



19

AN OVERVIEW OF INDIAN ECONOMY

As citizens of India, it is very important for all of you to know about the economy of India. As you also know from history that 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. We will only concentrate on the study of economy of India here.



OBJECTIVE

After completing this lesson, you will be able to:

- *the state of Indian economy at the time of independence resulted out of two hundred years of British Rule;*
- *the changes in the features of Indian economy after achieving independence;*
- *understanding of Economic reforms.*

19.1 STATE OF THE INDIAN ECONOMY AT THE TIME OF INDEPENDENCE

India inherited the economy from the British who were ruling this country for their gain. The British 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 England. This is 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 end of British period some notable economic features were as follows:

- (i) Decline of handicrafts industry



Notes

- (ii) Production of cash crops
- (iii) Famines and food shortage
- (iv) Rise of intermediaries in agriculture

Let us discuss these points one by one.

19.1.1 Decline of Handicraft Industry

Before the British came to India, Emperors and kings were ruling this land. They promoted the interest of local artisans, carpenters, artists, weavers etc. who were very good at making beautiful paintings, decorating walls, designing textiles and jewelry, tailoring, making furniture, toys and idols of stones and metals etc. These people were using their labour and local skills to create these things. A lot of concentration and long time was required to create such things. The Kings' courts in various parts of the country were full of decorative items of various types made of different materials. But when the British came they defeated the Kings and took over their kingdoms. Towns were destroyed and with this the handicraft industry was also faced closure.

An important part of Indian handicraft were the textile handicrafts. In the latter half 19th century England was experiencing changes in production technology. Machine was replacing human labour to produce goods. Producing goods at large scale was becoming easier. More factories were coming up. The British could bring their machine made textiles and sell in India at a cheaper price and also in large quantities. The British government also made policies to help the British producers only. So Indian handicraft suffered.



INTEXT QUESTION 19.1

1. Compare the methods of production of Indian textile handicrafts with that of the British.



ACTIVITY

Visit a museum / historical palace and study the handicrafts of those days.

19.1.2 Production of Cash Crops

As said above, England was under going change in terms of industrialization so factories there were in need of raw materials to produce goods. In order to make textiles raw



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cotton was needed. Similarly indigo was in high demand to make prints on textiles. Also jute, sugarcane, ground nuts were all in great demand in England as they were all needed in factories there. Since these were all cultivated in India, the British offered money to poor farmers of India to raise these crops so that they could send them to England. Since these crops are used in factories as raw materials to produce goods, they are called cash crops.

Attracted by money, Indian farmers grew these cash crops for the British who supplied them to factories in England. The factory made goods were sent for sale in the Indian market. Now the British sold these goods to Indian people and made profit.

19.1.3 Famines and Shortage of Food

The worst part of British rule in India had been the frequent occurrences of famines. Famine is a situation wherein many people do not get food to eat and die from hunger and diseases. Famine occurred nearly 33 times during whole British period. The most devastating famine was the Bengal famine of 1943, just four years before independence. More than 1.5 million people died at this time due to lack of food. Some reasons for occurrence of famines were as follows:

- (i) Bad rainfall upsetting food grain production since irrigation facilities were not available. Agriculture was dependent on rainfall.
- (ii) British government kept on exporting food grains to its native country England and elsewhere even if there was local need for these things. British government was only interested in earning revenue for itself by exporting food grains to other countries. It also used food grains to feed its soldiers who were fighting wars in different parts of the world. You know that the British had not only captured India, but also many other countries of the world. So they were sending food from India to these countries where their soldiers were fighting to capture territories.
- (iii) Poor people had not enough money to purchase food grains from the market.
- (iv) As said above, Indian farmers were encouraged to produce cash crops on their fields. This led to fall in production of food grains because less area was available for their cultivation.



INTEXT QUESTIONS 19.2

1. Give the meaning of famine?
2. Why were the British exporting food grains?



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**ACTIVITY**

Make a list of cash crops and food grains.

19.1.4 Intermediaries in Agriculture

Agriculture was major occupation of people of India during British rule. More than 70 percent of the population was dependent on agriculture. So it was the major source of revenue for the government. The British introduced two types of land revenue, such as:

- (i) Permanent settlement under which land revenue to be collected was permanently fixed.
- (ii) Temporary settlement under which land revenue was changed after 25-30 years of time.

In order to collect revenue the British appointed Zamindars in eastern part of India, Mahalwari in western part and Ryotwari in south India. These persons were called intermediaries because they used to act between British Government and common people. Their job was to collect revenue in the form of rent, tax etc from the villagers, farmers and other households and submit that revenue with the government. Over the years these people became exploiters of common people as they mercilessly collected revenue without considering their poor status. Similarly no mercy was shown even during poor harvest due to bad rain fall or floods. Out of the total revenue collected from the villagers these intermediaries used to keep a part of it before depositing with the British government. Besides collection of land revenue the British government also depended on them for running the administration. In this way the Zamindars, Mahalwaris and Ryotwaris became mini rulers in their respective areas. They used force to take away belongings of persons who failed to give revenue. This way these intermediaries became rich and powerful at the cost of common man and with the blessings of British government.

**INTEXT QUESTIONS 19.3**

1. Distinguish between Permanent and temporary settlement?
2. Write three sentences about the Zamindars?

19.2 POSITIVE CONTRIBUTION OF BRITISH RULE

Some positive things did 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.



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19.3 CHANGES IN THE FEATURES OF INDIAN ECONOMY AFTER INDEPENDENCE

A new era began in India's history after its independence. Obviously so, because the governance of India became the responsibility of its people. Unlike the British government, the aim of the government of India was to take India towards the higher levels of development and achieve welfare for all its citizens. By the year 2010, the government of India has completed more than sixty years of governing India. This is long enough time to make an evaluation and accordingly describe the major features of Indian economy which are as follows

Low level of per capita income, slow growth of per capita income, Heavy population pressure, Existence of Poverty, Dependence on agriculture and Planning for Development

Let us discuss them one by one in the following way.

1. Low level of per capita income

Per capita income is calculated by dividing national income by population. Income of an individual is a major indicator of his or her standard of living. Per capita income gives the idea of income earned on an average by an individual in the economy in a year. India's per capita income for the year 2009-10 was Rs. 33731. This comes out to be around Rs 2811 per month. (i.e. $33731/12 = 2811$).

This amount is very low to lead a decent life. A person needs a room to live, cloths and dress materials to wear and food to eat. All these things have to be purchased from the market by paying some price. Even if a person has his or her parental house to stay where he / she does not pay rent, still he / she needs to buy clothes and food for him / her self. Since price of food grains, vegetables, clothes etc. are high so you think Rs.2811 is sufficient to meet these expenditures?



ACTIVITY

Go to the market and find out the prices of rice, wheat flour, potato and onions. Estimate the amount of these goods, you consumed in the last month? Then find out the expenditure on these goods? Similarly find the expenditure on these goods by your family? Then think what should be income to meet their expenditure?



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2. Slow growth of per capita income

India’s per capita income is not only low but also growing very slowly. Growth refers to increase over time. Why we want our income to increase every year? There are a few reasons for it .

First, our wants are increasing, as we grow over time. In order to satisfy the extra wants, we need more income. Take for example your own case. Don’t you want to watch a movie in a cinema hall; don’t you want to wear nice dresses; don’t you want to eat in a hotel; don’t you want to watch IPL cricket match in a stadium; don’t you want to study in a college; don’t you want a mobile phone for yourself etc. The list could go endless. But these things are not available free of cost. So you need more income than before to satisfy these wants.

Second, another reason for earning more income is that the prices of goods you buy in the market are also increasing. So you may have to pay more money for the same goods and services you consume. Recently the prices of petrol and diesel were increased. In Delhi the price was increased by around Rs 5 per litre. Suppose a person runs a truck from Delhi to Shimla carrying shoes. He sells shoes in Shimla market at the rate of Rs.300 per pair. His expenditure on diesel before the rise in price was around Rs.3100 per trip. But because of price rise his expenditure on diesel increased to ,say, Rs.3700. How he will manage this extra Rs.600? One way is to increase the price of a pair of shoes from Rs.300 to say Rs.325. If you are staying at Shimla and buying shoes then you have to pay Rs.25 more for a pair than before. Where from you get this extra money of Rs.25? Your income must increase to adjust this increase in expenditure. Since you spend on other goods as well and prices of others goods are also increasing in a similar fashion, your income must increase even faster.

But ironically, the per capita income in India has not increased in the desired manner.

We just told that India’s per capita income was Rs.33,731 in the year 2009-2010. Do you know what was the amount in the preceding year. 2008-9? It was Rs.31,801. This means, income of an individual was increased by only Rs.1930. What is the increase per month? It was around Rs.160 per month. Is this amount sufficient for you to meet the extra expenditure on various goods due to rise in prices? Remember that you have to pay extra Rs.25 for shoes only. These are so many other things you need for which you have to pay more. So increase of Rs.160 is not just enough to satisfy your existing wants, what to talk of satisfying increase in wants? We reproduce the data on per capita income in the table below given economic survey.

Table 19.1 Per capita income of India

Year	per capita income (Rs)	Growth (Rs)
2008-09	31801	—
2009-10	33731	160

Third, finally we want our income to grow because we may want to help each other at times of needs or to please each other. Let us not forget that we live in a society with our relatives, friends and others. We need each others help and cooperation all the time. Have you ever helped a friend who was in need? You may want to help a poor person who wants food to eat? You may want to purchase a book for your needy friend? You may want to buy chocolates for your little brother or sister? In all these cases you need more money after taking care of your own needs But if we are not able earn more for ourselves to satisfy our own increase in wants, then how can we help others which we want to do?



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INTEXT QUESTION 19.4

1. Find out the percentage increase in per capita income in 2009-10 over 2008-09 from table-19.1 above? (use your arithmetic skill).
2. Define per capita income?
3. What was India's per capita income in 2009-10?

3. Heavy population pressure

India's economy is over populated. It has grown by more than three times in last 60 years. At the time of independence in 1947 the population was 350 million. According to 2011 census, India's population stands at 1.21 billion. It is second only to China in the world and may even over take China in future. Why are we worried about high population? Very simple. More people means more mouths to eat. This implies that more food grains to be produced. Since population is increasing every year, more food grains must be produced every year. This is not an easy task. Because the land area meant for cultivation is not increasing proportionately. So if food production does not match with increase in population then availability of food grain per head or per capita supply of food grain will fall. Taking the hole of India as one family, this further means that, each member of the family will have less food to eat. Is it not alarming?

Besides food, more population mean more clothes, more expenditure in education and health services, more houses, roads and what not? Who will provide it? Is our government bestowed with sufficient resources to provide all these facilities? May be not. Otherwise there would not have been slums in cities and beggars on the streets.

The positive thing about India's population is that the number of young people is very high as compared to other nations in the world. About half of India's population is in the age group of 0 to 25 years. Around 78.5 crore out of 121 crore people belong to below 35 years of age. What does it mean? Youth are full of energy and strength and expected to perform better as they have the ability to work more. It also indicates low dependency ratio.



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Do you know which are the three most populous states in India? They are Uttar Pradesh, followed by Maharashtra and then Bihar. It is interesting to know that the population of Uttar Pradesh (UP) is almost equal to that of Brazil which is one of the largest countries in the world as per land area, while Maharashtra's population is equal to that of Mexico. See the table-2 below to verify this.

In fact total of India's population almost equals the combined population of USA, Japan, Indonesia, Pakistan and Bangladesh.

Table 19.2 Population of India and States as per Census 2011.
(in crores)

UP -19.9	Brazil -19.07
Maharashtra-11.2	Mexico-11.2
India-121	

4. Existence of Poverty

Nearly one third of world's poor live in India. See the beggars on the streets, the slums in towns and cities, children working on the fields or in the street side dhabas or employed in houses or in factories etc. These are visuals of poverty in the country. See table-3 below. More than 30 crores of India's population suffer from poverty which is about 27.5 percent of the total population. Out of these, more than 22 crores live in rural areas. The rest live in urban areas i.e. towns and cities.

Among various states of India, Odisha is the most affected by poverty. Because the percentage of poor people out of its total population is 46 which is highest among all the states. It is followed by Chhatisgarh, then Bihar. In terms of number of poor people, UP has the maximum number of poor people. Look at Punjab, Haryana and Andhra Pradesh. They are among the least affected by poverty because, percentage of poor people in these states is lower as compared to Odisha, Bihar and Uttar Pradesh.

Table 19.3 Poverty situation in some states in India

State	% of Poor People	Total number of Poor People (Lakh)
Odisha	46	179
Chhatisgarh	41	91
Bihar	41	369
Uttar Pradesh	35	590
Andhra Pradesh	16	126
Haryana	14	32
Punjab	08	22
All India	27.5	3017

Source: compiled from economic survey



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When you study table – 19.3 what do you make out? Percentage of poor people tells about how many persons out of 100 are poor, while total number of poor people is the absolute number. See that Odisha has 179 lakh poor people which is very less than that of 590 lakh in UP. But in Odisha nearly 46 out of every 100 people are poor while in UP, 35 out of every 100 people are poor. Because UP's total population is higher than that of Odisha, the absolute number of poor people is also higher in UP than in Odisha. Because of higher percentage, Odisha is more affected by poverty than UP.

Poverty is a curse on humanity. A poor person cannot afford his or her daily needs or necessities to buy from the market. He or she is not able to eat even two square meals a day, nor she or he can wear proper clothes. A poor person has no shelter to live or has katcha house. It is difficult for him or her to get education, health care etc. Why does this happen? There could be many reasons.

First, a person affected by poverty is either unemployed or earn very small amount of income from his or her current occupation which is insufficient to fulfill his or her basic needs.

Second, the person must be subjected to exploitation by others on the basis of caste or religion or gender.

Third, the person has become poor because he or she has not got any property in the form of land or house etc. Those who have inherited property from their ancestors enjoy certain advantages over others who do not have property.

Fourth, perhaps the efforts of the government have not been effective. Corruption and slow pace of decision making, in government are obstacles in removing poverty. However, existence of poverty is not the failure of the government alone, but also failure of the people and society at large who should help each other and cooperate so that everyone can lead a decent life.

(We will discuss the concept of poverty and various steps taken by the government to remove poverty in unit 22.)



INTEXT QUESTIONS 19.5

1. Do you think poverty and unemployment are linked?
2. Compare the figures for Odisha and Punjab as given in table-19.3.



ACTIVITY

Calculate total Population of the states from the data given in table – 19.3 ? Use your knowledge of arithmetic.



Notes

5. Dependence on Agriculture

In an economy people pursue various activities to earn their livelihood, such as, agriculture, industry and services. (we will study this in detail in lesson-20). Indian economy has been traditionally based on agriculture. In 1951, at the beginning of first plan, more than 70 percent of the population were engaged in agriculture and related activities. Even if this has come down, still around 60 percent of the population is still dependent on agriculture at the beginning of the 21st. century i.e year 2001.

7. Planning for Development

A major feature of Indian economy after independence has been its consistent effort to achieve development through the process of economic planning. This is a very positive phenomena going on for the past 60 years.

The government of India adopted five year plans beginning with the first five year plan in 1951. The duration of this plan was 1951 to 1956. Accordingly the second five year plan began in the year 1956 and ended in 1961. And so on. See the table -4 below to know the time period of different plans in India.

Table 19.4

Plans	Plan Periods in India
First	1951-1956
Second	1956-1961
Third	1961-1966
Annual Plan	1966-1967, 1967-68, 1968-69
Fourth	1969-1974
Fifth	1974-79
Annual Plan	1979-80
Sixth	1980-1985
Seventh	1985-1990
Annual Plans	1990-91 and 1991-92
Eighth	1992-1997
Ninth	1997-2002
Tenth	2002-2007
Eleventh	2007-2012



What do you mean by planning? Planning means to make preparation to do something in future. It could be solving a problem to achieve some target you have fixed.

You can take your own example. Suppose you have to appear for your tenth class examinations next year. Say, you have ten months times from today. How will you go about it? Obviously you will prepare in a systematic manner to achieve your target i.e. passing the examination and also with good score. In order to realize this, your preparation will include the following

- (i) arranging money to purchase books
- (ii) allocating time every day for study and other works
- (iii) Allocating time for each subject every day. i.e. Economics, Mathematics, Biology, Hindi, English etc.
- (iv) Evaluating your preparation after say each month or after every two or three months.

Similarly the government of India has been planning to solve its economic as well as various other problems. Planning is necessary because the problems are not easy to solve in a day or two. Take for example the problem of increasing production of food grains. It requires allocation of resources in the form of man power, raw materials, machinery, money etc. which must be used in proper manner so that there are minimum wastages. Similarly there are many other problems as well, such as—problem of giving employment or jobs to so many young people every year, problem of improving the standard of living of poor people, providing safe drinking water to rural population, building roads to connect different villages and towns of India etc. You can count thousands of such problems

India has adopted five year plans so that at the beginning of the particular plan it declares as to which problems should be taken up in the coming five years and at the end of the term reviews the whole situation and the progress made in that direction. In the table-19.4 above the time period of the five year plans are given. We have completed ten five year plans. The eleventh plan will be over in 2012. You can see that during the period 1966-1969 there was no five year plan but merely annual plans. This was because of lack of monetary and other resources to run a five year plan. Why did this happen? It happened because India fought wars against China in 1962 and against Pakistan in 1965 for which the government had to divert its resources to fight these wars. India also faced drought situation which decreased our agricultural production in this period. So it was difficult to go for a five year plan and India had to manage with annual plans. When the situation got better it restarted five year plan in 1969 with the fourth plan.

In 1979 there was change of government in the centre. So the sixth plan was started in 1980 and the period 1979-80 was converted to annual plan.



Notes

Expenditures on Plans

In each and every plan the government allocates resources to various areas such as agriculture, industry, education, health, transport and communication, community development and other social sectors. The aim is to use the given resources earmarked for the said area for its development as per the target fixed by the government for the said period. For example the resources for agriculture can be used for improving productivity of land, extending irrigation facilities etc. Similarly the resources for education can be used for construction of school buildings, granting scholarships to meritorious students, etc. and so on. We can express the resources in rupee terms. In the first five year plan a total amount of Rs. 2070 crores were allocated to meet the expenditures on various sectors. In the Eleventh five year plan, which is going to be completed in the year 2012, a total sum of Rs. 36, 44,718 crores has been proposed to meet expenditures on different areas. Some of the reasons for manifold increase in the amount of expenditure from first plan to eleventh plan are: (a) increase in population, (b) increase in wants and (c) increase in prices in the markets.



ACTIVITY

1. You want to increase wheat production on an acre plot of land from, say 5 quintals in this year to 8 quintals next year. How will you plan to achieve this target?



WHAT YOU HAVE LEARNT

- The story of Indian economy has two distinct phases. One, the economy during British period and two, the economy after independence .
- During the British period Indian economy was totally exploited by the British for their benefit. As a result the economy suffered from famines and exploitations by the intermediaries. The result was that there was large scale poverty in India at the time of independence.
- After independence the situation has not changed to match the expectations of its people. India is still known by -low per capita income and its slow increase over time; poverty; heavy population pressure etc.
- But India has got hope through its five year plans which set a target to achieve certain goals.



TERMINAL EXERCISE

1. What do you mean by temporary settlement?
2. Why did the British want cash crops to be cultivated ?
3. Give two reasons for occurrence of famines in India ?
4. Cite one positive aspect of India's population?
5. From the definition of per capita income can you give one reason of its slow growth?
6. Give a brief account of famines during British period. What are the reasons of occurrences of such famines?
7. Who were the intermediaries? Describe the role played by them?
8. Why did the government of India adopt Planning?
9. Do you think India is a poor country? Give reasons. for your answer.



Notes



ANSWERS TO INTEXT QUESTIONS

Intext Questions 19.1

1. Indian textiles used labour while British textile used machines for production.

Intext Questions 19.2

1. Famine refers to a situation of food shortage leading to hunger and death of many people.
2. British were exporting food grains to earn revenue.

Intext Questions 19.3

1. Permanent settlement implies fixation of land revenue permanently.
Temporary settlement implies revision of land revenue every 25-30 years.
2. Zamindars were appointed by the British in the Eastern provinces of India. Their job was to collect revenue from people. They were also responsible to run local administration.

**Notes****Intext Questions 19.4**

1. 6.06
2. Per capital income = $\frac{\text{National Income}}{\text{Population}}$
3. Rs 33,731

Intext Questions 19.5

1. Yes
2. Odisha has 46 per cent of its population as poor whereas Punjab has only 8 per cent of population who are poor. So Punjab is richer than Odisha.