

# OUR ECONOMIC PROBLEM

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## PREFACE

The title of this volume is intended to stress a fact which is too often overlooked by those who are concerned with the economic life of our country, or who happen to write about it. We are concerned in this work with "our economic problem"—a problem which is one and indivisible—the problem of our poverty. We have endeavoured throughout this volume to avoid that compartmental view of economic life, which offers a ready solution for each of its aspects without reference to its bearings and reactions upon others. We have likewise stressed the fact that the welfare of our country is determined not merely by the healthy functioning of its economic institutions, but requires a well-adjusted and harmonious growth of our social, political and cultural institutions. Ultimately, the various economic problems of India merge into the fundamental economic problem, which it has been our purpose to explore and expound here, of removing the causes of poverty and raising the standard of life of the people, so that the freedom and leisure which may ensue may enable them to make their cultural contribution to human civilisation.

We have dealt in the present volume with problems connected with our production, distribution and consumption. We hope in future to deal with the problems of our trade and transport, currency, banking and finance in a companion volume.

It is hardly necessary to mention that for the factual data in this work we have, of course, drawn upon the various statistical publications of the Government of India and upon the reports of the various commissions and committees appointed by the Government of India and by some of the Provincial Governments from time to time. We have also utilised the publications of the League of Nations, especially for comparative purposes. Our obligations to authors of specific studies, Indian and foreign, have been acknowledged in the text. However, special mention may here be made of our debt to the works of Drs. Buchanan, Radhakamal Mukerjee and Gyan Chand, Professor B. P. Adarkar and Mr. N. Das. We record here our general debt to these and other authors whose works have been of help to us.



We cannot omit to express our sense of gratitude to Professor J. J. Anjaria for the readiness with which he has helped us by reading through the entire manuscript, in spite of heavy pressure on his time, and offering valuable criticisms and suggestions, some of which we have incorporated in the volume. It is not necessary to add that he is in no way responsible for the views and conclusions embodied in this work. We are also grateful to Mr. G. N. Joshi, Advocate, for having helped us with suggestions in parts of the volume.

We are thankful to the Librarian of the Bombay University, Dr. P. M. Joshi, and to his staff and particularly to Mr. A. M. Narvekar, for placing at our disposal all the available books and journals, to Professor C. N. Vakil for giving us facilities for the use of the School of Economics' Library and to the Secretary of the Indian Merchants' Chamber, Mr. J. K. Mehta, for giving us access to the Chamber's Library. We also thank all other friends who have helped us by lending books and journals.

In closing, we may add that we have never deliberately allowed our desire to seek the light to be subordinated to any preconceived notions or prejudices. We send forth this volume in the hope that it may stimulate thinking, and that it may inspire those who read it into that creative imagination which rises above all parochialism and vested interests.

BOMBAY

*September 1943*

P. A. WADIA  
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## CHAPTER I

### INTRODUCTION

There is no word so frequently used in economic literature during the last thirty years as the word "planning". It has been looked upon as the panacea of our age. Economic activity of any kind involves some degree of planning. To plan is to act in the light of a definite objective or purpose—Every purposive activity is a planned activity. National planning was first brought to the notice of the world by the Five Year Plan in the Bolshevik Regime—though there was nothing new in it. Town planning was a phrase long familiar—and national planning was an extension of town planning going beyond town planning not only in the reach of its activity but in the variety of activities that it embraced. It stands for a political philosophy which is the anti-thesis of laissez-faire. Every organised society involves planning—some degree of co-ordination of individual activities, some limitation of the freedom of the individual. The planning of our own times in the first place involves governmental control of production—but it has to be recognised that it cannot end with control of production. Such planning must inevitably affect other aspects of our national economy and must ultimately react on our social and political life, as these in turn determine the planning of our economic activities. We have talked in terms of the planning of our national life in the following pages, but we are fully conscious of the fact that successful planning of the national life of any one country is intimately linked up with international good will and co-operative planning.

#### **Breakdown of Laissez-faire**

19th Century liberalism involved an attempt to develop an economic policy based on the absence of government interference. Enlightened self-interest working under a system of free competition was supposed to bring plenty for all, to benefit the consumer by the lowering of costs, and to secure increasing satisfaction of all human wants which economic goods and services could satisfy. Government control was deemed superfluous, if not injurious. Liberalism, however, did not fully succeed in the establishment of a satisfactory organisation. Modern industrial society has created in Europe and America institutions which are quasi-monopolies; and though land may be more evenly distributed, industrial concerns with their huge amounts of fixed capital have tended to become national and international monopolistic holdings. Laissez-faire was accepted on the grounds of supposed benefits resulting from perfect competition; and



consequently wherever monopolistic capitalism prevailed intervention by Government became inevitable. Price control of some kind, the assumption by Government of monopoly concerns like railways and other means of communications, limitations of profits in public utility concerns, protection of industries by imposition of custom duties—these measures among others have marked the industrial society of our times. Laissez-faire has been increasingly replaced by state regulation and state management.

The World War of 1914 and the subsequent period of dislocation of the entire social and economic structure necessitated what was virtually a policy of more or less state regulation for most countries. Throughout the period the scarcity of commodities and the necessity of rehabilitating the economic system compelled some governments to resort to a policy of planning, involving price control, rationing of food and clothing, conscription of labour for military and civilian purposes, and organisation of the entire productive resources of the country for the successful accomplishment of a definite objective.

### 1929-39

The post-war period saw the development of a large variety of economic experiments. Parliamentary government on a democratic basis was discredited, mostly due to the conflicting economic interests of party groups, who made unholy alliances and unmade them, according to their short-sighted views of national interests. The confusion and dislocation which followed in the post-war period intensified the economic competition between nations. The rise of Socialist Russia led in other countries to a new type of governmental experiment in the form of Fascism—largely a political manifestation of monopoly capitalism in crisis. The masses were lured into a support of Fascism by the lavish promises of an 'autarky' to solve the post-war economic problems. Under the name of national socialism a planned economy with war as its objective was set up in Germany and elsewhere. In Soviet Russia a highly centralised government has demonstrated the possibilities of a planned economic development in a new order based on the abolition of private property, and on the transformation of its subjects into the zealous servants of society. Elsewhere as in America control of prices and credit control, piecemeal as they have been, mark the trend of a new age when governmental interference in economic affairs, far from being regarded as a violation of economic laws, is recognised as an indispensable method of increasing economic prosperity, diminishing unemployment and making nations rich and contented.

It was the economic depression that commenced in 1929 that offered in the U.S.A. a challenge to its economic organisation compelling the



Government to abandon its policy of non-interference and to enter on a New Deal—a bold programme of public works through loans which provided jobs, created new purchasing power and saved from degeneration through unemployment the character of its citizens. We cannot help observing that state regulation in the U.S.A. within the structure of the competitive system led at times to practices like the deliberate destruction of goods and services in order to prop up prices. A variety of international restrictive schemes curtailing the production of cotton, wheat, sugar and rubber are indicative of the half-hearted measures of regulation which one might well characterise as anti-social in their effects; for we cannot forget the fact that when wheat and coffee and cotton were destroyed there were millions who were in want of food and clothing. In such a rapidly changing environment such as that which marked economic life in the post-war period institutions cannot remain unaltered. Nations all the world over were gradually realising the effectiveness of government ownership and control over the tools of production and distribution as compared with private enterprise and a laissez-faire attitude. It was likewise the depression which started in 1929 which made a country like Great Britain abandon its policy of free trade in favour of Imperial Preference, aiming for the first time within the orbit of the Empire at what the old Mercantilism sought to achieve in the purely national field. This policy was progressively extended after 1931, bringing even a reluctant India within the orbit by the arrangements made at the Ottawa Conference.

In brief, the period from the end of the last war, and particularly the depression and post-depression periods, have seen the rapid development of collective or state regulation or control of economic activities. It has started from protective tariffs for fostering industry and agriculture and subsidies to exports, and has been gradually extended to the control of all domestic production, to the prohibition of certain types of imports, to the limitation of imports under a quota arrangement, to the planning of the capital market by control of investments at home and abroad, the regulation of the purchasing power of money and of the foreign exchanges and restriction of migration.

The outbreak of the war in 1939 has led to the organisation in however halting a manner, by the state of all the available resources of each of the belligerent countries—in the shape of raw materials, labour, capital, credit and foreign trade—for the single purpose of ensuring victory in a total war. This organisation is not confined within each country as a separate compartment, but has to be carried out on an international scale on a co-operative basis. The necessities of war have once again forced reluctant nations, hitherto thinking in terms of economic self-sufficiency,



to think and act in terms of a larger world of inter-allied nations in which all economic activities are to be co-ordinated by a central organisation.

In spite of the pressure exercised by the course of events on these individualistic countries, rumblings and protests are not inaudible that profiteering by individuals has weakened the war machine and undermined the efforts of co-operation. The hope for humanity in the future lies in the increasing realisation by the nations of the necessity for retaining, improving and systematising, in times of peace, the halting methods of planning that they have been compelled to adopt in times of war as the only medium of survival and escape from destruction.

The theory of free trade was based ostensibly upon the economic law of production at the minimum cost. This law was supposed to be a result of economic competition leading to international division of labour. But economic competition sharpened by the mad pursuit after profit led to a scramble for capturing of markets and colonies, and political domination of the backward countries by the economically advanced countries. The drive towards 'autarky' during the post-war period was not prompted by a desire for national self-sufficiency for its own sake, providing necessities to one's own people, but by the desire to avoid dependence on foreign supplies of food stuffs and other vital things which might endanger the the country's safety during war. There was also the desire to strengthen one's capacity for competition for markets and get political domination in the under-developed and undeveloped parts of the world, within the framework of the capitalistic structure. Only one country was an exception to this, namely, Soviet Russia.

When we consider the post-war economic order—a departure from free trade—as partly responsible for the insecurity that prepared the stage for fresh wars in the world, we are not favouring a free trade regime that is based upon the principles of competition for securing sources of raw materials and markets for manufactured goods. This so called free trade has always been a one-sided affair which has resulted in inequitable division of labour condemning the economically backward countries to a perpetual 'hewers of wood and drawers of water' status.

When we plead for relative economic self-sufficiency for India, it is with a definite objective of securing a decent life for our countrymen, without any idea of preparation for a war either economic or political, as has been frequently the case in other countries.

### **Economic Policy Under British Rule**

If we turn from the trend of economic policy in the rest of the world to the trend of events in India, the one salient characteristic of our economic



life during the past 100 years has been a persistent adherence on the part of Government to the laissez-faire traditions of the last century. In agriculture, for example, whilst the Dominion Governments have adopted a definite policy of agricultural development during the last 40 years and have accelerated the rate of agricultural exploitation by transportation facilities, a liberal land policy, effective credit institutions, a well-planned system of popular education and Government help to marketing schemes for export, India, where three-fourths of our population are dependent on agriculture, continues its old world methods of cultivation. The Government has failed to provide so far adequate facilities for marketing and finance; there has been very little of popular education, and still less of agricultural education. India continues to remain a land of uncertain crops and of economic development without a definite national objective.

In reference to non-agricultural production, after a hundred years of British Rule industrialism and large-scale production may be said to have touched only the fringe of Indian life. In the West the significance of the Russian experiment lies in the fact, not that industrialisation under state organisation has been forced on at an unprecedented pace, but that this is being done under conditions which have adjusted production to consumption. In other countries where capitalism has played an essential part in the development of industrialism in the last century, the incentive of private profits and individual enterprise were associated with the growth of production. A laissez-faire policy was the natural outcome, glorified by economic theory as the solvent of all ills and the foundation of all prosperity. But the industrialism of the last 40 years, with its restriction of production, its wanton destruction of commodities, its paradox of poverty in the midst of plenty, has made the continuance of laissez-faire policy impossible. Industrialism has now reached a stage when systematic planning and centralised control are necessary both for the purposes of production and equitable distribution.

### **Industrial Development under British Rule**

What it may be asked, about our own industrial development? The traditions of a laissez-faire policy which had promoted British prosperity in the 19th century were brought to bear in our country. It is not till the beginning of the present century that the first signs of planning, if it could be called planning, appear in the form of the demand for protection. Credit and banking are in primitive condition except for the establishment of a Central Bank whose control is vested in an agency that is not yet fully identified with national interests. Speaking as recently as the 20th December, 1942, on the question of the war time development of Indian industries Sir M. Visveswaraya observed: "Government have no policy or plan, no



unified conception of what they are doing or what they propose to do in a matter which gravely affects the purchasing power of the 400,000,000 of our population." The economic development of India in the past 30 or 40 years is difficult to describe in an accurate manner. There has been a complete lack of a consistent policy. The policy of discriminating protection of Indian industries as it was adumbrated by the Fiscal Commission 20 years ago has hardly been followed with consistency. The Fiscal Commission thought in terms of a world governed by Free Trade. Their recommendations were based upon the infant industry argument and the possibility of protected industry being able to dispense with protection within a limited time. They did not, and perhaps could not, take account of the forces that were making for economic nationalism after 1919. The loans given to European countries for resuscitating national currencies were used for continuing subsidies to national industries. The forces that made for economic reconstruction after 1919, and that made some people hope for a return to the pre-war system of international free trade, were swamped by the desire for economic self-sufficiency, necessitated by the period of depression and the ardent preparations for another war.

The last war gave plenty of opportunity for the industrial development of India. It revealed both the potentialities and deficiencies of Indian industries. It was difficult, however, for India to take full advantage of a temporary protection given by war as she had to depend for plant, machinery and accessories on imports from abroad. Thus in a world dominated in the postwar period by preparation for war and the desire for self-sufficiency Indian development could only achieve the displacement of a few imported commodities by goods produced at home. There was no attempt at securing the harmony of economic development, no vision of the possibilities of developing production goods like machinery and chemicals, no thought of using these production goods for the expansion of our agricultural potentialities, so that with a rise in the standard of living our people could live a fuller and a richer life.

Hence, the outbreak of the present war has again found us unprepared for utilising the vast opportunities offered to us by the war to develop our industries. The absence of key and basic industries like chemicals and metallurgy—which was commented upon by the Industrial Commission in 1919—again stands in our way of development. Australia and Canada have been able to exploit fully the opportunities offered by the war and have established a number of new industries, while we have been content to follow the traditional policy throughout due to the lack of a well-conceived plan and a definite national objective. Not only that, but we are also in danger of losing the larger perspective of the future by following



a short-term narrow policy devised from day to day under the pressure of war requirements.

### Post-War Planning

In the midst of the present war the British Association for the Advancement of Science arranged a conference for Science and World Order which met in London in September, 1941. The key note of this Conference was the application of scientific knowledge to the solution of vital problems that face the world, and above all, to the solution of economic problems. Mr. Maurice Dobb, a Cambridge Economist, described planning, at the Conference, as a mechanism for eliminating the uncertainties and fluctuations of economic activity which form an integral part of an individualist economy. Whilst there were a variety of interpretations as to the scope and objectives of planning, it was generally recognised that the utilisation of scientific knowledge for the advancement of economic welfare cannot be achieved in a muddled and planless world in which mankind were in social and economic conflict. It was also pointed out that the problem of planning was not a technical problem of organisation, but one of getting agreement as to what benefit to humanity means, and also of overcoming the fact that people are more concerned with benefiting themselves than humanity.

Probably no country in the world stands to-day in such urgent need of planning as India. For the last 100 years this country has been ruled as a dependency by a sovereign with the seat of authority thousands of miles away. The belief that institutions and methods suited to the ruling country must be good also for the dependency has brought about an economic maladjustment, if not chaos, in India. In spite of industrialisation there has been visible deterioration in our national life. The war has forced the pace; and post-war reconstruction problems have been discussed with all the care and earnestness that leaders of thought and opinion can devote to them. The Government of India have appointed an Economic Reconstruction Committee, and even before the war, an Economic Planning Committee was at work under the aegis of the Indian National Congress. But in all the proposals for post-war reconstruction that have been adumbrated in the West, India and the Asiatic Nations do not come into the picture. President Roosevelt has promised to all the fighting nations the Four Freedoms which form the basis of the Atlantic Charter. But these are not easily reconcilable with Mr. Churchill's desire to see Britain's Empire prolonged into the post-war world. There have been repeated references by representative spokesmen of the U.S.A. to a return to 19th century free trade and free exchanges, to equal access to the food and raw materials of the world in a free market. Such references presuppose a



perpetuation of earlier economic conditions in which industrialised countries sought for markets in undeveloped lands. Shall we in India reconcile ourselves to a post-war world of this kind, in which we would remain suppliers of raw materials and food stuffs? Or shall we take heart when there is time and outline for ourselves a new pattern of economic life which the present war offers us prospects of realising?

The war that is being waged to-day will offer an unprecedented stimulus to the extension of credit which, if wisely used, might enable India to transform her agriculture and build up her industries so as to fit her to take her proper place amongst the nations of the world. The enormous purchasing power that we have already acquired through the accumulation of our sterling credit, the unrivalled control of natural resources essential for the development of large-scale production, the helpful experience which our country has gained for building up a war economy—these are materials on which the future life and prosperity of India can be built up, aided by the increasing development of Governmental functions, public control and regulation of all our economic activities. Presiding over one of the sessions of Science and World Order, Mr. Maisky, the Soviet Ambassador in London, observed: "There will undoubtedly come a day when a system of very comprehensive planning—economic, social, political—will embrace the whole world." That date may not be very near; but there can be no more urgent call than the one that demands clear thinking on a planned basis of the future of our country on the part of those who have the opportunities and leisure to respond to this call.

#### **Indian Economics—Aim of the Present Work**

We have been frequently told that the expression "Indian Economics" is a misnomer, that there is no such science that can be properly called by that name. It is also said that the principles of economics as a science are of the nature of general laws applicable to all times and places; and that if they were not so applicable such a science would have no claim to recognition. Those who raise these objections fail to take account of certain vital scientific considerations. The principle of division of labour and specialisation is as operative in the field of scientific studies as it is in other fields of human activity. The advance of the social sciences which has been so marked from the beginning of the last century has been dependent upon the differentiations of the various types of social activities which form the basis of the respective social sciences. But whilst each of these social sciences has to treat as irrelevant those aspects of human activities which do not directly come within its purview, it is equally true that no successful interpretation of the life and activities of any country or nation is possible, if we endeavoured to explain these activities in terms



of the laws of any one of these sciences taken by itself. Human life, whether we take into account the life of the individual or the life of a corporate body, is an organic unity and functions as one. When we are applying, therefore, the laws of economics to the life of any single nation we have to take into account the historical environment, the habits and modes of behaviour of the people, their social and religious institutions to the extent to which they modify and influence their economic life. Classical economic theory was an analytical study of the conditions that prevailed in the 18th and the 19th centuries in countries like Great Britain, and the laws of economic science enunciated by Adam Smith, Malthus, Ricardo and Mill were a descriptive account of a capitalist society with competition and laissez-faire principles underlying it. The events of the last 40 years in the economic world have largely discredited many of these so called laws of economic science. Soviet Russia has developed a new economic theory capable of explaining the modes of working of the new economic organisation brought into existence after 1917. Even in the earlier days the German Economist, List, elaborated a new economic theory suited to the conditions of the Germany of his days. We feel confident, therefore, in the use of the term "Indian Economics" as connoting a study of the economic life and problems of India, in the light of its past history, of its social and religious institutions, of its physical environment and potentialities and of its political evolution under British Rule.

The present work claims to be a study of Indian Economics in this sense. The authors hope to present in a compact form a survey of the economic problems of India which is intended for the use of the younger generation who have to study Indian Economics in their University careers. This work will also be of use to the larger reading public who are desirous of obtaining a general understanding of our economic life and destiny. They hope in the course of the work to indicate the conditions on which this country can build up for itself a prosperous life in the post-war world, and what the leaders of a free and independent India might achieve by planning to bring into operation those conditions of prosperity. Their purpose in writing this book is two-fold, an analytical and historical survey of our economic life and problems as they face us to-day, and what a free India of the future can immediately achieve by a considered programme of economic reconstruction, when the obsession of the war in which we are involved has relaxed its grip over our minds. There is an increasing recognition by the nations to-day that economics is also an art, and not merely a science. The failures and maladjustments of an economic order that was suited to the needs and demands of the 19th century have forced upon men's minds the desirability of planning for a better order. Starting



from this premise and also assuming that post-war India will be able to determine and plan its own economic life, the authors will attempt in these pages to indicate the nature of the economic ailments from which the country suffers in the matter of production, distribution and consumption, and to adumbrate the ways and means by which such ailments can be removed. Whilst they regard this as their main objective, they are not unaware of the limitations imposed upon them by halting information, unreliable statistics, and lack of knowledge of such original materials as are not available for public scrutiny.

There is a type of economic opportunism that seeks to tinker with each economic problem as it happens to arise within what it regards as an unchangeable structure. Such opportunism is characteristic of most of the commissions and committees that have been entrusted with the task of reporting upon Indian questions in the past. It is equally characteristic of the special experts who have been imported from abroad from time to time to advise the Government of India. It is but natural that such attempts should be made to remedy each malady as it occurs and to stop in time a breach in the walls from which the waters might otherwise spread the floods of destruction. But just as the statesman looks ahead and thinks in terms of principles and not of particular incidents in the political field, so those who have for their objective the planning of a new economic order might well think in terms not of developing an industry here, or the removal of an odious form of taxation there, but in terms of a larger vision that looks beyond the present. The authors make no claims to the possession of this larger vision in the present attempt. All that they claim is an attempt to survey the problems of the country in their inter-relations, remembering that the life of a nation is an organic whole, that economic planning will involve planning of the social and political structure, and that successful planning in any of these directions is not possible except in the background of an appropriate culture and a sense of values.



## CHAPTER II

### THE NATURAL RESOURCES OF INDIA

In the narrower sense, the natural resources include appropriable gifts of nature; but in the broader sense they include those aspects of nature like air, water, sun-shine, animal and vegetable life which satisfy human wants. They likewise include substances and forces which man has transformed for the satisfaction of his developing desires. Every invention which increases man's control over nature also increases the sum total of available resources. Man and his resources have been rightly designated functional reciprocals. Amongst these resources land, as surface land, was regarded as occupying the predominant position. The utilisation of land was the occupation of the majority of all peoples before the advent of the Industrial Revolution in the last century. The revolution that has occurred in the processes of production by the invention of the steam engine, the water turbine and the oil engine has brought about a change which has subordinated the value of surface land to that of coal, petroleum and the metals. Thus in the world to-day the metallic industries play a larger part in the economic life of nations than industries connected with food and raw materials. But India's main industry is still agriculture. The natural resources for the development of heavy industries and the potentialities of an industrial civilisation which we possess contain the promise of an economy infinitely superior to the agricultural economy which our country has hitherto enjoyed.

#### The Soil

India is almost a continent in size and possesses a great variety of soils and climates. But the variations in types of soil such as are met with in England, necessitating the growing of specific crops on each type of soil, are not so well-marked in India. Three different types have been noted—(a) alluvial tracts composed of mud and sand stretching across the North from West to East, (b) the black cotton soil mostly in the Central and Western parts of India and (c) the hard rocky type covering the Southern and South Eastern portions of the country. For revenue purposes, however, in each province a number of subdivisions are found, each district having its own classifications under local names. The most divergent varieties of cultivation are to be found in Bengal, where there is a heavier and more reliable rainfall as compared with the dry areas of the country.