development by certain initiatives, by making five years plans. At present, the Union Budget, the Economic Survey termed external environment as challenging but projected a 7-7.75 per cent GDP growth rate in the next fiscal which could accelerate to eight per cent in a couple of years. The Economic Survey for 2015-16, which was passed recently by Parliament, also made a case for carrying forward the reform process to achieve macro-economic stability.

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