
UNIT 11 URBAN ECONOMY

Structure

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11.0 OBJECTIVES

After going through this unit on India's urban economy you will be able to

- explain features of an urban economy
- describe the traditional structures and processes of urban economy
- outline the impact of the colonial rule on urban economy
- examine the developments in urban economy after Independence.

11.1 INTRODUCTION

In unit 10 we dealt with the main features of India's rural economy. In unit 11 we will discuss its urban economy. We begin the unit with a brief introduction to the concept of economy.

In section 11.3 we discuss traditional urban economy in a historical perspective. Ancient period concerns the issues of urbanisation, occupational structure, trade and commerce, the **guild system**, social classes, and their relationship. Medieval period also covers identical issues in addition to the system of large-scale production in **royal karkhanas** or workshops. Section 11.4 deals with the

impact of colonial economy. Here, we witness the destruction of traditional urban economy and stunted growth of modern industries. The latter led to the emergence of capitalist economy and new social classes, namely, the capitalist class and the industrial working class.

The focus of section 11.5 is centred on the developments in urban economy after Independence. Here, we have taken up the issues of the industrial policy of the Government of India and its impact on **organised and unorganised sectors** of urban economy, social classes and the problem of dissociation of caste from traditional occupations.

11.2 FEATURES OF AN URBAN ECONOMY

The concept of economy can be understood in terms of economic structures and processes relating generally to production, distribution and consumption of material goods and services. Economic structures deal with institutional network under which production of goods and performances of services are organised. The mode of organisation of goods and services gives rise to various groups and classes. Social resources are distributed amongst them in an even or uneven manner. Against this broad framework we shall discuss the issues related to Indian urban economy. Before we outline the issues, let us clarify the meaning of the term urban.

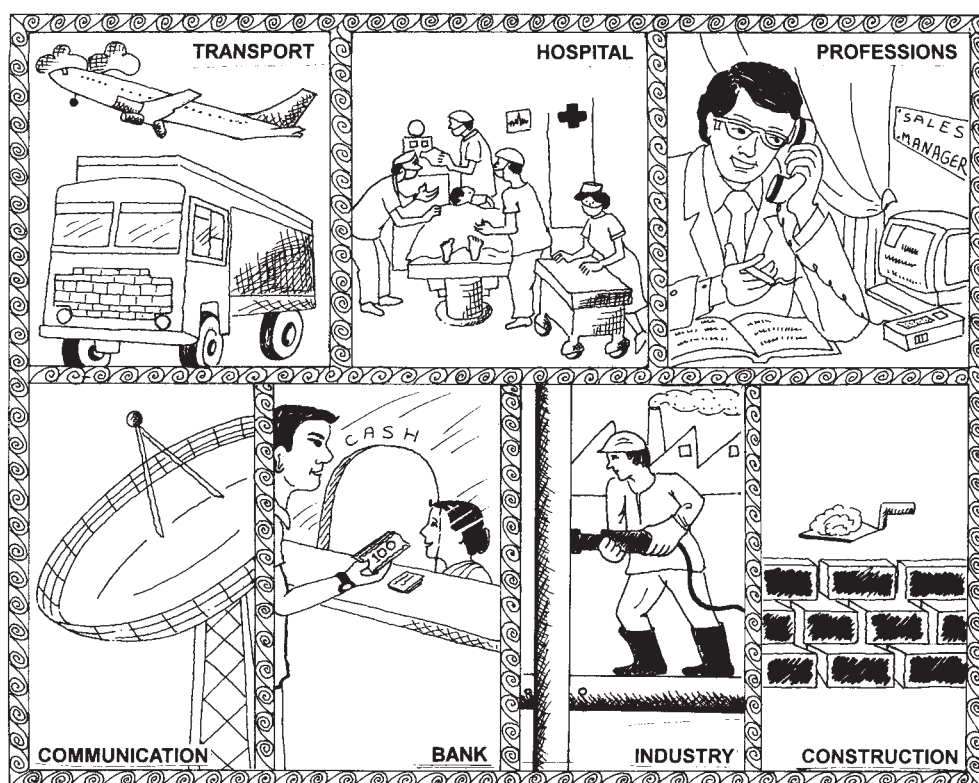


Fig. 11.1: Urban economy

In Block 1, unit 5 of this course we have already discussed the meaning and important features of urban social structure. To recapitulate, urban relates to or constitutes a city or a town. Several criteria, such as demographic, ecological and socio-cultural attributes are used to identify an urban area. Social scientists

emphasise that the important feature of a city is the presence of a market and a specialised class of traders in it. Other religious, political, economic, technological, and complex administrative structures found in a city complement the trade and commerce network. Thus, it is the flux of market economy and commerce, which brings together people of different socio-cultural backgrounds in an urban area. An urban economy is clearly demarcated from the rural economy due to the predominance of industrial and service sectors in it, as against the predominance of agricultural sector in rural economy, keeping these points in mind, we will discuss specific issues like industrialisation, trade and commerce and technological development in our description of urban economy (see figure 11.1). We begin this account by discussing the traditional urban economy in ancient and medieval periods of Indian history.

11.3 TRADITIONAL URBAN ECONOMY

Traditional patterns of urban economy in India cover both the ancient and medieval phases. Let us now look at the ancient phase.

11.3.1 Ancient Period

Urban economy has been an integral part of Indian economy since ages. The earliest Indian civilisation i.e. the Indus Valley Civilisation (c.2600-1500 BC) is known as a well-developed urban civilisation which had a broad rural agrarian base. Archaeological excavations have revealed that many cities and towns flourished in the Indus valley, e.g. Harappa and Mohenjodaro (now in Pakistan), Lothal, Kalibangan, Banwali (in India).

But the onset of the Rigvedic phase (c. 1500-1000 BC) marks a complete break with the earlier urban civilisation. The Rigvedic people lived a semi-nomadic and pastoral life. Gradually, they settled in villages and agriculture became their main occupation during the later Vedic-Period (c. 1000-600 BC). We hear of sixty towns in the contemporary literature, including the famous ones such as Rajagriha, Pataliputra, Sravasti, Kausambi, Varanasi etc. Towns and cities continued to prosper during the Maurya and post-Maurya phase and even under the Gupta dynasty. But the country had to undergo a process of urban decay in the post-Gupta period. This trend got reversed only from the ninth century onwards. Let us now look at certain aspects of the urban economy during this period, relating to trade and commerce, arts and crafts, guild system and social classes.

i) Trade and Commerce

As we know non-agricultural occupations are the predominant feature of urban economy. Trade and commerce are important activities. Evidences of both external and internal trade in the ancient period are found in the contemporary literature and archaeological remains. Trade and commerce witnessed both the periods of prosperity and decline.

Same was the case with regard to towns and cities in ancient India. Internal trade was carried on by merchants in urban manufactures and food-grains. The use of metallic coins since the age of Buddha promoted economic transactions. India's network of external trade covered distant lands, e.g., Rome, Arabia, Persia, China and south-east Asia. Luxury goods were the main items

of foreign trade. They comprised the products of crafts such as fine handicraft goods, ivory objects, pots etc. Foreign trade was in favour of India. The Roman writer Pliny was forced to lament that Rome was being drained of gold on account of her trade with India (Sharma 1983: 144).

ii) Arts and Crafts

Another important aspect of the ancient urban economy was the practice of various arts and crafts in which a large number of people were engaged. This included woodworkers, smiths, leather-workers, potters, ivory workers, weavers, painters etc. These craftsmen were socially organised into various castes. Elders trained the younger members in hereditary caste occupations.

iii) Guild System

A remarkable feature of the organisation of urban economy was the prevalence of the guild system (*sreni*). As against the *jajmani* system in the rural economy urban craftsmen and traders had formed craft and trade guilds. Members of a particular guild belonged to the same craft or trade. There were guilds of potters, smiths, weavers, ivory etc. These guilds played a very important role in organising production and in shaping public opinion (Thapar 1976:109). The vast majority of artisans joined guilds because these bodies provided them security from competition as well as social status. The guilds fixed rules of work and the quality of the finished product and its price to safeguard both the artisan and the customer. They also controlled the prices of manufactured products.

Various guilds were localised in different areas of towns as per their specialisation. The guilds were headed by their respective heads called *bhojaka* who were assisted by a small council of senior members. The guild court controlled the conduct of guild members through enforcing customary usages of the guild (*shreni-dharma*) which had the force of law. The leaders of the guild were very powerful in urban life. They were respected by the rulers.

There were also other types of workers bodies such as workers' cooperative, of which *Puga* was well known. *Puga* included artisans and various craftsmen associated with a particular enterprise. For example, the construction of cities and temples was carried over by cooperatives, which included specialised workers like architects, engineers, brick-layers etc.

Moreover, the guilds also acted as a banker, financier and trustee. People deposited money with the guilds and got interests in return. But generally these functions were performed by a different category of merchants, known as the *sreshthins* or financiers (Thapar 1987: 112).

iv) Social Classes in Ancient India

Now, we can move on to the question of urban social classes. The king and nobles, priests, traders, administrators, military personnel and other functionaries lived on taxes, tithes and tributes collected from urban as well as rural areas. Panini indicates that the king and richer section of urban population employed as many as a dozen varieties of attendants to take care of their personal comforts (Sharma 1983: 126). They lived a life of luxury and pleasure. According to Vatsyayana, they resided in beautiful houses, enjoyed music and played with courtesans at night (Bhattacharya 1988: 189-90). But the common urban people

comprising the artisans, labourers, servants and slaves had to cater to the needs of the privileged class and lead a hard life for themselves.

Check Your Progress 1

- i) Tick the right answer of the following questions.
Which of the following does characterise the urban economy of India?
 - a) The dominance of agricultural sector
 - b) The dominance of industrial and service sectors
 - c) Only the service sector
 - d) None of these
- ii) What kind of occupations did members of an ancient guild belong to?
 - a) Similar
 - b) Different
 - c) Agricultural
 - d) None of above
- iii) Describe the guild system (*sreni*) in ancient India in about seven lines.

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11.3.2 Medieval Period

The medieval period was marked by the development of towns, cities and industries, trade and commerce etc. In this section we shall talk of these as well as the organisation and technology of production and social classes in medieval India.

i) Growth of Towns, Cities and Industries

India witnessed a spurt in urbanisation during the medieval period. A large number of administrative, military, manufacturing and trading centres flourished during this period. There were big cities and towns such as Delhi, Daulatabad, Cambay, Broach, Lakhnauti, Agra, Fatehpur Sikri, Lahore, Dacca etc. Of the Sultanate period, Ibn Batuta says that Delhi was enormous in size, large in extent and great in population, the largest city not only in India but the entire Islamic East (Raychaudhuri and Habib 1982: 82). Ralph Fitch who came to India during the Mughal rule, observed that Agra and Fatehpui Sikri were each larger than London (Raychaudhuri and Habib 1982: 262).

In these towns and cities many industries were considerably developed during this period, e.g., textiles, metal-work, stone-work, leather-work, sugar, indigo, paper. Minor industries included ivory work, coral work, imitation jewellery etc. Textile manufacture was the biggest industry. It comprised production of cotton cloth, woollen clothes and silks. The allied industries of embroidery, gold thread work and dyeing were also carried on in many cities.

ii) Trade and Commerce

Trade and commerce was conducted on an extensive scale. Surplus grain from the countryside was generally carried to the neighbouring towns or transported to a *mandi* (or market town) for distribution all over the country. Agricultural raw materials like cotton and indigo were also brought to towns for manufacturing various goods, e.g., cloth, dye etc. Urban industrial goods were usually made for sale in a suitable market.

Some merchants specialised in wholesale trade and others in retail trade. The former was called Seth or Bohra and the latter Beopari or Banik. In South India, Chetti formed the trading community. The Banjara or the nomadic people moved from place to place with a large stock of foodgrains, salt, ghee etc. The Sarraf specialised in changing money, keeping money in deposit or lending it, or transmitting it from one part of the country to the other by means of *hundi* which was a letter of credit. There were Sahu (moneylenders) and Mahajan (bankers) who advanced loans to support commercial undertakings but their main business was to lend money at most profitable rate of interests.

Foreign trade was also considerable during this period. Indian exports comprised a variety of indigenous products such as textiles (especially cotton), agricultural produce, precious stone, indigo, hides, cornelians (a kind of gemstone), spikenard (an aromatic Indian plant, also refers to the ointment made from this plant), opium and even slaves. But the articles of import consisted of certain luxury goods like articles of silks, velvets, furnishings and decorations in addition to some metals e.g., gold, silver and copper. All kinds of horses and mules were also imported. India was connected with Damascus, Alexandria and the Mediterranean countries through the Arab merchants. Indian goods also reached the East African coast, Central Asia, Afghanistan, Persia, Malay Islands and China. Marwari and Gujarati many of whom were Jain, were engaged in coastal trade and trade between the coastal parts and north India. The Muslim Bohra merchants, Multani and Khurasani participated in trading activities.

iii) Organisation of Production

Now we will come to the mode of organisation of production, which made possible trade and commerce on an extensive scale. In fact, there were no factories or large-scale industrial enterprises in the modern sense of the term (Ashraf 1988: 124). Family was the basic unit of production. Each caste comprising a number of family units specialised in a particular art or craft. A process of continuous proliferation of artisan castes met the demands of increasing diversity of goods and specialisation. The artisan castes were localised in different parts of cities and towns.

Usually, the traders bought their goods from artisans for sale in the market. Sometimes the producers also sold their goods independently in periodical

fairs. In some places enterprising businessmen engaged a number of craftsmen to manufacture articles under their own supervision. The royal workshops known as *Karkhana* also employed large number of craftsmen to meet the needs of the royal establishment. Moreover, for certain specific purposes such as construction of magnificent buildings, shipbuilding and extraction of minerals a variety of specialised craftsmen and workers worked together. But such units of production were ad hoc in-nature.

iv) **Technology of Production**

Further, the technology of production was backward and almost stagnant in comparison with other advanced contemporary civilisation such as Western Europe and even China. For example, India's world famous textiles were produced without the use of multi-spindle wheels known to China and the water-powered throwing mills with 200 spindles of the Italian silk industry. India did not know the use of coal and had no proper cast-iron. There was no familiarity with the techniques of deep mining. The chemical industry was primitive. Though the manufacturing sector met most of the internal needs and produced for a considerable foreign trade, this was achieved within a framework of relatively stagnant and backward technology. Raychaudhuri and Habib (1982: 291-5) rightly observe that the overall picture was surely not of any distant announcement of industrial revolution.

v) **Social Classes in Medieval India**

Medieval urban society of India comprised two broad social classes. The emperor, nobles and rich merchants formed the privileged class. Their standard of living was very high. The imperial household set the standard of conspicuous consumption, which was emulated by the nobles. The royal family lived in magnificent palaces. A large number of servants and slaves were employed to take care of the royal comforts. Alauddin Khilji had 50,000 slaves and Feroze Shah Tughlaq had collected 1,80,000 slaves. Most of the articles of royal use were worked in gold, silver, costly embroidery and jewels. Similarly, the nobles and wealthy merchants lived an ostentatious life. They had large and beautiful houses, used very costly articles of apparel and kept a large mass of servants, slaves and retainers.

On the other hand, the common urban people comprising artisans and craftsmen, servants and slaves, foot-soldiers and petty shopkeepers lived a life full of misery, oppression and exploitation. Some artisans were protected by kind patrons. But ordinary artisans were underpaid, flogged and kicked by the minions or assistants of nobles and traders alike (Raychaudhuri and Habib 1982: 297). Both male and female servants and slaves performed specialised functions in domestic and non-domestic services of the privileged class. They were also used as an object of display. Payments to the servants were very low. Slaves were very cheap, even cheaper than animals. A woman slave for domestic work cost from 5 to 12 *tanka* (the monetary system introduced in medieval India), a concubine, 20 to 40; untrained slave boys, 7 or 8 *tanka*; and trained slaves, 10 to 15 *tanka* during Alauddin Khilji reign. However, the most inferior horse (*tattu*) was priced at 10 to 25 *tanka* and a *milch* buffalo cost 10 to 12 *tanka*. Moreover, the slaves were treated as chattels. To be freed by the master was an act of commendable charity but for the slaves themselves to flee was a sinful assault on private property (Raychaudhuri and Habib 1982:

92). Thus, there was a glaring disparity between the privileged ruling classes who maintained a highly ostentatious life-style and the poor people lived in misery and suffered from oppressions and exploitation.

In the next section on colonial urban economy, we will see how the traditional urban economy in India changed its character under the impact of colonial rule of the British.

Check Your Progress 2

i) What were the two marked features of medieval urban economy? Use three lines for your answer.

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ii) Tick the right answer of the following question.

What was the main feature of the mode of organisation of production in medieval India?

- a) Large scale modern industrial enterprises
- b) Family as the basic unit of production
- c) Huge factories
- d) All of the above

iii) In about six lines describe the state of technology of production during the medieval period.

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iv) What was the condition of servants and slaves in medieval urban economy? Use six lines for your answer.

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11.4 COLONIAL URBAN ECONOMY

Though various European trading companies came to India, it was the British East India Company, which succeeded in establishing colonial rule over the country. In the beginning they carried on trade with the permission of and under the patronage of Indian rulers. They were obliged to bring bullion from their countries to India for exchange with Indian goods. But the British victory at the Battle of Plassey in 1757 marked a watershed in Indian history. The British gradually expanded their colonial rule over more and more territories in India and drained out the country of its huge wealth. The flourishing urban handicrafts collapsed. Later some modern industries were set up on capitalist lines, which led to the growth of new social classes in India. In this section we shall focus on destruction of urban handicrafts, growth of modern industries and the new social classes which emerged during this period.

11.4.1 Destruction of Urban Handicrafts

During the colonial rule, there was a sudden and quick collapse of the urban handicrafts for which India was famous all over the world. The urban industries that rapidly declined included textiles, shipping, iron-smelting, paper, glass, metals, tanning, dyeing etc. There were various factors responsible for this. The disappearance of the native states lowered the demand of urban handicrafts. But the discriminatory policies followed by the colonial rulers proved disastrous. They imposed heavy duties on import of goods from India to England. They followed a policy of one-way free trade, to facilitate invasion of India with British manufactured goods. Official patronage to British goods and the policy of exporting raw materials from India for feeding British factories and introduction of railways badly hurt Indian handicrafts. The severity of British oppression and exploitation of the urban craftsmen compelled them to abandon their ancestral possessions and occupations. Indian handicrafts made with backward techniques could not compete with machine made cheap goods from England, which flooded the Indian market.

Thus, deprived of both external and internal markets, the handicraft industries declined and almost collapsed by 1880. Gadgil (1984: 45) observes that India in the eighteen eighties afforded the spectacle of a huge country with decaying handicrafts, with any other form of organised industry almost non-existent and a consequent falling back upon land. Hence, India was de-industrialised and further ruralised. The poverty of the people aggravated. William Bentinck, the Governor-General of India, reported as early as 1834-35, "The misery hardly finds a parallel in the history of commerce. The bones of the cotton-weavers are bleaching the plains of India" (quoted in Chandra 1977: 184).

11.4.2 Growth of Modern Industries

Some of the traditional urban industries, which survived to some extent, had to undergo numerous organisational changes. But the most important development from organisational and technological point of view in India's urban economy started in the second half of the nineteenth century when large-scale machine based industries were set up in the country. These industries were capitalist in nature. The private owners of factories employed large number of workers under one roof. The production was aimed at maximisation of profit and manufactured goods were sold in the market.

In the 1850s cotton textile, jute and coal mining industries were established which marked the beginning of the machine age in India. There was a continuous but slow expansion of these industries. A number of other mechanical industries developed in the second half of the nineteenth and the beginning of the twentieth centuries, i.e., cotton gins and presses, rice, flour and timber mills, leather tanneries, woollen textiles, paper and sugar mills, iron and steel works, and such mineral industries as salt, mica and saltpetre. During the 1930s, cement, paper, matches, sugar and glass industries developed.

Two things are worth noting regarding the growth of modern industries. Firstly, the growth of the modern industries was controlled mainly by the foreign managing agencies. Foreign capital was formed as against Indian capital. Secondly, modern industrialisation had some unintended consequences on the economy of India. Let us explain these two points in a little more detail.

i) **Foreign Capital**

However, growth of all these industries was exceedingly slow and very stunted. Most of them were owned or controlled by British capital. The plantation industries such as indigo, tea and coffee were almost exclusively under European ownership. The Indian capitalists had a large share in certain industries, e.g., cotton textile and sugar. But generally they were controlled by foreign managing agencies. Moreover, the colonial government followed a deliberate policy of favouring foreign capital as against Indian capital. No protection was provided to infant Indian industries as done in the West, including Britain. India lacked capital goods industries like steel, metallurgy, machine, chemical and oil, which could have provided a strong base for further industrialisation of the country. In addition, the industrial development was extremely lop-sided regionally. Industries were concentrated in a few regions and cities. Large areas of the country remained completely underdeveloped. As Amiya Bagchi (1980: 442) has rightly observed the economy of India remained poor, basically agricultural and colonial.

ii) **Consequences of Modern Industrialisation**

Despite all these crippling drawbacks, modern industrialisation played a very important role in one sense in India. There developed a unified national economy as a result of introduction of the modern factory system of production, commercialisation of the economy and the spread of modern transport system. Desai (1987: 124) observed that Indian economy became more unified, cohesive and organic.

Activity 1

In your daily life you use several manufactured goods and products like, tea, coffee, cooking oil, tools, newspaper etc. find out and list at least five items which are produced by companies initially founded by the British capital. Check if possible, your list with those prepared by other students at your Study Centre.

11.4.3 New Social Classes

The growth of modern industries in India during the colonial rule gave rise to two important social classes of the contemporary society, i.e., the capitalists or

the **bourgeoisie** and the working class or the **proletariat**. These classes were completely new in Indian history. Though they formed a very small part of the Indian population, they represented new technology, a new system of economic organisation, new social relations, new ideas and a new outlook (Chandra 1977: 193). They were national in character. They were integral parts of a single national economy and polity. They had a wide social base to organise on an all-India level for furthering their interests (Desai 1987: 214). Now let us look at the classes that emerged during this period.

i) **The Capitalist Class**

The capitalist class comprised industrial, commercial and financial capitalists. They owned and controlled the means of production and distribution of goods. Their main objective was to maximize profit on the capital, which they invested in industry, trade and finance. Exploitation and oppression of the working class enabled them to increase their assets and maintain a high standard of living.

Dominant capitalists in colonial India were of British origin. But Indian capitalists also had gained considerable share in various enterprises. The traditional Indian business communities did survive and even flourish during this period. This group included the Marwari bania, the Jain, the Arora, the Khatri and the Chettiar. But their position was secondary in relation to the British capital. In the beginning, they served as dependent traders of the British in the capacity of agents of British export-import firms. They also thrived as money-lenders. Gradually they started channelling their accumulated capital in developing indigenous capitalist industries, e.g., textile and sugar.

ii) **The Other Classes**

There were also two more classes in urban areas. The class of petty traders and shopkeepers were bound up with modern capitalist economy. As a result of new system of education and administration, an educated middle class had emerged consisting of the professionals such as lawyers, doctors, professors, journalists, clerks etc.

Check Your Progress 3

i) Tick the right answer of the following questions.

Which of the following characterises colonial urban economy of India?

- a) Destruction of traditional handicrafts
- b) Growth of new classes of the bourgeoisie and the proletariat
- c) Beginning and development of modern industries
- d) All of these

ii) What was the reason for the de-industrialisation of Indian economy?

- a) Indians refused to produce goods for the British.
- b) The policy of the British rulers was such that they exported raw materials from India and flooded the Indian market with their own manufactured goods.

- c) The Indian craftsmen became poverty stricken and were not able to get the raw materials.
 - d) The Indian goods were not of very good quality.
- iii) What was the unintended consequence of modern industrialisation in India?
Answer the question in about six lines.

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11.5 URBAN ECONOMY AFTER INDEPENDENCE

Urban economy after Independence saw a series of changes. Some of these changes were unintended but most were due to planned socio-economic reforms introduced by the new government. Let us focus on the following features of urban economy after Independence.

- Industrial policy and its impact
- Form and organisation of urban industries in both the organised and the unorganised sectors
- Social classes
- The relationship between caste and occupation in urban India since Independence

11.5.1 Industrial Policy and its Impact

The industrial policy of the government of India after Independence aimed at economic development of the country through rapid industrialisation. It was realised that basic industries had to be set up which would curtail foreign dependence and help in achieving economic self-sufficiency. The problem of social and regional inequalities also had to be resolved through the establishment of a ‘socialistic’ pattern of society.

For describing the industrial policy and its impact it seems appropriate to review the following aspects.

- i) Mixed economy
- ii) Government regulation of industrial development
- iii) Gradual decontrol of industries
- iv) Government policies and industrial development
- v) New economic policy

i) **Mixed Economy**

The concept of ‘**mixed economy**’ provided the framework under which the task of economic and social development was to be achieved. ‘Mixed economy’ meant co-existence of both the public sector (owned and controlled by the government) and the private sector (owned and controlled by individuals or families or private bodies) in the national economy. Accordingly, the government classified industries into three categories. The state assumed the exclusive responsibility of the industries included in the first category. In this category, there were seventeen groups of industries e.g. arms and ammunitions, atomic energy, iron and steel, heavy machine building, heavy electricals, minerals, railway, shipbuilding, telephones, electricity etc. The second category comprised industries which had to be progressively state owned, but in which private enterprise also was expected to supplement the efforts of the State. They included twelve industries such as machine tools, essential drugs, fertilisers and road transport. In the third category lie the rest of the industries, including consumer goods industries and their development had been left to the private sector (Government of India 1987: 419). Thus, the industries, which are of basic and strategic importance or in the nature of public utility services, are placed in the public sector. They required large investment, involved long gestation period and could yield delayed return. This could be afforded only by the State. The private sector grabbed the consumer goods industries giving quick profits on investment and involving negligible risks, if any. Let us see how the government regulated the industrial development in India.

ii) **Government Regulation of Industrial Development**

The Government guided the overall industrial development in the country through adopting resolutions and licensing policy, making policy statements and the five-year plans. The Industries (Development and Regulation) Act of 1951 made it essential for the private sector to take license from the government to set up new industrial units or effect substantial expansion of existing plants. This enabled the government to lay down conditions regarding location of industries, minimum size, etc. The Act also empowered the government to give instructions to industries for rectifying drawbacks if they had any. The government could also prescribe prices, methods and the volume of production and channels of distribution. Further, the Monopolies and Restrictive Trade Practices Act (MRTP) was passed in 1969 to prevent the concentration of economic power in the hands of big business and trading houses to the common detriment. The Foreign Exchange Regulation Act (FERA) was also enacted to control imports and keep the balance of payment situation under reasonable limit.

iii) **Gradual Decontrol of Industries**

Gradually, there occurred a shift in the industrial policy of the government. The Industrial Policy Statement of 1973 permitted large native private business houses and foreign companies to take part in the establishment of unreserved core industries. In 1975 the government delicensed twenty-one industries and allowed expansion of foreign companies and monopoly houses in thirty other important industries. In 1980, further expansion of the private sector was encouraged through regularisation of unauthorised excess capacity. Before 1980 the government had set a certain limit of production for the private sector

industries. Therefore, the excess production, which these industries made or had, the potential to make was not legally allowed. After 1980 the government, allowed these industries to produce in excess in order to encourage their growth and development.

Further, after 1984 the industrial licensing policy became more liberal. The asset limit of MRTP companies has been raised from rupees twenty crores to rupees one hundred crores. Twenty-three industries have been delicensed for MRTP and FERA companies. A forty-nine per cent rise in capacity has been permitted for undertaking modernisation. Nearly two hundred reserved items have been dereserved and made open for the medium and large-scale sector. Emphasis in the public sector has been on optimum capacity utilisation, and not on expansion. Thus, now the industrial policy is clearly oriented in favour of the large and medium enterprises in the private sector. The growth of the public sector has been reduced. Some of the protections granted earlier to the small-scale industries have been withdrawn.

iv) **Government Policies and Industrial Development**

India has witnessed considerable industrial development after Independence. A number of basic and critical industries have developed which were almost non-existent or very weak during the colonial period.

Take for example the iron and steel industries, heavy machines and tools and heavy electricals etc. They have provided a strong base for further industrialisation of the country. Self-sufficiency has been attained in the production of many goods and performance of various services. A significant change has taken place in the nature of import. There is a shift from import of commodities to import of technical know-how in this area.

The public sector has expanded rapidly in terms of investment, turnover, capital formation, export, import substitution and the range of products. The number of enterprises in this sector has increased from 5 in 1951 to 221 in 1985 and the investment in public sector has increased from rupees 29 crores to 42,811 crores during the same period (Government of India 1987: 429). This has been further increased to 2,74,114 crore in 242 enterprises by the year 2001 (Government of India 2003: 538). Now the public sector produces diverse goods of great importance e.g. steel, coal copper, aluminium, engineering products, fertilisers, basic chemicals, drugs, petroleum products, minerals, locomotives, aircrafts and ships. In 1997, the government had identified eleven Public Sector Enterprises (PSE) as *Navratnas* and decided to give enhanced powers to the Board of Directors of these PSUs to facilitate their becoming global players. Two of these, namely, IPCL and VSNL have since been privatised and from August 2000 onwards there were only nine *Navratna* PSEs (Government of India 2003: 539).

The dominance of the private sector did not decline even though the public sector had initially expanded rapidly. The private sector produced a variety of consumer goods. It contributed about seventy-six per cent of net domestic product (1982-83) and constituted over ninety per cent of the total employment in the country, which, of course, included employment in agriculture. Further, the number of private sector companies had increased from 29,283 in 1957 to 93,294 in 1984 (India 1986:164). Agriculture was almost entirely under private ownership. The total asset of large industrial houses had increased manifold,

e.g., that of the Birla from rupees 283 crores to 4,112 crores and of the Tata from rupees 375 crores to 3,699 crores during the period 1963 to 1985 (see Table in Datt and Sundharam 1988: 348). Therefore India's economy was not really a mixed economy and to call it a socialist economy would be almost meaningless. In fact, it was essentially capitalist. This issue will be examined further in the next section.

v) **New Economic Policy**

Since Independence the government of India came out with different industrial policies from time to time such as the Industrial Policies Resolutions of 1948, 1956, and policy statements of 1970, 1973, 1980 and so on. The deregulation of the Indian economy began in the 1980s. In the 1980s it was felt that the policy of 'license permit raj' was preventing the blossoming of private initiative and choking the industrial growth. In the mid-1980s began the era of an open economy known as liberalisation, de-licensing and de-control (Chowdhary and Chowdhary 1997: 73). Some of the important measures taken were relaxation of MRTP and FERA companies, delicensing of major industries and provision for incentives for export production.

Following the liberalisation policy of the 1980s the government announced major economic reforms in 1991, known as the New Economic Policy. It stood for the opening up of the economy to the private sector and reduction in government expenditure in social sector. The Economic Reforms launched in July 1991 in India were in response to the economic and political crises that erupted in early 1991 (Prasad and Prasad 1993). The economic crises comprised a steep fall in the foreign exchange reserve, galloping inflation, large public and current account deficits and mounting domestic and foreign debt. In politics, the fall of two governments in a short span of four months, from November 1990 to March 1991; deferment of presentation of the union budget, fairly long political interregnum till the elections etc. reflected an unprecedented chain of crises. These events led to a sharp erosion of confidence in India among lenders, down gradation of India's credit rating and consequently cut off of international credit lines from private or commercial sources and this forced the Indian government to announce major changes in its economic policies. These included new industrial policy, exim policy, exim scripts, a policy for small scale and cottage industries, devaluation of rupee and so on. Among the policies, which aim to liberalise the whole economy, the new industrial policy occupies the foremost place with an aim to raise industrial efficiency to the international level and, mainly through it to accelerate the industrial growth (Misra and Puri 2001).

Check Your Progress 4

i) What do you understand by Public Sector Undertaking?

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ii) What are the implications of new economic policy to the industries?

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11.5.2 Organised and Unorganised Sectors

We now shift our attention in this section from the discussion on industrial policy to the issue of structure, forms and organisation of urban industries.

Indian urban economy has been seen as dual in nature comprising organised or formal sector and unorganised or informal sector. The organised sector possesses some or all of such characteristics as large-scale operation in terms of capital and labour, wage labour, advanced and modern technology, public and private ownership are found in the organised sector. Regulated and protected markets for labour and output, formal nature of employment and the requirement of formal educational qualification or training in skill for its workers are also some of the other features. On the other hand the unorganised sector enterprises feature small-scale of operation in terms of capital and labour, private or family ownership, labour intensive, backward technology, unregulated market, unprotected labour and easy to start due to usually no need of licence or registration (Satya Raju 1989: 12-13; Aziz 1984: 6-8).

The nature of employment in the organised sector is wage labour. But in unorganised urban sector both wage labour and self-employment are prevalent. Workers are employed on wages in activities like manufacture and repair, construction, trade, transport and other services including domestic service. The areas of self-employment activities comprise hawking, peddling, pushing carts, and plying manual rickshaws and so on.

In India, the Government has mainly emphasised the organised sector for promoting economic development of the country. We shall now look at (i) modes of production, and (ii) small scale industries.

i) Modes of Production

Indian economy is characterised as ‘multiform’ in nature when it is seen from the point of view of the **mode of production** (Medovoy 1984, Shirokov 1980). It comprises both the capitalist and the pre-capitalist forms though the dominant and ascending tendency is that of capitalism.

Before going further in our explanation, we must understand the term ‘mode of production’. The concept of mode of production has been described by Marx as comprising of firstly, the forces of production and secondly, the relations of production. The forces of production consist of such items as, the capital, the tools and machinery, raw material, and so on. The relations of production are the relationships between the owners of the means of production and the labourers who sell their labour for wages in the labour-market.

According to Marx, the development of society undergoes different phases in history from primitive, ancient, asiatic, feudal, capitalistic and socialistic to ultimately communist type. With these phases of historical development coincides the development of the different modes of economy. Primitive society had primitive mode of production, and ancient society had slave mode of production. Asiatic society had asiatic mode of production based on agriculture and irrigation. Feudal society had feudal mode of production based on the division of the landlords and serfs. In the capitalist society we have the capitalist mode of production in which the classes of capitalists and workers exist.

This description, given by Marx, of the historical development of societies and the consecutive changes in the mode of production is called historical and dialectical materialism. Thus, when we say that in Indian economy we find both the capitalist and the pre-capitalist form, we mean it only in terms of the mode of production. Indian economy still has some elements of asiatic and feudal modes of production. In this sense the Indian economy is **multi-form** or multi-structural in nature. There is a coexistence of several modes of production.

Large-scale private enterprises are undoubtedly capitalist in character. They employ big size of capital and wage labour and advanced technology of production. They have the inherent capitalist motive of maximising their profit. The public sector enterprises are also essentially capitalist in nature. Though they are owned and controlled by the government, they serve the interests of the private sector through providing them essential capital goods, services and infrastructural facilities.

ii) **Small Scale Industries**

Small-scale industries are divided into three categories (Shirokov 1980:294). The first category comprises domestic and cottage industries producing traditional goods and depending on family labour. They are based on natural raw materials and traditional tools. Though some of them employ semi-finished factory products, their production is meant for local consumption. Therefore, they are largely pre-capitalist in nature and remain outside the network of industrial capital. The second category consists of industries, which produce modern commodities by traditional methods, e.g., hand-weaving, soap-making and match manufacture. These industries utilise factory raw materials, semi-finished products and ancillary materials. But their means of production remain traditional. Hence, they are partially connected with the industrial capital.

The third category includes modern small units and ancillaries. They use industrial sources of power, raw materials, wage labour and modern means of production such as tools and machineries. They supply large-scale industries with certain producer goods. As a result, they constitute an integral part of the reproduction of industrial capital. While the first category is usually found in rural areas, other two categories of industry are spatially located in urban and semi-urban setting.

Thus, the mode of production is heterogeneous in character. But the gradual expansion of capitalist industrial network has made it the dominant mode of production in the national economy over the years. Despite that the significance of the unorganised sector has not declined much in the national economy. Its share in the National Income was 73.4 per cent in 1960-61 and stood at 66.1

per cent in 1979-80 (Breman quoted in Satya Raju 1989: 30). According to 1971 Census, about 91 per cent of the total workforce, as against 92.3 per cent as per 1961 Census, was engaged in various informal sector activities including agriculture. Moreover, some studies of large urban centres, e.g., Kolkata, Mumbai and Ahmedabad have estimated that the employment opportunity in the informal sector was around forty-five per cent of the workforce (Lubell 1974, Joshi and Joshi 1976, Papola 1977). In towns and smaller cities, this ratio must be much higher due to the preponderance of informal sector activities.

According to the 1991 census the per centage of the work force engaged in the unorganised sector is 90.42 per cent and in terms of GDP about 63 per cent value added comes from this sector. As per the survey carried out by the National Sample Survey Organisation in the year 1999-2000 93 per cent of the total workforce is engaged in the unorganised sector (National Sample Survey, 1999-2000).

The economic restructuring set forth in the 1990s as a part of the new economic policy has an impact on both the organised and unorganised sectors of labour in India. The new economic policy, which operates under an open and liberalised economic regime, has emphasised a deregulated regime, with less emphasis on regulation of labour and employment conditions. This has resulted in the casualisation of workers. This is accompanied by the government policies away from the protection of employment through introduction of exit policy, voluntary retirement scheme, national renewal fund and withdrawal of pro-labour legal provisions (Mamkoottam 1994). Industrial activity in organised and unorganised sectors of urban economy has also generated the emergence of social classes. It is therefore necessary to discuss them.

Check Your Progress 5

i) Tick the right answer.

What does the concept of ‘mixed economy’ refers to?

- a) The prevalence of the private sector
- b) Existence of the public sector
- c) Coexistence of the public and the private sector
- d) None of these

ii) Why has the nature of Indian economy been described as ‘multi-form’? Describe in about seven lines.

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11.5.3 Urban Social Classes

With the increasing rate of industrialisation in India after Independence, the country has witnessed a significant rise in numerical strength as well as bargaining position of the three main urban social classes, i.e., i) the capitalist class ii) the working class and iii) the urban middle class.

i) **The Capitalist Class**

The capitalists own and control industrial, trading and financial enterprises. Public sector industrial, trading and financial enterprises largely serve the needs of the private capitalists. The capitalists are guided by the motive of maximisation of their profit. They exploit the workers through paying them less than the value of the products produced by the latter. They use various means like their chamber of commerce and industry, newspaper and journals to safeguard their interests and influence the formulation and implementation of government policy to their advantage. A variety of formal (e.g., Chamber of Commerce) and informal arrangements (such as cocktail parties) knit them together with the dominant strata in politics, bureaucracy, the professionals and so on. Due to their inward looking attitude they try to maintain and strengthen joint family bonds and consolidate their family strength by marriage ties with other business houses. Despite their inherent internal competition and conflicts in the arena of production and services for increasing profits, they stand united for the production of the capitalist system in the country. They exercise a quiet dominance in the life of the country (Saberwal 1978).

ii) **The Urban Working Class**

The urban working class consisting of both the wage labourers and self-employed workers is poor, powerless and largely unorganised on class lines. They constitute the exploited class. They are exploited more in the unorganised sector than in the organised sector. The wages of the workers in the unorganised sectors are lower than those in the organised sector. Women workers and children are more exploited in the unorganised sector because they are paid less than the adult male workers. Though the workers in the organised sector have their trade unions for furthering their interests, their affiliation with various political parties with different ideological orientations hinder the growth of unity of the working class. Wide income differentials between the workers in the two sectors, technological heterogeneity and social heterogeneity of workers on the older lines of segmentation (e.g., caste, language, religion) obstruct the process of the development of an all-encompassing working class consciousness and organisation for safeguarding and promoting their interests.

iii) **The Urban Middle Class**

In addition to the two major urban classes, the middle class also has increased rapidly after Independence. The members of this class are engaged in a number of professions such as teaching, journalism, law and administration. They are also employed in managerial and supervisory positions in industry, trade and commerce. Though the elite section of this class enjoys all privileges of life, the standard of living of the majority section is of an average quality. This class is socially dispersed and unorganised. Essentially this class does not stand for a radical restructuring of society. But a section of this class has aligned itself with the toiling masses of the people for effecting social transformation.

Before ending this section, we shall also discuss the issue of the creation of new occupational opportunities. This discussion will also include the association of caste with traditional occupations.

Activity 2

Observe the economic activity in the place where you live in terms of

- a) the number of factories located in your place
- b) the goods manufactured in your place
- c) the number of cottage industries
- d) the number of government owned and the number of private owned industries.

Write a two page report on the topic: "The economic activity in the place where I live".

11.5.4 Caste and Occupation

It is generally said that the association of caste with traditional occupation has become very weak in the urban economy as a result of diversification and occupational structure and creation of new occupational opportunities. Moreover, it is also held that the rate of occupational mobility is high in the urban areas. We have some empirical studies on these issues. After discussing the ethnographic material, we will also look at business communities in India.

i) Some Case Studies

In his study of the city of Chandigarh, Victor D'Souza (1968) found that the occupational structure of different caste categories was different and it was not consistent to any remarkable degree with the occupational caste hierarchy both in case of the Hindu and Sikh castes. Harold Gould's study of fifty *rickshawalas* of Lucknow revealed that this occupational category comprised twenty-seven Hindus ranging from the highest and purest Brahmin caste to the lowest and most defiled Chamar caste, four Nepali Hindu and nineteen Muslim. This gives an example of a complete disintegration of the occupational feature of the caste system (Gould's article in Rao 1974: 296). In his study of the emergence of industrial labour force in Bombay, M.D. Morris (1965) observed that the labour force was drawn from all castes, high and low, chiefly consisting of Maratha migrants from Ratnagiri district (see Rao: 1974). A.B. Mehta's study (1960) of domestic servants in Bombay shows that the bulk of them belonged to the low castes and were immigrants, (see Rao: 1974). The separate studies of clerks conducted by B.K. Khurana and N.J. Umrigar found that they were drawn from upper castes (see references to these works in Rao 1974).

Further, there are some studies on social and occupational mobility of the scheduled castes. Sunanda Patwardhan's study (1973) of scheduled castes of Poona shows a varying degree of association between caste and traditional occupation. The ratio of association comprises Chamar (Shoemaker): 69 per cent; and Mahar: nil (see table in Rao 1974: 317). It is evident from the figures that the Mahar had completely dissociated from their traditional occupation.

They had taken up white-collar occupation. A limited proportion of people from other scheduled castes also had entered into non-traditional occupations. Hence, a positive correlation between caste and occupation was not found in this study. Lynch's study (1969) of the Jatav of Agra also gives evidences of social mobility among this caste.

ii) **Business Communities in Urban India**

Regarding the business communities it has been observed that the history of business in India has been the history of certain social groups such as specific castes. But here it must be noted that business communities are not always found coterminous with caste groups. A number of studies have treated religious and regional groups as castes e.g. the Parsi, the Jain and the Marwari. In fact, the Parsi and the Jain are religious communities outside the framework of the caste system. Historically speaking, the Marwari belong to the region of Marwar in Rajasthan. They gradually spread their business activities all over India over a long period of time.

In fact, business opportunities have been seized by diverse social groups such as Bania, Parsi, Lohana and Muslim in Gujarat, Brahmin in Bengal, Khatri in Punjab and Chettiar in the South. Some lower caste-groups without having any traditional association with entrepreneurship have taken up business like the Ramgarhia (a caste of high skill artisans) in Punjab and the Mohishya (the low caste peasant community) in the Howrah region (Tripathi 1984:16-17). In reality, a constellation of forces have been operative in the emergence of development of business enterprise. According to N.R. Sheth (1984), these forces include psychological factors. The psychological factors are motivations, socio-cultural traditions, skills, and attitudes relevant to business. Economic opportunities, political stability and support for congenial business environment also help the development of business enterprise. Contact with contemporary business system and exigential pressures generated on social groups during the periods of social change operate in the emergence of the business community (Tripathi 1984: 18).

Check Your Progress 6

i) Who are the capitalists? Answer this question in about five lines.

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ii) Who constitute the urban middle class? Use five lines for your answer.

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iii) What are the factors associated with the emergence and development of business enterprise? Use 10 lines for your answer.

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11.6 LET US SUM UP

In this unit we have talked about the nature of urban economy in India. We discussed the main features of the traditional urban economy in the ancient and the medieval period of Indian history. Then we discussed the main features of the colonial urban economy. Here we examined the process of destruction of urban handicrafts under the impact of colonial rule in India. We also described the growth of modern industries and the emergence of new social classes in India. We went on to discuss the urban economy after Independence. We focused on the impact of industrial policy on the economy, the role of the organised and the unorganised sectors, social classes in urban India and finally the relation between caste and occupation.

11.7 KEYWORDS

Bourgeoisie and Proletariat The capitalist class is known as the bourgeoisie. This consists of industrial, financial and mercantile capitalists. They own and control industrial, trading and financial enterprises. They exploit the working class for maximisation of their profit and expansion of their enterprises. They constitute the dominant class in the capitalist society. But working class known as proletariat is the exploited and powerless class. This class does not own the means of production. The workers work for wages in the capitalist enterprises to earn their livelihood.

Guild System (*Sreni*) The guild system known, as *sreni* in the contemporary literature was a very important

feature of the ancient urban economy in India. Urban craftsmen and traders had organised themselves into different guilds. Members of a particular guild practised similar occupation. These guilds played a very significant role in organising production and in shaping public opinion.

Mixed Economy

India has adopted the path of 'mixed economy' for economic development of the country after independence. The concept of 'mixed economy' refers to the co-existence of both the public sector and the private sector in the national economy. The public sector is owned and controlled by the government but the private sector is owned and operated by individuals, families or private bodies.

Mode of Production

This is a phrase, which one comes across frequently in the writings of Karl Marx. It refers to both, forces of production and relations of production. Forces of production include things like the tools, machines, capital, land etc. Relations of production include the relationships between the owners of production and the workers.

Multiform Economy

This refers to prevalence of both the pre-capitalist and capitalist mode of production in the context of Indian economy.

Organised and Unorganised Sectors

Indian economy has been viewed as dual in character comprising organised or formal sector and unorganised or informal sector. The organised sector possess the characteristics such as large-scale operation in terms of capital and labour, wage labour, modern technology, public and private ownership, regulated and protected markets for labour and output, skilled labour etc. Small-scale operation, private or family ownership, labour intensive, backward technology, unregulated market and unprotected labour are on the other hand the important features of the unorganised sector enterprises.

Royal *Karkhana*

Royal *Karkhana* or workshops emerged during the medieval period for production of goods to meet the needs of the royal establishment. A large number of craftsmen belonging to different occupations were employed by the ruler for production of goods

under royal control and supervision. The production in these workshops was not meant for sale in the market but only for consumption of the royal establishment.

11.8 FURTHER READING

Desai, A.R. 1987. *Social Background of Indian Nationalism*. Popular Prakashan: Bombay

Jayapalan, N. 2002. *Urban Sociology*. Atlantic: New Delhi

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Prasad, S. and Prasad, J. 1993. *New Economic Policy: Reforms and Development*. Mittal Publications: New Delhi

Rao, M.S.A., (ed.) 1974. *Urban Sociology in India*. Longman: New Delhi

Saberwal, S., (ed.) 1978. *Process and Institution in Urban India*. Vikas: New Delhi

Shirokov, O.K., 1980. *Industrialisation of India*. Peoples Publishing House: New Delhi

11.9 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

- i) b
- ii) a
- iii) In ancient India the urban craftsmen and traders had formed craft and trade guilds. Members of a guild belonged to the same craft or trade. These guilds provided its members security from competition as well as social status. The guilds fixed rules of work and the quality of the finished product and its price to safeguard both the artisan and the customer.

Check Your Progress 2

- i) The two marked features of urban economy in medieval India were the growth of towns and cities and development of trade and commerce on an extensive scale.
- ii) b
- iii) The technology of production was low as compared with other advanced contemporary civilisations such as Western Europe and even China. This was specially evident in such areas of production like textiles, coal, cast-iron, mining and chemical industry.

- iv) Servants and slaves performed specialised functions in domestic and non-domestic services of the privileged class. The servants were low paid. Slaves were sold at a very cheap rate to the rich and were treated as objects. Slaves became free when the master freed them. It was not easy for the slaves to flee from this bondage.

Check Your Progress 3

- i) d
- ii) b
- iii) The unintended consequence of modern industrialisation was that, with the introduction of the modern factory system of production, commercialisation of economy and the spread of transport throughout India, the Indian economy became more unified. It became more cohesive and organic.

Check Your Progress 4

- i) All industries that are owned and controlled by the government come under public sector. Industries such as arms and ammunitions, atomic energy, iron and steel, heavy machine building etc. fall under this category.
- ii) The economic reforms opened up the economy to private sector. It resulted in liberalisation of economy and de-licensing and de-control of industries. The new economic policy led to the relaxation of MRTP and FERA companies, delicensing of major industries and provided incentives for export production for boosting the industrial development.

Check Your Progress 5

- i) c
- ii) The nature of Indian economy has been described as ‘multiform’ from the point of view of its mode of production. It has both pre-capitalist as well as capitalist forms, although the capitalist form is more dominant. The pre-capitalist forms refer to the other forms of mode of production like, ancient and feudal mode of production.

Check Your Progress 6

- i) The capitalists are those who own and control industrial, trading and financial enterprises. One of the characteristic features of the capitalists is that they are guided by the motive of maximisation of profit.
- ii) The urban middle classes occupy such positions as managerial and supervisory in industry, trade and commerce. They are also in professions such as, medical, teaching, journalism, law, administration, and so on.
- iii) A host of psychological, social, economic and political factors are responsible for the emergence and development of business enterprises. These factors are motivations, socio-cultural traditions, skills and attitudes required for business and economic opportunities. Political stability and support and exigencies created by certain groups in times of social change are also facilitating factors.