

2019
EDITION

Textbook for CBSE Class XII

INDIAN ECONOMIC DEVELOPMENT

along with **Project Work**

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PREFACE

Beginning Academic Session 2019-20, the paper on **Indian Economic Development** is to be taught in Class XII. This book is strictly based on the Indian Economy syllabus as laid down by the CBSE and covers all topics in a comprehensive manner.

The book has been divided into four units. The first unit consists of two chapters in which the state of the Indian Economy at the time of Independence and the planning experiment over the period 1951-1990 (generally known as the pre-reforms period) has been discussed. The second unit consists of one chapter (Chapter 3) where economic development during the post-reforms period (the period after 1991) has been discussed.

The third unit of the book is the largest—spread over six chapters—where a number of issues and challenges facing the Indian economy have been taken care of, which include the problem of poverty, unemployment, rural development, human capital formation, and sustainable development.

Unit 4, which is the last unit of the book, consists of one chapter (Chapter 10) where the development experience of India as compared to two of its important neighbours—China and Pakistan—has been discussed.

The book comprises two appendices containing **Concepts of Demonetisation and GST (Chapter 3)** and **Case Studies pertaining to Infrastructure (Chapter 8)** along with relevant questions. The same can also be accessed online at <https://sultan-chand.com/ws/ied12>

The language used in the book is simple and the style direct so that students have no difficulty in following the arguments made. At the same time, the discussion is comprehensive so that all the topics included in the syllabus receive the treatment that they deserve.

I take this opportunity to thank my publishers, **Sultan Chand and Sons (P) Ltd**, for their help and cooperation at all stages of the preparation of this book. Suggestions for improvement of the book are welcome from all quarters, particularly from teachers engaged in teaching this paper across the country.

AUTHOR

SYLLABUS
ECONOMICS (Code No. 030)
CLASS XII

Theory: 80 Marks
Project: 20 Marks

3 Hours

Units	Marks	Periods
Part A: Introductory Macroeconomics		
National Income and Related Aggregates	10	28
Money and Banking	6	15
Determination of Income and Employment	12	27
Government Budget and the Economy	6	15
Balance of Payments	6	15
	40	100
Part B: Indian Economic Development		
Development Experience (1947-90) and Economic Reforms since 1991	12	28
Current Challenges facing Indian Economy	22	60
Development Experience of India—A Comparison with Neighbours	06	12
Theory Paper (40 + 40 = 80 Marks)	40	100
Part C: Project Work	20	20

Part A: Introductory Macroeconomics

- Unit 1: National Income and Related Aggregates** **28 Periods**
- What is Macroeconomics?
 Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.
 Circular flow of income (two sector model); Methods of calculating National Income—Value Added or Product method, Expenditure method, Income method.
 Aggregates related to National Income:
 Gross National Product (GNP), Net National Product (NNP), Gross and Net Domestic Product (GDP and NDP)—at market price, at factor cost; Real and Nominal GDP.
 GDP and Welfare
- Unit 2: Money and Banking** **15 Periods**
- Money—meaning and supply of money—Currency held by the public and net demand deposits held by commercial banks.
 Money creation by the commercial banking system.
 Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.
- Unit 3: Determination of Income and Employment** **27 Periods**
- Aggregate demand and its components.
 Propensity to consume and propensity to save (average and marginal).
 Short-run equilibrium output; investment multiplier and its mechanism.
 Meaning of full employment and involuntary unemployment.
 Problems of excess demand and deficient demand; measures to correct them—changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy **15 Periods**

Government budget—meaning, objectives and components.
Classification of receipts—revenue receipts and capital receipts; classification of expenditure—revenue expenditure and capital expenditure.
Measures of government deficit—revenue deficit, fiscal deficit, primary deficit their meaning.

Unit 5: Balance of Payments **15 Periods**

Balance of payments account—meaning and components; balance of payments deficit—meaning.
Foreign exchange rate—meaning of fixed and flexible rates and managed floating.
Determination of exchange rate in a free market.

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991 **28 Periods**

A brief introduction of the state of Indian economy on the eve of independence. Common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy, etc.), industry (industrial licensing, etc.) and foreign trade.

Economic Reforms since 1991

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy);
Concepts of demonetisation and GST

Unit 7: Current challenges facing Indian Economy **60 Periods**

Poverty: absolute and relative; Main programmes for poverty alleviation: A critical assessment;

Rural development: Key issues—credit and marketing—role of cooperatives; agricultural diversification; alternative farming—organic farming

Human Capital Formation: How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Employment: Formal and informal growth; problems and policies.

Infrastructure: Meaning and Types: Case Studies: Energy and Health: Problems and Policies—A critical assessment;

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming.

Unit 8: Development Experience of India **12 Periods**

A comparison with neighbours

India and Pakistan

India and China

Issues: growth, population, sectoral development and other Human Development Indicators.

Part C: Project in Economics

20 Periods

Guidelines for Project in Economics

The **objectives** of the project work are to enable learners to:

- probe deeper into theoretical concepts learnt in classes XI and XII
- analyse and evaluate real world economic scenarios using theoretical constructs and arguments
- demonstrate the learning of economic theory
- follow up aspects of economics in which learners have interest
- develop the communication skills to argue logically

The **expectations** of the project work are that:

- learners will complete only **ONE** project in each academic session
- project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written
- it will be an independent, self-directed piece of study

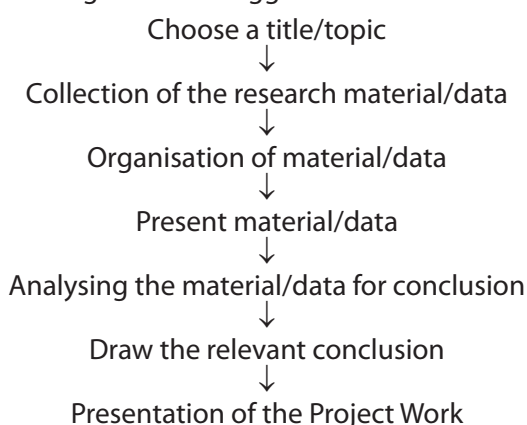
Role of the teacher:

The teacher plays a critical role in developing thinking skills of the learners. A teacher should:

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF/World Bank reports, etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file

Scope of the project:

Learners may work upon the following lines as a suggested flow chart:



Expected Checklist:

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file
- Presentation and writing that is succinct and coherent in project file
- *Citation of the materials referred to, in the file in footnotes, resources section, bibliography, etc.*

Mode of presentation/submission of the Project:

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/ her own original work.** In case of any doubt, authenticity should be checked and verified.

Marking Scheme :

Marks are suggested to be given as—

S. No.	Heading	Marks Allotted
1.	Relevance of the topic	3
2.	Knowledge Content/Research Work	6
3.	Presentation Technique	3
4.	Viva voce	8
	Total	20 Marks

Suggestive List of Projects:

Class XII	
• Micro and Small Scale Industries	• Food Supply Channel in India
• Contemporary Employment situation in India	• Disinvestment policy of the government
• Goods and Services Tax Act and its Impact on GDP	• Health Expenditure (of any state)
• Human Development Index	• Inclusive Growth Strategy
• Self-help group	• Trends in Credit availability in India
• Monetary policy committee and its functions	• Role of RBI in Control of Credit
• Government Budget & its Components	• Trends in budgetary condition of India
• Exchange Rate determination—Methods and Techniques	• Currency War—reasons and repercussions
• Livestock—Backbone of Rural India	• Alternate fuel—types and importance
• Sarwa Siksha Abhiyan—Cost Ratio Benefits	• Golden Quadrilateral—Cost ratio benefit
• Minimum Support Prices	• Relation between Stock Price Index and Economic Health of Nation
• Waste Management in India—Need of the hour	• Minimum Wage Rate—approach and Application
• Digital India—Step towards the future	• Rain Water Harvesting—a solution to water crises
• Vertical Farming—an alternate way	• Silk Route—Revival of the past
• Make in India—The way ahead	• Bumper Production—Boon or Bane for the farmer
• Rise of Concrete Jungle—Trend Analysis	• Organic Farming—Back to the Nature
• Any other newspaper article and its evaluation on basis of economic principles	• Any other topic

SUGGESTED QUESTION PAPER DESIGN

Marks: 80

Duration: 3 Hours

S. No.	Typology of Questions	Objective Type/MCQ 1 Mark	Short Answer I 3 Marks	Short Answer II 4 Marks	Long Answer 6 Marks	Marks
1.	Remembering: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	2	1	22
2.	Understanding: Demonstrate understanding of facts and ideas by organising, comparing, translating, interpreting, giving descriptions, and stating main ideas	5	1	2	1	22
3.	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	1	1	1	18
4.	Analysing and Evaluating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalisations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Creating: Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	5	1	1	1	18
	Total	20 × 1 = 20	4 × 3 = 12	6 × 4 = 24	4 × 6 = 24	80 (34)

There will be **Internal Choices** in questions of 1 mark, 3 marks, 4 marks and 6 marks in both sections (A and B). In all, total 8 internal choices.

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UNIT 1 : INDIAN DEVELOPMENT EXPERIENCE (1947-90)

The Indian economy at the time of Independence was a very backward economy. This was due to the colonial exploitation of the country during the British rule for almost two centuries. To kickstart the economy and bring it back on track, the Government of India decided to follow the path of planning. Accordingly, Planning Commission was set up in 1950 and the First Five Year Plan was launched in 1951-52.

In this first unit of the book, we shall discuss the development experience of our country during the first seven Five Year Plans, generally known as the period of pre-economic reforms. The discussion is presented in two chapters:

- 1. Indian Economy on the Eve of Independence*
- 2. Indian Economy (1947-90)*

1

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

After studying this Chapter, you shall be able to learn

1. How the British exploited India and turned it into a backward country
2. State of the Indian economy at the time of Independence in 1947

The discussion is divided into the following sections:

- Introduction: Colonialism
- National Income and Occupational Structure
- Agricultural Sector
- Industrial Sector
- Foreign Trade and Investment
- Infrastructure
- Demographic Condition
- Conclusion

1.1 INTRODUCTION: COLONIALISM

After the Battle of Plassey in 1757, the British East India Company had succeeded in establishing its rule over a major part of India and with it began the period of colonial exploitation of the country. **In this period, there was massive drain of wealth from India to England and it resulted in pauperisation of this country.** When the British finally left the country after a rule of 190 years and India became independent in 1947, its economy was totally shattered. This is clear from the fact that all characteristics of underdevelopment like low per capita income, high levels of poverty and unemployment, backward agricultural and industrial sectors, rapid population growth and high dependency ratio, poor infrastructure and unfavourable foreign trade structure were very much present in the country at the time of Independence. All these were the legacy of Britain's colonial exploitation of India.

Meaning of Colonialism

Colonialism refers to a system of political and social relations between two countries, of which one is the ruler and the other is its colony.

The ruling country not only has political control over its colony but also determines the economic policies of the subjugated country.

Subordination of the colony's economy and society is the crucial (or determining) aspect of colonialism.

1.2 TRENDS IN NATIONAL INCOME AND OCCUPATIONAL STRUCTURE

Before the arrival of the British, India was a fairly developed country. In fact, it was a far greater industrial and manufacturing nation than any other in Europe or Asia. India was particularly well known for its handicraft industries in the fields of cotton and silk textiles;

jewellery and precious stones; pottery, porcelains and ceramics of every kind and quality; and fine works in metal – iron, steel, silver and gold. Because of the high standards of craftsmanship, Indian goods were in high demand in many countries of the world. Not only was India the greatest shipbuilding nation, it had great trade and commerce by land and sea which extended to all known civilised countries.

According to British economic historian Angus Maddison, **at the beginning of the eighteenth century, India's share of the world economy was 23 per cent which was as large as all of Europe put together. By the time British left India, it had dropped to just 3 per cent.** The reason was simple: India was governed for the benefit of Britain. The British rulers were more concerned about protection and promotion of the economic interests of the home country than the development of the Indian economy. They deliberately destroyed the industrial fibre of this country and turned it from an exporter of industrial goods into an exporter of raw materials. These raw materials were used to produce manufactured goods in England which were then sold back in the Indian market. Thus, it would not be wrong to say that Britain's rise as an industrial power was financed by plundering India.

National and Per Capita Income

During the pre-independence period, national income accounts were not prepared and, therefore, no official estimates of national income are available for the British period. The first estimates of national income were provided by Dadabhai Naoroji for the year 1867-68 in his book *Poverty and Un-British Rule in India*. According to him, the national income of British India in 1867-68 was ₹ 340 crore. Since the population of the country was about 17 crore, the per capita income turned out to be just ₹ 20 per annum (this figure was modified to ₹ 23.50 per annum in a readjustment carried out by Monu Mukerji). This figure is at 1867-68 prices. In terms of 1948-49 prices, the per capita income in 1867-68 was ₹ 142.

Apart from Dadabhai Naoroji, some other estimators of national income in the British period were William Digby, Findlay Shirras, F.J. Atkinson, Major Baring, Lord Curzon, R.C. Desai, R. Giffen and V.K.R.V. Rao. Estimates provided by V.K.R.V. Rao have found the greatest acceptance. Rao's estimates show that per capita income of India during the period 1925-29 was ₹ 80 at prevailing prices (and ₹ 202 at 1948-49 prices). All estimates show that the level of national income and per capita income during the colonial period was very low. **During the first half of the twentieth century, the country's national income was not only low, its rate of growth was less than 2 per cent per annum while per capita income grew by a meagre 0.5 per cent per annum.**

Sectoral Composition of GDP

Table 1.1 presents information on the sectoral composition of GDP (Gross Domestic Product) in 1950-51 (i.e., on the eve of the First Five Year Plan) in terms of 2004-05 prices.

Table.1.1: Percentage of Different Sectors in GDP in 1950-51 (at 2004-05 prices)

I.	Agriculture and Allied Activities	53.1
II.	Industry	16.6
	1. Mining and quarrying	1.9
	2. Manufacturing	9.2
	3. Electricity, gas and water supply	0.3
	4. Construction	5.2
III.	Services	30.3
	5. Trade, hotels, transport, and communications	11.3
	6. Financial, insurance, real estate and business services	8.5
	7. Community, social and personal services	10.5
	Total	100.0

Note: Agriculture and allied activities are often known as 'primary sector', industry as 'secondary sector' and services as 'tertiary sector'.

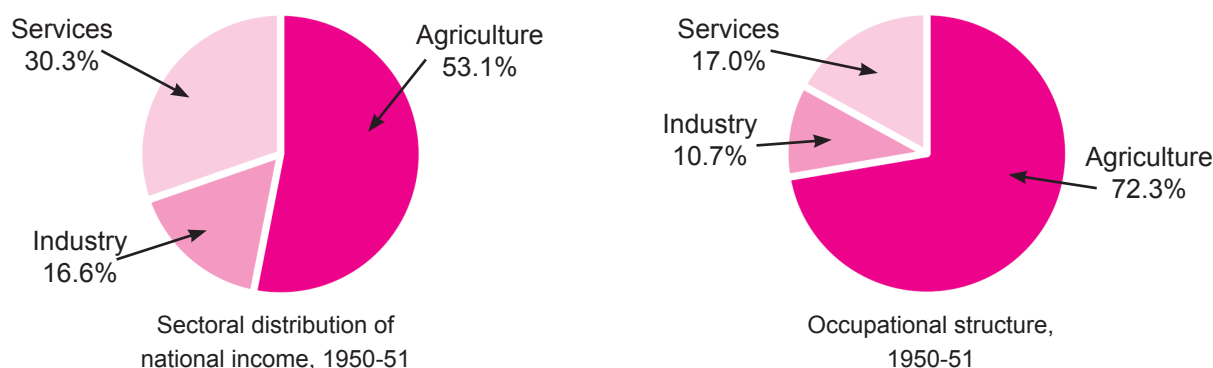
Occupational Structure

During the colonial period, the occupational structure of India (i.e., the distribution of working people across different sectors of the economy) remained almost unchanged. **The agricultural sector accounted for the largest share of the workforce – almost 70-75 per cent.** The manufacturing sector accounted for only 10 per cent while the services sector for almost 15-20 per cent of the workforce. The picture remained unchanged in 1950-51 as well – the year before the start of the First Five Year Plan—as is clear from Table 1.2.

Table 1.2: Distribution of Labour, 1950-51

Sector		Number (in millions)	Percentage of Total
Agriculture		103.6	72.3
Industry		15.3	10.7
Services		24.3	17.0
<i>of which</i>			
(i)	Trade, transport and communications	11.1	7.7
(ii)	Other services	13.2	9.3
		143.2	100.0

As is clear from this Table, as much as 72 per cent of the workforce was employed in agriculture on the eve of the First Plan while less than 11 per cent of the workforce was employed in industry. In this context, it may also be pointed out that only 2.1 per cent of the workers were employed in organised industry* in 1950-51 (the share of small enterprises being 8.0 per cent and that of mines 0.6 per cent).



Too Much Dependence on Agriculture: A Sign of Backwardness. As is clear from the above discussion, India’s dependence on agriculture was very high on the eve of the First Five Year Plan. Agriculture contributed more than half of the GDP and provided employment to a little less than three-fourths of the workforce. This heavy dependence on agriculture implies that the Indian economy was very backward at the time of Independence. The history of many developed countries (and even our own country) shows that as economic development progresses, the share of agriculture in national income declines and the number of people depending on agriculture for their livelihood also falls. On the other hand, share of industries and the services sector in national income increases. The percentage of workforce employed in industry and services also increases. Presently, less than 15 per cent of national income in India is contributed by agriculture and less than half of the workforce depends for its livelihood on agriculture. In developed countries of the West, only about 2 to 4 per cent of the workforce now depends on agriculture and this sector contributes only about 2 to 4 per cent of national income.

* Organised industry is an industry where the employment terms are fixed and regular, and the employees get assured work. It is often identified with large industry.

1.3 AGRICULTURAL SECTOR

Indian economy was primarily agrarian under the colonial period as is clear from the fact that almost 85 per cent of the country's population lived in villages and derived its livelihood from agriculture either directly or indirectly. However, despite being the occupation of such a large proportion of the population, the agricultural sector faced stagnation and, in fact, even deteriorated over the years. This would be clear from the fact that per capita agricultural production declined 0.72 per cent per year during 1911-41.

Main Cause of Stagnation: The stagnation of agriculture was basically due to the fact that the British rulers imposed regressive land settlement systems in the agriculture sector. The main regressive land settlement system imposed by the British rulers was the *zamindari* system. This system was introduced by Lord Cornwallis in 1793 and was known as Permanent Settlement. The main characteristics of this system were as follows:



Agriculture suffered stagnation under the British Rule

1. Under this system, *zamindars* were declared proprietors of large tracts of land. The task of collecting rent from the farmers was entrusted to them. Thus, the *zamindars* were to function as intermediaries between the cultivators and the Government. The share of the Government in total rent collected by the *zamindars* was kept at 10/11th, the balance going to the *zamindars* as remuneration.
2. The *zamindari* system was based on exploitation. It conferred unlimited rights on the *zamindars* to extract as much rent as they wished. Consequently, they imposed exorbitant rents on the peasants.
3. The *zamindari* system created a unique structure in the countryside which conferred the right to share the produce of the land without participating personally in the productive process. This created a class of parasites in the rural economy.
4. Because of their immense power and resources, the *zamindars* not only charged excessive rents from the farmers, they also succeeded in extracting many illegal payments from the farmers. In addition to this, *zamindars* forced peasants to do *begar* (work without payment) and offer various gifts/*nazrana*, etc.
5. Resources extracted from the farmers were wasted by the *zamindars* on leading a luxurious and lavish life. They did not care at all to spend a part of this 'extracted' money for the development of agriculture.
6. Because of excessive rents and other illegal exactions, farmers were left impoverished, resourceless, and always on the brink of starvation. Thus, they had no money to invest in agriculture.

The above discussion shows that while *zamindars* were not interested in investing in agriculture, peasants were left with no resources to do so. As a result, capital formation in agriculture suffered and farm technology continued to remain backward. This led to low levels of production and productivity in agriculture.

Commercialisation of Agriculture: There was, of course, some commercialisation of agriculture (which means the cultivation of cash crops like cotton, jute, sugar cane, tea, coffee, etc., in place of food crops). However, this commercialisation was done with the sole objective of providing raw materials to the British industries which helped Britain's industrial development. It had no benefits for the Indian farmers who continued to live under conditions of extreme poverty.