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# The History of India's Economic Development After Independence: Reflections on the Impact of Colonial Rule and India's Push for Development

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## ABSTRACT

*During colonial rule, the decline of the Indian economy was evident. Even before colonization, the decline in relative and absolute GDP per capita of the Indian economy began in comparison with Britain and also coincided with the 18th-century rise in Europe's textile trade.*

*Based on Nehru's philosophy, the Indian economy began its journey after independence. A huge task of eradicating poverty, disease, and illiteracy lay ahead for the new government and administration. We will discuss the condition in which the Indian economy was performing as left by the British rule and what were the significant tasks ahead. How the public and private sector-shaped the economy and which sector contributed the most to the economy.*

*The route that the Indian economy took after independence has seen various policy implementations, some successful and some not so much.*

*Here in this paper, we will analyze whether the British rule inspired the pattern followed by the Indian economy or if the Indian economy took its route.*

## INTRODUCTION

As the country embarked on its brand new journey after 15th August 1947, it was not realistic to expect a sudden change in the way economy and administration functions as India has been officially under the colonial rule for the past century. Therefore, to expect a significant change overnight might not be practical, and so, the initial years of Indian economy did follow a pattern comparable to the British rule, or we can say, that India spent a few years before it could finally come out of the shadows of the colonial rule-based model. We might also say that 1947 independence was more evolutionary rather than being revolutionary in much sense. Various sectors such as education, economy, politics, institutions, and others followed the same path of British rule from the pre-independence era. Indian leaders maintained this continuity.

Independent India did not saw any significant change in the currency as the Rupee had a vast history going back several years. With the change in symbol, it was continued to be used the same way and continued to be pegged to the pound. This meant, from the 1920s to 1960s, 1-pound sterling equaled 13 rupees. In the 60s, there was a drastic change in 1966 when the Rupee devalued. So was another significant change, of decimalization. Until 1957, the value of 1 Rupee was equivalent to 192 paise or 16 annas, but now on 1st April 1957, the concept of annas was dismissed, and hence, Rupee became equal to 100 new paise (Naya Paisa).

The development strategy of India post-independence had an aim to form a society based on a socialistic approach through economic growth with a significant focus on poverty alleviation, social justice, and self-reliance. The mechanism of the mixed economy was applied so that both the private and public sectors can co-exist in order to achieve these objectives within a political and democratic framework. The planning commission was now set up to initiate planning for national economic development.

**First Five Year Plan (1951-1956)**

With the beginning of the First Five Year Plan (1951-1956), the aim was set to increase domestic savings to facilitate growth and to help the economy 'resurrect' itself from the colonial rule. However, the actual break where the Indian economy started to take its course rather than following the shadows of the past came with the Second Five Year Plan when the Nehru-Mahalanobis Plan was set in action. This allowed breaking with the past in the economic planning of the country. Now the emphasis was laid on developing heavy industries as per Professor Mahalanobis' industrialization strategy. It envisaged a dominant role in the economy for the public sector.

**Private Sector in India**

Nevertheless, the role of private industries continued to be an important one in the nation's economy. Prominent business families of India, such as Birlas, Tatas, Chettiyars, began gaining steam at the end of the 19$^{th}$ century and were a substantial decade before independence in replacing the British from the Indian economy. Post-independence, these families continued to maintain a hold over their sectors and play a significant role in the economy. The contribution of Parsi and Jewish families was also significant in the new evolving economy of the nation. Several banks were opened by these prominent families, such as the Central Bank of India set up by Tatas, Bank of India set up with the help of the Sassoon family, UCO Bank by Birlas, Indian Overseas Bank by Chettiyars. The foundation of India's industrial infrastructure was also set up by these families as they enjoyed a foremost authority over the sector with very few or null competition.

In order to develop the industrial sector, the state's entrepreneurial role was evoked, and the public sector was entrusted with the commanding heights of the economy. There was an assumption with the strategy developed for the first three plans that once the country establishes a growth rate, the benefits of this growth would trickle down to the poor, and so would be ensured by the institutional changes. However, there were severe doubts, and they started to grow in the early 70s regarding the ability of this "trickle-down" approach to eradicating poverty and its effectiveness.

**Policy Decisions**

There were individual policy decisions taken by the Indian government, which can arguably be termed controversial. In 1956, a governmental monopoly decision was initiated, which came to be known as the License Raj. The Monopolies Act of MRTP was passed in 1969, while major private banks were bought under the government. With the view of protecting cottage industries, heavy restrictions came in force in 1973. These were some significant changes in the economy mostly blamed for the dull paced moving train wreck in India's transition for a particular period. From 1957 through 71, while the rest of the world was focusing on rapid industrialization, in

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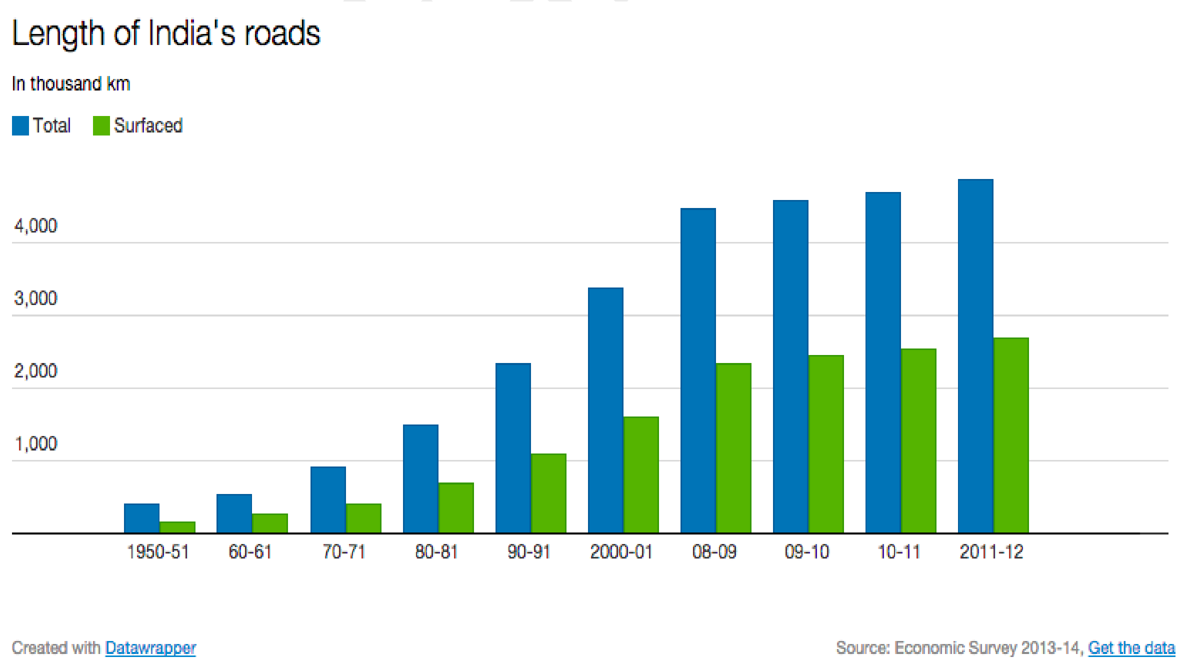
India, private organizations mostly stagnated while the Government entities proliferated. This can be more explained with the help of a data table on the next page.

Post-independence, the new Indian government pushed for the infrastructure growth, which was not the case under colonial rule as the focus of government shifted to cover the more planned area under infrastructure development. To provide infrastructure was a necessary need at that time but maybe not the topmost priority, although it had a crucial role to play the economic development of the nation. The country witnessed a growth rate of 1500 % from 1950 to 2011 when only 157,000 km of surfaced road existed in India previously. A depicture for the same has been shown in the figure below.

**Growth of the Private Corporate Sector in India**

| | March 1957 | March 1971 |
|---|---|---|
| **Number of Companies** | 29,357 | 30,461 |
| (a) government | 74 | 314 |
| (b) Non government | 29,283 | 30,147 |
| Paid up Capital (Rs Crores) | | |
| **All Companies** | 1,078 (100.0) | 4,423 (100.0) |
| (a) government | 73 (6.8) | 2,074 (46.9) |
| (b) Non government | 1,005 (93.2) | 2,349 (53.1) |

Note: Figures in brackets are percentages of total paid-up capital.
*Source: CMIE, August 1992, Basic Statistics Relating to the Indian Economy.*




The British left the Indian economy with a huge debt and a series of issues to be addressed immediately. We can say this on the basis of available sources that the country's economy was in doldrums and need for immediate rescue. Since the capital primarily borrowed by the colonial rule was supposed to be returned to India after the independence, never found its way back to the origin, it left the country's economic condition in shackles with more to suffer. To move out of this and eventually get in shape, it was important for the new government to set the agenda straight.

**Agriculture and Rural Development**

Sustained growth was not seen during the globalized economy of colonial rule in India. There was a decline in industrial output. Although agricultural output per head saw a rise in the mid-19th century, it was not sustained for long, and only 10 % of the agricultural output was in terms of agricultural export.

With a large population looming in poverty, the implementation of the Green Revolution gave a boost to the agricultural resources of the nation, and a substantial increase in food production has been witnessed since then. Sustainable growth has been recorded over the years starting from 1950 in food production in the country. From colonial rule, the food grain production has seen a rise to record 259 and then 264 million tons in the fiscal year 2014.The data for the same follows below with a comparison with food grains production during colonial rule.

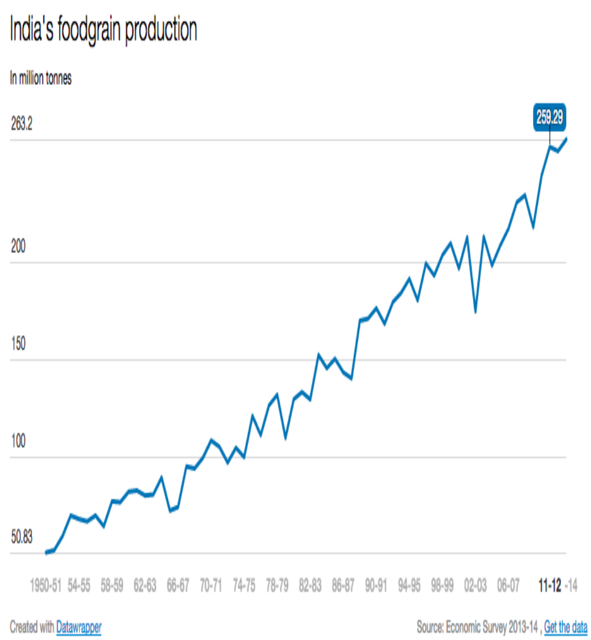
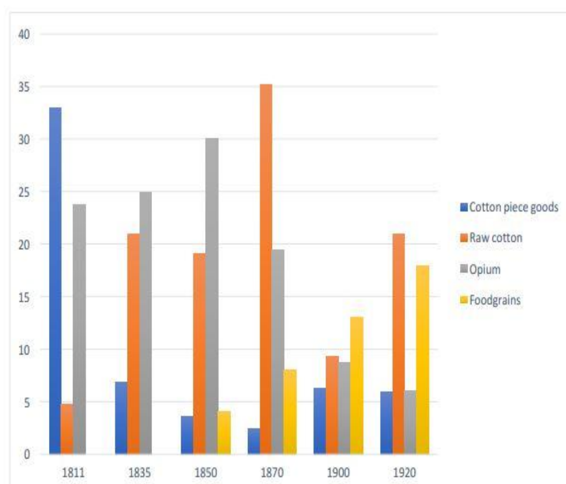


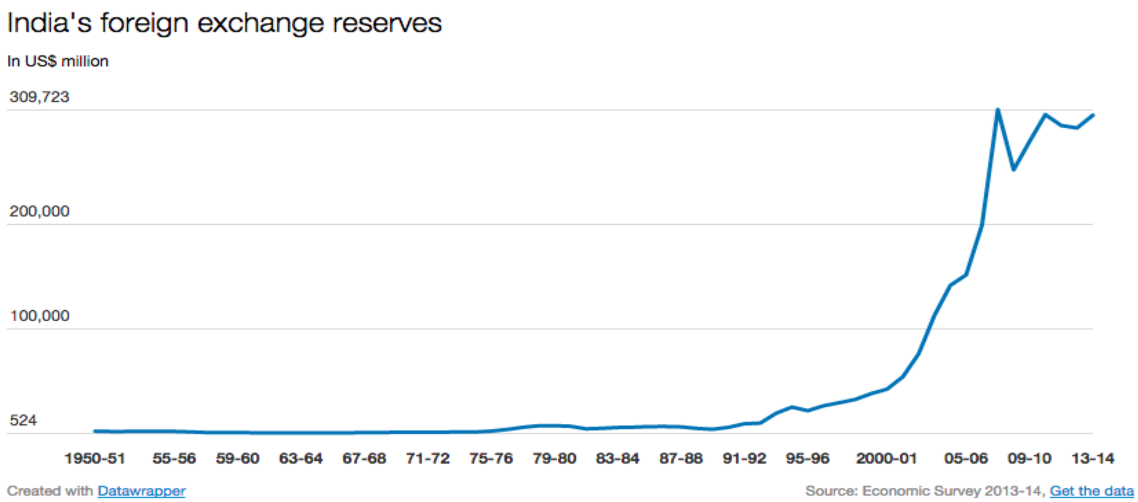

Figure 4: Composition of Trade (% Share)

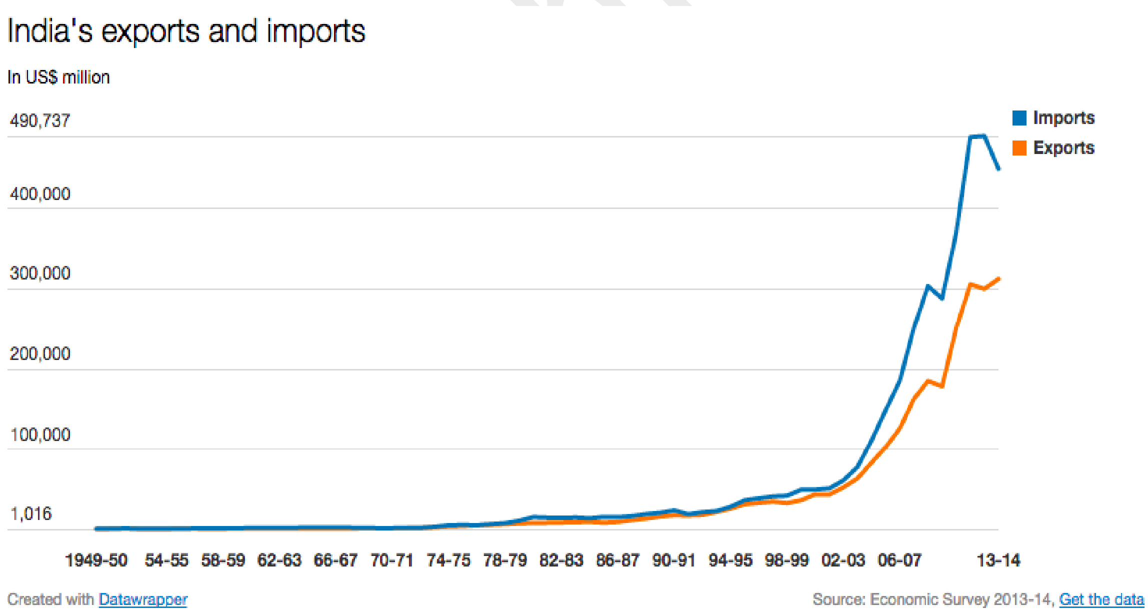



Source: Statistical Abstracts of British India for post 1850 data and CEHI, Chapter 10, table 10))

**Trade and Foreign Exchange**

However, the trade sector of India did not take off until the 1990s and saw a weak growth over the period post-independence. This affected the economy, but the planning commission could not succeed in helping the trade and reserves of the nation. The foreign exchange reserve of the country saw a dull period from 1950 to the 90s. Several actions were taken, but the data shows the condition to be continuously adverse for this period. In the pre-independence era, the focus of the colonial rule was to provide maximum benefit to the Crown and British Government back in London, and hence no extreme measures were taken to strengthen India's trade and reserve policy. Thus after 1947, the nation found it challenging to step outside the shadows of the colonial rule and struggled to develop this policy.




## Public Sector

The development strategy of post-independence India was based on a crucial assumption, which was the generation of public savings and how it could be used for a higher and greater level of investment. However, this was not the case over some time, and the public sector became a “consumer of community’s savings" rather than being the generator of savings for the welfare of the community. The process of this role reversal reached a culminating point by the early eighties, although it had become evident by the early 70s. By this time, the government started borrowing to finance public sector deficits and investments and not just to meet its revenue expenditure. Total borrowings in the public sector average at 4.4 % of the GDP during 1960-1975. By 1980-81, this saw an increase to 6 % of the GDP and 9% by 1989-90.

Hence, the public sector, which was imagined to be a resource generator for the development and growth of the nation and the rest of its economy, turned out to be a net drain gradually on the society as a whole.

**Debate Amongst Economists**

Noted Economist Jagdish Bhagwati has said, *"I have often reminded the critics of Indian strategy, who attack it from the perspective of poverty which is juxtaposed against growth, that it is incorrect to think that the Indian planners got it wrong by going for growth rather than attacking poverty: they confuse means with ends. The phrase "minimum income" and the aim of providing it to India's poor were very much part of the lexicon and at the heart of our thinking and analysis when I worked at the Indian Planning Commission in the early 1960's"*

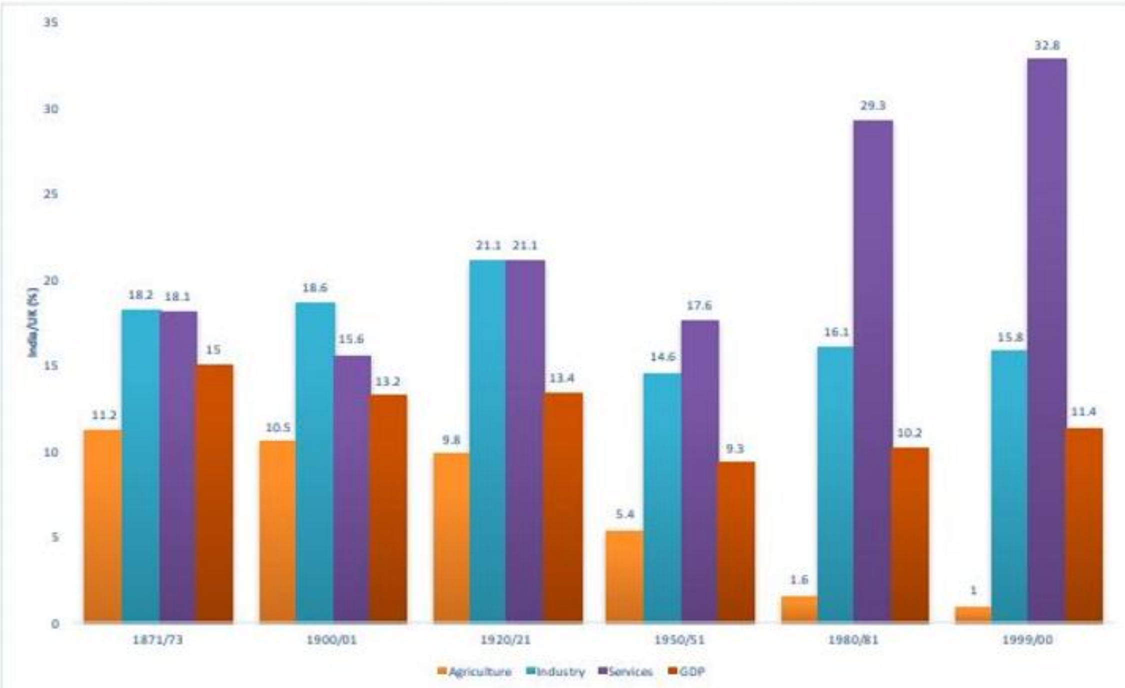
This gives us a view that the government of that time had a systematic focus on providing for the poor as part of its plan while going for growth and development. However, with the immense nature of poverty India had, merely redistribution had little sustained value and, thus, was considered to be mostly negligible in its impact to be caused immediately.

He goes on saying, *"Those intimately associated in India's plans fully understood, contrary to many recent assertions, the need for land reforms, for attention to the possibility of undue concentration of economic power and growth in inequality. These 'social tasks,' which of course also can redound to economic advantage, were attended to and endlessly debated in the ensuing years, with reports commissioned (such as the Mahalanobis Committee report on income distribution in 1962) and policies continually revised and devised to achieve these social outcomes."*

In his book 'Development as Freedom', Amartya Sen has written, *"the usefulness of wealth lies in the things that it allows us to do- the substantive freedoms it helps us to achieve an adequate conception of development must go much beyond the accumulation of wealth and the growth of gross national product and other income-related variables. Without ignoring the importance of economic growth, we must look well beyond it."*

In terms of economic history, 1950 is seen as a turning point in falling behind. Hindu Equilibrium is the name given to the growth rate during 1950-80, which resulted in slow catching up. Productivity growth was decreased with the burden of regulations and efficiencies. However, there has been noticed a reversal in decline in output per worker in comparison to the UK. This is shown in the figure below.

**Figure: Sectoral Productivity Differences with UK (%India/UK)**




Source: Broadberry and Gupta (2010)

**Table: Changes in Sectoral Growth (% per year)**

| | Primary | Secondary | Tertiary |
|---|---|---|---|
| 1910-1940 | 0.0 | 2.3 | 2.2 |
| 1950-1964 | 3.0 | 6.8 | 3.8 |
| 1965-1985 | 2.5 | 4.3 | 4.4 |
| 1986-2007 | 3.4 | 6.8 | 7.1 |

Source: Roy 2012, table 12.1

Comparing with the East Asian countries, which were growing at a rate of 5-6 % per year, India saw a growth of less than 2 % for the first 30 years after gaining independence. The change in the regulatory system and dismantling was bound to happen with this rate of growth. The first of several changes in the policy was in the 1980s with the removal of industrial licensing and bringing tariffs by replacing import quotas. These two policies opened up opportunities for the private sector.

Indian economy did not follow the path and pattern of structural change primarily observed in the industrialized countries wherewith the decline in the share of agriculture, the industry share in GDP and employment increased. India did not saw the secondary sector emerging as the most significant sector at any time, both in terms of employment and output during the 20th century. India took a different path since 1980, and this was in the leading role of services in growth. From 75 % in 1900, the share of agriculture in employment declined to 64 % in 2000. Many unskilled jobswere not created by the industry's fastest-growing sectors in the 1980s. More unskilled workers were absorbed in the 1990s by the expansion of sectors such as construction and trade. India can be seen as an early example of a service-sector led growth and high total factor productivity growth in services.

## CONCLUSION

The British left the Indian economy in a 'not so good' state with a burden that was to create problems for several upcoming years. As the government took a socialist approach, it also focused on the growth and development to create better opportunities for the poor and giving them benefits later. India-Pakistan partition also created a significant economic crisis that had to be handled by the nation. In this scenario, significant policy changes were not to be introduced initially, and therefore, the newly free India continued to follow the colonial model for a while. This was however changed once the new government of India decided to set up a planning commission and bring in some changes in order to reshape the economy. Five Year Plans were adopted, and targets were set. Whether they were achieved or not is a matter of another discussion.

With policy reforms and bringing in the public sector to the front, the Indian economy took its course after a while. This has been shown in this paper with the help of data provided by researchers. Indian economy reversed the effect of falling behind after freedom. Productivity growth was increased in agriculture by a green revolution and industrialization policies. However, the service sector has been the most successful in the growth dynamics of the Indian economy after independence. This sector has been the fastest-growing sector in recent years, with the most significant share of skilled and literate workers and the most significant share of GDP. The process of structural change has been led by the service sector rather than the industry.

*Therefore, it is safe to say that India's economic development after independence did not majorly follow the colonial model.*

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