

The Study on Modern Economic History of India

Dr. S. Harish Kumar

*Associate Professor of History,
and Principal (In-charge,
Government First Grade College.*

Abstract

The study of modern economic history of India explains the major changes in the Indian economy from the colonial period to the present. It examines the impact of British rule on agriculture, industries, trade, taxation, and employment. The study highlights the transformation of traditional Indian industries during the colonial period. It also discusses the development of railways, banking, ports, and other economic infrastructure. The effects of colonial economic policies on Indian farmers and workers are examined. The study further focuses on India's economic conditions after independence in 1947. It explains the role of planned economic development and the growth of the public sector. The Green Revolution and its contribution to agricultural development are also discussed. The study examines the economic reforms introduced in 1991. These reforms encouraged liberalization, privatization, and globalization. The growth of industries, services, trade, and foreign investment is considered. It also highlights major economic challenges such as poverty, unemployment, and inequality. The study shows how India gradually moved from a controlled economy towards a more market-oriented economy. Overall, modern economic history helps us understand the development and transformation of the Indian economy. It provides a foundation for understanding India's present economic structure and future challenges.

Keywords: Modern Economic History, Indian Economy, Colonial Rule, Agriculture, Industrialization, Economic Reforms, Liberalization, Privatization, Globalization, Green Revolution, Trade, Poverty, Employment, Economic Development.

I.INTRODUCTION

India's emergence into independence in 1947 came with a host of problems. The most fundamental ones were widespread poverty and a chronic lack of resources. In addressing this dual developmental challenge, policymakers at the time

had two ideological pathways to choose from. The Gandhians advocated self-sufficient but empowered village communities as the basis for the new nation. Others believed that modern technology and industry would transform the economy. In its search for inclusive growth, the fledgling nation's policies sought to reconcile these varying ideological strands into a coherent developmental model.

Economic History of India

In the early 1950s, India seized on a mixed economic growth model, attempting to balance the role of the market with that of the state. At the time, this model was seen as an answer to the challenge posed by the communist developmental model in China. India's model offered a non-capitalist (and yet non-communist) pathway to development and social democracy to the global south. By the 1970s, India was seen by many as an example of everything gone wrong. A "scarcity mindset" and complex bureaucratic processes that stifled entrepreneurship had resulted in decades of slow economic growth.

At the same time, the much sought social justice remained elusive with millions of Indians remaining abjectly poor. Slow growth and persistent poverty seemed to show the failure of the mixed growth model. At the beginning of the new millennium, India's economic policies were overhauled. The country was soon hailed by the Western media as the poster child of political democracy and liberal economics, a star performer with the potential to compete with China on economic grounds.

Looked at more closely, India's post-independence growth story is a nuanced picture of spectacular successes in the political sphere combined with unforgivable social failure. Most Western nations became functional democracies only once they had achieved an income of about \$2,500 per capita. Upon its founding in 1947, India showed that it was possible to maintain, sustain and strengthen a functional democracy at a level of \$100 per capita. Since then, India's per capita income has grown ten times in the past six decades and its democracy continues to thrive and mature. Yet this is still a flawed achievement because of India's failure to address mass poverty, inequality, destitution and discrimination.

India's Constitution and all its Five-Year Plans

The country is currently on the 12th such plan list equality and inclusiveness amongst the most important goals. The official formula was a rapid increase in living standards, full employment at an adequate wage and a reduction in inequality. However, that broad goal of inclusive growth would necessarily have required redistribution of income and of accumulated wealth. This vital step however, was considered impractical and politically inexpedient. In addition, the leadership of the Congress Party, for all its reputation to be "in" with the little man, as far back as 1949 passed constitutional provisions that sustained State control over land and

limited the redistribution of land and other property. Redistribution would have met opposition from the wealthy, nascent entrepreneurs, as well as from the propertied castes in rural areas. These are the very groups who continue to command the personal financial resources to run for political office. To this day, a large majority of legislators are drawn from their ranks. In contrast, landless laborers, tenant farmers and small cultivators though constituting a vast majority of the population could not stand as a candidate for office. That remains pretty much true to this day,

Thus, limited state capacities combined with political expediency and the traditional castes' hold over social and economic power has kept the poor economically marginalized. For all the lip service paid by successive governments and their Five-Year plans to the idea of inclusive growth, policy has remained guided by the hope that high economic growth, and the consequent generation of wealth, would somehow trickle down to the poor masses.

Comparison with contemporary World Modern Economic History

A comparison with Mexico since 1980 is instructive. Though India has enjoyed higher growth rates than Mexico for three decades, its per capita GDP in 2008 was equal to that in Mexico in the 1950s. That is not a happy indicator for India. Neither is the fact that, even by the Indian government's most optimistic estimates, at least 28-30% of Indians still live in abject poverty. The Indian Planning Commission, which defines poverty using calorific value of food intake, similarly estimates that around 27% of the population lives below the poverty line.

The World Bank's international poverty line of \$1.25 per day suggests a higher number of poor, finding that 42% of the Indian population below the poverty line. However, these numbers almost certainly fall short of the reality. Closer to the truth is a 2007 report by the National Commission on Enterprises in the Unorganized Sector (also known as the Arjun Sengupta Commission Report) that estimated that only 235 million people were able to meet their own economic needs. This suggests that the other 836 million Indians or 77% of the population had incomes of less than \$2 per day and needed government support. Given that only 10-12% of the Indian labor force is employed in the organized (formal) sector, this figure may be the most accurate. In terms of income inequality, India was close to industrialized countries in the early 1990s, but is now becoming increasingly imbalanced and closer to that seen in China.

Specifically, after the market-friendly reforms in the 1990s, the consumption of the top 20% of the population rose remarkably. In contrast, that of the bottom 80% of the rural population declined. In another telling illustration, Raghuram Rajan, the University of Chicago economist who has just been appointed as a chief economic advisor to the Indian government, has pointed out India's dubious distinction of having the second-largest number of billionaires per trillion dollars of

GDP, behind Russia. Indian billionaires hold more than 31% of the national income, four times higher than the global average.

Before independence a large share of tax revenue was generated by the land tax. Thereafter land taxes steadily declined as a share of revenues. The economic problems inherited at independence were exacerbated by the costs associated with the partition, which had resulted in about 2 to 4 million refugees fleeing past each other across the new borders between India and Pakistan. Refugee settlement was a considerable economic strain. Partition divided India into complementary economic zones. Under the British, jute and cotton were grown in the eastern part of Bengal (East Pakistan, after 1971, Bangladesh), but processing took place mostly in the western part of Bengal, which became the Indian state of West Bengal. As a result, after independence India had to convert land previously used for food production to cultivate cotton and jute.

Growth continued in the 1950s, the rate of growth was less positive than India's politicians expected. Toward the end of Nehru's term as prime minister, India experienced serious food shortages. Beginning in 1950, India faced trade deficits that increased in the 1960s. The Government of India had a major budget deficit and therefore could not borrow money internationally or privately. As a result, the government issued bonds to the Reserve Bank of India, which increased the money supply, leading to inflation. The Indo-Pakistani War of 1965 led the US and other countries friendly towards Pakistan to withdraw foreign aid to India, which necessitated devaluation. India was told it had to liberalise trade before aid would resume. The response was the politically unpopular step of devaluation accompanied by liberalisation. Defence spending in 1965/1966 was 24.06% of expenditure, the highest in the period from 1965 to 1989. Exacerbated by the drought of 1965/1966, the devaluation was severe. GDP per capita grew 33% in the 1960s, reaching a peak growth of 142% in the 1970s, before decelerating to 41% in the 1980s and 20% in the 1990s. From FY 1951 to FY 1979, the economy grew at an average rate of about 3.1 percent a year, or at an annual rate of 1.0 percent per capita. During this period, industry grew at an average rate of 4.5 per cent a year, compared with 3 per cent for agriculture. Real GDP per capita grew 59 per cent during 1950–77. Prime minister Indira Gandhi proclaimed a national emergency and suspended the Constitution in 1975. About one-fifth of the national population were urban by 1975.

Steel

Prime Minister Nehru was a believer in socialism and decided that India needed maximum steel production. He, therefore, formed a government-owned company, Hindustan Steel Limited (HSL) and set up three steel plants in the 1950s.

Heavy Industry

India maintained close ties to the Soviet Union, which provided technology assistance and transfer in the field of heavy industries such as oil, gas, mining, machinery, railways, heavy equipment, and electrical equipment.

Economic bust

The second economic boom cycle ended with the 1979 oil crisis that triggered fiscal deficits through the 1980s. In 1975 India's GDP (in 1990 US dollars) was \$545 billion, \$1,561 billion in the USSR, \$1,266 billion in Japan, and \$3,517 billion in the US. Real GDP per capita grew 51 per cent during 1977–94.

Capitalist boom

Economic liberalisation in India was initiated in 1991 by Prime Minister P. V. Narasimha Rao and his then-Finance Minister Dr. Manmohan Singh. Economic liberalisation in India since the 1990s led to paradigm shift in growth and structure of national income. Real GDP per capita grew 142 per cent during 1994–2013. About one-fourth of the national population was urban by 2000. Service markets which would enjoy much lighter burden of regulation and other obstacles became more successful than still regulated sectors. For example, world-famous business process services are very lightly regulated. The Indian steel industry began expanding into Europe in the 21st century. In January 2007 India's Tata bought European steel maker Corus Group for \$11.3 billion. In 2006, Mittal Steel Company (based in London but with Indian management) acquired Arcelor to form ArcelorMittal, with 10% of world output. The government started the Golden Quadrilateral road network connecting Delhi, Chennai, Mumbai and Kolkata with various Indian regions. The project, completed in January 2012, was the most ambitious infrastructure project of independent India. In the early 21st century, successive Indian governments also began to bridge the electrical divide that had opened between urban centres and the countryside over the course of the 20th century. In 2005, the Singh Administration launched a rural electrification drive, the Rajiv Gandhi Grameen Vidyutikaran Yojana or the Rural Electricity Infrastructure and Household Electrification Scheme. This was followed by the Saubhagya scheme, launched by the incoming Modi Government in 2017 in the aim of extending electrification to the most remote villages in the country. As a consequence of these initiatives, relatively few households in India lacked access to electricity by the 2020s.

Efforts to modernise the Indian Economy by successive Indian Administrations in the early 21st century flowed through to higher income growth. Real GDP per capita grew 39% during 2013–2021.

Economic bust

The Indian boom years of the 2010s were brought to a halt by the real estate crisis in 2012-13. For purchasing power parity comparisons, the US dollar is

converted at 9.46 rupees. Despite continuous real GDP growth of at least 6.5% since 2009, the Indian economy remained mired in bureaucratic hurdles.

II.CONCLUSION

The Indian anthropologist Arjun Appadurai, now at New York University, has argued that “the project of wealth creation has become radically unhinged from the project of poverty alleviation and social inclusion. The development state still exists in India, but it is vast rent-gathering apparatus which is there to assure that the poor are not in the way of massive capitalist development.” At present, concern over the persistence of poverty and inequality is growing in India. But dealing with this challenge is constrained by fears that tackling inequality for real may frustrate economic growth.

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