A Historical Tour To Indian Economy

Pre and Post Colonial Preview

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KEY NOTES

- *The economy of India is fastest growing major economy in the world with a GDP growth rate of 8.1 percent at the end of the first quarter of 2005-2006.*
- *The agriculture in pre-colonial India satisfies the food requirements of the village and also provides raw materials for hand-based industries like textile, food processing and crafts.*
- *The estimated revenue of Akbar's Mogul empire in 1600 at £17.5 million in contrast to the entire treasury of Great Britian in 1800 i.e., £ 16 million.*
- *A broader macro-economic view of India during the colonial period reveals that there were segments of both growth and decline.*
- *The economic liberalisation of 1991, initiated by then Indian Prime Minister P.V. Narasimha Rao and his finance minister Mammohan Singh in response to a macro-economic crisis did away with the Licence Raj and ended public sector monopoly in sectors while automatically allowing approval to FDI.*

1. INTRODUCTION

The economy of India is the fourth-largest in the world as measured by purchasing power parity (PPP), with a GDP of US $3.36 trillion. When measured in USD exchange-rate terms, it is the tenth largest in the world, with a GDP of US $691.87 billion (2004). India was the second fastest growing major economy in the world, with a GDP growth rate of 8.1% at the end of the first quarter of 2005–06. However, India's huge population results in a relatively low per capita income of $3,100 at PPP. The country's economy is diverse and encompasses agriculture, handicrafts, industries and a multitude of services. Services are the major source of economic growth in India today, though two-thirds of the Indian workforce earn their livelihood directly or indirectly through agriculture. In recent times, India has also capitalised on its large number of highly educated people who are fluent in the English language to become a major exporter of software services, financial services and software engineers.

India has adhered to a socialist-inspired approach for most of its independent history, with strict government control over private sector participation, foreign trade, and foreign direct investment. Since the early 1990s, India has gradually opened up its markets through economic reforms by reducing government controls on foreign trade and investment. Privatisation of public-owned industries and opening up of certain sectors to private and foreign players has proceeded slowly amid political debate.

India's economic history can be broadly compartmentalised into three eras- Pre-colonial period lasting upto the 17th century. Colonial period from 17th century to 1947 and post-colonial period after 1947.

The socio-economic problems India faces are a burgeoning population and lack of infrastructure, as well as growing inequality and unemployment. Poverty also remains a problem allthough it has seen a decrease of 10% since the 1980s.

India's economic history can be broadly compartmentalised into three eras, beginning with the pre-colonial period lasting up to the 17th century. The advent of British colonisation of the Indian subcontinent started the colonial period in the 17th century, which ended with the Indian independence in 1947. The third period is the post-colonial period after 1947.

2. THE HISTORICAL TOUR

- **Pre-colonial**

The citizens of the Indus valley civilisation, a permanent and predominantly urban settlement that flourished between 2800 BC and 1800 BC practised agriculture, domesticated animals, used uniform weights and measures, made tools and weapons, and traded with other cities. Evidence of well planned streets, a drainage system and water supply reveals their knowledge of urban planning, which included the world's first urban sanitation systems, and the existence of some form of municipal government.

Much of the population of the region constituting present-day India resided in villages, whose economies were largely isolated and self-sustaining with agriculture being the predominant occupation of the populace. It satisfied the food requirements of the village and also provided raw materials for hand-based industries like textile, food processing and crafts. Although many kingdoms and rulers issued coins, barter was still widely prevalent. Villages paid a portion of their agricultural produce as revenue, while its craftsmen received a part of the crops at harvest time for their services.

Religion, especially Hinduism, the caste and the joint family systems, played an influential role in shaping economic activities. The caste system, despite its social fallbacks, functioned much like medieval European guilds, ensuring the division of labour, providing for the training of apprentices and in some cases led certain manufacturers to practise super specialisation. For instance, in certain regions, each variety of cloth produced was the speciality of a particular sub-caste.

Superstitions about foreign travel among Hindus meant that a large part of India's foreign trade was carried out by foreigners and Muslims. Indian textiles like muslin, calicos, shawls, agricultural products like pepper, cinnamon, opium and indigo were exported to Europe, Middle East and South East Asia in return for gold and silver.

The assessment of India's pre-colonial economy is mostly qualitative in nature, owing to the lack of sufficient quantitative information. One estimate puts the revenue of Akbar's Mogul empire in 1600 at £17.5 million, in contrast to the entire treasury of Great Britain in 1800, which totalled £ 16 million. India, by the time of the arrival of the British, was a traditional agrarian economy with a dominant subsistence sector dependent on primitive technology. It existed alongside a competitively developed network of commerce, manufacturing and credit. After the fall of the Mughals and the rise of Maratha imperialism, the Indian economy was plunged into a state of political instability due to internecine wars and conflicts.

- **Colonial**

The colonial rule brought along a favourable institutional environment that guaranteed property rights, ensured free trade, had fixed exchange rates, uniform currency system, uniform weights and measures, open capital markets, created a well developed system of railways and telegraphs, a bureaucracy free from political interferences and a modern legal system. It is also coincided with major changes in the world economy, industrial-isation, growth in trade and production, and new thinking on economic policies followed by states. By the end of the colonial rule and World War II, however, India inherited an economy which was one of the poorest in the world and stagnant, with industrial development stalled, agriculture unable to feed a rapidly accelerating population, who were subject to frequent famines, had one of the world's lowest life expectancy, suffered from pervasive malnutrition and was largely illiterate.

An estimate by Cambridge historian Angus Maddison reveals that, India's share of the world income, reduced from 22.6% in 1700, comparable to Europe's share of 23.3 %, to a low of 3.8% in 1952. While Indian leaders during the Independence struggle and *left-nationalist* economic historians have blamed the colonial rule for the dismal state of India's economy, a broader macroeconomic view of India during this period reveals that there were segments of both growth and decline, resulting from changes brought about by colonialism and a world that was moving towards industrialisation and economic integration.

- **Post Colonial**

Indian economic policy after independence, influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature), and by their exposure to Fabian socialism, became protectionist in nature, implementing a policy of import substitution, industrialisation, state intervention in labour and financial markets, a large public sector, overt regulation of business, and central planning. Jawaharlal Nehru, the first prime minister of India, along with the statistician Prasanta Chandra Mahalanobis, formulated and oversaw the economic policy of independent India. They expected favourable outcomes from this strategy since it involved both the public and private sectors and was based on direct and indirect state intervention instead of a Soviet-style central command system. The policy of concentrating simultaneously on capital and technology intensive heavy industry and subsidising hand based and low-skilled cottage industries was criticised by economist Milton Friedman, who thought it would not only waste both capital and labour, but also retard the development of smaller manufacturers.

India's low average growth rate upto 1980 was derisively referred to as the Hindu rate of growth, because of

Nehru and Mahalanobis expected favourable outcome from the economic policy because it involved both the public and private sectors.

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the contrasting high growth rates in other Asian countries, especially the East Asian Tigers. The economic reforms that surged economic growth in India after 1980 can be attributed to two stages of reforms. The pro-business reform of 1980 initiated by Indira Gandhi and carried on by Rajiv Gandhi, eased restrictions on capacity expansion for incumbents, removed price controls and reduced corporate taxes. The economic liberalisation of 1991, initiated by then Indian prime minister P. V. Narasimha Rao and his finance minister Manmohan Singh in response to a macroeconomic crisis did away with the Licence Raj (investment, industrial and import licensing) and ended public sector monopoly in many sectors, thereby allowing automatic approval of foreign direct investment in many sectors. Since then, the overall direction of liberalisation has remained the same, irrespective of the ruling party at the centre, although no party has yet tried to take on powerful lobbies like the trade unions and farmers, or contentious issues like labour reforms and cutting down agricultural subsidies

3. CONCLUSION

India is a mixed economy combining features of both capitalist market economies and socialist command economies. Thus, there is a regulated private sector (the regulations have decreased since liberalisation) and a public sector controlled almost entirely by the government. The public sector generally covers areas which are deemed too important or not profitable enough to leave to the instability of capitalistic markets. Thus such services as railways and postal system are carried out by the government.

Since independence, various phases have seen *nationalisation* of such areas as banking, thus bringing them into the public sector, on one hand, and *privatisation* of some of the Public Sector Undertakings during the liberalisation period on the other.

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