

Financial System: Before and After Independence

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Abstract: *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, the Indian economy was expected to grow by 9.2% in real terms in 2021-22, also made a case for carrying forward the reform process to achieve macro-economic stability.*

Keywords: Britishers and Government

I. INTRODUCTION

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 the 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:

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 prohibitor 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).

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)

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 agricultural 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.

II. CURRENT ECONOMIC SITUATION

India is set to emerge as the world’s fastest-growing major economy by 2021 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 to 8.9 % in FY 2021-2021, as per the report. The improvement in India’s economic fundamentals has accelerated in the year 2021 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:

2.1 Market size

By a report given by IMF World Economic Outlook April, 2015, India ranked seventh globally in terms of GDP, in 2021 at current prices it has been reached to 5th rank worldwide. 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 and at present it is 8.9 percent in 2021. The size of the Indian economy was estimated to be at 129.57 trillion (US\$ 2.01 trillion) for the year 2014 as comparing to 118.23 trillion (US\$ 1.84 trillion) in 2013. In 2021 it has been reached at 3.535 trillion \$. The increase is recorded 11.745 trillion \$ till 2021. 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 106.4 trillion (US\$ 1.596 trillion), as against 99.21 trillion (US\$ 1.488 trillion) in 2013-14, registering a growth rate of 7.3 per cent while it is 8.9 5 in 2021. 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”.

2.2 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. It has been touched \$ 112.8 billion during 2021. 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. Its at present figure is 138.8.
- 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. In June 2021 it is recorded at 161.3 in comparison with 162.5 in July and 162.9 in August, it shows that its increasing day by day.
- 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. Consumer confidence in India averaged 91.73 points from 2010 until 2022.
- 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. Recently in 2021 it has been increased to \$ 23 billion (2.7 % of GDP).
- 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. In 2021 The country's foreign exchange reserves declined by \$ 28.05 billion to \$ 607.32 billion.

III. CONCLUSION

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 2020-21, 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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