THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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GREAT BRITAIN AND THE FINANCIAL EARTHQUAKE

THE need for the National Government and the justification of its recent appeal to the electorate both lie in the magnitude of the tasks which now face any Government in this country. The nation has shown by its votes its recognition of an overriding emergency. The value of that demonstration is not easily exaggerated, whether at home for its assurance of stability and of a reawakened self-respect, or abroad as a challenge to the prophets of British decadence and a stimulus to governments and peoples caught in the grip of problems not less oppressive than our own. The popular verdict is in no way less striking because it is a vote not for a policy so much as for an attitude of mind. There is, indeed, no evidence that the electorate wished to bind its leaders to any set of detailed measures for meeting the emergency, and the Government is free to approach both the national and international aspects of the crisis with no duty imposed on it except that of showing courage and energy and an unbiased mind.

It may be useful to sketch the conditions in which the new Government will have to work, to indicate the problems which are amenable to its action and those which are not, to suggest reasons for thinking that certain forms of treatment are more likely to be efficacious than others. This may seem a modest objective, unworthy of a crusading age. Yet it involves an investigation, perfunctory perhaps and not professional, into the pathology of those diseases which

are preying on the world's economic organism, and a study of their effects on our own economic life and of the state of general health in which their attack came upon us. It will be found that national and international problems are in one sense inextricably interwoven and in another sense quite distinct. Our national difficulties may be increased or diminished by action taken abroad with or without our support. On the other hand, there are measures which we in Great Britain, and we alone, can carry through, and which in any conceivable course of international developments can only strengthen our position. Indeed, it may well appear that the extent of our influence on international arrangements must depend largely on the success or failure of our efforts to set our own house in order. For like any individual or institution or State well known to be financially embarrassed, we have lost prestige and our credit is impaired, and in such circumstances no creditor, no disinterested observer even, can be persuaded at all readily to subordinate his suspicions to a reasoned enquiry whether the embarrassment is more than temporary. By common consent the first and paramount objective of the National Government will be to restore the financial credit of Great Britain.

I. The World Before 1914

THE world to-day is in the grip of an earthquake, and the complex structure of international credit is shaken to its foundations. Just as an earthquake in the physical world has its origin in profound disturbances of the nature of which we have neither complete nor exact knowledge, so too an element of doubt, almost of mystery, surrounds the economic collapse which we are now witnessing. At the best, our analysis must be partial, our judgments approximate; our belief that another policy in this or that particular would have changed the face of the world can be little more than a probable speculation. Yet

if the details are blurred, the general outlines are clear. Perhaps the most direct clue to an understanding of the present state of the world can be obtained if we look back to the working of the system of international credit before the war and then turn to consider the conditions in which that system has had to operate during the last ten years.

For three generations before 1914 the world passed through a period of peace and growing prosperity. It is true that peace was not absolute nor prosperity constant or universal. War was always in the background, at intervals it held the scene; the spectres of financial crisis and economic depression were never exorcised. Yet the effects of war were kept within bounds, and through all variations the curve of prosperity was a rising curve. In spite of every lapse from grace the peoples of the world had laid firm hold on the truth that the foundation of all wealth is the free exchange of goods and services. In laborious days they cultivated the arts of peace. Barriers to international trade were broken down by the elimination of customs frontiers, the decay of private privilege, the improvement of all the means of transport and communication. Tariffs, where they existed, were moderate; the Chauvinist was slow to stray outside the sphere of politics. The two great creditor nations of those days, Great Britain and France, invested their favourable balances, steadily, methodically, in the newer countries—in their own dominions, in North and South America, in Russia, in the Far East. These investments were for the most part applied to reproductive development—in building the railways of the Argentine or of Russia, in port works throughout the world, in the irrigation of Egypt, in the mines of the Witwatersrand. They were made not by speculators, but by investors, rich and poor, who cast their bread on the waters. By this constant flow of capital to the ends of the earth trade was immensely stimulated and a market created for the products of the great equipment industries, iron and steel and engineering.

Foreign investment on the scale of the last fifty years would have been impracticable if, on the monetary side, the nineteenth century had not evolved the delicate mechanism of the gold standard. By the device of fixing the value, in terms of gold, of the unit of account in each civilised country, the world contrived to maintain relative stability of the exchanges and approximately similar movement of price levels in all countries adhering to the gold standard. Thus an investor in England or France, placing his money abroad, could assume with reasonable confidence that his investment would not be jeopardised through violent exchange fluctuations between his own currency and that of the country to which he was lending. The practical working of the gold standard became largely automatic. If, at a given moment, the balance of payments as between England and France was unfavourable to the French, if, that is to say, the French demand for sterling was greater than the British demand for francs, the franc tended to depreciate and a point was soon reached at which it became profitable for a Frenchman, instead of selling unwanted francs in the market, to buy gold with them in Paris and ship it to London in settlement of his debt. Any such influx of gold into England tended to raise sterling prices and thus, by stimulating British imports and discouraging British exports, to counteract the exchange movement which had led to the gold shipment. This tendency towards equilibrium was reinforced by the traditional policy of lowering the Bank rate in any centre, and thus repelling short-term investment there, as gold flowed in to that centre, and raising it, with the opposite effect, as gold flowed out. It was an essential feature of these operations that gold shipments were needed only to the extent and for the length of time necessary for them so to modify the relative price levels of the two countries that the balance of payments tended to correct itself.

In those halcyon days before 1914 the gold standard operated successfully and with comparatively small move-

ments of gold, because London dominated the money markets of the world. By reason of our lead in the development of modern industrial civilisation, by our energy and enterprise, we enjoyed over a long term of years a favourable international balance of payments, and our position grew to be one of immense strength. The technical organisation of the London money market was incomparably better than that of any other centre, and for all these reasons the gold standard was in practice operated by the policy of the Bank of England. The central banks of other gold standard countries followed, as it were naturally and inevitably, the lead of London. This predominance of the London market served no merely selfish national purpose, since it is of the essence of any international standard that by its proper functioning it protects indiscriminately the interests of every country which adheres to it, or by its failure brings disaster to them all.

II. The World Since the War

"The recent world-wide fall in prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena."—(The Macmillan Committee, June, 1931.)

FROM whatever angle we examine the economic life of the world since the war, the contrast with the years before 1914 is arresting. We are beginning, indeed, to understand that the war turned the world upside down. For twelve years Europe has lived in peace, yet there is perhaps no period in modern history in which the settled mentality of peace has been more conspicuously absent. Europe has, indeed, illustrated the contrast between war and peace of which Hobbes wrote in *Leviathan*: "The

nature of war consisteth not in actual fighting, but in the known disposition thereto during all the time there is no assurance to the contrary." France and Germany, Germany and Poland, the Succession States of the Austro-Hungarian Empire—all have been divided by the memory of the war and the terms of the peace, by mutual suspicion and national passions. To the historian this may well appear inevitable, to the economist it can only appear destructive of international economic progress. The war, and even more the Peace Treaties, threw into relief the rights of nationality, and it was an easy, if an illogical, transition from the idea of political autonomy to that of economic "autarkeia." How, if it was wrong for Czechs to be governed by Hungarians, could it be right for Czechoslovakia to be dependent on Hungary for any commodity or any manufacture which it could make shift to produce for itself? On such reasoning, confounding justice with expediency, Europe has sought to organise itself into self-contained communities, defended by prohibitions and restrictions of every kind and buttressed by tariff walls, which were never too high to support another course.

The war left other legacies than economic nationalism, and none which has been a more effective instrument of disorganisation than the settlements relating to war debts and reparations. Unlike every other form of international indebtedness, war debts and reparations are an attempt to repay capital which has served no productive purpose, capital which has added nothing to the wealth of the debtor. The service of that capital, therefore, can never be anything but a surcharge on the industry and trade of the nations which have to meet it. Moreover, time has shown that in practice the problem of the transfer of these vast annual sums from debtor to creditor is in the long run insoluble. Payments between nations can be made only by the export of goods or by the shipment of gold, the sale of foreign assets or fresh borrowing on the part of the debtor. The very scale of the war debt payments made it improbable

that the debtor countries could so increase their exports as to cover the payments in that way, even if their creditors threw open their doors to the import of goods. Since on balance all payments flowed to France and the United States, and since those countries above all others have insulated themselves against all imports by prohibitive tariffs, payments on account of war debts and reparations have in effect been made mainly by vast shipments of gold to France and the United States. On the other hand, Germany has obtained the necessary funds by raising new loans abroad. It would not be untrue to say that Germany was able to meet her reparations debt for just so long as the United States was prepared to re-lend to Germany some of her gold, and that as soon as the springs of American lending dried up, German default became inevitable.

The world's gold stock in the hands of governments and central banks and the proportions of that stock held by the United Kingdom, the United States and France in 1920, 1926 and August 1931, were these (figures in millions of pounds)* :—

	1920	1926	August 1931
World stock	1488	1893	2323
Holdings in United Kingdom	155	150	133
Holdings in U.S.A. ..	504	840	953
Holdings in France ..	141	146	472

The explanation of these figures is that the movements of gold resulting directly from the war, or the settlements made after the war, were different in kind from those to which the world was accustomed under the normal pre-war operation of the gold standard. The control of the monetary policy of the world passed from the Bank of England and became dependent on international co-operation in conditions which made effective co-operation almost impracticable. What were conceived to be national interests came into greater prominence, and for many and

* Taken from the Federal Reserve Bulletins. Gold in circulation is excluded, recent figures for the whole world not being available.

different reasons an influx of gold was not consistently treated as between France and the United States, or as between one period and another. From 1922 onwards the gold accumulated in the United States formed the basis of a vast inflation of credit which led through the speculative boom to the collapse of 1929. Between 1922 and 1929 the United States lent abroad more than £1,800 million and thereby diminished the danger to the world of her gold holdings. But foreign lending never became a settled habit of the American investor; even in the heyday of bond issues, a substantial proportion found no permanent home until it came to rest in Europe; and as the prospect was unfolded of apparently illimitable industrial prosperity at home, lending abroad ceased almost as abruptly as it had begun. Since 1929 restriction of credit and falling prices in America have coincided with a rise in the monetary gold stock* from £890 million to its peak of £1,027 million in August last. In other words, gold has merely been buried in the vaults of the banks, and has shared the fate of those other millions immured beneath the Bank of France. France has accumulated gold steadily since 1926. The stabilisation of the franc at a level lower than its internal value created a premium on exports and a large favourable balance of trade, and as the Bank of France is debarred by law from issuing further notes except against gold in its own vaults, the increased demand for currency subsequent to stabilisation led to the repatriation of French balances and to a consequent inflow of gold. The relief from foreign lending was negligible. His political prejudices and the loss of his Russian holdings confirmed the national caution of the French investor, and except for loans made within the last twelve months, primarily for political reasons, to members of the Little Entente, the savings of the French people have remained in France or have been placed abroad at short term.

* *I.e.*, gold held by the U.S. Treasury, the Federal Reserve Banks and Agents and gold in circulation.

This sketch of the characteristic features of post-war economics would not be complete without some reference to the technical revolution which has taken place in the methods both of industrial and agricultural production. Mass production owes its main impetus to the war and it has changed the face of the world by creating new needs for ever-widening circles of the population. Yet it clearly carries with it a fatal facility in production. It is a mixed blessing to be the owner, let us say, of the most modern and efficient cigarette factory in Greece, if the test of its efficiency is that it can produce more cigarettes in a day than the country consumes. The consequences of over-production are even more serious in agriculture than in industry, since the demand for agricultural products is in its nature less elastic, less responsive to lower prices than that for manufactured goods. A reduction in the price of motor cars may enable any one of us to buy a new car every year instead of every other year, but even if wheat were given away we should hesitate to eat twice as much bread. The effects of the American inflation have nowhere been more disastrous than amongst producers of primary commodities. As by far the biggest consumer of such commodities, the United States by her prosperity immensely stimulated their production, and the stimulus was fortified by the flow of American capital during the brief and not very discriminating excursion of the United States into foreign lending. With the end of the American boom came the end also of American finance, and the unhappy primary producer finds himself with his market ruined and his debt intact.

III. The Crisis of To-day

IT is not difficult from these premises to trace the collapse of the international credit structure. Once the bubble of speculation in the United States was pricked, the rest followed naturally and *accelerando*. In the autumn of 1929 Americans gave public expression through the stock markets to their doubts whether American industry could continue indefinitely to expand, and from that moment industrial production in the United States, which had already passed its peak, declined precipitately. Commodity prices kept step with it, and the world soon realised that its stocks of, and its capacity for producing, wheat and rubber, cotton and copper, coffee and tin, far outstripped any power of consumption hitherto known. And so the decline in commodity prices became a catastrophic fall, and was followed, at a distance, by a fall in the prices of manufactured goods, due both to the lower costs of raw materials and to the restricted demand amongst primary producers.

Perhaps the most important consequence of any violent drop in world prices is the corresponding increase in the real burden of all indebtedness, whether internal or international. War debts, reparation payments and commercial debts between nations have become intolerably onerous during the last two years. President Hoover's moratorium proposal was a courageous recognition of that fact, but it came too late and was received by France in too carping a spirit for it to prevent or even delay the natural course of events. Debtor countries everywhere have lapsed into default. They have begun to feel with Rabelais that "it is a divine thing to lend: to owe, an heroic virtue." In Europe, as in 1914, so in 1931, the spark was fired in Austria. The collapse of the Credit Anstalt was the first real indication that the organism of international

banking was infected. The German crisis followed immediately and destroyed the last vestige of confidence by revealing to the world the instability of the structure erected in central Europe on borrowed money. Financial panic follows the lines of least resistance, and there were many good reasons why in the universal disorder the pound sterling should have been next singled out for attack. It was well known that we were heavily involved in central Europe, that our budgetary position was unsound and that our balance of payments was unfavourable.* Once the world ceased to trust it, sterling was doomed. The technical weakness of our position made its defence a forlorn hope. For a variety of reasons short-term holdings in London on foreign account had increased since the war and in March of this year amounted to over £400 million; there had been no corresponding increase in our liquid foreign assets, and if we regard the London market as a vast deposit bank, its position was unsound in so far as it was powerless to resist a run by its depositors.

A loss of confidence, in the realm of finance, knows no frontiers and is not amenable to reason. If it exists, it penetrates like some foul gas into every nook and crevice of the financial structure. Having sold sterling off the gold standard, the world began to sell dollars. Since the beginning of September gold has been withdrawn from the Federal Reserve system of the United States or earmarked there on foreign account to the amount of $692 million. Both in America and in France, mistrust of banks and the banking system has led to the hoarding of currency on a large scale. Wisdom suggests that the end is not yet.

There can be no better illustration of the varied financial problems which confront the world to-day than a brief sketch of the situation in the three contrasted countries of Germany, Hungary and Brazil—the first a great industrial nation which circumstances have turned into a debtor

* Tables showing the balance of international payments of the United Kingdom and of the U.S.A. will be found in an appendix.

country, the second an artificial product of the war, and the third representative of that new world of vast resources only partially developed.

Of the political and spiritual adventures of the German nation during its wanderings in the desert since 1918, another article* in this number of THE ROUND TABLE will speak. Its financial history during that period has been dominated by the devaluation of the old mark and the pressure of reparation payments. Inflation and the destruction of the currency left Germany without capital and without the will to accumulate it. German public authorities and German industry have lived since 1923 primarily on borrowed money, and like everyone else who lives on borrowed money, have not always spent it wisely. It has constituted their working capital and the source from which capital improvements have been carried out. It has also provided the foreign exchange necessary for reparation payments. The figures are no longer open to serious dispute. The Committee of Bankers which met at Basle in August of this year found that between 1924 and 1930 there was a net influx of capital into Germany of £910† million, and that in December 1930 German foreign indebtedness amounted to £1,275 million. The net capital influx, supplemented by £150 million derived from invisible exports, provided the interest on Germany's commercial debt, an import surplus of £315 million and reparation payments of £515 million, and in addition enabled Germany to increase her holding of gold and foreign exchange by £105 million. Of the total foreign indebtedness of Germany at the end of 1930 £515 million was short term, and by the end of July of this year this figure had been reduced, through withdrawals, to £400 million.‡ This in itself explains the German crisis of this last summer. To

* See p. 71.

† As possibly more quickly comprehensible to an English reader, all figures are given in sterling at RM. 20 to the £.

‡ The German authorities have recently published figures which suggest that the totals are considerably greater than was thought in August.

meet this situation Germany has been compelled to obtain a moratorium on her short-term liabilities to foreigners (the so-called "Standstill Agreement," which expires at the end of February next) to introduce government solely by decree and by decree to control and regulate the financial and commercial activity of every German citizen, and to devote all the efforts of her industrial organisation, at whatever cost in the impoverishment of the German people and the further lowering of their standards of life, to the creation of an increasing export surplus. In the judgment of the Bankers Committee, the imperative need of Germany is for long-term credits in partial substitution for and in addition to her short-term credits, and on the same authority this is a need which cannot be met until a political *modus vivendi* is reached with her neighbours and the reparations debt is dealt with on rational lines.

Hungary is a predominantly agricultural country with an industrial superstructure which has survived from a former existence. Industries planned for the Austro-Hungarian Empire, with a home market of 46 million people, cannot prosper in a market reduced to 8½ millions and surrounded by hostile and protectionist neighbours. Only the richness of Hungarian soil and the character and energy of her agricultural population have brought Hungary through the perils of communism and currency depreciation and the economic follies of the Peace Treaty. But when Hungarian agriculture is undermined by the catastrophe of prices, there is nothing left. The figures are eloquent. Between 1927 and 1930 an unfavourable balance of £47¼ million* was covered entirely by foreign borrowing at long and short term. The total foreign debt is now £146 million and the annual service nearly £11 million. Most of this debt was incurred with wheat at 30 pengö : to-day's price is 9 pengö. The result, as in Germany, is an enforced moratorium on the short-term foreign debt, and a frantic endeavour,

* Converted at 28 pengö to the £.

prompted in this case by Geneva, at all costs to increase exports and curtail imports.

Brazil has fallen on similar troubles by another road. The very extent of her territory and its heterogeneous population create administrative problems which in the most favourable circumstances must retard and impede the exploitation of her immense natural resources. Yet, in the past, development has proceeded, at its own gait—and with many set-backs—but still surely. Foreign borrowing is rightly the first condition of Brazilian progress, and Brazil has been on the whole a good debtor, in spite of a unique talent for the progressive devaluation of her own currency. In recent years the long-term foreign debt of the Federal Government, the States and other public bodies has grown rapidly, and by 1930 it amounted to £282 million.* This movement synchronised with a rising price for coffee, which has always been the principal article of export. Trusting to her dominant position in the coffee trade, Brazil began in 1925 to "defend" coffee, that is, to maintain its price artificially. By the act of God, which brought two record crops in three years, and by the working of economic law, which ensured that rising prices should lead to over-production, the defence scheme broke down as soon as commodity prices in the United States began to fall. Brazil was left with large stocks of coffee which no one wanted, and after reaching an average price of £5 a bag in 1928, the price has fallen to £1 18s. (the average for the first 8 months of 1931). The effect on the Brazilian balance of payments was disastrous. In 1928 the value of coffee exports was nearly £70 million out of a total of £97½ million: in 1930 the figures fell to £41 million and £66 million.† As Brazil's requirements of foreign exchange to meet her debt service and private remittances abroad have remained constant in the neighbourhood of £40 million, and as further foreign borrowing

* *Vide* Sir Otto Niemeyer's Report to Brazilian Government, July 1931.

† See the official statistics of the Federal Government of Brazil.

is out of the question, it is not difficult to understand that the recent partial default by Brazil on her foreign obligations was unavoidable. British investments in Brazil are estimated at about £300 million and the effects of this default on our own balance of payments are thus patent.

IV. Great Britain's Problems

"*Mr. Jones, at the meeting of the Proprietors of the Bank of England, September* 13, 1866, *gave it as his opinion that* '*the main cause of the recent monetary crisis was that while we had bought £275 million of foreign produce in the year* 1865, *the value of our exports had only been £165 million, so that we had a balance against us to the amount of £110 million.*' "—(*Economist*, September 22, 1866, quoted in Bagehot's *Lombard Street.*)

IN the chaotic world which has been described, the situation of Great Britain can now be seen in its proper setting. The main facts are well known and those who wish to follow them in detail through a statistical demonstration will find them conveniently set out in a recent article* by Mr. C. G. Clark. It is not difficult to imagine what would have been the observations of Bagehot's Mr. Jones to his fellow Proprietors after reading the figures of the last few years. In the first place, the value of exports has steadily fallen: these are the gold values in millions of pounds:—

				1931 (annual rate).		
				1st quarter	2nd quarter	3rd quarter
1913	1926	1929	1930			
525	653	729	571	413	383	373

Expressed as a percentage of the aggregate exports of all manufacturing countries, our exports have fallen from

* Statistical Studies of the Present Economic Position of Great Britain. *The Economic Journal*, September 1931.

almost 26 per cent. in 1925 to less than 20 per cent. by the beginning of 1931. Simultaneously manufactured imports have assumed a growing importance: the percentage relation between manufactured imports and our total home production of manufactured goods has risen from 11.9 per cent. in 1924 to 15 per cent. in 1930. The loss of export trade has been a main cause of unemployment. The number of insured workers in employment in, or in connection with, the export trades was 2,175,000 in 1924, 2,200,000 in 1929, and 1,400,000 in March last. It is significant by contrast that employment in the consumption industries has hardly decreased at all since 1929.

The two main causes of these changes are that our industries have not been competitive and that some of our best markets, such as India and Australasia, have felt the full force of the depression. We have ceased to be competitive because for many reasons our costs have proved inelastic. Our money costs have been too high in terms of gold relatively to costs in other countries. Real wages in England in 1930 were 21 per cent. higher than in 1914, and 10 per cent. higher than in 1924. Our basic industries have lost the power to make profits, with the result that capital expenditure, enterprise and development have tended to be restricted, while the demand for consumable goods has been maintained and imports encouraged by a high level of money incomes. In such conditions, adjustments must be made voluntarily and in time, or they will be imposed by an increasingly unfavourable balance of payments. Mr. Clark gives a table which would indicate that since 1924 this country has on one occasion only, *i.e.*, in 1929, shown an actual net credit on her balance of payments after including new overseas issues, and that there must have been an influx of new foreign money into the country during those years of nearly £300 million. In 1930 the balance available for new lending abroad was only £39 million, and with the rapid subsequent deterioration both in exports and in our income from investments and

services it seems certain that the unfavourable balance for 1931 will be anything from £50 to £100 million. Although the collapse of the sterling exchange was in the end accelerated by the central European crisis and the general atmosphere of panic, all the indications are that it could not have been long deferred.

V. The Conditions of World Recovery

FEW of us are interested in diagnosis without cure, and the question what the world can do to be saved awaits an answer. Our own belief is that the road to recovery bristles with difficulties and that there is no short cut to prosperity. It is only necessary to examine any aspect of the problem as we have attempted to unfold it for it to be apparent what a decisive part human folly and human weakness have played in the past and how improbable it is that humanity will in a night acquire wisdom and strength and tolerance.

Take the German situation. At the end of February the Standstill Agreement will expire and the bankers of the world will be free to call in short-term credits amounting to £400 million, or, if the latest figures are correct, to considerably more. In July Germany will, in default of an extension of the Hoover moratorium or some new arrangement, again become liable for the payment of about £81 million a year on reparations account. It is certain that Germany cannot pay off her short-term obligations at maturity and that the resumption of large-scale reparation payments would be followed by disastrous consequences both to Germany and to the rest of the world. What are the omens at the moment? The Hoover-Laval agreement throws the reparation problem back on Europe, and the only procedure contemplated appears to be that Germany should appeal under the Young Plan to a committee which is debarred by the terms of that Plan from

considering at all the unconditional annuities of £31 million. French public opinion has urged that reparation payments should rank before bank credits, and as France is entitled to 51 per cent. of the full annual payments under the Young Plan and to 82 per cent. of the unconditional payments, whereas her claim as a short-term creditor of Germany is only a fraction of those of Great Britain and the United States,* this attitude is intelligible. Yet there could be no more serious obstacle to world recovery than that the French view in this matter should prevail. It is easy at this date to criticise the bankers of England and America for granting facilities to Germany which are now seen to be excessive : it is easy, too, to forget that without those facilities neither reparation payments nor remittances directly or indirectly dependent on them in settlement of war debts could ever have been made. But the criticism is irrelevant. The debts exist and will not be renewed under any arrangement which leaves the fundamental causes of German embarrassment untouched. International banking is the life-blood of world trade, and if its resources are to be congealed and their free flow interrupted, not the bankers only, but the whole world will be crippled. By a pleasant irony the same stroke will end reparation payments for ever. Unless a settlement can be reached within the next few months which will make Germany again a fair credit risk, the outlook will be black indeed. If, on the other hand, it should prove possible by the abandonment of reparations and other non-commercial international debts to remove from world economy a burden which has been found intolerable, a major cause of world depression will have disappeared.

It has become abundantly clear, to take another point, that half the economic problems of the world are insoluble at the present level of prices. Debtors cannot hope to

* Of the credits to German commercial banks, for which detailed figures are available, the United States on July 31 last held 37 per cent., Great Britain 24 per cent., Switzerland 13 per cent. and France under 7 per cent.

meet their obligations by following what appears to be the prevailing fashion and practising, in a phrase used by the *Economist*, "the self-contradictory policy of exports without imports." They would be unwise, even if lenders appeared over the horizon, to attempt to meet their debts by further borrowing. A rise in prices may well seem the only alternative to *tabulæ rasæ* and a fresh start. In present conditions the course of gold prices depends primarily on the monetary policy of France and the United States. If they wish, it is in their power, so long as they remain on the gold standard, to raise their domestic price levels by adding to the currency and credit available up to the limit permitted by their existing legislation and beyond that, if necessary, by reducing the legal minimum cover held in gold against their note circulation and their sight liabilities. If they hesitate to take that step, it is probably because they recognise that it is easier to set on foot an inflationary movement than to control it. But the choice is a choice of risks, and the consequences of a continuance of their present policy are hardly open to doubt. The sterilisation of gold on the scale on which it is now practised in France and America reacts in the end on the owner, and no country can in the long run maintain the position of a creditor nation enjoying a large export trade if it refuses either to buy or to lend abroad. Nor is it likely on such premises, and without a redistribution of gold stocks, that the gold standard itself can survive.

America and France are extreme but not isolated devotees of high tariffs. The same regime prevails in half Europe and in many of the new countries of the world. It has been reinforced by the organised "defence" of this or that commodity. It is idle to expect the reasoning which has created this regime or the interests which have grown up with its protection to crumble into ruin, like the walls of Jericho, at the blast of a trumpet. Even to-day, notwithstanding the pressure of harsh economic necessity,

self-sufficiency is still the prevailing gospel, and it is to be feared that nothing but a long and painful process of education will expose its inadequacy.

To indicate, however summarily, some of the elementary conditions of recovery is sufficient to throw into relief the formidable difficulties which they present—difficulties of politics, of national psychology, of economic ignorance. Can such difficulties be quickly overcome? The Washington correspondent of *The Times*, at least, seems to have no illusions on that score. As these lines are being written, this* is his verdict on the American prospect.

> The present position of the United States is not in doubt. This country will take no further initiative in matters economic (Mr. Hoover's moratorium proposal will have no successor), and it will have no contribution, in the form of international responsibility openly undertaken, to make to the problem of the organisation of peace. If there is a way out of European troubles, it is clear that Europe must find it without direct American assistance. . . . There are signs, moreover, not only that the world's greatest creditor nation will leave its tariff policy untouched, but also that in the years immediately to come it may be an exporter of capital to a very insufficient degree.

VI. Great Britain's Task

WE may well ask what should be the objects of British policy in a world so distraught. The nation is still immersed in the novelty, the uncertainties, the exciting possibilities of an emancipated currency. It has observed the first faint dawning of a trade revival. It understands vaguely that there is now a premium on exports, a penalty on imports. Immense stocks held in the country have combined with the unbridled competition of our foreign purveyors to postpone any appreciable rise in prices. For the moment we have most of the advantages of currency devaluation with few of its countervailing drawbacks. Our objective must be to retain that happy position for as

* *The Times*, November 7, 1931.

long as we can and to employ the respite in correcting our essential weaknesses.

The first of these is our adverse balance of payments, and the shortage of liquid foreign assets held by our Central Bank. If trading conditions throughout the world were normal, it is probable that the advantage for our export trade of a pound at $3·80 would suffice, at least temporarily, to redress the balance. But trading conditions are not normal, and in many markets even cheapness cannot stimulate buying. It may be necessary to add some form of statutory discouragement of imports, but there should be no illusions as to the dangers of such a weapon since we went off gold. When once a currency has dragged its anchor, it is exposed to all the force of wind and waves, and this is true to an exceptional degree of a country so dependent as ours on its imports for the necessities of its existence. If for any reason, whether currency depreciation or customs duties, or the refusal of any class to make reasonable sacrifices, a rise in our level of money wages is forced on us, we shall find our budget equilibrium endangered, our balance of trade still further deteriorating, and the pound launched on the slope to Avernus. The test of success in our monetary policy in the near future must be our power to attain relative stability of the pound.

At what level should we seek stability? Only time can show. It is folly to expect either too much or to aim at too little. There are some, no doubt an insignificant minority, who would like to see the pound back at the old exchange level. That yearning is unlikely to be gratified, except by the depreciation of other currencies and not by the appreciation of ours, and if it were we should groan under the burden for a generation. Others are ready to assume that by the devaluation of the pound we can halve the National Debt. Even that is possible, but at the risk of finding it not halved, but eliminated, and with it the accumulated savings of the nation. The true object of policy must be the *de facto* stabilisation of the pound at a level which

does not require an increase in present wage rates. That level can only be found by trial and error, by a deliberate effort to keep fluctuations in sterling within ever narrowing limits. If we can hit the mark, the ultimate revival of trade and industry will lighten the burden of all budget charges, and though the ratio between the service of the National Debt and the total of the budget may not be materially altered, the buoyancy of the revenue and the creation of conditions favourable to conversion schemes will make the debt service less intolerable.

By *de facto* stabilisation we mean stabilisation without the anchorage to gold. If comparative stability can be combined with a free market in forward exchange, most of the practical objections to a currency divorced temporarily from gold lose their force. Even the sterling bill, backed by the unrivalled facilities of the London market, need not despair. In the view of THE ROUND TABLE, it would be little short of madness for us to link the pound again to gold until it is clear that international conditions will permit of a more normal working of the gold standard than we have seen since the war. At the moment the gold standard has little reality outside France and the United States. If Germany and Hungary and Poland and South Africa* still profess adherence to it, that adherence is maintained only by a formal or informal restriction on the transfer of funds. The individual who finds that, because South African exporters refuse to pay the premium necessary to repatriate their export balances, he himself must resort to the subterfuges of the underworld in order to withdraw £1,000 from his bank in Cape Town and remit it to London, may well regard the latest practice of the gold standard with a certain cynicism. The wise course is to face the fact that the international regulation of the exchanges through the medium of gold has broken down, and to wait on events.

For these tasks which confront us this country is not with-

* For an account of the reasons why South Africa is endeavouring to keep to the gold standard, see p. 188.

out resources, moral and material. The Government can rely on the declared determination of the nation to see the thing through. It need have no anxiety as to the fundamental soundness of our banking system or the resilience of the most highly organised money market in the world. We are still the greatest creditor nation, with immense assets abroad, even though they are not in present conditions readily realisable. Even internationally, as an offset to our relative temporary financial weakness and our diminished financial prestige, we have the knowledge that the world wants us back on gold as soon as possible and that it lies with us to say when we shall go back. These are days not for optimism nor yet for despair; and if the march of events should allow Mr. Ramsay MacDonald to relax into a mood of relative cheerfulness, he may well call to mind the words which Abraham Lincoln, in a crisis of the Civil War, addressed to his Cabinet: "*Now, gentlemen, we have got our harpoon into the monster, but we must still take uncommon care or else by a single flop of his tail he will send us into all eternity.*"

APPENDIX I.

BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED KINGDOM.*

(In millions of £)

	1913	1924	1925	1926	1927	1928	1929	1930
Commodity imports (retained) ..	659	1,137	1,167	1,116	1,065	1,070	1,111	958
Commodity exports	525	801	773	653	734	724	729	571
Visible unfavourable trade balance ..	134	336	394	463	330	352	382	387
Net movement of gold	— 24	— 12	— 12	— 12	— 4	— 7	— 16	— 5
Excess of imports of commodities and gold	158	324	382	475	392	359	366	392
Excess of Government expenditure overseas		25	11					
Total of debit items ..	158	349	393	475 ●	390	359	366	392
Excess of Government receipts from overseas				4	1	15	24	21
Net national shipping income ..	95	140	125	120	140	130	130	105
Net income from foreign investments	210	220	250	270	270	270	270	235
Net receipts from Financial and other services	35	340	435	75	450	75	469	75	486	80	495	80	504	70	431
Estimated total net credit balance ..		182	86		57		6		96		136		138		39
Estimated total net debit balance ..		198	135		88		122		139		144		95		109
New issues for overseas															

● Compiled from the estimates of the Board of Trade and the Midland Bank Ltd.

APPENDIX II.

BALANCES OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, CALENDAR YEARS 1922–1930.* (In millions of dollars)

Class of transactions (gross or net)	1922	1923	1924	1925	1926	1927	1928	1929	1930 (unrevised)
COMMODITIES (ADJUSTED)									
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5,333	5,447	4,097
Imports	3,419	4,162	3,952	4,544	4,766	4,508	4,468	4,799	3,339
Balance of trade (adjusted) ..	+702	+206	+882	+633	+278	+583	+865	+648	+758
MISCELLANEOUS INVISIBLE ITEMS.									
Freight: Ocean, Great Lakes and railway (net)	— 79	— 83	— 64	— 84	— 95	— 66	— 32	— 66	— 96
Expenditures by American tourists:									
Canada and Mexican frontier	—100	—131	—159	—185	—201	—231	—293	—334	—322
Overseas, including West Indies	—345	—313	—374	—400	—422	—465	—531	—534	—489
Expenditures by foreign tourists in United States	+ 87	+104	+107	+112	+148	+163	+163	+183	+171
Ocean-borne passenger traffic† ..	+ 53	+ 60	+ 53	+ 63	+ 69	+ 89	+ 44	+ 47	+ 49
Interest on American private funds abroad (long and short term) ..	+555	+594	+635	+689	+740	+800	+896	+979	+904
Interest on foreign funds in United States (long and short term) ..	—144	—180	—192	—229	—268	—281	—359	—414	—310
War-debt receipts (principal) ..	+ 32	+ 92	+ 23	+ 26	+ 35	+ 46	+ 50	+ 62	+77
War-debt receipts (interest) ..	+126	+167	+160	+160	+160	+160	+157	+145	+164
Other governmental transactions (net)	— 46	— 66	— 53	— 61	— 49	— 29	— 57	— 92	— 81
Immigrant remittances (net) ..	—255	—229	—229	—235	—218	—206	—218	—223	—166
Charitable and missionary contributions	— 75	— 70	— 55	— 50	— 46	— 49	— 51	— 49	—49
Other items (net)‡	+ 46	+ 57	+ 68	+ 74	+ 74	+ 74	+ 24	+ 25	+ 7
Total, commodity and miscellaneous (net)	+557	+208	+802	+513	+205	+588	+658	+377	+617
NEW PRIVATE LOANS, INVESTMENTS AND DEPOSITS									
Net increase in American long-term investments abroad (par value)..	—857	—258	—869	—872	—808	—972	—1,317	—791	—406
Deduct bond discounts and underwriters' commissions on above ..	+101	+ 48	+125	+119	+121	+119	+122	+ 26	+ 66
Net cash payments for above ..	—756	—210	—744	—753	—687	—853	—1,195	—765	—340
Net increase in long-term investments in United States by foreigners	+ 3	+240	+11	+193	+147	+158	+477	+446	+ 50
Change in net debt of American banks to foreigners	+375	+ 3	+216	— 61	+359	—	—226	+ 13	—443
Net private capital movement (long and short term) ..	—378	+ 33	—517	—621	— 181	—695	—944	—306	—733
OTHER BALANCING ITEMS.									
Gold shipped or earmarked (net) ..	—234	—295	—216	+102	— 72	+154	+272	—120	—278
Shipments of American paper money (net)	+ 40	+ 50	— 20	— 30	—	—	—	—	+ 20
Add for net discrepancy due to inaccurate figures, omissions, etc.	+ 15	+ 4	— 49	+ 36	+ 48	— 47	+ 14	+ 49	+374

* From Trade Information Bulletin No. 761 of the U.S. Department of Commerce.

† Largely a deduction from American tourist expenditures overseas.

‡ Includes insurance, motion-picture royalties, cable charges, Canadian electric power, press subscriptions, patents and copyrights, and advertising.

THE EUROPEAN PROBLEMS OF THE UNITED STATES

I.

NO doubt you will recall the trouble Alice had with her flamingo; "generally, just as she had got its neck nicely straightened out, and was going to give the hedgehog a blow with its head, it *would* twist itself round and look up in her face." But perhaps that's the way of the flamingo, as it most certainly is the way of the Post-War Problem.

Take, for example, the matter of making Germany pay for the war. At the outset, in 1919, the principles were clear; Germany had been guilty of causing it, now she must pay for it. These two indisputables were written into a treaty, and thereby became what might be called the Paris idea. But the German people at once repudiated the admission of guilt which their representatives had signed; and, I dare say, began to consider how they might also avoid the financial obligations which these same representatives had undertaken. At all events, the German mark became worth next to nothing three years later; so her creditors, fearing communism in the Reich, concluded that it would be a good thing, a "stabilizer," if the annual payments to be made on reparations account were fixed in figures, once and for all. Perhaps that might be called the Dawes idea.

The schedules were so fixed, and became effective on September 1, 1924. Mr. Parker Gilbert was appointed Agent-General for Reparations, the mark was restored to a

gold basis, and the United States began to make loans to Germany. Indeed, in less than five years, from September 1924 to the spring of 1929, American investors managed to advance the sum of $1,185,000,000 on a long term basis to the German Government, its States, municipalities and industries. Then suddenly, and chiefly because of the greater speculative attractions of New York Stock Exchange, the eastward flow of loans dried up. Germany's financial condition, we heard, was again critical; and we were told that this situation arose from the fact that though her annual payments had been determined, the total figure had not been fixed, nor the period of years over which the payments were to run. Out of a third international conference emerged the Young idea—that the total figure should be $27,641,942,800 and that reparations annuities should be spread out over three generations.

So in September 1929, with the flamingo's neck all straightened out, the game began again. Two hundred and fifty million dollars more went out of American savings into German bonds, and American bankers continued to extend three and six months' accommodation to German borrowers, running to perhaps seven hundred million dollars more on the average. Thus between the end of 1924 and July 1, 1931, we had made fresh loans to Germany amounting to about $2,100,000,000; out of which, or as a result of which, Germany managed to pay to her creditors on reparations account the sum of $2,600,000,000. These creditors in turn, being indebted to the United States, paid somewhat less than two billions of it back.

In June of this year, following the collapse of the Credit Anstalt in Vienna and its rocking repercussions on German private finance, Germany walked on the edge of ruin for the third time since the war. The official manifesto published in Berlin on June 6 stated that the Government had now imposed upon its citizens all the privations which they could possibly endure: that the financial situation of the Reich, seriously menaced, required that Germany be

relieved of reparations; and that the economic fabric of the world was in danger of being rent to pieces. This declaration, in terms of international finance, meant at least these things: that Germany believed she could not (and even if she could, perhaps would not) make any further payments on reparations account; that, unless help were immediately forthcoming, the principal of her external private loans might be lost to the foreign investor, and the short-term banking advances still lying in Germany might never be returned to England, the United States and France.

The financial crisis revealed by Brüning's manifesto of June 6 was in part caused, and in part further aggravated, by the withdrawal of foreign balances from Germany. It is said that total withdrawals for the first two weeks of the month reached a sum equal to £40,000,000. For this exhibition of panic psychology, the London fraternity was quick to blame "the inexperience of American bankers," but Wall Street, in turn, has more than a suspicion that English banks, nearer to the situation, had silently begun to drain off their own German credits some weeks before New York took fright. In fact, the problem of fixing the blame becomes more complicated as time goes on. Staid old Alexander Dana Noyes of the *New York Times* financial page speaks on October 30 of "the part that the Paris banks played in the panicky snatching, directly or indirectly, at their German credits." What, France too? Better to let the quarrel pass; for as in the mooted question of who started the war, and the footling question of who won it, the "effective cause" will probably never be determined.

It is enough to remember that there was (and on November third there still is) in Brüning's broadside something more than a warning, something more than a cry for help. There was and there is the cream of a tragic jest. For if a general default of German privately held external debts were to take place, and if the books of reparations and war

debts were to be closed, an accounting would show the American people to be $2,000,000,000 better off in the Treasury of the United States, and $2,000,000,000 worse off in the value of their private investments. It would show the German Treasury some $2,600,000,000 out, and (including private loans from citizens of the Allied countries) a far greater amount in. Or nothing in for the United States and nothing out for Germany, and a fine deficit on balance for England. For France, about as much as she suffered from the physical havoc of the war. All that we would then need to put us back to 1914 would be a revision of the territorial clauses of the Versailles Treaty (which is under discussion) and the return of Germany's colonies to her rule (which may yet be the price demanded by a Hitlerite Germany for her co-operation in international recovery). Back, in broad outline, to 1914, with 8,750,000 dead, more than 21,000,000 wounded, seventeen years of bitterness, high nationalism and suspicion—stupendous internal debts in the English-speaking countries, their partial repudiation in Germany and France—and for the millions of dead and the billions of waste—not even on the basest reckoning one compensating penny anywhere to show for it. God help us!

And yet might we not have another war—just a little one? It wouldn't cost much more money or many more men. Just a limited affair which would expedite this matter of returning Germany's colonies to her and of revamping some of those mistakes in territorial arrangements which crept into the Treaty of Versailles. It would only cost a couple of millions and billions respectively, and at its end we could let the devils of hell off the leash and invite them all to dance and sing to their hearts' content over the litter we have made of our lives.

II.

ON June 20 last, President Hoover made a memorable offer, "The American Government proposes the postponement during one year of all payments on intergovernmental debts, reparations and relief debts, both principal and interest, of course not including the obligations of governments held by private parties . . . to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences abroad." This was the Hoover idea.

It did seem to us across the Atlantic that the Germans were unusually stupid in pressing the *Anschluss* with Austria, parading the *Stahlhelm*, and announcing a second "pocket battleship" in a period of such crisis. It did seem that the French were incredibly small in withholding their support of the plan through sixteen anxious days, while the economic structure of the so-called civilized world and the political structure of Continental Europe swayed back and forth toward the angle of break. These things probably have lost their importance, if they haven't, the historian will take care of them. He will also leave a record of the fantastic fortnight that followed France's deferred assent—statesmen and bankers came and went, here, there, and everywhere.

> And thick and fast they came at last,
> And more, and more, and more.

Luther on the wing, to London, Basle, Berlin and Basle; Montagu Norman on his heels; Henderson in Paris, Stimson in Rome, with Mellon joining him in Paris from the Riviera; Brüning to Rome and to Paris—and finally their trek to London on July 20 to attend a conference at the invitation of the British Government, exactly one month

after the President of the United States had made his offer.

The Conference met, discussed matters for three days, and rose—without breaking up. This alone was an achievement, for its powers were uncertain, its terms of reference were vague, and the atmosphere was charged with bitterness and recrimination. But what is more, the Conference made certain definite proposals: one led to a six months' moratorium on German short-term private debts arranged by a committee from private financial institutions of the creditor countries; the other resulted in a summary study of Germany's financial situation, with particular reference to the conditions under which long-term lending might be resumed. The report deplored the lack of confidence among nations, suggesting an economic rapprochement between Germany and France; it called attention to the growth of tariff barriers as an impediment to international trade, and urged a reconsideration of the problem of intergovernmental debts. Thus the committee of bankers gave back to the statesmen the task which the statesmen at London had put upon them. A month had been lost, but by this procedure much more was gained; and what first looked like an evasion of responsibility on the part of the Conference turned out, in the end, to be a stroke of genius.

Mr. Hoover's offer had been well received both in this country and abroad. Even the French authorities, while resenting the way the plan was pushed at them, did not look with disfavour upon the proposal itself. It provided relief at a tense moment in the affairs of international finance, and it encouraged a hope abroad that the United States might go still further toward cancellation of debts and membership in the League of Nations. This expectation was increased when Messrs. Stimson and Mellon attended the London Conference, not as "unofficial observers" nor in any other such ambiguous capacity, but as accredited representatives of the American Government; and it swelled perceptibly, during the Manchurian crisis

of October, when Mr. Prentiss Gilbert was instructed by Washington to sit with the Council of the League. These incidents seemed to mark a change in the spirit and technique of American foreign policy. Hoover, long reined in, had taken the bit in his teeth and had started down the road. So it may have appeared; but the inference is hardly justifiable. For Woodrow Wilson started down the road alone twelve years ago, with disastrous results, and it is doubtful whether any other Chief Executive of our generation, in his senses, would be willing to try the same course again. Indeed, when Congress meets in December and the President is called to account (as he undoubtedly will be), many of Hoover's best friends want him to make it clear that the London appointments and the instructions to Gilbert were employed as the only means to meet the worst crisis in the great depression, and that there is no thought of following their implications any further. That ought to be a satisfactory explanation of the status given to Mr. Stimson and Mr. Mellon; but it will not be so easy to justify Mr. Gilbert's rôle at Geneva. For his appointment was not a thing by itself: it followed assurances by the Secretary of State that the United States stood ready to "reinforce" the League in the Manchurian matter. In 1919, when the Covenant of the League was being drafted in Paris, a certain distinguished statesman observed that, in his opinion, Article 10 was dangerous. "Either it means something revolutionary in international affairs, or else it means nothing. In either case it should be left out." The use of the word "reinforce" is subject to the same objection. Just how, if you were a drafting clerk in the Secretariat at Geneva, would you translate that word into French? And would you be sure that the French verb you chose correctly carried the same admixture of military, economic and moral horsepower that Mr. Stimson had in mind when he used it? More will be heard of this Geneva incident before Congress adjourns next spring.

In the *New York Tribune* of October 13 Walter Lippmann shrewdly suggested the possibility of projecting this "action" on to another plane:

> The precedent thus established (he wrote) is more than ample for reaching an excellent understanding with M. Laval when he arrives. M. Laval will not expect us to ratify the Covenant, and no informed Frenchman is asking the United States to sign a diplomatic blank check. But if the Administration is able to point to the Manchurian action as a precedent, and to say to France in terms which satisfy the French instinct for lucidity that the precedent can be relied upon in the future, it should be possible to make immense progress in the reduction of armaments and the stabilization of Europe.

If this intimation was given to M. Laval by Mr. Hoover, it evidently did not work as a substitute for a security pact. Being unwilling to accept the one, and being unable to get the other, M. Laval seems to have decided to let well enough alone. Indeed, his position is even happier than that, for first among the souvenirs of his flying trip to the United States he cherishes Senator Borah's incredible and lovely gift—the Senator's admission that French armaments and French security are matters to be gauged by the judgment of France alone.

III.

"THE question is," said Humpty Dumpty, "which is to be master—that's all?" The answer is—France.

On October 25 President Hoover and M. Laval issued a *communiqué*, stating that they had "canvassed the economic situation in the world, and the trends in international relations bearing upon it; the problems of the forthcoming conference for the limitation and reduction of armaments; the effect of the depression on payments under inter-governmental debts; the stabilization of the international exchanges and other financial and economic subjects." They laid stress upon "the importance of monetary stability as an essential factor in the restoration of the normal economic life

in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence." They felt that before next June some agreement regarding inter-governmental payments "may be necessary covering the period of business depression," and they thought that the initiative in this matter "should be taken at an early date by the European Powers principally concerned within the framework of agreements existing prior to July 1, 1931." The United States thus turns over to France the initiative with regard to inter-governmental obligations, holds out the possibility that Allied debts due to the United States will be reduced once reparations have been scaled down, and abandons the idea of making progress in the near future in the matter of disarmament. In return France appears to agree to stop drawing gold out of New York except in orderly fashion and for substantial reasons. These conclusions are open to no other interpretation than that the United States abdicates, in favor of France, the position of leadership which she assumed on June 20 through Hoover's proposal for a moratorium. France evidently wants the power which such a position brings: so in that respect M. Laval won a striking victory. It must be set down as a rather empty triumph, however, for, if one thing is clear, it is that the United States is quite prepared to surrender leadership to France or to any other appropriate and responsible government.

For the past ten years, or to be more exact, ever since the funding of the British debt to the United States, the policy of Washington has, in the main, moved along parallel lines with that of London. If Germany and France were at variance with each other over the Ruhr, reparations, or the German-Austrian customs union, the two Anglo-Saxon countries were inclined to support the German point of view. So far as the United States was concerned, this policy was expressed in public opinion rather than in governmental action; but whenever private

American citizens served on European committees formed to deal with European problems, they tended to listen sympathetically to Germany's complaints, and to act as a restraining influence upon French demands. England and the United States, officially and unofficially, pursued their separate courses of action under a set of common principles.

The extreme case, of course, occurred in June, when the plan for a one-year moratorium was devised and announced pursuant to an agreement between American and British authorities, without consulting Paris. At that signal France displayed an unexpected independence. Her financial position had become strong, her industrial position was not weak, her diplomatic position on the Continent was solid. For more than a fortnight she held the rest of the world in suspense while she exacted certain modifications in the Hoover plan to meet her views. The decision of the World Court against the German-Austrian customs union gave her encouragement: the visit of Brüning to Paris strengthened her sense of power. Then London began to feel the effects of a run on her gold and, in the end, had to suspend the gold standard. The American people received this announcement "more in sorrow than in anger." Banks with London credit balances took their losses in good spirit. It seemed to be the general feeling that England had once restored the pound to par by sheer force of will; but that the burden of keeping it there had become too heavy for her to sustain. Such was the friendly personal view. But common sense suggested that the financial objectives of the United States and England might no longer be the same: and that it would be illogical to continue a now uncertain partnership to the further alienation of French goodwill. It is doubtful whether Hoover and Laval did reach, or ever could reach, a partnership in the Anglo-Saxon sense of the term; but it is certain that they arrived at a *modus vivendi* under which the next chapter of reparations and war debts will be written.

The better informed opinion in the United States has

found an excellent spokesman in Mr. Thomas W. Lamont, of J. P. Morgan and Co. In the *Saturday Review of Literature* of October 31, 1931, in the course of a criticism of Dr. Schacht's new book, he summarizes the situation as it stands to-day :

> There must be some common ground of agreement that the German and the French people can and eventually should reach . . . There must be some figure of reparation payments that the Germans themselves should be moved to propose ; a figure not so unreasonably small as to deserve the contempt of the creditor Powers, not so large as to be beyond the assured capacity of the German people to pay . . . It now becomes the prime business of the European governments to undertake to settle the question of reparations, and that without American initiative . . . Certainly, after the sensational events of the last few weeks, especially Great Britain's suspension of the gold standard, no sensible American can have serious question that the Administration at Washington will be prepared to receive with an open mind any fresh proposals of a constructive nature that emanate from the governments of Europe.

Mr. Lamont certainly voices our better opinion and he probably forecasts correctly what Congress in the end will do. But Mr. Hoover will have no easy time of it when Congress reconvenes in December. First of all, the House of Representatives is likely to be Democratic. As the result of five bye-elections held on November 3, the Opposition party can now claim 217 members, the Republicans 216, and the Farmer-Labor party 1. A seat in the fifth New Jersey District is to be filled on December 1 and the one remaining vacancy, a New Hampshire seat, will be decided on January 5. The probabilities are that the Democrats, having a nominal majority, will be asked to organise the House : and that the balance of power will lie with the one representative of the Farmer-Labor party.

Moreover, when M. Laval finally approaches the American Government with a new plan involving the payment of German reparations (or their non-payment !) he will find

more hostility to his suggestion of a corresponding reduction of Allied debts to the United States than he has been led to expect. The joint *communiqué* which he and Mr. Hoover put out at the conclusion of their conversations, suggested that Washington would entertain the idea of *some* reduction. Perhaps further details were privately and tentatively agreed upon. But at the same time one cannot help deploring the appearance in *L'Information* of an article by Count Fernand de Brinon, who accompanied M. Laval on his Washington visit :

> It can be affirmed, in effect (he writes), that Mr. Hoover has agreed to confide to France the task of discovering in the general interest, a new settlement of reparations ; and that in exchange for this settlement he has engaged himself to support before Congress an equivalent reduction in debts owed America.

The Treasury of the United States is confronted with the staggering problem of meeting a deficit of over $2,000,000,000 for the current fiscal year. Congress will be badgered with demands for relief on an unprecedented scale. Whatever may eventually be decided in Washington with regard to war debts owed to this country, Congress will not cheerfully accede to the necessity of revising or cancelling these obligations, and will doubtless show their resentment at the fact that Mr. Hoover gave to M. Laval the concrete assurance that he is alleged to have given.

So . . . under the new dispensation, France and the United States will co-operate to maintain the gold standard, and France will take the lead among European nations in arranging what is hoped to be a permanent settlement of the problem of reparations. The United States will give friendly consideration to corresponding suggestions concerning war debts.

IV.

AS for the question of disarmament, it seems that Mr. Hoover and M. Laval have laid it on the table to await a more propitious season. Their *communiqué* stated that the task of the Disarmament Conference in 1932 would be "the organisation on a firm foundation of permanent peace."

We have been slow to realise that nothing can compel Germany to pay reparations against her will; even more slowly have we learned that nothing, in the last analysis, except their free consent, can compel debtor governments to pay their obligations to the United States. But, if it is now too late to trade these debts against disarmament, it is not too late nor too much to look for a voluntary proposal in this respect from France.

But even without this, permanent peace can be considerably advanced at the Conference in 1932, or before it, or at any time that statesmen really care to advance it. No admirals are needed, and no statistics: but a brief agreement among the principal nations that from now on they will collect their taxes in two assessments. The first would require the tax-payer to make his annual contribution to the expense of past, present and future wars; the second would fix his payment for the constructive activities of his government. No statesman who professes to prefer a regime of peace to one of war could honorably refuse to enter such an agreement. And the fellow who pays for it all, learning for the first time that sixty-five per cent. of his tax was to be paid under the first assessment, and only thirty-five per cent. under the second, would shortly, at the polls, have something of moment to say to his governors on the subject of disarmament. In all conscience he is entitled to know the facts and to speak his mind.

The United States of America,
November 6, 1931.

THE WORLD AND THE CRISIS

I. The Fall of the Pound

WE have passed through another three months of the world-crisis and, like the Abbé Sieyès, some of us may say *nous avons vécu* with a certain air of thankfulness. At least the predictions of the darkest prophets who foresaw the imminent collapse of Western civilisation have not yet been realised. The evil of the day has indeed been more than sufficient, but there may perhaps be ground for hoping that the climax of the economic tempest has been reached, if not passed. In any case, it can do no harm to strain the eyes in the blackest hour to discover whether some faint ray of dawn may not be discernible.

When the last number of this review went to press, the inexorable advance of the depression had pushed Germany and central Europe to the edge of the abyss. The London Conference, hastily convened to meet the crisis, had failed to find any radical remedies. Though it took measures for propping German credit by extending the loans which could not be repaid, it did nothing to remove the causes which had brought about the breakdown of international credit and had destroyed the foundations of confidence. As these causes still persisted, their paralysing effects steadily spread through the arteries of the world's financial system, until finally they reached its heart, the City of London. For the first time in modern history it was unable to meet its obligations. Just as banks all over the world could not

realise their assets in order to meet the panicky withdrawals of their clients, so finally the hub of the banking universe failed to stand the unprecedented strain to which it was subjected. The whole of Europe was shaken by the threatened failure of Germany, Austria and Hungary. Heavy calls were made on London by depositors who wished to reinforce their liquid assets to meet sudden liabilities. The run stimulated the fears of many abroad who had seen England's economic situation painted in funereal colours by certain French observers widely regarded on the Continent. These fears found confirmation in an increasingly unfavourable trade balance, and seemed to be finally clinched by the alarmist findings of the May Report, which was recklessly published at the psychological moment, when London was called upon to meet the full blast of the July crisis. No doubt this astonishing step was taken with the laudable intention of arousing the British public to the dangers of its internal situation; but unhappily the contents of the Report, and still more the lurid commentaries of the London press, were blazoned over the five continents at the very moment when foreigners were looking to their British holdings with growing anxiety. Thus the run became a rush. Gold began to drain away from the Bank of England in August as it had drained away from the Reichsbank in July, in spite of the seemingly incredible fact that Great Britain, so far from being impoverished like Germany, remained by far the greatest creditor country of the world. Her investments abroad bore a nominal value of £4,000 millions, and were calculated by the *Economist* as being actually worth £3,140 millions at the end of July. But all these immense resources could not be mobilised to stem the outflow of gold. The short-term loans frozen in central Europe were equally beyond recall. A political crisis supervened, and a National Government was proclaimed. Loans to the extent of £130,000,000 were obtained from France and the United States at high rates of interest. The budget was drastically

balanced. The firmest intentions of maintaining the gold standard were announced and the perils of its abandonment startlingly depicted. But none of these things stopped the rot. The flight from the pound, perhaps artificially assisted by deliberate efforts abroad to weaken it for speculative or political purposes, could not be arrested. On September 21 the Bank of England was authorised by Act of Parliament to suspend gold payments. England had left the gold standard, of which she had always been the principal advocate and support.

The repercussions of this tremendous event throughout the world cannot yet be assessed. It may at once be noted, however, that they have not produced the anticipated cataclysm. Thanks to the innate good sense of the English people, fortified by a seasoned distrust of the prophecies of their politicians and their newspapers, there was no trace of panic. Business continued as usual. There was no scramble to withdraw money from the banks or to hoard bank notes in stockings. The pound bumped sedately down to 16s., and rested there placidly in spite of the alarums and excursions of a singularly unedifying election. By degrees the catastrophe which had been the subject of so much dark foreboding was seen to foreshadow substantial reliefs. It might provide the lever for lifting a burden of debt which had become intolerable to the taxpayer and a burden of costs which had long been weighing heavily on industry and agriculture. Though some prices would necessarily move upwards, it became quickly apparent that the devaluation of the Irish, Australian, Canadian, Indian and Scandinavian currencies would largely guarantee the urban population against any meteoric rise in the cost of living. The fall of the pound offered a better chance for the manufacturer and the farmer, a prospect of reducing unemployment and an automatic method of redressing the trade-balance. In a hopeful but determined spirit England soon began to adapt herself to the new economic order with a cheerful philosophy peculiarly her own.

When the election gave it an opportunity of expressing its mind, the country did so in an altogether unmistakable manner. It was resolutely decided to play for safety until all danger was over, by entrusting government not to one party, but to the strongest combination that could be found, and by thus giving irrefutable evidence of solidarity to the world. The Government was given a mandate by the largest majority in English history to frame and carry out a national policy of reconstruction irrespective of all party creeds and shibboleths. The new Administration was charged to do the work, which the Coalition Government was empowered, but mostly failed to do, in the years following the war. It may be hoped that it will prove worthy of the nation's expectations, but in any case the imposing spectacle of such a large measure of national unity produced an immediate effect on the whole situation. Confidence in the future of Great Britain, which had been badly shaken in August, and profoundly disturbed in September after the naval strike, was restored at a blow on October 27. The fear that Bolshevism was about to triumph, which was widely and sincerely entertained in foreign circles, evaporated over-night. Not only was England's belief in herself renewed, but she once more became an element of stability in the general crisis instead of an element of doubt and uncertainty.

The climax having been produced by Great Britain's departure from the gold standard, a first and important step towards restoring the world's equilibrium was thus taken by Great Britain's energetic effort to put her own house in order. Its moral effects at home and abroad may do much to counteract the psychological influences making for panic and pessimism, which are perhaps the most ominous and intractable factor tending to aggravate the crisis everywhere. But, though this is an invaluable beginning, the actual financial and economic problems still remain to be solved. The external effects of England's departure from gold cannot yet be gauged with any

certainty. The devaluation of foreign holdings in sterling will injure a large number of foreign individuals and some foreign governments. On the other hand, a larger number of individuals and of governments, whose bonds are in sterling, will be relieved of their burden to the extent of perhaps 20 per cent. Countries dependent to any considerable extent on exports to England, or on British tourists, will suffer considerably, unless they conform to the new pound, as some have already done, and others may be forced to do in the near future. All these consequences are obvious enough, but the commercial effects are much more difficult to appreciate. As long as wages do not rise, the British manufacturer will probably be able to sell his product abroad at a considerably lower figure, in spite of the added cost of most raw materials. British coal, textiles, steel and machinery will have an opportunity of recovering much of their lost ground in foreign markets. Conversely, the enhanced value of all imported articles will enable British goods to oust foreign produce in many branches of the home market. But exactly how far can this double process go? If it had been initiated in normal times, it may well be supposed that British trade would have recovered something like its natural expansion, and at the same time its natural equilibrium, without great difficulty; but can that be expected to happen in the depths of a particularly deep depression? Will not our foreign customers try to keep as many of their own people employed as possible by excluding British goods by higher tariffs, especially those who can no longer sell their own goods in the British market? In other words, will not they adopt the reasoning upon which the case for tariffs is based by its advocates in this country? Canada has already set an example by levying duty on British goods at the old parity value of sterling. Protective measures are being discussed in Holland and Norway to meet the new British competition. Germany has in any case been compelled by her financial troubles to reduce all imports to the

minimum. Other countries may follow suit. If trade had been plentiful, such defensive measures would have been much less likely; but the smaller its volume, the more strenuous will be the efforts of every country to retain as large a proportion as possible for its flagging industries. One of the most marked features of the crisis is the dwindling of international trade as a whole.

We are therefore brought back inevitably to the conclusion that nothing but a general recovery will restore British commerce to a satisfactory level of activity. Though its situation will in all probability be substantially improved by the devaluation of the pound, its full benefits cannot be reaped as long as the slump continues. A general tariff might stimulate for a time the production of certain goods for the home-market, but would undoubtedly provoke retaliation which would severely injure our export trades. However illogical the threats of the French Minister of Commerce may appear at a time when France is restricting imports by high duties and contracting quotas, there is little doubt that a British tariff would be met by French reprisals, and France would not be the only country to adopt such measures. Solid prosperity cannot be conjured back to British industry by any purely British action. Neither devaluation nor protection can weave the spell separately, still less in combination. Great Britain can only prosper as a great centre of international commerce and finance. Until, therefore, there is a world-wide recovery, amelioration of Great Britain's position can only be partial and inadequate. We must, therefore, turn our view outwards to estimate how far the prospects have altered for better or for worse during these three months, while London has been in the eye of the storm.

II. The International Outlook

IN the last number of this review* it was pointed out that the basic causes of the depression were to be found in the series of maladjustments, economic, commercial, financial and political, under which the post-war world had laboured. The uneconomic manifestations of "economic nationalism," working through tariffs, subsidies and other protective measures, had choked the flow of international trade at a time when enormously increased productive capacity, both in industry and agriculture, made the free interchange of commodities between nations more than ever essential, if consumption was to keep pace with production. These evils tended to create a maldistribution of capital, which was greatly aggravated by the burden of war debts and reparations on the one hand, and by the failure of France and the United States, since 1929, to use their credit balances for maintaining and developing the economic activity of the countries most in need of money. As a result, political disturbances, largely due to impoverishment and unemployment, broke out in many of these countries, particularly in Germany, South America and India. These revolutionary movements still further reduced confidence and caused the purse strings of possible lenders to be drawn tighter than ever. Thus, by the time the German crisis occurred in July, the vicious circle was complete. The bankers blamed the governments and the governments blamed the bankers; but it was clear that the last word must rest with the statesmen. No financial action could any longer avail to restore the movement of money, raise commodity prices and start the upward trend towards recovery. None of these things was possible until the fears of internal and

* See The Round Table, No. 84, September 1931, p. 769.

international upheavals could be allayed, and that meant little less than a complete revision of the war settlement, under which the world had been uneasily ploughing its way forward since 1918, and the establishment of effective international co-operation alike in the political, financial and commercial fields.

The correctness of this analysis was largely confirmed by the report* of the powerful committee set up by the Bank for International Settlements under the chairmanship of Mr. Albert H. Wiggin of the Chase National Bank. They stated their view that without the restoration of Germany to economic health, there could be no escape from the bog of falling prices and shrinking confidence for the rest of the world. But for Germany's recovery, two conditions were essential, the removal of political dangers and the lightening of her burden of indebtedness.

> The body of the world's commerce, whose vitality is already low, has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished, but only if the governments of the world will realise the responsibility which rests upon them, and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the *sine qua non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

Taking the state of Germany as their text, the Bankers' Committee further insisted on two general conditions without which there can be no expectation that the depression will pass. First, the normal process of investment must be resumed "with a well-defined economic purpose in view—namely, an increase in the purchasing power of the world." Secondly, the elimination of the present

* Signed on August 18.

contradictory state of affairs, which "involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods."

The prospects of a general recovery, with which the recovery of Great Britain is indissolubly linked, may be judged by the prospects of this simple but formidable programme, laid down by ten men representing the banking systems of the ten strongest financial countries. Incidentally, it may be remarked in passing, that it is a real advance that there should now be international machinery which permits of common principles of financial policy being worked out and authoritatively stated by leading financiers drawn not only from Europe, but also from the United States and Japan; further, that even the formulation of such a policy is a light in the prevailing darkness. Unfortunately, its execution does not, in the main, rest with those who drew it up. The primary condition for its success is action by governments to remove the political malaise, from which ultimately flow the hesitancy of capital to perform its ordinary functions, and consequentially the general shrinkage of purchasing power. It is as true now as three months ago that the main exit from the *impasse* lies through the political door. The international situation must therefore claim first consideration in any estimate of the hopes of economic revival.

At a first glance, it cannot be said that the outlook has changed substantially for the better between July and October. The British crisis had the effect of seriously weakening for the time being, one of the most powerful influences for stability and reconciliation in Europe. Whatever its faults in other respects, the Labour Government had exerted a steady and successful pressure in the direction of peace and disarmament. Its efficacy may readily be judged by the exultation which greeted Mr. Henderson's downfall in those French circles which have been most actively hostile to a conciliatory attitude towards

Germany and to the Disarmament Conference. No doubt Mr. MacDonald had no intention of altering the general policy, which he had pursued as Prime Minister for two years, but for a time, British influence abroad was paralysed by the internal crisis. The new Foreign Secretary was so deeply occupied with the financial and political problems of the moment, that he had little time to devote to the broad questions of international policy, and was unable to attend the Assembly of the League. During those weeks, things did not stand still, and the disappointing results of the discussions at Geneva were ascribed by many to the absence of a clear and authoritative lead from Great Britain. These temporary incapacities have now been removed, and this country is once more in a position to play a leading rôle in world affairs. All parties are united as to the broad outlines of our foreign policy. Though they may not be all equally fervent in their advocacy of disarmament, or equally aware of England's vital interest in securing continental stability, the false antithesis between imperial development and the cultivation of our European markets is not likely to obscure the tremendous issues which have now sprung to life, and which are bound to affect our national future profoundly. If there is no *rapprochement* between France and Germany there will be steadily growing estrangement. If there is no first step towards general disarmament next year, the signal will have been given for general armament. The result of either or both of these eventualities must be to aggravate the existing nervous apprehension, to postpone complete economic recovery indefinitely, and in all probability to prepare a new conflagration against which no cloak of isolation will afford any certain protection to these islands. At such a momentous time, British statesmanship may be called upon to play a decisive part. The exaggerated conclusions drawn abroad as to the solidity of England's financial power are now being quickly dissipated. The abandonment of the gold standard naturally produced a

world-wide shock, but comprehension is now dawning abroad that, so far from the sensational anticipations of England's decline and ultimate fall being realised, the revaluation of the pound may prove to be the first tonic needed to restore British commercial and financial vitality, which has been so conspicuously subnormal ever since the war. The time is therefore propitious for re-establishing complete confidence in England's future action by demonstrating once more her capacity for leadership in international affairs.

While the prospect was momentarily darkened by the temporary relaxation of British effort, it was brightened by the gradual emergence of the United States from isolation. The serious position of their industrial and financial system brought forcibly home to the American public that they too could not look for recovery by their own endeavours alone. Prices and production continued to fall; unemployment continued to rise. The budget deficit for the year ended June 30, 1931, amounted to the formidable sum of $516,000,000, after deducting sinking fund payments, while the outstanding public debt had increased by $616,000,000.* Nearly 3,000 banks closed their doors, with the result that public confidence was undermined and withdrawals took place on an alarming scale. It was said that the only flourishing industry in the United States was the manufacture of safes and cash-boxes. These events convinced not only the financiers, who probably needed no convincing, but also the White House, that the American Government must throw its weight into the scales in order to promote political and financial stability in Europe, without which there could be no solution of its own troubles before the Presidential Election next autumn. We have accordingly witnessed three very notable events; first, the participation of an American delegate in the discussion of the proposed truce in armaments in the Third Committee of the Assembly of the League; secondly, the presence of

* *The Economist*, August 1, 1931, p. 28.

an American representative at the sittings of the Council called to deal with the Sino-Japanese quarrel; and, thirdly, the visit of M. Laval to Washington at the invitation of Mr. Hoover, to be followed by a similar visit from Signor Grandi. There is no mistaking the general purport of these things. While it would be a gross error to suppose that the United States was on the point of joining the League or of taking sides in European politics, nevertheless her attitude of detachment and self-imposed solitude has come to an end. Everyone who has the cause of peace and disarmament at heart must heartily welcome this change, for without American aid no political or financial resettlement is possible.

But what of France and Germany, who still constitute the hard core of the problem? As Lord Cecil has said, the establishment of harmonious relations between them would at once remove 75 per cent. of our troubles. The basic condition of recovery postulated by the Bâle bankers would be fulfilled, and the world would begin to breathe more freely. Unfortunately, there are few reassuring signs to be discerned. Germany's position remains as precarious as ever.* Another extension of her short-term credits has inevitably been granted, but at the time of writing no real step has been taken to put German finances on a sound footing. The French visit to Washington has disappointed the expectation that it might produce some joint plan for scaling down debts and reparations. Failing this, Germany will continue to hang like a sword of Damocles over Europe. She is attempting to meet her foreign obligations by the only method open to her, namely, drastic restriction of imports and stimulation of exports at low prices. This means widespread unemployment and depressed standards of living within the country, the shrinkage of the German market for the goods of other countries, and the intense competition of German goods with those of other countries abroad. It is characteristic that during the first six months

* For an account of the situation in Germany, see page 71.

of this year our exports to Germany declined by 50 per cent. as compared with the same period in 1929, while British imports from Germany diminished by about 10 per cent. only. The British experience is that of a number of other countries. Germany is buying a favourable trade balance as the only means of paying her debts at the price of severe privation, which has rendered a critical internal situation still more critical. Parliamentary institutions have been practically suspended since Dr. Brüning obtained a blanket authority to govern by decree by a bare majority of 25. The Hitlerites and the Communists are still gaining ground at the expense of the parties of moderation. Everyone is asking the question whether the Government can see the winter through without an upheaval.

The answer probably lies with France, but as yet there has been little indication of any change in temper there. The Berlin visit of M. Laval and M. Briand produced a slight relaxation of tension, but no tangible result, except the creation of a joint industrial commission, which cannot approach any of the fundamental problems. The momentary improvement of French feeling was quickly obliterated by the Nationalist demonstration at Harzburg, which revived French fears and distrust in all their intensity. It is true that the death of the Customs Union with Austria has removed one bone of contention; but as its demise was due to French financial pressure, its burial has been an added cause of bitterness in Germany without creating any sense of greater confidence in France. The burning questions of reparations and disarmament have not been touched, to say nothing of the wider problems of Treaty revision. On all these matters the attitude of the French Government and of the bulk of French opinion is still apparently adamant. M. Laval's declarations at Washington, the speeches of M. Maginot, the attitude of the French delegation to the Italian proposal for a truce in armaments at Geneva, all seem to suggest that France is

disposed to rely on her military and financial power to maintain the *status quo* at any cost, even if it involves a revolution in Germany. The only circumstance which might apparently modify this intransigent position would be the consent of the United States to enter into a consultative pact, or at least to agree to withhold all support from a nation declared by the League to be the aggressor. Without some such reassurance it is difficult to see how French apprehensions are to be sufficiently allayed to allow of any effective measure of disarmament, through which the main road to restored confidence now lies, for without it there can be no real understanding between France and Germany. It might be thought that, after co-operating with the League in dealing with the Far Eastern dispute, Mr. Hoover would consider that such a request did not greatly exceed the limits which American policy had already reached; but Senator Borah's denunciation of military or economic sanctions is not of good omen. The League's intervention between China and Japan has now assumed capital importance for the future not only of the East, but also of the West. Every possible moral pressure has been exercised by the great nations of the world, jointly and severally, upon Japan. If the Japanese succeed in demonstrating that a country resolutely determined on aggression can defy international public opinion with impunity, the consequences will be far-reaching. The thesis that forcible measures for the prevention of war are unjustifiable because they are unnecessary, widely held in America and in some circles in England, is now being put to a crucial test. If the League fails to induce the retirement of the Japanese troops, the French argument that there can be no disarmament without an effective international force will be greatly strengthened, and the whole system of mutual guarantees dangerously weakened. The fate of the Disarmament Conference now largely hinges on the success or failure of the Council, reinforced by the United States, to prevent an outbreak of hostilities in Manchuria.

III. The Conditions of Recovery

FROM the foregoing survey it may seem that the political outlook is darker than ever; and yet there are some silver linings which may be detected in the clouds. The very gravity of the economic crisis, to which political uncertainties have so largely contributed, is in its turn producing some favourable reactions on politics. There is hardly a country in the world which is not confronted with an actual or prospective budget deficit. By the inevitable operation of economic laws France is now threatened, as England was six months ago, with a wide gap between revenue and expenditure coupled with an increasingly unfavourable trade balance. Reference has already been made to the United States. As commercial activity declines, national revenues are shrinking everywhere. Fresh sacrifices are demanded of the taxpayer, which his own dwindling income makes him progressively unable to meet without further contracting the volume of purchasing power, and thus further slowing down the turnover of business. Even the drastic reduction of salaries, wages and social services, with all the risks which it entails, offers no escape from this vicious circle. It can retard the deficitary process, but cannot arrest it. In these menacing circumstances governments are being forced, however reluctantly, to turn their attention to the real remedies. It is significant that Signor Mussolini, with characteristic directness, has openly demanded not only disarmament and the reduction of war debts and reparations, but even the revision of the Treaties. It is equally noticeable that Mr. Hoover has already curtailed naval expenditure and has now found a powerful counterpoise to the advocates of a bigger navy in the adversaries of higher taxation, a far more numerous body whose electoral power is considerable. It may be wondered whether M. Laval,

who will not sacrifice a single battalion to obtain relief from war debts, may not consider the sacrifice as a preferable alternative to increasing the burden of the taxpayer further.

Finally, there is the international monetary problem to be faced. As long as the pound remains divorced from the gold standard, a major influence will be at work in opposition to the re-establishment of settled conditions. The French and American Governments have agreed to maintain the gold standard at all costs; but can it be permanently maintained unless the pound is stabilised, and can the pound be stabilised unless there is a much greater measure of security for trade and investment abroad than exists at this moment? There is no reason to suppose that the possible consequences of the devaluation of sterling have been by any means exhausted. Both as banker and trader, Great Britain plays so preponderant a part in the world's economic affairs that the instability of her currency is a menace to everyone. She was forced to abandon the gold standard mainly on account of its failure to operate normally under post-war conditions, for reasons which were expounded with prophetic clearness in the Macmillan Report. Until there is some effective international arrangement to ensure that it will function less capriciously in future, it is hard to see how the pound can be safely restabilised in relation to the franc and the dollar. It is on this point that all parties in England are united in demanding an international conference to work out a fresh monetary basis for the world's commercial transactions. There is still unremitting hostility to this idea in French and, to a lesser extent, in American circles, where the adoration of gold is still the orthodox religion. Only as the god's fallibility is exposed by events, will it be seen to be necessary to create an international organisation, not for the blind worship of gold but for its rational utilisation. That point has not yet been reached. No country is immune from the fatal effects of the complete dislocation

of the world's economic machinery, but its operation only becomes slowly perceptible. Until the measures needed to counter it are generally understood, a return to the gold standard would be hazardous. In the meanwhile it may be worth considering whether some arrangement cannot be worked out for fixing the exchange-rates between the currencies of the Empire as a first step towards general stability. Such a move might have important consequences.

The fall of the pound from its pinnacle marked the culminating point in the logical evolution of the crisis. It must either precipitate a general catastrophe or compel the beginnings of a concerted and intelligent effort to build a new and more orderly world, based on the recognition of the mutual rights and essential interdependence of nations. The process will be long and difficult. It will require concessions and adjustments in the political field, demanding a wisdom and moderation for which the present generation has not been conspicuous. It will require the re-enforcement of the League machinery to render peace more secure than it is yet. It will also require the application of the bankers' programme. As long as the competition in tariffs continues, there is no hope either of profitable business or of financial equilibrium. The free movement of goods is now hamstrung by national obstacles raised in the vain hope of achieving what no country can ever achieve—a creditor position coupled with excess of visible exports over imports; or the retention of the home market in an increasing degree for the domestic farmer and manufacturer coupled with the maintenance of a flourishing export trade. These simple yet difficult truths have still to be thoroughly digested, both in Europe and America, before any permanent bulwarks can be erected against future flood-tides of depression. As the bankers put it, "financial remedies alone will be powerless to restore the world's economic prosperity, unless there is a radical change in this policy of obstruction, and international commerce—on which depends the progress of

civilisation—is allowed to resume its natural development.' The choice is clear enough. The world-wide economic machine which the twentieth century has brought into being cannot be worked on principles of unlimited national egoism without regard to the general interests of the world's economic and political equilibrium. The present crisis has been brought about, because those interests have been ignored in certain countries, and will not be completely lifted until there is general agreement that they must be given paramount consideration.

The need for a thorough review of the international elements in the crisis is particularly urgent at a moment when signs of business revival are again becoming faintly apparent. The run on the banks in the United States seems to have been brought to a halt by Mr. Hoover's guarantee fund. The readjustment of British costs by the return of the pound to an economic level is reducing the burden of unemployment, reopening channels for investment and correcting the balance of British trade. The rise in the price of wheat, if maintained, promises to restore the purchasing power of the farmer, particularly in Canada and the United States. The upward movement of silver may reopen the markets of the East. If these favourable symptoms are encouraged by an attempt to remove the causes of international friction and maladjustment, they may develop into evidence of approaching convalescence. If, on the other hand, nothing is done to cure the international evils, recovery may be again nipped in the bud as it was in the early summer. Mr. Hoover and M. Laval have already publicly recognised that the real task of the Disarmament Conference is the restoration of peace and stability and have agreed to co-operate to that end. But the political cannot be separated from the monetary problem. Both must be tackled, either simultaneously or conjointly. To wait until February before anything is done, or even begun, involves the risk of fresh upheavals in central Europe, which may destroy the hopes of recovery

now making themselves felt. It is surely not beyond the means of the Government of this country, armed with such an overwhelming mandate, to take the initiative in seeking a new foundation for the world's credit and banking system, which in spite of all the vicissitudes of the last month is still centred in the City of London.

RUSSIAN REALITIES: THE PROTESTANT RELIGION

I. The Rise of Protestantism

NOTHING so clearly shows the rapidity with which the old world is disappearing in Soviet Russia as the state of religion. On my first visit in 1923 I found atheism already rampant, especially among the young. It was, however, still possible to make out a case for religion, and even for maintaining its vitality. In town and village alike the church was still a conspicuous object, and the Greek Orthodox priest, with his flowing locks and his dangling gaberdine, was a no less conspicuous figure in local society. Attendance at services had, it is true, fallen off woefully, but there were still congregations, and few churches—less than two per cent. of the whole number—had closed. Country girls were seldom willing to be married except by the priest, and although masses of peasants had given up going to church, they went on having their babies christened, and they always sent for the priest when there was a funeral. New religious sects had even sprung up—Protestantism especially seemed to be in for a new lease of life. In spite of the Revolution then religion was, on the surface, still flourishing.

How utterly different is the scene to-day! In the towns the church is no longer a landmark. No new ones have been built, and many of the old ones have either been put to new uses or pulled down to make room for other build-

ings. There are, no doubt, enough Orthodox places of worship still functioning to accommodate the ever-dwindling number of the faithful, but the congregations are too poor to keep them in repair, and unless something unforeseen happens, they will soon have to be taken over by the State, if only to save them from collapse. The priest is rapidly disappearing, and the few who are still about are a sorry sight—old, shabby and decrepit. They are dying out and there is no one to take their place. In the course of my wanderings this year I did not come across a single young priest. The village girls no longer insist on being married in church, and christenings and religious funerals are going out of fashion. Look in any direction you like, you will find nothing but decay in the Greek Orthodox Church. All the old religions, indeed, are succumbing to the onslaught of the Revolution. Mahomedans, Roman Catholics and Jews of the older generation cling more tenaciously to the faith of their fathers, but their future is also dark, for they too are losing their young people.

To this universal *débâcle* I came across only one exception—the so-called sects. I am speaking not of the mystical but of the rationalistic sects. They consist of common folk, chiefly peasants or labourers who, dissatisfied with the shortcomings of the old church, had, sometimes with the aid of some outside preacher, sometimes entirely on their personal initiative, set up religions of their own. Two outstanding examples are the Baptists and the Evangelical Christians, who between them have several million followers. These are the Russian Protestants, and they have contributed a stirring chapter to the religious history of their country—even, one might add, to the history of the Revolution itself.

The career of Protestantism in the time of the Czars was a chequered one. It had its birth in martyrdom. It had no sooner made its appearance and shown itself capable of attracting converts than the Greek Church began to look upon it as an enemy and a rival, and to try

its best, with the help of the old government, to suppress it. But Protestantism would not be suppressed. It throve in spite of persecution. The Protestant flocks were primitive folk, just as Russia herself was a primitive land. Their faith, indeed, retained a good deal of the character of early Christianity. Its survival was in no sense due to organisation, or to the union of the different groups, but simply to the devotion of the individual. It saw in religion not merely ceremonial, but a way of life, a body of principles to guide man in his relations with his fellow-men and with the outside world. The Protestants read the Bible omnivorously, read, pondered and absorbed it. They taught each other to read so that they should all be able to study Holy Writ. Those who could not read had it read and expounded to them. Unlike the Greek Church, Russian Protestantism paid more attention to the meaning of religion than to its forms. Puritan to the core, it banned the use of tobacco, spirits, violence, abusive language, dancing, the theatre and other indulgences of the flesh. Yet its votaries were no ascetics. They did not shrink from what they regarded as legitimate earthly pleasures, and from their foreign brethren, chiefly Germans, they learnt modern methods of agriculture and the virtues of thrift, cleanliness and sobriety. They became, indeed, the most progressive farmers in Russia. "Sectarians (the reference was to the Protestants)," writes a well-known Bolshevik atheist in a pamphlet attacking all religions alike, "value highly literature on natural science and especially on modern agriculture." Coming from an enemy, these words are significant. In the course of my own travels I found the land of the Baptists and Evangelical Christians better worked than that of their Orthodox neighbours. They also lived a cleaner, more wholesome life and were better educated.

Then came the Revolution, and with it freedom for the sects. Because their members were mainly peasants and proletarians, who had been persecuted in the old days,

they were regarded by the Communists as wards of the Revolution and accorded rights and privileges such as they had never enjoyed before. The Bolsheviks were at that time trying to break the power of the Orthodox Church, and, following their usual tactics of dividing the enemy's forces, they were only too eager to enlist the help of the Protestants in discrediting Orthodoxy with the masses. In 1924 I found, in city after city and village after village, the Protestants out in the open. Everywhere in the bazaars Evangelical and Baptist preachers were holding forth on the meaning of their faith, unmolested either by Soviets or Communists. In their local and national conferences both Baptists and Evangelicals passed resolutions thanking the Soviets for the consideration shown for their rights. In Moscow Seventh Day Adventists were allowed to hold a convention in the Third House of the Soviets itself. In Tzaritzin, now Stalingrad, the great industrial city on the Volga, and one of the revolutionary centres of southern Russia, a Baptist minister told me that the local Soviet was allowing him the free use of the city theatre on Sunday afternoons. He invited me home to meet his family and some of his flock, and as we sat round eating cakes and jam and drinking countless glasses of tea, his friends and he spoke with glowing satisfaction of the new hope that had come to their people in Russia. At last there was nothing to interfere with the free exercise of their religion ; Orthodox priests no longer spied on them, gendarmes no longer hounded them, and cossacks no longer dragged them to gaol, as in the days of the Czar. Baptists and Evangelicals were both quick to use their new-found liberty to emphasise the social side of their faith, which, on the surface at all events, was in harmony with some of the social objects of the Revolution. They formed clubs, co-operatives and mutual-aid societies ; they encouraged music and sociability, and they immediately began to attract people. What they offered seemed to be something quite new in religion—philosophy, good

fellowship, kindness, practical help, a new social purpose, which, as already suggested, was in some ways akin to that of the Revolution—so at least it seemed at the time. Even the young, with all their distractions, found it worth their while to listen to the new word, and the Protestants did their best to win their ear. The law did not allow them to hold religious classes for pupils under eighteen, but it did not interfere with the organisation of clubs, picnics, festivals, musical gatherings, lectures and athletics. The young people indeed formed their own organisations—the Baptomol, for Baptist youth, and the Christomol, for Christian youth; names with an obvious family likeness to that of the Communist youth organisation, the Komosol, an instance of the open way in which the Protestants copied the social technique of the Revolution. In their dealings with the young they always laid stress upon the importance of cultivating good habits—self-control, politeness, industry, chivalry to women, respect for elders, and friendliness towards strangers. So much so, indeed, that the Soviet press would now and then chide the Young Communists for lagging behind the Protestants in this respect.

And so it came about—a sufficiently remarkable phenomenon—that, while all the other religions in Russia were losing ground with the new generation, the Protestants were not only holding their own, but attracting converts. No wonder that Bukharin, at a conference five years ago, warned Young Communists that, unless they got busy, the Protestants would have more influence on Russian youth than they had.

II. A Change of Attitude

WHEN the Bolsheviks realised how influential Protestantism was growing, they became alarmed. From one end of the country to the other one began to hear talk about the new enemy within the gates—an enemy which

seemed, like the Phœnix, to have sprung out of the ashes of the old religions. A new campaign was at once set on foot. What the policy of the Bolsheviks would have been if the New Economic Policy had been continued, it is hard to say. But with the leftward swing of the Revolution, their hostility to Protestantism was bound to grow, for, from their standpoint, it had now become the chief counter-revolutionary force in the country. Nothing indeed so eloquently gives the lie to the plea, which sentimental liberals often put forward, that Russian atheism is merely a reaction from the degraded condition of the old Church, as the new attitude towards the Protestants. It has changed from one of benevolent tolerance to unmitigated enmity. In cartoons and pamphlets the Protestant now figures alongside of the other active enemies of the Revolution—the "damager," the priest, the kulak, the bootlegger, and the rest.

What, then, has caused this change? To find the answer we must examine the fundamental and irreconcilable principles to which the clash between Bolshevik and Protestant in their approach to the problems of life is traceable. Certain features in the community life of the Russian Protestants would at first glance suggest that, both in their theology and in their social views, they are modern and progressive. Yet, nowhere in the world could one find a more primitively fundamentalist type of Protestantism. The Bible is its sole source of inspiration, its guide in thought and action, and anything which seems to it subversive of Bible teaching it rejects as untrue and unworthy. This by itself was sufficient to bring upon it the wrath of the Bolshevik. Russian Protestantism has no more use for evolution than American fundamentalism has. To the Bolshevik, on the other hand, science is the law of life, and evolution its chief glory. Nor could the Bolshevik remain indifferent to the uncompromising puritanism of Russian Protestantism. It forbids divorce, abortion and birth control; it looks upon the theatre as

something degrading, and, in certain spheres, it encourages the segregation of the sexes. Fundamentalism versus science was the first issue over which Bolshevism and Protestantism crossed swords.

Dogmatism versus flexibility was the second. The Bolshevik charge against religion, especially a religion of so fundamentalist a kind as Russian Protestantism, is that it is rooted in dogma. The fixity of purpose which such dogmatism implies they consider to be incompatible with both the principles and the practice of the Revolution. It is useless to tell them that Marxism and Leninism have, in their hands, become just as rigid as anything to be found in fundamentalism. Their reply is that this is not so. Change, on the contrary, is, they say, the very essence of Marxism, which at best is itself merely a way of approach, an instrument of guidance. They love to quote Karl Marx's answer, when someone once asked him what was his chief diversion : " To subject everything to doubt." Lenin himself spoke of Marxism as a " guide to action." For the Bolshevik it is dynamic, something that never stands still, and Communism, though a future, is by no means the final, stage in human development. They consider that this attitude is at the opposite pole to the dogmatism of Protestantism as they see it.

Reverence for authority supplies a third bone of contention. It is true that the authority to which the Protestant looks is not an earthly authority. But for the Bolshevik it is enough that it affects life and conduct. For him the very act of worship implies a recognition of this authority, and is a confession of man's weakness in its presence. Besides, the authority itself is derived from a self-contained, arbitrary and exclusive power which is represented upon earth by a group of its own—clergy and prophets. In the eyes of the Bolshevik this group itself constitutes an aristocracy, and expresses a will which is not that of the masses. The masses, indeed, have themselves to honour and obey this aristocracy. The system is thus a duplication

of the very one which obtains under a capitalist régime ; it represents rule from above instead of rule from below, mastery on the one side, and subordination on the other. At the all-Russian atheist congress in Moscow in June last year Bukharin dwelt at length on this phase of the quarrel between Bolshevism and Protestantism.

It may be said that the Bolshevik dictatorship is the most hide-bound authority on earth ; but to this the Bolshevik replies that it is only a temporary phase, incidental to the transition from an individualist to a collectivist state of society, and destined, like the State itself, the instrument through which the dictatorship exercises its will, to disappear in due course. Eventually there will, they say, be no ruling class, indeed no classes at all. Humanity will then consist only of producers, and the real power will be vested in the masses, with nothing above them—neither God, angels, nor church—to keep them in a state of subjection. All authority, initiative and creative energy will derive from them. And so it comes about that the fight against Protestant reverence for authority is, in Bolshevik eyes, a fight against the very evil which lies at the root of the civilisation that they are determined to destroy. The Christian doctrine of toleration, too, a dead letter in the Greek Orthodox Church, but dear to the heart of Russian Protestantism, is particularly objectionable to the Bolshevik ; for, under it, man always comes first. Wherever he is concerned, social origin, economic pursuits, and political allegiance take a second place. Whatever the circumstances, he remains an object deserving of pity and forgiveness and the respect of his fellow-men. This doctrine is the negation of the theory which underlies the class war, and to the Bolshevik, immersed in his five years plan and his struggle to reconstruct society on a non-class basis, it is naturally anathema. For it demands respect for the kulak, the nepman, the counter-revolutionary, the " damager," and others whose extermination the Bolshevik deems essential. The sworn enemy of individualism, and bent on its destruction,

he has nothing but contempt for a religion which extends a welcome to the wealthy and the needy alike. The time for toleration will come, he says, when his new system of society is established, but to-day, while he is still engaged in a desperate fight to ensure its realisation, Christian toleration seems to him to be just social and political suicide.

The clannish tendencies of Russian Protestantism also provoke the hostility of the Bolshevik. Evangelical Christians and Baptists speak of the members of their own folds as believers, and of others as unbelievers. Though bent on making converts, they nevertheless keep very much to themselves in their social and charitable work—indeed in all their activities. They address one another as brother and sister. Even more than their co-religionists in foreign countries, they look upon themselves as a brotherhood complete in itself. But to the Bolshevik, with his exaggerated suspicion of anything different to himself, this means separatism, detachment from the masses, an attempt in fact to break up the unity of his new society. Nor does it give him pleasure to see his own trade unions break up into smaller units, and turn aside to pursue what he regards as extraneous aims. He remembers how certain groups of miners in the Don basin, and of textile workers in Ivanovo, and of builders in Moscow became converts to the Protestant faith.

He is afraid, too, of the Protestant church becoming a city of refuge for the counter-revolution, and it is this which keeps the edge of Communist hostility so keen. The church, after all, was the only organisation allowed to hold meetings of a non-revolutionary nature. It is true that there is nothing in its form of worship which in itself constitutes a threat to the Revolution ; but—so the Bolshevik reasons—political plots might be hatched under the cloak of religion, and if Protestantism were to go on spreading, it might in time attract counter-revolutionary elements, who would thus find a place where they could meet and co-ordinate their efforts ready to hand. Foreign help, too,

might be forthcoming in the guise of religious contributions, and the church organisation would make it easy to get into touch with foreign conspirators. To the outsider, these fears may seem exaggerated; but to the out and out revolutionary they are as natural as his faith in Marx and Lenin.

The pacifist tendencies of Russian Protestantism add further fuel to Bolshevik rancour. It is true that neither the Baptists nor the Evangelical Christians have formally adopted pacifism. It is for them an open question which each individual must decide according to the dictates of his own conscience. But the trend of their teaching is all in that direction. The Bolshevik, it must be remembered, is obsessed by fear of foreign invasion. His mood, his outlook and his behaviour all take their colour more from this fear than from any other single factor. This is not the place for a discussion of the cause of this fear or how far it is justified, but its existence is a dominant element in the present day situation. It accounts for the militant spirit, the preparedness campaign, the incessant parades of men and women with rifles on their backs and the warnings to the people to get ready at all costs to meet the attack from outside. In the summer of 1931 there was a marked abatement of this fear, but some untoward circumstance may at any time fan it once more into flame. It is inevitable in these circumstances that a movement like pacifism, which might seriously interfere with his preparedness for war should be regarded by the Bolshevik as a direct menace to his safety.

Lastly, there is the economic situation, and here again one finds the Bolshevik and the Protestant at loggerheads. Bolshevism spells death to private property—the Bolshevik is determined to wipe it out. The Protestant's view is different. He may not believe in piling up riches, but neither Baptist nor Evangelical Christian condemns the institution of private property in itself. Their cartels and co-operative establishments were among the most successful

in Russia. In Moscow the Evangelicals used to run a number of vegetarian restaurants which were among the best eating places in the city; but being outside State control, they might, from the Communist standpoint, just as well have been private concerns owned by a private individual. Protestant peasants too, as has already been pointed out, were among the thriftiest in Russia, a result due to their personal habits and to their higher cultural standing. But it is only a truism to say that the more prosperous the farmer the more hostile his attitude is likely to be to the collectivisation of the land. Besides, the Protestant knows well enough that on the collective farm he will find a tense revolutionary atmosphere. The principles of the Revolution with regard to family, religion and the relationship of man to man and of man to woman—principles which he could never accept—would be assiduously propagated. He would not be stopped practising his religion in his own manner, but in the course of his every day life he would always be coming up against the Revolution and its requirements. His children would have to attend the nurseries, the kindergartens and the schools, and would soon slip away from their parents' influence. If the Protestants had been allowed to form their own collective farms they might have acquiesced in the new movement, but that was out of the question. A clash, and a bitter one, was therefore unavoidable over this particular issue.

III. The Coup de Grâce

WITH such divergent views on questions of principle and practice, both in the social and the economic sphere, it was only natural that Protestantism, as soon as its exceptional capacity for rapid growth had become evident, should attract the active hostility of the Bolsheviks. Here was a new influence in their midst, spreading through farm and factory alike—the very citadels of their

power—an influence quite unlike that of the old Orthodox Church; no mere cloak this of antique formalism sure to split from top to bottom before the first gust of modern ideas, but a new spirit, a body of ideas which had sunk deep into the hearts of those affected. No wonder that Lenin's widow pronounced the Russian Protestant a greater menace to the Revolution than Orthodoxy, and Bolsheviks all over the country echoed her sentiments.

In their attack, propaganda has as usual played its part. But a still more deadly blow was the law of April 1929, a law which applies to all religious bodies alike, but which hits the Protestants harder than any of the others. For although the law re-asserts the principle that religious confession is free and the individual has the right to worship in whatever way he chooses, it does not, as the old law did, permit religious and anti-religious propaganda alike; it only allows anti-religious propaganda. This, of course, has put an end to missionary work and to preaching in bazaars and other places than officially recognised places of worship. There is a further provision which bars clergymen from ministering to more than one congregation at a time, which therefore stops Baptist and Evangelical pastors from visiting other congregations than their own. But from the point of view of the Protestant the unkindest cut of all was the revival and amplification of an old law which prohibited a religious body from exercising so-called "administrative functions." In the early years of the Revolution, for reasons already explained, the Soviets refrained from applying this law to the Protestants. Had they done so, Protestant social work would have been impossible, for an organisation which has no right to exercise administrative functions obviously cannot take part in social work. But the new law does more than put a ban on such functions. It specifically prohibits religious bodies from pursuing any activities whatever except worship. It permits freedom of worship and nothing else. This puts an end to co-operatives, club houses, and mutual aid societies—the very

things that have helped the Protestants to gain their hold upon the masses. At the same time the spread of nurseries and kindergartens and the introduction of universal education is, as I have pointed out, subjecting Protestant children to a thorough process of sovietisation. Some of them will no doubt be saved by their parents for their faith, but only some.

GERMANY IN THE STORM

(FROM A GERMAN PEN)

THE crisis is a world-wide one, but the student who wishes to understand every aspect of it, the economic, the political, and even the less studied psychological side, cannot do better than turn to Germany. Here he will find everything—bankruptcies on a scale which puts those of other countries in the shade; efforts of unrivalled brilliance to modernise and rationalise industry, and to adapt it to the changed conditions of the world; gigantic conflicts in the region of ideas—the duel, for instance, between Dr. Brüning and Herr Hitler. If he wants a striking instance of a *reductio ad absurdum*, the consequences of certain Articles in the Peace Treaties which were formulated in those days of happy illusion at Versailles will strike him in the eyes; and, lastly, where else could one find the ridiculous results of a badly managed distribution of international gold and capital more perfectly illustrated?

The consequences of the Great War have visited every country in varying degree, but they all seem to have converged on Germany. She has, it is true, great advantages; a thoroughly efficient industrial equipment, and a highly trained population of workers, the majority of whom, though insistent upon drastic reforms, are firmly resolved to re-establish their country on its traditional capitalist basis—they have no use for Bolshevik experiments. Germany's interests are indeed indistinguishable from those of Great Britain and other countries with a similar system; but, left to herself and denied international support and

encouragement, her condition is bound to become desperate, and through her open wounds the blood of the whole Western world will continue to ebb.

I. Reconstruction and Disillusionment

THE economic and financial effects of the war were catastrophic—like those of an earthquake—and the period of inflation which followed brought in its train a total "revaluation of all values." Yet Germany, when she emerged from these catastrophes, made a tremendous effort to re-establish herself on a sound basis—any other course would have been unthinkable for such an orderly, disciplined nation. In those early days, moreover, the average German was sure that everything would come right if only he could get his economic and financial machinery working at full speed. Were not prosperity, work and profits the best stepping-stone to a healthy national life? People's eyes were at that time fixed on America—happy, prosperous America—the country without unemployed and "without a social problem." It might take time, the German argued, but in any case the best way of catching up the nations which had won the war was to become strong again in an economic sense.

So Germany set to work. She reorganised her industries from top to bottom. She invested hundreds of millions in them, most of it borrowed from abroad. Rationalisation and efficiency: these were her aim. There were combinations of companies; colossal industrial and financial organisations were established; new plant of the most up-to-date kind was installed, and expensive—even luxurious—offices and government and municipal buildings were erected. The cities followed the lead of industry, and the trade unions and other bodies did the same. There was on almost every side vitality and hope.

And it was needed. A great deal had to be done to make up for lost ground, not only to replace old-fashioned

concerns no longer capable of holding their own against competition, but to fill the gap left by the loss of the industries which went with the territories of which the Treaty of Versailles deprived Germany. As in England, reconstruction was facilitated by new inventions and developments. This was especially the case in the chemical and electrical industries, but others, such as artificial silk, lignite, nitrogen, potash and motor-cars also benefited. This work of replacement and expansion was carried out energetically and efficiently, and our industries had a good deal of luck, especially in the matter of competitive wages.

Things, indeed, went well, and in a few years' time, except in the old middle class, whose standard of life was still sinking, there was not only a considerable amount of individual prosperity, but also unmistakable signs of progress on the part of the community as a whole. No less than ten milliards of reichsmarks were deposited by millions of small people in the savings banks, and only a few years after the ruinous inflation period the policies issued by life insurance companies were more numerous and for larger amounts than before the war. At the same time the Hapag* and the Norddeutscher Lloyd had constructed a new mercantile marine well able to take care of itself against foreign competition. These are a few examples of an effort in reconstruction which won the admiration of the world. And it deserved it, for its results were achieved under the most trying circumstances. The Communists were every day growing more numerous, and, until 1930, a large and extremely important part of Germany was still occupied by foreign troops, the effect of which upon the national temper it is hard to overestimate.

Unfortunately, all the hopes pinned to economic reconstruction proved illusory. There were various reasons. For one thing, this false spring of ours was produced by foreign money—short-term loans at an exceedingly heavy rate of interest. For another, our new and more

* Hamburg American Line.

favourable balance sheet was doomed to be upset the very moment that it became necessary to pay reparations, which, like so many other debts, had hitherto been paid with money borrowed from abroad, out of the earnings of German industry. Germany was entirely in the hands of her foreign creditors, and of those creditors' creditors. What happened is now a matter of history.

For the moment, however, our political, financial and economic leaders seemed to ignore the facts ; at all events, disillusionment came through a sudden revulsion of feeling on the part of the rank and file. Millions of workpeople, especially clerks and other employees of their type, took a sceptical view. It was the same with middle-class folk of all kinds. They did not believe that prosperity was close at hand—why should they ? There was nothing in their own personal experiences to confirm such a belief. In other words, people in foreign countries who believed that it was possible, without changing the fundamental conditions, political as well as economic, to solve the German problem and persuade the fabled goose to start laying her golden eggs again, were as far from the mark as the Germans who thought that they could satisfy the German mind by stage-managing a kind of economic revival. Neither paid any attention to essentials. They left out of account both German psychology and the actual conditions under which the bulk of Germans were living.

A revolt was bound to come, a revolt against the system that disregarded these essentials. The general election in September 1930 took the whole world, including Germany herself, by surprise. It was more than a surprise ; it was a shock. Why did not the Government do something ? Prussia seemed to get along well enough under her Socialist Premier. Did the traditional obsequiousness of the German civil servant no longer hold good ? Had the German clerk lost his old faith in his satisfying if humdrum destiny of gradual social advancement ? Our sacrosanct system, moreover, has powerful supporters ; the President of the

Reich, the Reichswehr, the Roman Catholic Church and the trade unions. Was it conceivable that these powers had failed to make its basis unassailable ?

Yet they had failed. The system was no longer immune from attack—and the attack spread rapidly. Workmen, peasants, students, clerks, schoolboys, officers, civil servants, artists, shopkeepers, waiters—people of all sorts—were growing restive, people who had remained patiently silent for years. It depended on their mental idiosyncrasies, and their greater or lesser readiness to respond to national or proletarian slogans, whether they became Communists or Nazis (National-Socialists). But they all had one aim in common—to pull down the old system, with its gloss of prosperity which, so it seemed to them, only served to conceal the real state of national bankruptcy underneath.

II. The Nazi Appeal

As far as the Communists are concerned, there is no mystery, but the Nazi mind many people consider is harder to fathom. There is, however, really no puzzle in this case either. Take any German who looks down on the Social-Democrats and hates the Bolsheviks, yet at the same time despairs of the present rulers of Germany. What line would one expect him to follow ? What he wants is a guide, someone who will put in unmistakable language all that he feels and more. Remember that nine out of every ten Germans want to make a better show than their position warrants. They have no desire to be called proletarians, to be put in the lower classes. Now the Nazis are no proletarian party. They represent, not a particular class, but a movement. It does not matter to them from what class they draw their recruits, or what their social standing is. Nobody, therefore, loses anything by joining them. Many even feel that they have gained in importance, because the party managers tell them that,

however little they may count as individuals, they are of the utmost use once they have become members, even humble ones, of the great Hitler movement.

But, apart from this, it is obvious that, for the average German who feels deeply the evil days on which the fatherland has fallen from the national standpoint, and who at the same time is suffering personally from the grave crisis which has overtaken its economic and financial life, the combination of socialism and nationalism offered by Herr Hitler is bound to be extremely attractive. No other party has developed both these lines at the same time. Otherwise the Hitler policy might carry less weight, for its methods are often repulsive and its political and economic ideas feeble. Most people, indeed, realise to-day that the tide of Hitlerism could never have reached its present high water mark, if it had not found the German starved on the national and social side after years spent in the prosperity hunt and rationalisation. Republican Germany has hitherto failed to evolve either a healthy national outlook or a common social ideal. Many have attained these things, but so far they have remained merely a conception of the individual, not a political philosophy fit for the nation as a whole.

On the other hand, the objections people feel to the public attitude of many of the capitalist leaders are by no means limited to socialists. A growing number of scandals and obvious abuses of its power have made the capitalist system suspect even in the eyes of people whose admiration for it is traditional. Our social organisation and our political classes have also disappointed millions of Germans. This is the real background of Hitlerism. Its anti-capitalist policy and social programme may lack solidity and permanence in many respects, but jealousy and the natural bitterness felt by middle-class people who have lost practically everything—their money as well as their social and political standing—have come as grist to the revolutionary mill.

It is safe to predict that the nationalist side of the Hitler movement will carry it further than its social side, and for this it may thank the nations which won the war and their policy towards the losers. From the German point of view, there is little to show for the trying time when the policy of fulfilment, started by Rathenau and carried on by Stresemann, was in force, and the German financial collapse was so closely bound up with international politics that it rendered a purely nationalist reaction inevitable. But the object of the nationalist movement, even in the form which the *Stahlhelm* gives it, is neither war nor revenge. The German likes uniforms and discipline. All those parades are merely the collective expression of the nebulous instincts of the individuals who take part in them. Discipline and make-believe help to keep the torrent in its own bed, and there is a formidable amount of fighting spirit bottled up in such organisations as the Hitler guards and the Red-Front of the extreme Left. Preparedness and a determination to be ready to meet attack from outside are recognised as a legitimate ideal even by the circles which surround our peace-loving Chancellor, and they must be taken in that sense. Sport failed to provide healthy young Germans with an effective vent for the combative spirit. There are, moreover, plenty of people still in far too intimate touch with pre-war institutions, and it is hoped that the more or less militarist organisations in which the *Wehrwillen** finds an outlet will provide a more effective safety valve for nationalist steam. It is even more important to realise that the policy of fulfilment has for years been dubbed inconsistent with German honour, inconsistent because it was applied to that hated Peace Treaty. Stresemann himself was suspected of compromising German honour and weakening our moral fibre. A nation with strong feelings was what was wanted, said the critics.

The attitude was natural. For most Germans, neither

* Will to defend one's country.

the results of Locarno nor the evacuation of the Rhineland brought about any change in the international atmosphere. The evacuation was bound in any case to come unless France disregarded her obligations under the Treaty. In a word, the revolt owed its success in large measure to the international situation.

III. Dr. Brüning and Bankrupt Parliamentarism

NONE of these things would, however, have been enough by themselves to make the patient, even indolent, average German bestir himself. It was the bankrupt state of the German parliamentary system that actually brought about the crisis. The political parties, especially the bourgeois, were no longer of any use as instruments for a live democratic system; they had no life in them, no one trusted them. The leaders, moreover, had no idea of what was going on among the rank and file. At Weimar* every democratic nail they could lay hands on, including the disastrous proportional representation provision, was hammered home by the democrats. The system which emerged was strictly formal and doctrinaire, just in fact what one would expect in a country where everything has to be set down in black and white and formulated in the most scientific manner. This was, of course, the very way to kill parliamentarism. Furthermore, the long periods of coalition between the Catholic Centre and the Social-Democrats increased the danger of a misuse of administrative powers.

The want of a common national basis was an even more fatal defect for the purpose of the democratic game. There were not only devastating differences of opinion whenever a "national" question arose, but also a growing tendency to treat a particular part of the nation as beyond the pale, and to hold the Marxists responsible for everything that went wrong. The rate at which German parliamentarism

* The German constitution was drawn up at Weimar in 1919.

was losing ground was further accelerated by the reckless way in which personal ability was wasted, a waste which is characteristic of German politics. The German longs for national heroes—he wants somebody to worship; but let a politician or even a statesman raise his head so much as half an inch above the average level, and he will immediately become a target for shafts from all sides. At best he will be stamped as a party politician. It is not yet realised that democracy is the only form of government that can be worked without a hero, or even a man of exceptional stature. As, however, the German parliamentary system has not yet delivered the goods, there is a tendency to try to import the heaven-sent leader from outside. It is unfortunate that our captains of industry, more often than not, seem only to have to touch politics—a new game for them—to lose every good quality that they ever possessed.

The consequence is that, for the last few years, the Cabinet has been controlled by the parties. To secure a majority in the Reichstag the support of half a dozen of them is essential, and government policy has, in fact, been directed by a group of parties which differ widely from one another in their views. This unfortunate state of affairs came to a head in the time of Dr. Brüning's predecessor, Hermann Müller. The late Social-Democratic Chancellor was one of the best men in the democratic camp and he deserved a better political fate than he actually got. But he allowed the political groups to control the government, and as most of the majority parties endeavoured to pull him in different directions, he naturally came to grief. On the one hand, there were the Social-Democrats, out to uphold the principles of organised labour, on the other, there was, on the right wing, the German People's party, which had become an organisation for the defence of big business and the interests of certain industrial groups. In the course of this conflict the Müller Cabinet collapsed, and it is also the main cause of the difficulties

which have confronted Dr. Brüning since he assumed the leadership eighteen months ago. Such questions as wages and unemployment insurance, if left to party politicians to solve, may in the end, indeed, have a more detrimental effect upon the fortunes of the Brüning Cabinet than the assaults of the so-called "National Opposition"—Hugenberg,* Hitler and the rest.

When Dr. Brüning first took office, he hoped to solve the parliamentary problem by destroying the Hugenberg party, and building up a new front composed of all well-meaning people. A few weeks later, however—in April last year—it was already clear that this plan had failed. Only a few members of the Hugenberg party had come over, and the Chancellor found himself in exactly the same predicament as his predecessor, except in one important respect. To enable him to control the parties, the President had entrusted him with powers to govern and legislate under the famous Article 48 of the Constitution, and he could dissolve the Reichstag if it failed to agree. The majority parties either did not realise what this meant, or, like the People's party, they did not care. At all events, they went on playing the old game. None of them would give way; the People's party opposed everything that the Marxist Social-Democrats wanted, while the latter strongly resented Dr. Brüning's attempt to ride roughshod over the parties and to force the hand of Parliament under Article 48.

The climax came with the general election in September last year. The votes polled were a protest—against parliamentarism, against Marxism, against capitalism, against the Treaty of Versailles, against the economic depression, against everything indeed that was, or that seemed to be, amiss. The one thing in this chaotic state of things that staved off a still greater disaster was the old German sense of order and goodwill that has not even yet been altogether destroyed. The Nationalists of course

* Leader of the Nationalists.

again emerged from the election as a minority, and the Communists did the same, though both of them were returned with a considerable accession of strength. But the outstanding feature of the election was the protest against the capitalist system in which Hitlerites, Communists and Social-Democrats all joined. It was only the divergence of their aims that prevented them from being able to form an alternative government. So the Brüning Cabinet continued in office, and things remained very much as they were before. That is still the position.

In reality, Dr. Brüning had again missed the mark. His aim was a government majority independent of the support of the Social-Democrats. The strength of the Nationalist vote, however, put an end to that, for the middle-class bodies, such as the old Democratic party and the old National Liberal party, were nearly put out of action by the success of the Hitlerites. Dr. Brüning himself was taken by surprise. The only course still open to him was to try to make the Cabinet less dependent upon the parties, and to reduce parliamentary business to a minimum. His chief difficulty was a personal one. His own conscience and that of the President obliged him to keep as strictly as he could within the four walls of the Constitution. There is nothing in it which compels a Cabinet to do what the parties want, but, on the other hand, it is expressly laid down that the Government must have the confidence of the Reichstag. The question then arose, was it possible to keep the parties at a distance, and to do things that they would not agree to, without losing the moral support of Parliament. This thorny problem still occupies Dr. Brüning's mind. It is also a difficult one for the parties, who have no desire to make themselves responsible for emergency decrees imposed upon the nation without the consent of Parliament. The present short sessions of the Reichstag may have extraordinary results, and a transformation of the German democratic system is taking place before our eyes. The change has not yet assumed definite

shape, and the negative side has hitherto been to the fore rather than the positive; but, under Dr. Brüning's guidance, Germany is endeavouring to discover a more suitable kind of democratic government than the form which has developed during the decade since Weimar—a hard task under present circumstances.

During this transformation period the structure of government has had to rely upon the support of various supplementary props instead of on Parliament. First, there is the venerable President of the Reich, Field-Marshal von Hindenburg, with not only Article 48 at his command, but the Reichswehr as well, morally if not formally. Its commander and all its leading officers are beyond all question loyal both to him and his Chancellor. Then there is the hitherto solid block comprising the Roman Catholic Centre and the Social-Democrats in Prussia, the latter representing the trade unions, a combination which puts the all-important Prussian police at the disposal of Dr. Brüning.

This extraordinary combination has, however, inconveniences of its own. The very fact that, since the election—in spite of his anti-Marxist slogan—Dr. Brüning has been on good terms with the Social-Democrats increases his troubles with the anti-Marxists. He has made it quite plain that he will not destroy or even damage such important social institutions as the insurance system or the *Tarifvertragrecht*,* which means that he will never be a statesman to the liking of the People's party or Herr Hugenberg. On the other hand, his relations with the President and his dependence on the goodwill of the Reichswehr are thoroughly objectionable in the eyes of the radical parties. They have, moreover, also alarmed foreign observers. He has had, too, to adopt an agricultural policy which is considered to favour the big agrarian interests without solving the agrarian problem, and which injures the non-agricultural population by raising prices. It is extremely important, too, to realise

* Right of making collective agreements.

that the fact that the Chancellor has to pay a price for the support of these particular props during this period of change accounts for many of the things which have aroused foreign criticism; the attitude of the Government, for instance, towards "national questions," such as the Stahlhelm parades, the construction of cruisers and the like.

It is quite possible that Dr. Brüning, himself a conservative by instinct, would have turned more readily to the right if the Nationalist slogans had not been of a kind to offend his sober temperament. He might have done so in any case, if he had been able to follow the usual parliamentary course. As already mentioned, indeed, he started, in April last year, with the idea of persuading the bulk of the conservative German Nationalist party to share the responsibility of government, and he made no effort to stop the "anti-Marxist" drive during the election campaign in the following September. He never claimed the prefix "Hindenburg" for his government, but he raised no objection when the aim of the election was declared to be the building up of a strong "national" government, and the ground on which he asked the electors to give him the clear majority that was denied him by the old Reichstag, was that his government enjoyed the confidence of the President. What he wanted was something "national," above parties and party intrigues.

It is the first time since Weimar that a German Chancellor has gone to the country with such an appeal. It made everyone who did not vote for him appear insufficiently "national." But this scheme also failed, and it did so because, in Germany (unlike England), there was a great movement on the other side which also claimed to be "national"—the Hitler party. For that reason the slogan of 1930 was changed—it became "Marxist or anti-Marxist," a war cry which corresponded more closely to the facts. But even this did not work. Parliamentary considerations as well as the exacting daily round compelled the Chancellor to keep on good terms with organised labour.

A dictatorship would have been a way out, but, unless the dictator was ready to risk a civil war, it would not in the end have helped Dr. Brüning to avoid a compromise between the capitalist interests and those of the workmen. He was, however, never ready to accept a dictatorship, nor was it offered him. President Hindenburg would not have it.

It is an interesting speculation what would happen if the President should find an alternative government possible. Apparently there is little chance of such a thing in the present Reichstag. It would obviously have to be a government of the Right, and would require the support of the Centre party as well as of the Nationalists. But as long as the Centre see any chance of Dr. Brüning being able to carry on, he will have their backing. It may be that the wings of the majority parties will some day give up their obnoxious tactics. The Right had to come back, more or less, when it tried to withdraw from the Chamber last October, for there was no alternative government in sight, and a reconstruction of the present one would have made very little difference. The Right, therefore, are reserving their efforts. On the other hand, the Social-Democrats will do their best to prevent Dr. Brüning from being overthrown from their own side.

Everything therefore depends upon whether the Nationalists can prepare the way in the present Reichstag for an alternative government. The President will certainly not allow a general election in the near future, so the only course open to the so-called " National Opposition " is to organise demonstrations like the one at Bad Harzburg, in the hopes that the right wing of the Chancellor's majority may be tempted to fall out of the line. But, if they did respond, the position would still remain the same, unless the Centre party were to go Right. Even if the Brüning Government had been defeated in the Reichstag in October, and the President had asked some politician of the nationalist type—not Hugenberg—to try to form a government,

the new man would certainly have failed, because the President would not have given him leave to go to the country, and in that case Dr. Brüning would have been asked to carry on, vote of censure or no vote of censure. In view of these considerations, it is possible to predict with comparative certainty what is likely to happen for some time to come. Meanwhile there is a marked tendency to try to get a better atmosphere between the Centre party and the Nazis, and Hitler's spokesman in the Reichstag has also made it clear that the Nazis recognise the necessity of an understanding with France upon conditions which do not differ in any important respect from those which Dr. Brüning and others have frequently foreshadowed.

IV. German Policy

DR. BRÜNING then by his efforts to reconstruct the "system," both on its political and on its economic side, has certainly contributed, in however small degree, to the relaxation of the existing tension. The very fact that the Nazis have stood quietly by for so long, coupled with their leader's declared resolve to keep within the law, has made the prospect of revolutionary developments far less likely than it was a year ago, though on the other hand the growing intensity of the financial crisis has strengthened the ranks and embittered the temper of the extremists and made the general situation worse. We can but hope that the favourable tendencies will prevail. One thing is, however, certain. The prospect of imminent disaster last July convinced thoughtful Germans that if we wish to come through we must all pull together, and the morale of the nation has, with few exceptions, been admirable. This at all events is a hopeful feature. Anyhow, it must now be obvious to the meanest intelligence that Germany has no alternative except to concentrate on the really vital problems. Even the Nationalists realise the

danger, and one hears much less talk about the need of a more active foreign policy. The customs union affair opened people's eyes. Dr. Curtius has gone and we try to forget that particular episode, hard blow though it was—the Austrian question lies very near the German heart. It was, moreover, meant to be a test case. The incident should anyhow prove that Germany, when she is in the right, is capable of taking action to protect Austria from Danube-confederation schemes and other French designs. Badly as it ended, there is no justification for the unfair attitude of self-disparagement which so many Germans have adopted towards this "adventure." It will, at any rate, keep the Austrian problem in the limelight for some time to come.

Since this episode, German foreign policy has taken a different and a more promising line, in which it has been assisted by the Hoover holiday, which made us feel that after all there is ground for hope that a more reasonable settlement may be substituted for the Young Plan. If so, much of the wind would be taken out of the nationalist sails.

If, then, Dr. Brüning approaches the problem in a frank manner, putting on one side everything which has no bearing on the immediate trouble, he will meet with little opposition. An understanding with France is already accepted in principle in practically every quarter in Germany, and, though such a policy involves putting off certain German aspirations, it is obviously out of the question to attempt to satisfy them at present. Germany's position too in the matter of disarmament has inevitably been weakened by her financial difficulties. There are only two problems, which cannot be long postponed. The first is the question of what is going to happen in February when the repayment of our short-term debts becomes due under the preliminary agreement; the second, what are we going to do before the Hoover holiday comes to an end next summer. Dr. Brüning's foreign policy will certainly be concentrated on these two points.

So much for the future, but a word is called for to explain German action during the past critical months. The July crisis, it must be remembered, had already gone some way before its existence was fully realised. No one could have anticipated the extent to which French action had accelerated its development and helped to alarm the world—the small German investor among the rest. It is the general conviction in Germany that both the nation and the Government did all they could to convince the world that they intended a fair and honourable settlement. The banks paid out money without stint till July 12, when two of them collapsed. The right thing was also, we consider, done after the collapse. Subsequent contracts have been strictly fulfilled, in spite of the harm which was sure to result from additional payments of such magnitude. Since then credits have become dangerously shorter and money dangerously dearer. The number of bankruptcies and failures has been large—between July and August it increased by 95 per cent. The last penny has been squeezed by the Government out of business concerns and individual citizens alike. The way in which imports have been cut down has elicited protests from all sides abroad. Not long ago we had a surplus of exports for the month of not far off 400 million marks, instead of the usual excess of imports; but this result was only achieved at the expense of people who want to sell their goods to Germany. We have managed, by cutting down our trade and profits, to repay between the end of July and October another milliard of marks on account of our short-term debts, 400 millions of which were due under the July contracts, and during the first ten months of the current year over four milliards on short-term credit must have been paid back out of a total of roughly twelve milliards. But such huge amounts, on the top of all the other payments that have been made, could not be transferred during the worst depression in history, without painful repercussions, and the problem of the future cannot be solved without an

international agreement. The German authorities, however, considered it their first duty to come to an arrangement which would permit of their short-term creditors getting their money back within a reasonable period. The position is clearly described in the famous Layton report, though the latest figures of Germany's external debt are even higher than those given in the report, and it is essential that the existing arrangement, which will come to an end in February, should be replaced by another. Meanwhile, we can only hope that there will be some indication before long of what is going to happen when the Hoover year is up.

Such is Germany's financial policy, and it is believed that there is no other way of avoiding bankruptcy or inflation. We all know people who would like to get out of paying their debts; we have them here in Germany as well, and these are the people who are at the moment pressing for a policy of inflation. It seems beyond question that restriction of credit and deflation have gone too far, and many think that the mark has been stabilised at too high a level. There is a tendency, even in responsible circles, to try to get the resulting high pressure relieved, if it can be done without danger of inflation. When England's position, owing to the attitude of her creditors and the inability of Germany to repay her short-term credits, also became critical, and it was decided to allow the sterling exchange to find its own level without official management, the temptation in Germany to follow suit was great. Conditions in the two countries are, however, completely different, and besides, although a managed currency need not lead to inflation, people in this country have such a horror of the possible risks to which such a course might expose us, that the first note of alarm in the press was sufficient to elicit a declaration, from parties and industrial organisations alike, that nothing would induce them ever to recommend an inflationary policy of any kind. The Government and the Reichsbank have followed their lead with an even more emphatic statement.

V. How About England?

WHAT then is England going to do? That is the question on everybody's lips at the moment, for our fate largely depends upon the answer. At what level will the pound be stabilised when the moment comes, and what is going to be England's fiscal policy? Lastly, what are the consequences going to be for ourselves and the rest of the world?

The present position, in so far as Germany is concerned, is clear. She can only come to the reasonable arrangement that she desires with her creditors if her foreign trade is expanding and her home market stable. The devaluation of the pound has, however, already hit her a heavy blow by increasing the competitive strength of British industry. Coal, iron and textiles, as well as other German industries, have all suffered. Most of our people believe that the effects of the devaluation may not last—internal prices may follow the external rate of the exchange. But this need not necessarily be so—wages, for instance, may not go up. But if British economic pressure on our trade continues and we are at the same time asked to make payments which are only possible while trade is expanding, the whole situation will be completely changed for Germany.

And there is another danger ahead. There is talk in England of a general tariff, at all events of new customs barriers of some kind or other. We have vividly in mind the effects of the Italian customs policy and the difficulties that Germany is experiencing with countries like Switzerland and Denmark, in consequence of her endeavour to restrict imports and exports. The outlook is certainly dark. Turn where one will there are rocks ahead. Petrol, nitrogen, the money market, the exchange and the customs, it is the same with everything. If all these fears are realised, it will not matter very much to us whether we

have Dr. Brüning or Herr Hitler for a ruler, or whether France is willing to disarm or not.

One thing, however, may be taken for granted. The German people has not lost hope. The guidance and the "will to live," which in the last resort may prove the decisive factors, are not absent. Here in Germany we cannot get far enough away from the scene to see things in their true perspective. It seems to us to be all chaos, particularly in the political arena. But it may be that later on it will be recognised that to-day's troubles are the inevitable repercussions of a fundamental reconstruction which is destined to transform, not only the modern State and the political and economic ideas to which it owes its present form, but, what is far more important, the men and women on whom the task has fallen of grappling with this tremendous problem.

Germany.
November 1931.

THE MANCHURIAN CRISIS

CHRONICLE OF EVENTS—SEPTEMBER 19 TO OCTOBER 19

AN attempt is here made to extract from a welter of partisan and unverifiable reports an accurate chronicle of the development of the Sino-Japanese crisis dating from the Japanese occupation of Mukden on the night of September 18–19, up to October 19.*

Feeling against China was running very high in Tokyo during August and early September. A series of incidents occurred between Chinese and Japanese subjects in China during the summer, and early in September the Japanese press was urging a "strong" policy upon the Government and pronouncing that no less that three hundred "points" were at issue between Japan and China. Throughout this period feeling in Japan was exacerbated by a newspaper campaign in connection with the case of Captain Nakamura, who, according to Japanese military leaders in Manchuria, was murdered last June by Chinese soldiers on the borders of Manchuria and Mongolia. A meeting of the Japanese Cabinet was called on September 8 to consider the situation. At this meeting the War Minister denounced the "procrastination" of the Chinese Government in dealing with the case of Captain Nakamura. An investigation was at the time being carried out by the Chinese authorities at Mukden, and the Japanese Cabinet decided to await the conclusion of this inquiry before taking action. A resolution was passed to the effect that the military

* A map showing the region affected will be found in the appendix.

and diplomatic authorities would act in concert " regarding what action is to be taken if the Chinese fail to show sincerity in promptly conducting the negotiations."

The Chinese view at this period was summed up by General Wan Fu-liu, the Governor of Heilungkiang, the northern province of Manchuria, who declared: " This so-called Nakamura affair is nothing but a pretext now being utilised by the Japanese for the realisation of their objective—penetration into Manchuria."

On September 9 the *Asahi* expressed the view in a leading article that the Japanese War Office was pressing " the security occupation of an important region in Manchuria or Mongolia."

On September 18 the Tokyo papers contained reports to the effect that General Jung Chun, chief of the staff of the Manchurian army, had informed the Japanese Consul, Mr. Morioka, that proof had been obtained that Captain Nakamura had been shot by Chinese troops on June 26, and that a detachment had been despatched to arrest the perpetrators of the outrage.

Late at night on September 18 Marshal Chang Hsueh-liang, at Peiping, received a telegram from Mukden stating that at ten o'clock Japanese soldiers opened fire upon the Chinese city, killing a number of Chinese troops, that the Chinese military camp, the arsenal and the Chinese city were under shell fire, and that the local Japanese civil authorities declared themselves powerless to control the situation. The message stated that the Chinese forces were not retaliating. Marshal Chang Hsueh-liang sent an urgent telegram in reply, ordering the Chinese troops to take no action against the Japanese. Japanese reports stated that a clash had occurred on the outskirts of Mukden between Chinese and Japanese troops after an attempt had been made by Chinese troops to destroy a portion of the South Manchuria Railway line. Later it was reported that the Japanese troops had occupied Mukden, no resistance having been offered by the Chinese.

By three o'clock on the morning of September 19 all telegraphic communication of a political character had ceased. The headquarters of the Japanese army in Kwantung were transferred to Mukden, the Commander-in-Chief, General Honjo, leaving Dairen at 3.40 on the morning of September 19, on a special troop train, with 800 infantrymen. At about 4.30 in the morning Japanese troops occupied Kwangchengtze, the important junction of the South Manchuria Railway, the Chinese Eastern Railway and the Kirin-Changchun Railway, and Japanese reinforcements moved up to various points along the South Manchuria Railway. A division in Korea was given orders to hold itself in readiness to proceed on special service to Manchuria. At Tokyo a hastily convened Cabinet meeting issued instructions to the civil and military authorities in Manchuria to do their utmost to localise the issue. Later in the morning Japanese troops occupied Newchwang and Kaopangtse. Early in the afternoon it was officially announced in Tokyo that " the destroyed section of the South Manchuria Railway had been repaired," and orders already issued by the Japanese War Office to troops in Korea to proceed to Mukden were cancelled.

Although a considerable number of Chinese soldiers were killed during the shelling of the Mukden arsenal, the rapid deployment of Japanese troops and the occupation of various points was accompanied by very few casualties on either side, the Japanese losses being negligible.

The Chinese Foreign Office lodged a formal protest with Mr. Shigemitsu, the Japanese Minister to China, and on September 20 Dr. C. T. Wang announced that the Chinese National Government was " greatly exercised over the situation caused by the unprovoked attack of Japanese troops on Mukden and other cities in the three eastern provinces." He said that the Chinese Government was preparing an appeal to the League of Nations and the signatories of the Kellogg Pact.

Japanese warships were despatched from Dairen to

Chinese ports on the north Shantung coast for the protection of Japanese nationals.

Feeling was running very high in Nanking, but the Government did its utmost to calm the people, and Mr. T. V. Soong, the Minister of Finance, played an heroic part in shaping and pressing this policy of moderation. The Chinese Government sent a second note to Japan.

On September 21 fighting continued in Manchuria, Japanese troops advancing towards Kirin, and Japanese nationals evacuated the province. In Harbin there was some display of anti-Japanese feeling among Soviet officials. In Tokyo there was a Cabinet crisis with regard to the despatch of additional troops to Manchuria. The news broke of the beginning of the peace movement between Canton and Nanking, which has been progressing through a web of rumours up to the time of writing (October 19), when a formal conference between the two parties is on the eve of taking place in Shanghai. A large demonstration of students was prevented by the authorities in Peiping. Meanwhile, in the evening, General Minami, the Japanese War Minister, sent reinforcements from Korea into Manchuria on his own initiative. Later Kirin was occupied by Japanese troops.

On September 22 Japanese troops were deploying towards Harbin. There was a second Cabinet crisis in Tokyo, Baron Shidehara, of the Foreign Office, and General Minami, of the War Office, taking opposite views with regard to further activities in Manchuria. The Japanese Government announced that the temporary military administrations in Mukden and other occupied towns in Manchuria were handing over to the Chinese civil authorities. In Nanking mass meetings of students took place urging a warlike policy upon the Government, and the Chinese Government took special precautionary measures to protect Japanese nationals in Nanking.

On September 23, all the Japanese evacuated Nanking. There was another mass meeting in the capital, the Chinese

students demanding war against Japan. Meanwhile Japanese troops consolidated their position in the province of Kirin, and the Cabinet in Tokyo arranged for the despatch of troops to Harbin. In Nanking the first message from Geneva signed by Senor Lerroux produced a calming effect. China issued her third protest to Japan. In Hankow anti-Japanese demonstrations took place, but there was no damage to life or property.

During the next few days, various military incidents were reported from Manchuria. Wherever Chinese troops were concentrated, Japanese aeroplanes dropped bombs in order to ensure their dispersal. On September 25, the Japanese Government issued an official statement to the effect that troops were being withdrawn into the railway zone, and that small detachments only remained in Mukden and Kirin.

On September 26 there was a violent reaction in Nanking on the receipt of disappointing news from Geneva, and on September 28 a party of incensed Chinese students attacked Dr. C. T. Wang in the Foreign Office.

On September 30 Dr. C. T. Wang resigned his post as Foreign Minister. The position has not yet been filled, and the work is being shouldered for the most part by Mr. T. V. Soong. Meanwhile there are many rumours regarding independence movements in Manchuria and Mongolia, which are believed to be inspired by the local Japanese authorities. There have been accusations from China and denials from Japan, and it has not been possible to ascertain how far these movements have been serious or how far they have received Japanese support.

On October 2, Japanese aeroplanes reconnoitring dropped bombs upon Chinese troops stationed along the Harbin-Mukden Railway, and on October 4, four Japanese destroyers were ordered to proceed from Tokyo to Shanghai "owing to the increasing gravity of the anti-Japanese movement in the Yangtse Valley."

On October 8, Japanese aeroplanes dropped bombs upon

Chinchow, which had been adopted, after the capture of Mukden, as the temporary headquarters of the Manchurian Government. Several Chinese were killed and the inhabitants of Chinchow were thrown into a panic. On the following day the Japanese Government explained the bombing of Chinchow on the grounds that the aeroplanes were first of all fired upon by Chinese troops. It was admitted that the Japanese aeroplanes dropped about seventy bombs, causing considerable damage.

On October 11 Mr. Shigemitsu, arriving in Nanking from Shanghai, presented a note from Japan to the Chinese Government protesting against the anti-Japanese agitation in various parts of China and warning the National Government that it must take responsibility for the consequences if the movement is permitted to continue. On October 13 Nanking replied, stressing particularly the fact that while the Chinese Government had done its utmost to control the growing indignation against Japan which had been increased by recent incidents, such as the bombing of Chinchow, it was impossible to prevent a refusal on the part of Chinese traders to handle Japanese goods. The Chinese Government declared that, in spite of Japan's provocative action, it would continue to give protection to the lives and property of Japanese nationals in China.

From now on the situation in Manchuria remained unchanged, and the centre of affairs, which had already shifted from Manchuria to the Yangtse Valley, appeared to shift once more to Geneva, where the League Council reassembled on October 13.

No attempt has been made to deal chronologically with the discussions of the Manchurian situation before the League Council or of the succession of notes and protests exchanged between Geneva and Nanking and Tokyo, or the part played by Washington. Every movement from Geneva, however slight, has been watched with intense interest in China. From the very commencement of the crisis on September 20, Chinese public opinion has been

concentrated upon the League of Nations. The Nanking Government, making a tremendous and extraordinarily successful effort to prevent the outbreak of any anti-Japanese incidents, and to preserve a calm atmosphere, has emphasised to the utmost the fact that China, relying upon the moral rectitude of her case, has placed her complete faith in the power of the League of Nations to enforce a just settlement. Public opinion is inflamed or calmed by the news from Geneva, and it is not an unjustifiable supposition that a failure now on the part of the League of Nations to justify the expectations of China, would have very far-reaching results with regard to the attitude of the Chinese towards foreign interests generally. It would almost certainly precipitate the fall of the Nanking Government. It is unquestionably true that the Chinese Government has done all that could possibly be expected of any government to protect Japanese nationals and to prevent any aggravation of the situation.

The protests on the part of the Japanese Government against anti-Japanese activities have so far been supported by no definite examples that any such activities have occurred. There has been, on the other hand, considerable provocation on the part of the Japanese.

On the Japanese side, never has a case suffered so badly for want of presentation. Japan has essential interests in Manchuria protected by treaties with China. China has repeatedly infringed both the spirit and the letter of these treaties. One of the most important of the Japanese grievances was directed against the contemplated building in Chinese territory of a railway parallel with the South Manchuria Railway and a port to rob Dairen of its traffic. This proposal is believed to be a direct contravention on the part of China of a treaty, the terms of which have never been made public. But Japan has not yet tabled in any convincing form the basis of her case against China. Furthermore, it seems clear that the whole operation has represented a lamentable failure to co-operate between the

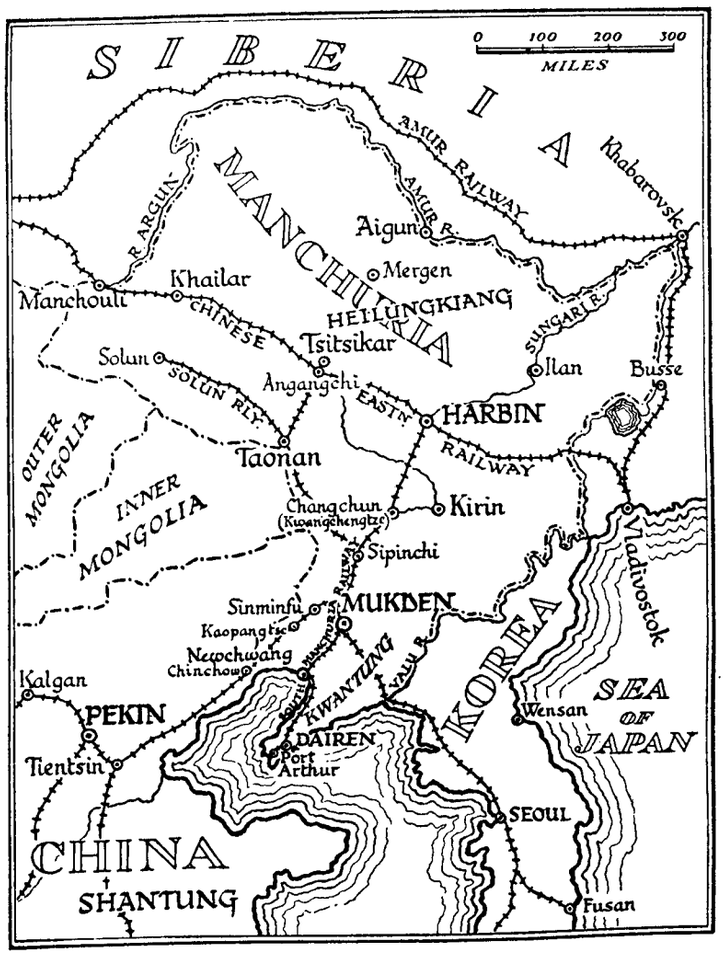
Ministries of War and Foreign Affairs. The initial action having been taken on the night of September 18, the supplementary movements took place automatically in accordance with carefully planned strategic arrangements. From a military point of view, given that the first movement had been made, the further rapid deployment of troops and the prevention of any concentration of Chinese troops were necessary corollaries if a small force, strung out over a wide territory, was to be assured of protection for itself against potentially overwhelming forces at particular points.

The boycott of Japanese goods in the Yangtse Valley is well sustained. It appears to be very largely a spontaneous movement, and it does not seem to be conceivable that the policy, with which Japan was credited a week ago, and in accordance with which it was supposed that she intended to attempt to break the boycott by means of intimidation, could be successful. There have been no incidents in China involving the loss of life of Japanese nationals.

Shanghai.
October 20, 1931.

APPENDIX

Map of the Region Affected



Based on a map which appeared in *The Times*, October 10, 1931.

INDIA AND THE ROUND TABLE CONFERENCE

AS on the last occasion, we write from India at an awkward moment. On the road before us—but just over the rim of the future, out of sight—lies a signpost by which our subsequent progress will be determined. Whither it will direct us it is at present* impossible to foretell; and until we actually have it behind us we cannot be sure whether, in looking back over the events of the last three months, we are as yet in a position to see them in their proper perspective. And the signpost, this time, is a bigger one than that which lay before us in the last week of July, and points to destinations much more important and remote. When our last article was in course of preparation, the chief difficulty lay in estimating the future conduct of the Congress party; that is, in deciding whether an analysis of what had occurred since the previous March, when the Irwin-Gandhi settlement was reached, suggested that the Congress really intended to send representatives to the second Round Table Conference in London, and thus to fulfil what was, from the political, if not the administrative, point of view, the most important purpose for which the settlement was designed. On that occasion, we permitted ourselves the luxury of prophecy† which, in the event, proved justified, despite the fact that, a fortnight or so after our article was completed, both Mr. Gandhi and some other prospective delegates closely associated with him announced that they had definitely decided against

* This article is dated November 1.

† See THE ROUND TABLE, No. 84, September 1931, p. 829.

participating in the Conference. Possibly, within the next few weeks, the arguments we adduced in support of our forecast may prove to have been correct also. But, however that may be, the uncertainty now before us is of vastly greater scope than that provided by the intentions of a particular group of political leaders. The second Round Table Conference has now been in session for over seven weeks, and to the majority of competent observers in this country it appears to have revealed or created more difficulties than it has solved. No announcement of policy, other than that made by the Prime Minister on January 19 last, has up to the time of writing been forthcoming from the British side; and, with things as they are at present, it is hard to see how any announcement that does not consist largely of ambiguous and unsatisfactory generalities can be made. Nevertheless, as was pointed out in our last article, and as the British public, even now, is still liable to overlook, there is probably no country in the world to-day where so much of the idealism and mental energy of the educated classes is devoted to political matters as in India; and during the last two or three decades a large and increasing proportion of this section of the population—probably 80 or 90 per cent. would not be an over-estimate of their number nowadays—has been animated by an intense desire that their country's constitutional status should be in some way substantially improved. A full two years have now elapsed since the project of holding the Round Table Conference was first officially announced,* and throughout that period it has presented itself to educated Indians as the only practical means, short of directly revolutionary activity, whereby any satisfactory measure of the political advancement they have so long and fervently desired can be obtained. Should it fail, or yield results so meagre

* The day on which this article was completed was actually the second anniversary of Lord Irwin's famous statement on the subject; but rumours that some such plan was being devised had been current for months beforehand. Moreover, a conference of an approximately similar nature had been demanded on various occasions by nationalist leaders for several years.

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and remote as to be genuinely offensive to most members of the literate classes—we may discount, of course, in advance, the merely automatic protests which will inevitably be raised, for tactical reasons, whatever the outcome may be—the consequences would unquestionably be very serious and far-reaching. Within a fortnight from now some announcement by the Prime Minister, or the Secretary of State, of the intentions of the British Government concerning the Indian constitutional conundrum must apparently be made. Upon the nature of that announcement, and its reception in this country, will depend the politicians' conduct in the future, and the historian's interpretation of the past.

I. Mr. Gandhi's Reasons for Going to London

IN describing—within the limitations imposed by our inability to anticipate the results of the Conference—the more noteworthy events and movements of opinion during the last three months, it may seem unnecessary to devote much space to the subject of the workings of Mr. Gandhi's mind during the anxious weeks when he was deliberating whether to venture to London or not. The episode in itself now seems, from our present vantage ground, curiously isolated and remote; but a good deal lay behind it, and since its significance was perhaps at the time insufficiently appreciated in England, it is proposed to take it as a starting point. It is of course true that, ever since the plenary session of the Congress at Karachi ended during the last week in March, Mr. Gandhi had spent a great deal of his time in Gujerat, listening to and endeavouring to redress the imaginary or actual grievances of the peasants, a proceeding which, incidentally, now appears to have been somewhat misdirected, since had he, instead, carried out his professed intention of devoting all his energies to seeking a solution of the communal problem, the leaders of the various groups in London would possibly have been more

accommodating to one another, and public exhibition of the disunity and mistrust that can exist between Indians might have been largely avoided. It is also true that Mr. Gandhi is himself of Gujerati origin, that his personal influence, great though it has been throughout the whole country, is most pronounced in his home province, and that the cultivators in the region concerning which the dispute arose, particularly those of the Bardoli *taluka*, have well repaid the attentions that the Congress leaders have lavished upon them in the past, and might reasonably think themselves entitled to claim special favours at their hands. But that these considerations alone explained Mr. Gandhi's conduct, whereby the participation of Congress in discussions affecting the political future of the whole of India was made solely dependent on the circumstances of a particular set of cultivators in Gujerat, none but the most ingenuous readers of Congress newspapers ever seriously believed. What really goes on in the mind of one who is at the same time an astute politician, a brilliant publicity expert, an honest and charming man, a humorist and a saint, is one of the major problems of our times, but we may tentatively put forward the following as constituting part of the explanation.

From the time when the Irwin-Gandhi settlement was reached, Mr. Gandhi, we would suggest, had never decided whether, if it came to the point, it would really be to the advantage, either of his party or of India, that Congress should be represented at the Conference. There would be serious risks to be faced whichever course was adopted; and when the Working Committee decided that he should be the sole Congress representative, the problem, by being made personal, became even more acute and involved. It was conceivable that, extreme and unpalatable though the Congress demands would be, something approximating to them might actually be conceded at the Conference. The first session had progressed unexpectedly far, and Great Britain was in a "defeatist" and pessimistic mood,

distracted by domestic difficulties. Were something really substantial obtained at the second session, the Congress would look ridiculous by having refused to participate, and the politicians who had attended the Conference would return to India with greatly enhanced prestige. Moreover, by abstaining, the Congress would expose itself to the frequently repeated taunt that it is incapable of being effective except in non-co-operation, and has no capacity for constructive statesmanship. Again, while the Conference was in progress, the Congress would have a difficult *rôle* to play, and might lose ground throughout the country; civil disobedience, it was agreed, could not be resumed for at least some months with much prospect of success; and the Congress therefore, if unrepresented at the Conference, could do little to attract attention to itself. But by sending Mr. Gandhi to London, and retaining in India plenty of leaders capable of keeping the organisation in good trim, the Congress would place itself in a strong position, both morally and strategically. Whatever happened, it could then assert that it had done its best to obtain a settlement of its claims by reasonable negotiation; and meanwhile sufficient time would have been gained to enable the civil disobedience movement to be resumed with less difficulty, and, should the Conference fail, with more justification.

As against all this, however, there were several weighty considerations suggesting that abstention would be the wiser course. When the Irwin-Gandhi settlement was reached, the prestige of Mr. Gandhi, and of the Congress as a whole, was at an unprecedentedly high level. But enthusiasm subsides quickly in India, and already, as the summer advanced, there were signs that interest in the Congress and its activities was flagging. In the past—and particularly during the fifteen months prior to the settlement—a good deal of Mr. Gandhi's influence and authority had been due to the almost mystical air of aloofness and implacability with which he and some other Congress leaders were surrounded. But once he committed himself to journeying

to London, to negotiate with members of the British Government in company with a crowd of his own compatriots, he would descend nearer to the level of ordinary humanity, and lose something of the advantage which his intransigence and Mahatmaship had previously conferred upon him. And this was not all. Although the numerous other groups and interests which have been given representation at the Conference are very amorphous and ill-organised—the Congress being almost the only body in India which can be said to approximate in effectiveness to a political party as the term is understood in Great Britain or the Dominions—many of the delegates who have been chosen to speak for them are extremely able and practical men, have spent years in public life, and in some instances have had extensive administrative experience. The question must surely have arisen in Mr. Gandhi's mind, as it certainly did elsewhere, whether, when sitting in deliberation with compatriots of this intellectual calibre, and with members of the British delegation, his own personal reputation would not suffer—despite his legal training and effectiveness as a speaker. Then, again, there were certain skeletons in the Congress cupboard which would probably have to be disclosed at the Conference, but which in India might still be safely kept in darkness. The question of federation, for example. The Congress press, when the first Conference was in progress, seemed jubilant over the *volte face* of the Princes, applauding their action as a great patriotic move which would advance the nationalist cause. But actually the declaration of the States' representatives in favour of federalism took most Congressmen by surprise, and disorganised their political philosophy. For years they had thought only in terms of British India, and the more optimistic among them had believed that, by capturing the existing central Government, and over-riding such opposition as the Moslems, Liberals and other indigenous opponents might be able to muster, they would in time be able

to absorb the States into British India by a process of mediatisation and establish a united Indian republic. The ultimate implications of the Princes' action were therefore, despite protestations to the contrary, displeasing to Congressmen; and although Mr. Gandhi's public utterances on the subject had been very discreet, he could not be expected, when it came to the point, to agree that the new Federal Government should be established on the Australian model, that is that it should be little more than the "agent" of the various Provinces and States, or that the Princes should have substantially more seats reserved for them in the Legislature than the population of their territories would normally warrant, or that the politicians of British India should be denied all right of interference in the States' internal affairs. Further, there was the communal problem to be faced, and the position of the Congress with regard to this, at the time when Mr. Gandhi had to make his decision, was embarrassing. The Congress press, of course, has for years sedulously fostered the idea that communal antagonism is not a natural growth, arising out of long-standing social and religious differences, and complicated by the advent of democracy, but a canker in the body politic artificially created by the British for their own purposes; Congress leaders have frequently claimed that, were they free to devote their undivided energies to this problem, they could solve it in no time. Yet, instead of concentrating his attention on the communal issue, Mr. Gandhi, as we have indicated, had spent the larger part of the period available since his triumph at Karachi in investigating agrarian grievances in Gujerat, and such communal negotiations as there had been* had been so entirely fruitless that, shortly before he was due to leave for London, the Congress Working Committee had thrown up the sponge and, by definitely plumping for joint electorates, had antagonised the bulk of Moslem opinion in this country. Finally, it was to be anticipated that, if Mr. Gandhi went

* See THE ROUND TABLE, No. 84, September 1931, p. 825.

to London, his reception by some of the other delegates would be rendered somewhat awkward by the claim, so unremittingly made on his behalf by his admirers, that the Mahatma represented the united voice of an Indian nation, and that no other Indian present at the Conference would have a right to speak.

There is good reason to suppose, therefore, that the Gujerat business really had very little to do with Mr. Gandhi's hesitation about going to London; and in this analysis of supplementary reasons it is possible that there will be found the explanation of much that has subsequently happened at the Conference. No doubt Mr. Gandhi was perfectly sincere in the concern that he evinced for the Gujerat peasants, though it may be pointed out that, in so far as mere impoverishment consequent upon the economic depression and the civil disobedience movement was concerned, he could have found much harder cases elsewhere. No doubt also he was to some extent misled by Mr. Vallabhai Patel, who, it would seem, has always been averse to the Congress participating in the Conference, and who has much greater local knowledge than Mr. Gandhi, into supposing that the condition of the peasants, and the conduct of the district authorities, gave more grounds for dissatisfaction than was actually the case. But the real reasons for his agitation were certainly more substantial, and the state of affairs in Gujerat seems to have been selected only as a convenient means of bringing them to a head. If the Government, in order to secure the representation of the Congress in London, could be induced to concede his demands, constitute a committee of enquiry, and perhaps even admit the principle that the Congress was entitled to act as an intermediary between the administrative officers and the people, Mr. Gandhi could leave India with the assurance that the enormous prestige which he had enjoyed at Karachi, but which had subsequently shown signs of waning, had actually been enhanced. The Government, however, acted with commendable caution;

the Congress " charge sheet " was promptly and effectively answered ; time was allowed to elapse without decisions being reached ; a detailed schedule of breaches of the settlement on the part of the Congress, which it was believed that the authorities had ready for publication in certain eventualities, was not released ; and in the end Mr. Gandhi suddenly pocketed his scruples and departed for London without having obtained more than an insignificant fraction of what he had demanded.

II. The Reaction in India to the Conference Proceedings

WE must now briefly indicate how the negotiations in London since the Conference actually began have affected the state of opinion in India. There is no need to deal with the subject chronologically, since the proceedings have been better known to the British than to the Indian public, and in any case by the time these words are read, the significance of the detailed day-to-day events will have been interpreted in terms of the final result, which is as yet unknown to us. A few general impressions must therefore suffice. Firstly, then—since we have been dealing with the topic hitherto—there are the reactions to Mr. Gandhi's activities. For weeks after his arrival in England, and even during the voyage, the Congress press was turgid with accounts of every detail of his new existence, and strenuous endeavours were made to sustain the belief that the Mahatma's presence in London would work a miracle. " Gandhiji's conquest of Lancashire " was jubilantly announced ; the special traffic arrangements made during his passage from the East End to St. James's Palace were carefully noted, as indicating his peculiar status ; great significance was attached to the fact that, in first attending the Conference, he was given a seat next to Lord Sankey ; and crowds were reported as cheering him,

just as in India, wherever he appeared. But this excited interest could not be maintained for long ; the patent failure of the Mahatma to advance the Conference proceedings by miraculous or other means, and particularly his inability to settle the communal problem, caused steadily increasing disillusionment, and at present it would be true to say that Mr. Gandhi's stock in this country is lower than it has been since 1929. This is in many respects regrettable. For should he desire to revive the reverence and enthusiasm for himself, there is no doubt that he could do so, at any rate for a while, by issuing orders for a resumption of civil disobedience ; and the reports received of the speech he made yesterday to the Commonwealth of India League would seem to indicate that he contemplates action of this kind. On the other hand, should he decide, on returning to India, to shut himself up in his *ashram* and eschew politics again, the results might be equally unfortunate, since those on whom his mantle might descend would find it hard to resist the temptation to acquire prestige by initiating some fresh subversive movement ; and no one believes that any of the possible successors to Mr. Gandhi would be able—and some would not wish—to keep the movement even nominally " non-violent." Before we finally leave this topic, the attitude of the Europeans in India to the Mahatma's activities in England is worth commenting on. Some, particularly the more " race-conscious," exhibited signs of annoyance and perturbation at the unexpectedly warm reception he obtained, and fears were expressed that the ignorant and impulsive British public might be deluded into the belief that he is what he claims to be, the spokesman of a united Indian nation. To others, however—as it also did to practically every educated Indian—it gave genuine pleasure, as illustrating the natural hospitality and large-heartedness of their race ; and had Mr. Gandhi, as was anticipated in certain quarters, been subjected to insult, particularly in Lancashire, the consequences here would certainly have been unpleasant.

The settled pessimism which now obtains in Congress circles concerning the outcome of the Conference is largely due to disappointment over the achievements of their leader; and in a section of the press, insinuations are becoming daily more frequent that the Mahatma has been outwitted by the subtleties and anti-Indian machinations of British politicians. Acute depression also prevails in almost every other school of political thought, the Liberals being particularly downcast. On all sides, and amongst responsible far-seeing men, one hears it argued that since, apparently, no workable constitution satisfactory to nationalist sentiment can be obtained for a number of years, India must seek relief for the malaise she suffers from in the same way as other countries similarly afflicted have done in the past, that is, through drastic internal readjustments involving bloodshed. Only by surgical methods, it is suggested, can the agonising pangs caused by the birth of so immense a nation be tolerably shortened. There is widespread recognition, amongst intelligent Indians, that no one can reasonably be blamed for this; that the necessity arises naturally from the complexity of the disease. But this does not alter the gist of the argument; and it is also generally held that the second session of the Conference, which is likely to be the deciding factor, has been attended by singular misfortunes from the outset. The first session achieved some surprising results. By the unexpected decision of the Princes in favour of federation, the whole nature of the constitutional problem was altered, and responsibility at the centre, which has so long been the unattainable goal of nationalist aspirations, was suddenly brought within reach; the session also created an extremely valuable "atmosphere." On the other hand, the rapidity of the advance was somewhat misleading, since, except for the question of provincial autonomy,* all the important decisions made were of a provisional nature and not

* Also recommended in the Report of the Simon Commission.

elaborately worked out. The second session, therefore, was not only exposed to all the disadvantages from which a "sequel" ordinarily suffers, but was also required to fill in, in a painstaking practical manner, the details of a sketch whose outlines had already been drawn, and in which no exciting modifications were likely to be made. Meanwhile, in India, between the first and second sessions of the Conference, the situation had become a good deal more confused. Communal relations had markedly deteriorated, not only owing to the breakdown of the negotiations between the leaders of the orthodox and nationalist Moslem groups, but also to an increase of friction between Hindus and Moslems in their ordinary day-to-day relations. Memories of Cawnpore were no doubt partly responsible for the latter, and also the riots in Kashmir, whose implications were far more important than people in England appeared to appreciate. In addition, the attitude of some of the Princes towards the prospects of federation was becoming noticeably hesitant.

Thus when the first batch of delegates left for London the political atmosphere here was already murky, and what has happend since has only increased the prevailing gloom. Despite optimistic declarations by Lord Sankey and others, the progress made as yet towards solving the four major questions left open by the first Conference—namely, communal relations, the terms on which the Princes would consent to federate with British India, the nature of the "safeguards" to be provided under the new constitution, particularly with regard to the army and finance, and the protection to be afforded to British trading interests—seems to Indian observers to have been infinitesimal. In the extremist press the deplorable failure of the negotiations for a communal settlement is generally ascribed to British intrigue, the contention being that the delegates were intentionally selected in such a way as to render agreement between them impossible. Elsewhere, however, it is recognised that, while political organisations

in India remain in such a rudimentary state, a considerable number of those invited to attend a conference such as this must inevitably be identified with some extreme point of view. But it was hoped that, when deliberating together in a foreign country, beyond the reach of their more vociferous supporters, Indians of all schools of thought would be able to compose their domestic differences; that they have, nevertheless, failed to do so has caused widespread disappointment, and few observers in this country believe that a real communal settlement can now be effected here for several years, particularly now that the Depressed Classes, Anglo-Indians, Indian Christians and others have started claiming special representation in the Legislatures on the same grounds as the Moslems and Sikhs. The hesitations and reservations of certain Princes have also given rise to alarm. Some of the major rulers whose activities were most conspicuous at the first Conference have not journeyed to England at all, and the Maharajah of Bikaner, who appears, more than any other member of his order, to have been responsible for the attitude that the Princes adopted last year, is now returning home. Significance is also attached to the fact that the press messages sent through concerning the course of events in London have been noticeably less voluminous and informative than on the previous occasion. As a whole, the proceedings seem to have been entirely overshadowed by the political crisis in England; and the appointment of a member of the Conservative party as Secretary of State, followed by the staggering success of the Conservatives at the polls, is interpreted as being of ill omen for India.

The prevailing view here at present regarding the outcome of the proceedings in London is therefore approximately as follows, though it may, of course, be falsified by the events of the next fortnight. The Conference, it is believed, will in two senses prove a failure; that is, it will reach no final conclusions on a number of the most

controversial points at issue, and such provisional decisions as are made will fall short of those demanded by the bulk of nationalist opinion. The British Government, it is assumed, will have to impose an arbitrary settlement in certain matters, particularly as regards the communal difficulty, and then proceed to draft a Bill for presentation to Parliament, incorporating therein such features as the Conference has been able to agree upon. Possibly certain eminent Indians will be asked to assist the Parliamentary Committee in its work, but no Congressman will be among them. When, or before, the Bill is passed, it will be vociferously repudiated by large sections of political opinion here, and the resultant state of affairs will be not unlike that which existed after the introduction of the Montagu-Chelmsford reforms. Many nationalist politicians now appear to consider that an imposed settlement would be a positive benefit to them. Under any imaginable new constitution, they must surely obtain at least a little more control over the direction of their country's destiny than they have under the existing constitution, and if any feature of the machinery is of purely British manufacture, it will enable them to restore an appearance of unity among themselves, by denouncing on patriotic grounds what many, no doubt, will subsequently be willing to make quiet use of. But the Congress certainly will be anxious, and perhaps able to do more than this. Recovery from the effects of the last civil disobedience movement is still far from complete, and the general economic depression, despite the slight improvement in trade caused by the depreciated currency, remains intense. The country, therefore, is in a very abnormal state. Were the Congress leaders to decide, as a protest against the conclusions reached at the Round Table Conference, to resume civil disobedience, the consequences would be extremely serious, and might possibly lead direct to that general breakdown of the social and political structure which many thoughtful observers believe to be ultimately inevitable.

III. The Financial Crisis and Other Matters

FROM the purely administrative point of view, the three months that have elapsed since our last article was written have not been very eventful. Riots have been few in number, the most noteworthy having been the disorders in Chittagong on August 31, consequent upon the murder of a Moslem police officer, and the renewed disturbances in Kashmir on September 22 and 23; both were of the communal type. Agrarian unrest continues, particularly in the United Provinces and Gujerat, but does not appear to have become worse. In Burma, murders, dacoities, and affrays between the forces of the Government and wandering rebel bands are still reported almost daily, and no one in Delhi appears to pay much attention to them, or to know how a revolt which has now been in progress for over ten months can be suppressed. At the end of July, when our last article was in course of preparation, there had been a sudden revival of terrorist outrages—the attempt on the life of Sir Ernest Hotson, the stabbing of two British officers in a railway train, and the murder of Mr. Garlick having occurred within a few days of one another. Subsequently there was a lull, the attacks on the Commissioner of Dacca at Tangail on August 21, and on Khan Bahadur Ahsanullah at Chittagong, on August 30, having been the only noteworthy crimes of this nature between the end of July and the end of October; but within the last week there have been two further outrages of the worst type, the attempts on the life of Mr. Durno, in Dacca, and Mr. Villiers, in Calcutta, having been almost simultaneous. In an endeavour to deal with the situation in Bengal, the Viceroy has been compelled to promulgate an Ordinance extending the scope of the Bengal Criminal Law Amendment Act; but none but the most optimistic believe that measures such

as this can stamp out terrorist crime altogether. As regards the Congress, throughout the three months the various leaders, although they have kept quiet for fear of embarrassing Mr. Gandhi, have been by no means inactive, and there is reason to suppose that their preparations for a renewal of the conflict with the Government have made considerable progress. The members of the Working Committee might, of course, if they decided on the resumption of civil disobedience this year, find it difficult to arouse the same desire for gaol life among their followers as on the last occasion; moreover, funds to finance an extensive campaign must still be short. But it is advisable to remember that the success of the 1930 movement took most authorities here by surprise; that loyalists have been greatly discouraged by the events of the last few years; that the general economic depression and the imposition of fresh taxation have rendered the Government unpopular both among the peasants and the middle classes; and that many of the influential *zemindars* have been estranged by the policy adopted with regard to the remission of rents. While, therefore, there might be less active enthusiasm for civil disobedience, were it renewed within the next few months, there is nevertheless a good deal of latent hostility to Government seeking to find a vent.

As this article has already extended beyond the limits it was intended to fill, the concluding paragraphs, describing the effects which the financial crisis of September had on the movements of Indian political thought must perforce be condensed. In any case, at the moment, an analysis can be no more than provisional, since the emergency session of the Legislature, convened for the purpose of passing the new Finance Bill, is not due to meet until three days hence. At the time the crisis arose in India, as in England, it had been believed for weeks beforehand, that something of the kind was inevitable—the Simla session of the Legislature was in progress, and opinion was therefore able to consolidate fairly rapidly. When the news was

received on September 21 that Great Britain had abandoned the gold standard, and that the Viceroy had forthwith issued an Ordinance providing for similar action in India, but without establishing any relation between the value of the pound and the rupee, there was of course some consternation, but the general view was that the Government's action would prove popular. Ever since the rupee was stabilised at 1s. 6d. by Sir Basil Blackett in 1927, such nationalist leaders as were concerned with financial affairs had protested that so high a rate of exchange was contrary to the country's interests, and during 1930, there was reason to believe that a deliberate export of capital was being organised, particularly in Bombay, by individuals who stood to gain substantial profits by forcing the Government to depreciate the currency. The implications of the Ordinance therefore, although surprising, were by no means unsatisfactory; but when it was promptly followed by the Secretary of State's announcement that the rupee would be linked to sterling, instead of being allowed to find its own level, intense resentment was aroused. Into the technical details of the arguments used we need not enter. For it was clear that, even if India stood to lose in one way, she certainly would gain greatly by the fact that the cost of her sterling commitments would not be increased by the rupee depreciating *versus* the pound; moreover, the undertaking of the British Government to render financial assistance to India in certain eventualities was at the same time renewed. Actually, the indignation evoked by the decision taken in Whitehall was based far more on constitutional than on financial considerations. Not only had no reference to a matter closely affecting India's interests been made to the Indian Legislature, which was at the moment in session, but there were also grounds for supposing that arrangements provisionally made by the Viceroy-in-Council had had to be modified as a result of peremptory orders issued from the India Office. Such an incident naturally caused serious offence to Indian

nationalists; there was, moreover, a good deal of sympathy with them in European circles, since the conviction is growing that it is impossible to rule a country in two places at once, and that the intervention of Whitehall in all important matters of policy is tending to paralyse the administration at a time when strong government of some kind is imperative. Comments of this kind were also prevalent during the course of the negotiations between the Government and Mr. Gandhi in August. Had all three Indian members of the Viceroy's Council, and possibly the Finance Member as well, tendered their resignations over the currency question, it would have occasioned little surprise.

The emergency budget which Sir George Schuster shortly afterwards presented to the Legislature, and which is to come up for detailed discussion during the special session a few days hence, is certainly a drastic one, and it is difficult to predict its fate. On the whole, however, the prospects seem favourable. Substantial economies by way of retrenchment are to be effected, and the fresh taxation proposed is fairly evenly distributed; and since the depreciation of the currency has given some stimulus to trade, the sacrifices required may, perhaps, be more easy to bear than appeared likely in September. But if it becomes clear, during the course of the next week or two, that civil disobedience is to be resumed, all estimates of the future course of events, both as regards finance and administration in general, will have to be revised.

India.
November 1, 1931.

GREAT BRITAIN

I. The General Election

THREE months ago a Labour Government was in office, supported in the House of Commons by 280 Labour members, over 50 Liberals and a few Independents. To-day a National Government is in power, supported by 473 Conservatives, 68 Liberals divided into two roughly equal groups, 13 Labour members and 2 Independents. The official Labour party can count on only 52 members in the House of Commons, and this handful, together with the Lloyd George family party of four, form the Opposition. Such is the result of a series of events culminating in the most sensational general election in British political history.

The story of these events, though dramatic, can be told almost uncontroversially, thanks to the volume of the revelations made by the participants during the election. The last issue of The Round Table* left the Labour Government struggling with the necessity of meeting enormous deficits in prospect for this year's and next year's budgets. It is now known that this deficit had been estimated at nearly £75,000,000 for this year and at £170,000,000 for next year. Moreover, these deficits, the growing world crisis and the ever mounting costs of the "dole" had profoundly shaken the confidence of the world in the value of sterling, and, besides this, foreign countries, also in difficulties, had been withdrawing their deposits from London

* See The Round Table, No. 84, September 1931, p. 836.

so as to increase their own liquidity. Concurrently with their task of balancing the budget, the Government also felt constrained to obtain credits in foreign currencies in order to prevent the depreciation of the pound—an original credit of £50,000,000 obtained by the Bank of England for this purpose having been almost used up.

The whole Labour Cabinet realised that the balancing of the budget was an essential preliminary to the restoration of confidence in sterling. They were substantially agreed also that the budget must be balanced on the principle of "equality of sacrifice," and part of the deficit would have to be met by economies and the rest by increased taxation. In their earlier discussions considerable progress was made in defining the details of a plan, which in its final form took shape in a "provisional" agreement to effect economies totalling £56,000,000 a year at the expense of the defence services, the civil service, the teachers, the police, and the unemployed. The agreement was "provisional" in the sense that it awaited, for confirmation, the details of the new taxation by which economy was to be supplemented. Since these details of new taxation followed in the main the principles laid down by Mr. William Graham,* it would appear that at one time the Labour Cabinet were ready to present to Parliament a scheme practically identical in principle and largely identical in detail with that subsequently presented by the National Government. Indeed, Mr. Baldwin, who was consulted as leader of the Conservative Opposition, has since stated that he believed that the Labour Government would face their task, and that he had promised them help in facing it on the lines foreshadowed to him. But when the plan was presented to the Trades Union Council, that body rejected it. It would, Mr. Henderson considered, be no use going on unless the Government carried their own people with them in the economies that they proposed. The

* See an article by Mr. William Graham in the *Daily Herald* of September 3 last.

Cabinet became sharply divided and, after toying with the idea of a revenue tariff, finally came to an open rupture. The breaking point was the proposal to reduce the rate of unemployment benefit by 10 per cent.,* though it is doubtful whether unanimity would ever have been possible in face of the hostility of the Trades Union Council. This reduction was in itself less than other forms of retrenchment at the expense of the unemployed already agreed upon, and Mr. Alexander, one of the dissentient Ministers, had reported that an adequate cut in unemployment benefit as well as in the public services all round was essential to the acceptance of cuts in naval pay. Moreover, it had been found impossible to procure the required foreign credits without increasing the amount of the proposed economies. Nevertheless all the members of the Cabinet except the Prime Minister, Mr. Snowden, Mr. Thomas, Lord Sankey, and Lord Amulree resigned.

Mr. MacDonald might easily have given up also, but at the request of the King he decided to try to form a National Administration. Mr. Baldwin, whatever may have been his ambitions for himself or his party, at once agreed to support him, and Sir Herbert Samuel, who was leader of the Liberal party during the illness of Mr. Lloyd George, also consented to co-operate. The new Government was formed for the particular purpose of balancing the budget and restoring confidence in the national credit.† On the completion of its task it was understood that Parliament would be dissolved as soon as circumstances permitted. A small Cabinet of ten members was formed. Parliament was at once summoned, and on September 10 Mr. Snowden presented a second budget which practically enacted the plan from which his former colleagues had broken away. Besides the economies already detailed — totalling

* The proposal involved a sum of £12,800,000.

† See Mr. Baldwin's statement on August 24. The official announcement stated that "the specific object for which the Government is being formed is to deal with the national emergency . . . when that purpose is achieved the political parties will resume their respective positions."

£70,000,000 in a full year—Mr. Snowden proposed to raise (in a full year) £57,500,000 by increases in direct taxation, £24,000,000 by indirect taxation, mainly confined to beer, tobacco and petrol, and £20,000,000 by reducing the Sinking Funds to the actual contractual obligations contained in the prospectus of the various Government loans. This plan balanced on strictly orthodox lines the budgets of 1931–32 and 1932–33.

But the nation was by no means out of its difficulties. It would, indeed, have been foolishly sanguine to suppose that a balanced budget was a sufficient buttress for sterling. Other unfavourable factors persisted. The value of a currency depends just like the value of everything else upon the laws of demand and supply, and the demand for sterling continued to be less than the amount offered. One reason was that the balance of trade was unfavourable to this country, and on that account alone sales of sterling probably exceeded purchases by nearer £2,000,000 than £1,000,000 a week. A second reason was the continuance of financial panic in foreign money centres, which induced foreigners holding sterling securities or balances to realise them, and convert the proceeds into foreign currencies. A third reason was the lack of unanimity. The opposition of the Labour party gave the world the impression that the British nation was indifferent to its danger or at least not united in facing it. Finally, certain incidents in the Atlantic fleet at Invergordon were interpreted abroad as the possible beginning of a general naval mutiny and the prelude to a revolution against the National Government. The part that sailors had played in starting revolutions both in Germany and in Russia was recalled. What actually happened in this case was that the proposals for reductions in naval pay were promulgated without sufficient explanation or sufficient inquiry into the results upon individuals. A certain section of the Atlantic fleet refused duty. There is not the slightest reason to minimise the serious nature of this action, which was

indefensible and deeply resented, as subsequent events showed, by the navy generally. But when the steps, which might well have been taken before the trouble, had been taken, and the Atlantic fleet had been sent to its home ports with the promise of inquiry into cases of hardship, no further difficulty was experienced. Meanwhile, however, the damage had been done. Throughout a critical week, the sales of sterling increased in volume and most of the credits of £80,000,000 obtained by the Government for its support were exhausted. On September 21, Parliament sanctioned the suspension of payments in gold, which had been the guarantee of the gold value of sterling, and the pound was left without artificial defence.

A new situation was thus created. The National Government had failed in its technical object of maintaining the gold standard, but it had balanced the budget and succeeded in achieving its material object of preventing a currency collapse which would have been reflected in soaring prices. The pound bought less abroad, but it still bought practically as much at home as ever it did. There was no internal inflation such as would start this country on the slippery slope of printing money. Nevertheless, no one could tell how long this relatively favourable situation would continue. The Government took immediate powers to correct adverse monetary influences and to check profiteering; but, after all, the powers of a Government in these directions are limited. It became clear at any rate that a National Government's task was by no means ended with the balancing of the budget. At this point controversial issues, so far dropped by mutual consent, began to appear. Clearly if the country was to be preserved from internal inflation, the trading accounts must be balanced. But how was this to be brought about? All sorts of suggestions were made; an international conference; the prohibition of certain imports; some maintained that the pound, no longer tied to gold, should be left to find its own level. This, it was said, would automatically

rectify the balance of trade, and if the pound were kept, as it could be, between two extremes, there would be no risk of prices rising sufficiently to render an increase in wages necessary. Lastly—a suggestion which, unlike the others, raised a first-class party question—there were tariffs.

The immediate thing to be decided was whether the Government should go to the country. Some, notably Sir Herbert Samuel, the Home Secretary, and many of the Liberals, were for the existing Government continuing its task. The bulk of the Government's supporters, however, including the whole Conservative party, were for an immediate election. Foreign confidence, it was contended, could only be restored by a strong government with a fresh mandate, and such a mandate was in any case necessary, for the existing Government had only had an uncertain majority of 65, which would preclude it from taking highly contentious steps, even if it felt them to be essential to meet the needs of the situation. Besides, if the Government waited, their chances of winning an election later on might, as one of their opponents, Mr. Graham, had pointed out, be less rosy. They would certainly have to do a number of unpopular things, and a full five years term would not be too long for their purpose. Those opposed to an election considered it both unnecessary and risky; unnecessary because the Government had still two years to run, and the national emergency, their official *raison d'être*, still persisted. The people's support could, they claimed, be assumed. The Government, moreover, had not as yet an agreed policy, and an election would, it was contended, only confuse people. As regards risk, it was felt—an anxiety that was largely shared by the City—that the uncertainty, which must prevail during an election campaign, would probably still further depress trade, and with it the pound. It would, at all events, distract Ministers whose entire energies were required for their task. After all, too, the result of the election might not be so satisfactory as was hoped. It was also felt that

Labour, nonplussed by the situation, might, if only to save its face, commit itself to an extreme programme, and in any case bitterness would result from the election, and the chances of bringing every party into the National fold be lessened. In some quarters the Conservatives were accused of forcing an election for party purposes. But it is unnecessary to pursue this matter further. In the end, an immediate general election was decided upon, the Liberal supporters of the Government acquiescing, in spite of Mr. Lloyd George's disapproval.

The question of the form of the appeal also gave rise to disagreement, but after a fortnight spent in search of a formula which would reconcile all differences, the Prime Minister again cut the knot. He decided to go to the country on a simple national appeal—a doctor's mandate, as he called it. He would ask to be granted a free hand to use any and every method, including tariffs, expansion of exports and contraction of imports, commercial treaties, mutual economic arrangements with the Dominions or any other expedient which might be found useful to save the nation from a currency collapse, and he issued a manifesto in this sense, upon which the political parties ranged themselves in a new order.

The dividing line at the election lay between those who believed that the danger to the currency was the vital consideration of the hour, and those who, either denied the existence of such a danger, or thought it less formidable than some other danger. To this second category belonged the official Labour party, who fought the election on the contention that the whole national emergency was a capitalist manœuvre—the so-called "bankers' ramp"—and on a programme the main planks in which were the reversal of the cuts in the services and unemployment pay, the conversion of privately owned industries into public utility corporations, the control by public boards of imports, exports and investments, the removal of the control of the banks from private hands, the nationalisation

of the land, and free trade. Mr. Lloyd George had supported the formation of the first National Government but was throughout strongly against an election. He now declared that it was a Tory ramp—a plot by the Conservative party to obtain power to impose a general system of protective tariffs under cover of a national appeal, and he advised Liberals to vote for Labour rather than for the Government. The Liberal party, however, ranged itself behind the Prime Minister, though it was divided into two sections—one led by Sir John Simon, the nucleus of which was formed by those who had disapproved of the former policy of supporting the Labour Government, and the other by Sir Herbert Samuel, which shared Mr. Lloyd George's fear of tariffs, but not to the extent of refusing to participate in the Prime Minister's appeal. The Prime Minister himself led a small band of candidates described as "National Labour," whose success was an astonishing feature even in so astonishing an election. Mr. Baldwin brought to the National cause the whole of the Conservative party. He himself showed moderation and loyalty to the Prime Minister during the contest, defining the issue as the defence of the pound—tariffs, in his view, were useful, but subordinate to that end. The bulk of the party followed this line, but certain members, of whom the most prominent were Lord Beaverbrook and Mr. Amery, did their best to make the election a fiscal dog-fight. How mistaken they were appears from the fact that the candidates whom they supported were relatively the least successful of those championing the National cause. Had the advice of the extreme protectionists been taken, there would have been many three-cornered fights, but this danger was in fact generally avoided. The result was an unprecedented triumph for the National Government. Every one of the Ministers in the late Labour Cabinet who had resigned, except Mr. Lansbury, was defeated, and of the junior Ministers only Sir Stafford Cripps, Major Attlee and seven others were returned. The greatest personal

triumph was the victory of the Prime Minister in his old constituency, but the reasons for his victory prevailed generally all over the country. It is widely believed that the bulk of the women's vote was cast for National candidates. The most telling arguments for the National cause —advanced by Mr. Snowden in a series of devastating addresses—were that the Labour leaders had run away from their duty; that their victory would mean irretrievable ruin, endangering all savings (Post Office savings among the rest); that the one issue was whether these men should be returned or a strong National Government determined, as it had already shown, to restore confidence at home and abroad. The municipal elections which followed a few days later went much the same way. No doubt the National candidates benefited as much from the mistakes of their opponents as from their own merits. Mr. Henderson and his colleagues protested too much, always a dangerous line. Moreover they took up an almost impossible position in fighting economies of which they had recently so largely approved, and it was difficult to unfurl the banner of free trade after their recent flirtation with a tariff. Above all they had, it was generally felt, resigned in consequence of the attitude of an outside body, the Trades Union Council, towards their proposed economies, and, on top of everything, it was a mistake to offer people shouting for help in a bog a programme better suited for the millenium.

During the campaign the forebodings about the effect on the currency were not borne out. It remained remarkably steady right up to the declaration of the result. This was, no doubt, partly due to the growth of confidence in the victory of the National Government, but it was also largely a consequence of the troubles of other countries, especially the American banking crisis, which discouraged people from selling sterling to buy dollars.

What is to happen next? Labour has received a stunning blow. With a representation of only 52 members it is

reduced to comparative impotence in the House of Commons—some indeed think that it will never completely recover, and as it is there are divisions in its ranks. The party whip has been refused to Mr. Maxton and the four of his friends who were returned at the election, and the chairman of the Independent Labour party has suggested that a breach with his group may not be far off. There is talk too of a feeling that the unions might be better off if they looked after their own affairs. It must be borne in mind, however, that the very fact that the doors of Parliament are shut upon the Labour leaders is likely to lead to greater activity in the industrial sphere, and even in the political one, their party polled nearly 7 million votes out of close upon 21½ million. History shows, too, that big battalions have a way of melting. The National majority is the largest on record, but it is by no means the most homogeneous, and strength has dangers of its own. One result of the election has been to force Labour to reconsider its whole policy. A resolution was recently passed at a joint meeting of the Labour party and the Trades Union Council in favour of closer collaboration between the political and industrial wings in framing political policy, a course which, as *The Times* has pointed out, is easier to follow in opposition than in office. But the resolution evades the basic question; is the Labour party to remain primarily a trade union party or to become a national party? That this is a live question is clear from an article by Mr. Lees-Smith, Minister of Education in the late Labour Government.* In his view, the Labour party "must descend from poetry to prose."

Its policy must appeal to disinterested men of good will in all classes, for it is now clear that a Government with a majority will not be returned in this country on a pure working-class vote. It has hitherto confined itself to the direct redistribution of income by spending money on pensions, education, housing and social services at one end and increasing the taxation of wealth at the other end. This is the line of least resistance, but it is the acceptance of capitalism rather than socialism and the limits to which it can be followed

* See *The Spectator*, November 7, 1931.

within a capitalist society are already in sight. Labour will now turn its mind to those problems of fundamental reconstruction which have always been its main objective, but still have to be worked out in practical detail.

Mr. Morrison, too, said much the same thing at South Hackney, and the *Daily Herald* (the Labour daily) noticed his remarks with approval.

> The Labour party (he said) must review its policy, which remained fundamentally sound, in the light of modern economic and financial problems. . . . There must be more emphasis upon constructive socialism, which would win to their support the intelligent middle class no less than the intelligent working class. There must be less emphasis upon the cash benefits of Labour politics.*

But there are differences, too, among the reformists. Mr. J. D. H. Cole also considers the old idea of milking the capitalist cow not socialism at all, and, anyhow, played out. He recognises the need for fundamental reconstruction, but he does not wish to see Labour "a national, classless party." Its defeat, indeed, he puts down largely to the fact that it was going in that direction, and he believes that the coming Labour party will be far more extreme than the old one, though "its extremism will be essentially constructive and realistic."† To turn to the victors, however, the Conservative party is overwhelmingly preponderant in the House of Commons, but the bulk of its members must realise that they owe their presence there to their advocacy of a national and not of a party policy. The Prime Minister is the man on whom all eyes are fixed. His personal followers are a mere handful, but for all that he enjoys an exceptionally powerful position, for he is the linchpin of the National Government. His leadership is indispensable if it is to hold together. And there is a formidable rock ahead, on which its unity might split, the question of tariffs and the use to which they should be put, if it is decided that they are necessary to prevent a currency collapse. His will be

* *The Times*, November 2, 1931.

† See *The New Statesman and Nation*, November 14, p. 602.

the decisive voice. But the Conservative party know that they would be storing up a defeat as great as their recent victory if it could ever be said that they had used the Prime Minister as a stalking horse, while the Liberals would find it difficult on their side to challenge successfully the impartiality of the man who has so recently had the courage to cut himself free from his old party in order to do what he thinks right for the nation as a whole.

In forming his new Cabinet the Prime Minister has given up the idea of having only ten members. There are now twenty—eleven Conservatives, three Liberals, two National Liberals and four National Labour. The principle of numerical strength has played no part in the selection, and the willingness shown by the Conservatives to content themselves with less than their relative strength might have led them to expect has made a good impression. For the immediate purpose in view the most important departmental posts are naturally those of the Chancellor of the Exchequer and the President of the Board of Trade. They are filled respectively by Mr. Neville Chamberlain and Mr. Runciman.

The victory of the National Government has gone far towards re-establishing foreign confidence, but the nation is by no means out of the wood—the dangers indeed which have to be met are, as is made clear elsewhere in this issue,* as great as ever, and they depend upon world factors, many of which are beyond the control of any single nation. The election has brought a breathing space. It will enable our problems to be considered without haste, but it must also be without rest. The National Government, like its predecessors, will stand or fall by the event.

* See the articles entitled *Great Britain and the Financial Earthquake* and *The World and the Crisis*.

II. The Pound and Industry

ONCE the shock of the historic decision of September 21 had worn off, British industry, or at least British exporting industry, breathed more freely than it had done for six years. It was as if a load had been lifted from the back of every manufacturer north of the Trent. First anxieties naturally concerned the sharp rise in the sterling prices of imported raw materials and the difficulties over the adjustment of contracts in sterling. But these were soon realised to be more than offset by the competitive advantage of the exchange bounty upon British exports which follows the reduction in their gold price. We are still too close to the event to measure the full effects, but writing now, nearly seven weeks after we cut adrift from our gold anchorage, there are many grounds for hope that the expectation of industrial revival will not be disappointed. There are almost as many grounds for uncertainty; a few days or a few weeks may falsify the most cautiously drawn conclusion. The one thing that may count for most is the psychological reaction; the mood of depression and despair has been broken at last.

At the moment, the unemployment figures offer the most striking index of change. Improvement began to be reflected in the returns in the first days of October. Between September 28 (when the total for Great Britain reached the highest figure recorded, 2,824,772) and October 26, there was a fall of nearly 100,000. The decrease was unevenly spread. In the southern divisions—south of a line drawn from the Bristol Channel to the Wash—there was an increase in unemployment, mainly seasonal, of over 40,000. North of that line—in the midland and northern counties, in Wales and Scotland—there was a decrease of about 140,000. The largest fall was in the Midlands, where the number of registered unemployed

dropped by 12 per cent., and in the north-western and north-eastern counties, where the drop was over 6 per cent. The improvement in employment was seen first in the textile trades—cotton, wool, lace, hosiery, linen, jute and silk; the boot and shoe trade; the pottery trades; motor manufacture; and in coal mining. Metals and the heavy industries have responded more slowly. The lighter metal trades moved first; pig iron production increased; but a revival in steel, heavy engineering and shipbuilding is much less in evidence.

By the side of the rosy pictures of industrial revival given in the newspapers, the unemployment returns might not seem too favourable. The lag between the first spurt in confidence and its translation into workshop and factory activity differs much from industry to industry. The increase in employment has affected first the "temporarily stopped"—those on short time or "stood off" for short periods. But as factories and mines that have been closed are slowly brought into production again, the numbers of the "wholly unemployed" are being touched, although not sufficiently as yet to offset entirely the seasonal increases (especially in building trade unemployment, which is above the normal), and whatever effects the economies in expenditure on public works may have. After the middle of November the unemployment figures may be affected by the administrative changes which are reducing the numbers drawing benefit.

The depreciation of sterling gives, of course, a two-fold stimulus to industry, through its operation as a bounty on exports and a check on imports. So far the exporting stimulus appears to have been the more immediate and important, and the advantage will remain so long as the gap between sterling and gold prices continues. Our main competitors in the export of manufactured goods remain on the gold standard, and as a considerable part of our raw materials is drawn from countries which have left gold, there is a strong balance on our side. The tendency to

replace foreign imported manufactures by British in the home market may be slower to operate, as there are stocks to be absorbed, and these may have been increased during the last two months in anticipation of the introduction of a customs tariff. Moreover, it appears that foreign sellers, in a number of cases and for a time, are under such pressure to export that they are prepared to make concessions in price which will cut away some part of the "exchange tariff" advantage to the home manufacturer. As, however, 80 per cent. of our 1929 imports of manufactured goods came from countries still on the gold standard, and as only 50 per cent. of our raw materials proper came from countries now on gold, the ultimate advantage should be on our side, as the value of the finished goods is a good deal more than that of the raw materials used. The obsession of many manufacturers with a tariff for its own sake, and the rather hysterical outcry against all imports as "dumped" have tended to obscure the very real change that has taken place in the position of the home market.

The case of the cotton trade may be taken to illustrate the new situation of the exporting trades. In August it could be said that no more than 50 per cent. of Lancashire's active spindles and 60 per cent. of the active looms were at work; this is to leave out of account entirely the fifth of the machinery of the industry which was entirely shut down. The reaction to the departure from the gold standard was immediate. For the first ten days or so, the increased business was mainly initiated in this country by producers who, having long relied on the weakness of the yarn market, now hastened to cover themselves for the moderate orders that had already been booked forward, and by the home market which feared an early rise in prices. Foreign orders came in briskly in the early days of October. Between September 21 and November 2 there was a drop of 62,000 in cotton trade unemployment in Lancashire, of which 12,000 was among the "wholly unemployed." This represented a decrease in the per-

centage of insured workers unemployed from 41·3 to 29·1. The increase in production was probably less than these figures may suggest, but it received a good deal of public notice because whole districts in Lancashire were suddenly raised from the depths of depression to an activity which they had not known for two years. Other districts, whose types of goods had not yet been called into demand, were for the time little influenced.

As the revival will not be reflected in the Board of Trade returns until November, quantitative estimates are hazardous. The most important demand came from China, where since the war Lancashire's loss of trade to Japan has been catastrophic. Chinese purchasing power has increased with the sharp rise in the price of silver, but currency conditions have had a powerful ally in politics. The anti-Japanese boycott, which followed the Manchurian trouble, diverted to Lancashire Chinese orders for yarns to supply the Chinese mills, and for cloth, and lines of goods have been asked for which Lancashire merchants had long ago given up for lost. Anti-Japanese feeling has also spread to the smaller Far Eastern markets, where Chinese merchants have influence. There is further a normal seasonal increase in business to be taken into account. It is, therefore, not easy to assess the weight that should be given to the monetary factor. But it is clear that in all the markets in which Japan has been a formidable competitor—in China, South Africa, Egypt, Iraq, the Near East, Australia, East Africa, and so on—a definite handicap has been imposed on her trade, a handicap that is felt both in gold standard countries and in those that have followed sterling. In most of these countries Lancashire has experienced an increase of demand.

It would be a rash assumption that sterling depreciation of itself is enough to create an automatic transfer of trade from Japan to Lancashire. It was commonly said a few months ago that Lancashire goods were about 15 per cent. too dear to be competitive. If this could be taken as the

measure in which British costs were too high, it would seem to have been overcome in some branches of trade. It is now calculated that, allowing for the increased cost of cotton in sterling (the price is set by the United States, and cotton in India and Egypt moves in sympathetic relation, although these two countries have followed sterling), Lancashire can sell plain grey cloth of the type Japan has almost monopolised in the East at a reduction of 15 per cent., and the more finished types of goods at even greater reductions. Japan, however, has revealed considerable elasticity in competition, and has cut the prices of her standard goods since September 21. In Australia, even after sterling left gold, and in spite of tariff discrimination, Japan could sell at 7½ per cent. below Lancashire in some lines. Japanese competition has by no means been disposed of; the most that can be said is that the fight has become more equal. The morals which trade missions and trade advisers have drawn from the decay of Lancashire's Eastern connections still need to be pressed home. Moreover, if Japan should be forced off gold, as it is possible she may be, Lancashire's position would be, in relation to her most dangerous competitor, as bad as ever.

Awakening interest is reported from nearly all Lancashire's markets, even in India and South America, which have been so much depressed through the weakness of commodity prices. Many orders can be traced to a transfer from European competitors who remain on gold—from Italy, Switzerland, Czechoslovakia, and Holland, and (in the trade with South America and Canada) to a transfer from the United States. In Europe itself, more orders have been booked, but little is hoped for until general financial conditions improve. All this would be a good deal more encouraging if there were any conviction that the spurt in Lancashire trade is part of a world revival. Some evidence exists of a slight increase in the world production of cotton goods in recent months, but the latest movements appear to be no more than an increase in Lancashire's share at the

expense of other producing countries, many of which are hardly less depressed.

Many of the conditions which apply to the cotton trade revival hold good of the other industries in which unemployment is falling. In the coal industry, for instance, the improvement is not uniform, although production has gone up and quotas have been increased. The departure of the Scandinavian countries from gold has given British exporters a marked advantage over Germany and Poland, but one which those countries are striving hard to counter. In some other European markets the British exporter has to face bounties and licences and import regulations which may whittle away much of his gain. The difficulties of foreign exchange—through the lack of facilities for forward dealings, and the restrictions on exchange transactions which exist in most countries—have also hampered business, and have deterred manufacturers and merchants in many industries from putting forward the effort needed to take up or capture foreign orders.

The cheerful tone of industry has its counterpart in the labour situation. The movements for wage reductions have, for the moment at least, been sidetracked. There has, however, been no movement in the other direction, and the estimates of the London and Cambridge Economic Service suggest that an increase in the cost of living index serious enough to justify higher wages is hardly to be expected.

Optimism runs so strongly that the dangers, external and internal, receive less than their share of attention. At best our hold on prosperity is precarious. A further fall in world gold prices, a nearer approach of sterling to gold parity, the forcing of other countries off gold, or the contraction of the channels of trade by new restrictions would neutralise our advantage. No lasting revival can be looked for while the world depression remains so intense. Even if the credit crisis is miraculously overcome without further catastrophe, the problem of Great Britain's high costs is only

partially solved. Industrial reorganisation and the correction of wage disparities, have become no less vital. The Economy Act and the Anomalies Act will between them go a long way towards removing the features of the unemployment insurance system which have hampered industrial flexibility, but they are not a substitute for the thorough reform that we may look to the Royal Commission to propose. The old individualist Adam, whom depression had bruised but not destroyed, is rising again in the cotton and coal industries and improved demand is being used as an argument for dropping all attempts at a unified policy. The cotton industry may shortly pluck up courage to apply to Parliament for the creation of a statutory body to raise funds and administer them in the purchase or immobilisation of surplus plant. This may put a strain on the new Parliament hardly less severe than that which the question of the continuance of the coal marketing schemes may impose. In some other industries it is much to be feared that preoccupation with the prospects of tariffs may interpose a fresh obstacle to internal reorganisation.

IRELAND: EVENTS IN THE FREE STATE

I. The Fall of the Pound and the Internal Unrest

ALMOST alone among their European confrères our politicians spent a quiet and well deserved summer holiday. Amidst the Kerry mountains, in Breton villages, on the wild coast of Connemara and in similar places they have enjoyed such fresh air and sunshine as this terrible summer afforded. But in the end the rumblings of the economic crisis reached Dublin, and the fall of the pound from the gold standard brought them rushing back to duty. The British economy budget had aroused little more than a passive sympathy with our neighbour's plight, and few, save close students of the situation, realised the instability of sterling. A few days before the crash came Mr. J. W. Dulanty, our Commissioner in London, had pointed out that it could only be regarded as unfortunate for British manufacturers' and workers' interests that trade with the Free State was becoming so lopsided, and that British purchases of Irish produce had declined so heavily. It was difficult, he declared, to see how the Free State could continue to maintain its comparatively large purchases in England if the British market became still weaker for Irish commodities. As soon as the financial crisis burst the necessity and chance of redressing this situation became more apparent, and Mr. Cosgrave, in a sensible message to the nation, exhorted the people to buy first

Irish produce and manufactured goods and afterwards those of Great Britain in preference to those of foreign countries. Under the Currency Act of 1927 our pound is anchored to sterling, and there is therefore no exchange rate between the Free State and Great Britain. There is no country in the world better situated than we are to supply just what the British consumer wants in the way of food, and there must be something wrong somewhere if we are now not able to take a leading place in British markets. Naturally, the Fianna Fail party, apparently oblivious of these facts, have demanded that we should immediately sever our connection with sterling and protect our industries behind a tariff wall, or, if necessary, an absolute embargo. They propose that a central bank should be created in Dublin and that our currency should be made independent. At the same time they attack the Government for not enforcing economy, quite oblivious of the fact that it was largely to deflate the Fianna Fail promise of complete de-rating that the Government were foolish enough to introduce partial de-rating this year, in the teeth of the majority report of the special commission they set up to inquire into the matter. Mr. McEntee, one of the leading Fianna Fail deputies, in a letter to the press, suggests that the cause of England's financial crisis was that France had decisively defeated Great Britain in the struggle for the political and financial control of Europe, and that all through this struggle Mr. Cosgrave's Government, the Anglo-Irish bankers, and the Free State Currency Commission, had been on the side of Great Britain against France. Now that France had won and Britain had lost we must share with Britain the consequences of that loss. Doubtless, if England had backed France in her plans to smash Germany, Mr. McEntee would have been equally shocked and accused Mr. Cosgrave of similar evil designs. The Leader of the Labour party, Mr. J. T. O'Connell, T.D., prophesies that the Free State is facing up to a state of emergency almost as great, if not as imme-

diately apparent, as that which has recently overtaken other countries, but his remedies might be best described as tepid and diluted socialism of a not very practical nature. He would provide useful and remunerative employment for all who are able to work, and use the credit of the country for this purpose. Roads, housing, harbours and waterworks should be constructed with money raised by national loans, and the millions of Irish money invested abroad should be induced to return to the Free State for these purposes. These projects, if pursued seriously, might well land us in a similar position to that of Great Britain, when we tried to balance our next budget. The new National Centre party, which is led by Mr. P. Belton, a former follower of Mr. de Valera, has adopted a policy which includes the establishment of a central bank in the Free State, with a gold reserve and control of national credit, currency and banking; the financing of national housing by the central bank; securing the home market for Irish products, both agricultural and industrial; the complete de-rating of all agricultural land; the drastic reduction of all legal charges, and the codification and simplification of the law. This new party maintains that the interests of the agricultural community and of the country as a whole would best be served by maintaining a party in the Dail independent of all other parties, which would act in all matters political and economic on the directions of the party executive. In short, it represents a purely selfish agricultural policy of the narrowest kind, but, as neither Mr. Belton nor his followers represent any considerable section of the community, it need not be taken too seriously.

It would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation there can be little doubt that there would be an irresistible demand for the creation of

an independent currency in the Free State. That will not take place as long as the reasonable stability of sterling is assured, and the action of Denmark in deserting the gold standard in order to maintain its British trade has helped us to realise the fact that our trade with England, which is our principal market, could not be maintained if we deserted the pound. One strange result of the suspension of the gold standard in Great Britain was that, for the first time in recent years, the Irish bank rate did not, for several weeks, follow the Bank of England rate, but remained at 4½ per cent. Finally, the pressure of the English banks, exerted selfishly through the Belfast Bank (a mere satellite of the English Midland Bank), compelled the Irish banks to follow suit—perhaps not altogether unwillingly. For the first time some strong comments have been heard in Belfast business quarters on the methods of English finance.

But the question of our external financial policy is entirely overshadowed for the moment by a domestic issue of even more vital importance.* For the last few months there has been an alarming increase of political crime, obviously directed and inspired by the extreme wing of the republican movement. On July 19 a young farm labourer named John Ryan, who had given evidence in a recent prosecution for illegal drilling, was taken from his home at Cappawhite, County Tipperary, at midnight by armed men and was found shot dead next morning on the roadside with a label bearing the inscription : " Spies and informers beware. I.R.A." On August 12 the town of Cootehill, County Cavan, on the border of Northern Ireland, where an Orange meeting was to be held, was invaded by large bodies of men armed with sticks, a railway bridge leading to the town was blown up, trees were thrown across the roads and trenches dug, so that it was impossible to enter the town, and the platform at

* See THE ROUND TABLE, No. 84, September, 1931, p. 852 *et seq.*, and No. 83, June, 1931, pp. 626 and 627.

the place fixed for the Orange meeting was destroyed. Strong forces of military and Civic Guards were drafted into the town immediately to preserve order, and a number of young men were arrested for having issued military orders in the public streets. The Orange meeting was not held, and a serious disturbance of the public peace was only narrowly averted. This occurrence had, of course, the natural repercussion of anti-Catholic riots in Northern Ireland. That the so-called Irish Republican Army was responsible for this demonstration is proved by a document issued to the press by its Army Council, dated August 22, in which it was definitely stated that " an imperialist meeting at Cootehill on August 12 was suppressed by order of the Cavan Brigade I.R.A." This communiqué further asserted that the enemies of Irish freedom are to be found equally within the Catholic and Protestant communities, and their rôle is to keep the masses of the Irish people divided by sharpening religious antagonisms. It was vital, therefore, that any attempt to raise sectarian strife should be vigorously suppressed. How any one, outside a lunatic asylum, could hope to avoid raising sectarian strife by suppressing an Orange meeting in the North of Ireland it is difficult to imagine; but such is the mentality responsible for the direction of the extremist movement in Ireland. The net result was that between sixty and seventy persons were injured in Armagh, Portadown, Lisburn and Belfast, whilst damage to Catholic property amounted to about £4,000. Other incidents which have lately taken place include the destruction by armed men of a hut erected by some boy scouts in the County Louth, the wounding of two men by nocturnal assailants in the County Clare, and a determined attempt to shoot the State Solicitor in the same county. How far these occurrences are the work of one organisation it is difficult to say, but it is abundantly clear that a determined attempt is being made by armed terrorism to overthrow established authority.

No executive in a civilised country could tolerate such a menace and continue to exist, and immediately the Dail reassembled, on October 14, the Government introduced a Bill to deal drastically with the organisers of these disturbances. Prior to its introduction the Government members of the Dail and Senate were visited in their houses by members of the extremist organisation, who sought from them an expression of their attitude towards the Government's proposals—although these had not then been made public. These members have since been under police protection. The usual agitation amongst local bodies was also carried on, and an attempt made to secure their condemnation of the proposed legislation in advance. This was only partially successful. The Act, which is entitled the Constitution (Amendment) Act, was passed through both houses of the Oireachtas under a stringent closure motion in four days, and, as its title implies, encroaches upon the provisions of the Free State Constitution, in which careful provision was made for the liberty of the person, free expression of opinion, and trial by strict processes of law. It creates a new article of the Constitution, to be known as Article 2 (a). This article establishes a tribunal composed of five military members for dealing with political crime. This tribunal wields powers such as no judicial authority has ever exercised before in Ireland. It will control all the functions of justice within its sphere, including the death penalty, and there will be no appeal from its decisions, although the Executive Council may pardon convicted persons and remit the punishment imposed. Offences may be brought before the tribunal on the certificate of an executive minister, and its jurisdiction includes political cases now awaiting trial before the civil courts. Furthermore, the police are armed with new and exceedingly drastic powers for the suppression of unlawful associations and newspapers, and for the arrest of suspects. An order of the Executive Council declaring that, in its opinion, any association is unlawful is decreed to be conclusive

evidence that such association is an unlawful association, and the special tribunal is given power to close buildings which are being used for certain unlawful purposes. A remarkable section of the Act has been drawn up to meet the case of the possible kidnapping, wounding, or death of a deputy or senator through the unlawful act of any other person. In the event of such act preventing any member of either house of the Oireachtas from taking part in its proceedings, the Governor-General may, on the advice of the Executive Council, appoint a substitute and (or) adjourn either or both houses of the Oireachtas. There can only be one justification for such a measure, and it was made clear by Mr. Cosgrave in proposing the closure motion, namely, that if the State does not kill the existing lawlessness it will kill the State. In support of this contention he was able to point to the long list of recent crimes and incidents already referred to, and to the public statements of their organisers, the cumulative effect of which conclusively proves that there is a far-flung armed conspiracy to upset the Free State. This conspiracy has, as he pointed out, successfully paralysed the whole machinery of trial by jury and the work of the police in dealing with political crime. It is notorious—and indeed Mr. Cosgrave admitted it—that the ordinary civil judges have refused to deal with political crime, and therefore a military tribunal is necessary.

It is unfortunately only too true that the present practice of political murder and terrorism in the Free State is an evil inheritance from the methods employed by the Sinn Fein leaders during their struggle with England, and in this respect our present Government is only reaping what it has sown, nor are Mr. de Valera and his friends in any better plight. Every argument that was used to justify the attack on established authority by the gun under British rule is being used now, with just as little moral right, to justify the overthrow of the present Government. Those who preached, before 1921, the doctrine of "killing no murder" where the ends were political—and they were, unfortunately,

often those responsible for the moral leadership of the people—are directly responsible for the present condition of the Free State, and the end of the bloodshed is not yet. One doubts if it can ever end until, as a nation, we definitely admit that such a doctrine never was and never can be right. Such an act of national psycho-analysis might rid us for ever of the assassin. The vital question of the hour is, however, whether the people of the Free State will now, once and for all, decisively repudiate such methods, which can never lead to anything but anarchy and ruin. As Mr. Cosgrave pointed out, the test of the capacity of a people to maintain a stable State in existence lies in its determination to defeat these evils. We are now, as he said, being put to that test, and on the firmness of our action here and now depends the whole life of our State, as well as our good name before the other civilised peoples of the world. There is every reason to believe that our people, who are fundamentally moral and conservative, will rise to the occasion. It is remarkable that, in spite of intimidation, the Government and Independent members voted solidly for the Bill, and that two prominent members of the Labour party, Mr. D. Morrissy, T.D., Deputy Speaker of the Dail, and Mr. R. S. Anthony, T.D., one of the members for Cork, joined them in spite of the decision of their own party to vote against it. Fianna Fail has made no real attempt to controvert the catalogue of crime and intimidation presented by Mr. Cosgrave. It has justified itself by asking the Government to resign, and by insinuating that if the oath of allegiance were eliminated from the Constitution, all would be for the best in the best of all possible worlds. During the debate in the Dail Mr. de Valera, it is true, made for the first time the, for him, remarkable declaration that there is no authority outside the Dail to take human life, and that " if there is no authority in this House there is no authority anywhere in the country to rule," but he was careful almost to destroy this statement by suggesting that the present Government were only the successors

of the British Government, and that the ordinary law was sufficient to deal with the crimes mentioned by Mr. Cosgrave, although it has not been found possible under existing conditions to bring anybody to justice in respect of them. The debate, with the exception of Mr. Cosgrave's opening speech, did not reach a high level, and was chiefly remarkable for the repetition of the usual stale taunts as to what various celebrities did or did not do during the Anglo-Irish struggle. It is obvious that the Catholic Church is at last thoroughly alarmed as to the situation, and the Most Reverend Dr. Fogarty, Bishop of Killaloe, has not hesitated to declare that there was a group in this country which had adopted the methods and principles of Soviet Russia and was preparing the ground by murder, intimidation and propaganda. This, he declared, was the peril Ireland was now faced with, and a bigger peril, in his opinion, she never before had to deal with. The Catholic hierarchy, in a pastoral letter, read in all the churches on Sunday, October 18, have definitely declared the extremist military organisation to be immoral and one to which no Catholic can belong. They point out that the Free State has a democratic government and that no one has a right to seek to overthrow that government by force of arms, and that this holds good, not only of the present government, but of any government which may follow, as long as it secures the support of a majority of the people by constitutional means. The only criticism which can be passed upon this clear and accurate statement of Catholic doctrine is that it might have been written and promulgated with equal truth fifteen years ago, and that, if it had been, there would have been no necessity to do it now. Let us hope that it is not too late.

The pastoral also condemns the new political organisation called Saor Eire (Free Ireland) on the grounds that it is communistic in origin and principle. This organisation, which has been started by the ultra-extremists in order to counteract the Government's new move and also

to prevent Mr. de Valera's party from stealing their clothes, held its first congress in Dublin on September 26 and 27. Its objects, as stated in its constitution, are to organise and consolidate the Republic of Ireland on the basis of the possession and administration by the workers and working farmers of the land, instruments of production, distribution and exchange, and to restore and foster the Irish language and culture. The means by which these objects could be achieved were by organising committees of action amongst the industrial and agricultural workers to lead the working class and working farmers in their day-to-day struggle, and to mobilise the mass of the Irish people behind a revolutionary government for the overthrow of British imperialism in Ireland, and the organisation of a workers' and working farmers' republic. It will be observed that this programme has a distinctly Russian flavour, and this has been resented by Miss Mary MacSwiney, who, although the most orthodox of extreme republicans, has, to her credit, refused to embark on a class war to attain her objective. In a recent communication to *An Poblacht*, the extremist weekly, she asks that some more exact definition of the term "workers" shall be given, and one that does not exclude any portion of the Irish people. It may be expected that the young gentlemen responsible for this bombastic document will not comply with her wishes, and that Miss MacSwiney, who is essentially religious, will not give her support to any movement officially condemned by the Church. The mysterious republican Dail, which is in effect Miss MacSwiney's private parliament, has issued a pronouncement in which it states that it deprecates any attempt to create class distinctions, or promote class warfare, and warns loyal republicans to be on their guard against any attempt to entice them away, or force them to surrender their allegiance. It is only too obvious that this body, which is composed in part of amiable and ancient doctrinaire revolutionaries like Professor Stockley, has ceased to have

any effective control over the younger and more advanced extremists, and that it will soon be completely eliminated.

In a lively analysis of existing parties, the organ of Saor Eire describes the Cumann na nGaedheal as the mouthpiece of the Bank of Ireland groupings. It set out to use the Treaty as a "stepping stone," but the opposition developing into civil war pushed the party inevitably to the right until it has become exclusively the party of the big landowners, commercial, industrial and financial interests. Nor is it kinder to Mr. de Valera, whose party, Fianna Fail, it depicts as that of the Irish middle class who feel that the imperialists have hogged the good things the Treaty should have yielded them. The Labour party is contemptuously dismissed as a mere group of adventurers living under the shadow of the Government party, who have failed both the unemployed and the workers.

Acting promptly under the powers conferred by the new Act, the Government has constituted the military tribunal it provides for and has declared twelve associations, half of which are described as communistic, to be illegal. The proclaimed associations include, of course, the Irish Republican Army and Saor Eire. The others are mainly satellites of these two bodies. Sad to relate, they do not include Miss MacSwiney's organisation, Sinn Fein, or her personal Dail. This is the unkindest act of all. The prisoners awaiting trial will now be tried by the military tribunal, and until the results of these trials are made public no substantial developments are probable. It is unlikely that the Government will take any drastic action unless further crimes occur. The ringleaders of the Republican Army have fled the country.

Another problem, of a legal nature, which has necessitated immediate legislation, has arisen concerning the jurisdiction of the Circuit Court. This court was set up by the Courts of Justice Act, 1924, with a jurisdiction of £300, as compared with a jurisdiction of £50 enjoyed by the County Court which it replaced. The Bar of Ireland

strongly objects to this increased jurisdiction, because it has reduced expensive litigation in Dublin to a minimum and decentralised the administration of justice—a step which was absolutely necessary in a relatively poor agricultural country like the Free State—and certain members of the Oireachtas have succeeded in preventing the enactment of rules for this new court, although these rules have been prepared, revised and presented to the Oireachtas on four occasions during the last seven years. Through this deliberate obstruction the Government was forced last year to set up a parliamentary committee to inquire into the whole working of the Courts of Justice Act, and this committee, although composed of carefully selected members friendly to the views of the Bar, was forced by public opinion and results to report that the Circuit Court jurisdiction should not be altered. Matters have now been brought to a head by a decision of the Supreme Court* that, owing to the absence of legal rules, the Circuit Court costs cannot exceed the very low scale fixed in the former County Court. This decision, by reducing barristers' fees to a minimum, has naturally brought the Bar to its senses, and the Bill which the Minister for Justice has introduced, and which will regularise the present situation, is not likely to encounter serious opposition. Seldom has there been a better example of how a powerful profession dealing with a technical matter can nullify legislation, and seldom has such a body been more completely and properly hoist with its own petard.

Amidst all these "excursions and alarums" Mr. de Valera's new daily paper, *The Irish Press*, made its appearance on September 5. It takes as its mottoes the Irish text of the Four Masters: "For the Glory of God and the Honour of Ireland," and the English slogan: "The Truth in the News." In make up it is a cross between the *Daily Express* and a parish magazine. Its sporting news is given the usual abnormal space common to most

* Quinn and another *v.* Stokes and another, July, 1931.

modern papers. Its leading articles are moderate in tone and reasonable in argument. So far it has not descended to the baser personalities of Irish low-class journalism, and it claims that it will not mislead its friends nor misrepresent its opponents. Its advertisements indicate that its present revenue must be about one-tenth of that necessary to make it a commercial success, but this of course may rectify itself in time if its circulation increases. In any event, it may be predicted that it will at least last till after the general election, which is probably imminent.

Irish journalism, in its widest sense, has suffered a grievous loss through the death of Senator P. J. Hooper, Vice-Chairman of the Senate. He was for many years associated with the leading Irish Nationalist paper, *The Freeman's Journal*, which has now ceased to exist, of which he was successively London correspondent and afterwards editor during a very difficult period. In recent years he has acted as Irish correspondent for foreign newspapers, and was also engaged in writing a life of the late Nationalist leader, John Dillon. He was a brother of the late Mr. John Hooper, our brilliant Director of Statistics, who died last winter.* Gifted with a wide knowledge of affairs, a generous mind, and a well-balanced judgment, Senator Hooper's death leaves a serious gap in our national and political life, and he is mourned by a host of friends.

II. The Trade Balance and Other Matters

THE Free State trade returns for the year ended June 30, 1931, show that the volume of trade during that period was the lowest since 1924. The total trade was £93,285,096 compared with £109,669,697 for the year ended June 1930—a decrease of £16,384,601, and the adverse trade balance, as compared with the same year, has increased by £689,921. The detailed figures show that the

* See The Round Table, No. 82, March, 1931, p. 414.

export of butter has fallen, and that there is a reduction of 45,230 in the number of cattle exported, representing a drop of £900,000 in value. More pigs and horses have been exported, but fewer sheep. Strange to say, the quantity of potatoes exported was five and a half times that of last year, and the gross value of this trade increased nearly fifteen times. The practically complete cessation of work in the Ford factory at Cork is accountable for £1,700,000 of the decline in exports during the half-year ended June 1931, so that the decline in the prices for agricultural produce cannot altogether account for more than £2,800,000 out of the total decline of 4½ millions in the same period, and, bad as the farmers' position may be, the lower prices for imported foodstuffs nearly compensates for this. But the trade returns do not tell the whole story. The revenue returns for the first half of the financial year show that receipts amounted to £10,916,000, as compared with £11,188,148 for the first six months of the 1930–31 period. This reduction of £272,000 for the half-year would be of little consequence were it not for the fact that a special duty on petrol and an extra duty on sugar were imposed in the last budget in order to meet the increased grant allocated for the relief of rates on agricultual land. The figures given show that the extra amount required has not been produced by the fresh taxation, and unless the second half of the year, which is generally better, shows a substantial improvement, there will probably be a deficit on the whole year, equivalent to the relief granted to the farmers. These facts suggest the necessity for stringent public economy, and probably increased taxation.

An interesting sidelight on the social habits of our agricultural population is afforded by the publication of an analysis of the conjugal conditions of our population in relation to occupations, derived from the recent census. It discloses that between the ages of twenty-five and thirty-five only 5 per cent. of farmers' sons are married, whereas 24 per cent. of agricultural labourers and 55 per cent. of

builders' labourers between the same ages are married. In England the number of farmers' sons of the same ages who are married is about double. This pernicious practice is indeed the Irish farmers' method of birth control, and it is not uncommon to find men of from forty to fifty years of age still single because of the economic impossibility of setting up households of their own until they inherit the farm on their parents' death. Occasionally the old people assign over the farm when the son marries, but only if the prospective bride can pay a sum large enough to satisfy the family. These conditions increase the necessity for developing rural industries to absorb these farmers' sons and enable them to marry at an age at which they can rear healthy children under natural conditions. Emigration has in the past supplied an outlet for many of these young men, but this door is now practically closed.

Two important problems, both concerning the use of our roads, will have to be discussed by the Oireachtas during its present session. The first concerns traffic regulation, and a Bill dealing with this aspect of the matter was introduced in the Dail last July. It follows in many respects the new English Act. It provides for driving tests for the drivers of public vehicles, and compulsory third party insurance for all drivers. As regards speed, the Bill prescribes certain speed limits for heavy vehicles, including omnibuses, but imposes no speed limit on the private car; it lays down, however, that a speed of more than thirty miles an hour shall be *prima facie* evidence in a charge of dangerous driving. Driving a motor car whilst drunk is at last made an offence punishable with severe penalties, including imprisonment up to six months in the case of a second offence.

The next problem arising out of the situation, namely, the paralysis of our railways through the increasing bus competition, is not so easy to solve.* It is known that it has been engaging the attention of the Ministry of Industry

* See The Round Table, No. 83, June, 1931, p. 631.

and Commerce for a considerable time, and legislation is now believed to be imminent. An official communication states that the primary object of this legislation is not necessarily to preserve railways or to keep branch lines open, but to secure for the travelling and trading public the cheapest and most efficient services which, between them, the existing systems of transport can provide and continue to maintain. Thus it is not proposed to require railway lines to be kept open if adequate facilities at a lower cost can be afforded otherwise, nor is it intended that excessive road competition should continue in such a way as to waste the resources available for providing transport, and so ultimately to raise its cost. The principle enforced will be that transport exists for the purposes of trade rather than trade for the purposes of the parties concerned in transport, and the goal aimed at is to bring about a more economic distribution of traffic over road and rail, based on the capacity of each system to provide the services that present conditions necessitate, at a cost which the traffic can bear. As the policy embodied in these proposals will probably involve the closing of a large number of the superfluous branch railways (which number about forty), it can be imagined that it will be strenuously resisted by the Labour representatives. The Labour party has in fact already presented to the Government a closely reasoned and constructive memorandum, demanding the nationalisation of the railways.

Another serious question which has recently been much discussed, and which also needs legislation on a large and drastic scale, is that of urban housing.* The Civics Institute of Ireland, in a recent important memorandum on this question, states that, in order to make an adequate attack on the slum problem, in Dublin alone provision should be made for the proper accommodation of about 18,000 families in the next ten years. They agree with Burke's dictum to the effect that human beings are not

* See The Round Table, No. 77, December, 1929, p. 136 *et seq.*

lay figures to be arranged and rearranged at will, but are to be dealt with as persons of pronounced habits and definite tendencies, and they consider that this must be borne in mind in connection with the matter of housing. At the same time, however, they claim that in the public interest there must be a general improvement effected of such a kind, and to such an extent, that environment will be a help—instead of, as at present, a hindrance—to a better standard of life. The Institute admits that the large amount contemplated for the provision of houses, both in Dublin and throughout the country, is a very serious matter, and suggests that the major portion of the cost would best be met by long-term loans, but that a substantial sum might be obtained from the public by the flotation at the same time of a short-term housing loan at a low rate of interest if this is done whilst the necessity for action is obvious. It is understood that the Dublin Corporation proposes to seek powers to borrow a million pounds in the near future in order to make a substantial attack on this social cancer.

A strange development has taken place in connection with the Government's policy of encouraging the use of the Irish language. A number of places were deliberately reserved in some of the public examinations, including the preparatory training colleges for teachers, for those who got a 75 per cent. qualification in oral Irish, in order to encourage candidates from the Ghaedhltacht, or Irish-speaking districts, but it has been found difficult—even with such inducements—to get the necessary number of applicants from these districts. It is now proposed to take a number of pupils each year from Irish-speaking families and to send them to suitable secondary schools for the purpose of giving them a free education and afterwards using them as teachers of technical subjects like domestic economy. It remains to be seen whether such spoon feeding is likely to be successful; it certainly cannot stay the rapid decay of the language, which is due to economic reasons beyond

the control of any Government. The sad fact remains that the Irish language has now virtually ceased to be a language and has become an industry. Irish culture of a more vital kind will receive considerable advertisement from the tour which the Abbey Theatre Company is at the moment making in America. It may indeed almost claim to be the parent of the many small theatres which have done so much to promote and encourage native dramatic art in America, and although its actors speak English—or, shall we say, Anglo-Irish—it is one of the most distinctive and national of our public institutions.

Irish art has unfortunately suffered a vital blow through the death of Sir William Orpen, its greatest figure. He has been so long associated with English artistic life that it may perhaps be forgotten that he was really a typical Dublin man, that his earliest artistic training was received there, and that at considerable sacrifice he returned to teach in Dublin during quite recent years. He was essentially Irish, both in his outlook on life and in the development of his art. It is tragic that he should have died in the full maturity of his genius when, perhaps, his greatest work was yet to come.

The Irish Free State.
November 1931.

CANADA

I. The Maritime Provinces

SIX years ago the maritime provinces formed one of the political storm centres of Canada. Prolonged economic depression had given rise to a movement for maritime rights which, though its objects were often obscurely thought of and incoherently expressed, nevertheless embodied the deep discontent of the people. Some, more daring than the rest, said that the only maritime right worth talking about was the right to independence. The cautious majority contented itself with vociferous explanations of the ways in which the maritime provinces had been injured or neglected by the rest of Canada, together with demands, more or less specific, for redress, the dreadful alternative of secession being held as a bogy in the background. In those days it was popular to speak disrespectfully of the rest of Canada, and especially of the central provinces of Ontario and Quebec. It would seem that their outstanding characteristic was avarice, but scarcely any adjective was then too condemnatory to apply.

To-day all this has changed. The people of the maritimes, if not satisfied, are at least silent. The clamour that once threatened to produce a new and independent political group has died away into the murmur of party bickering. Observers may witness here the end of a political movement. Within the short space of a few years one can follow its rise, triumph and decline and see in miniature

the course followed by many more important agitations. What is the reason for the change ?

The maritime rights movement was the outcome of adversity ; it was brought to an end by prosperity. The swelling tide of business activity in the United States and Canada in the years following 1925 gradually had its effect on conditions in the maritimes. Trade through maritime province ports, especially Halifax and St. John, grew in volume ; the coal and steel industry was reorganised under the most favourable auspices after being torn for years by internal dissension aggravated by political machinations ; a large plant for the manufacture of paper was established at Liverpool in Nova Scotia ; and with the return of a measure of confidence in the future, building construction —and reconstruction—was stimulated to contribute its quota to the general activity.

In so far as the improvement in maritime conditions was due to this cause, no individual or political party deserves the credit. But it was not entirely due to this. Political activity, usually so ineffective, played its part here. Indeed, the handling of the maritime problem affords, on a small scale, quite an instructive example of the way in which wise statesmanship can help to charm the serpent of disaffection. (Events like these help one to understand why natives of these provinces have acquired a reputation for political astuteness.)

The contribution of politics to the amelioration of conditions in the maritimes has come partly from provincial and partly from federal sources. In 1924, in Nova Scotia, the Conservative party was returned to power by an overwhelming majority and replaced a Liberal Government which had administered the affairs of the province for some forty years. It is true that by no means all the abuses that enthusiastic Conservatives expected, and even hoped, to discover proved to exist. Nevertheless, the event shows the advantage of a fresh outlook and fresh energies. The administration of the finances of the province was re-

organised and improved, following a thorough-going audit. A Royal Commission investigated the coal industry and made incisive recommendations, partly as a result of which comparative peace was restored between management and men. The distribution of governmental work among the various departments was altered for the better and a new department was created, charged explicitly with the duty of fostering the economic development of the province. The educational system, under the direction of a new Superintendent of Education, was much improved, thanks to the larger sums of money appropriated to this use. But, what probably seemed of most importance to the public, and was perhaps the outstanding achievement of the Government, was its success in securing assistance for the province from the Federal Government.

This is where the contribution of Ottawa to the solution of the maritime rights problem appears. Forced by the exigencies of politics to take cognisance of the movement, the Federal Government dealt with it by the familiar method of a Royal Commission. The governments of the provinces submitted their claims to it and the Commission speedily reported. Considerably to the embarrassment of the Federal Government, but to the jubilation of the maritimes, the report gave wide recognition to the provincial claims. Large increases in the Dominion subsidies to the provinces, and a reduction of 20 per cent. in freight rates within the maritimes, stood out among minor recommendations. Could these sweeping proposals be acted upon ? Strong opposition was encountered and their fate was for some time uncertain ; but in the end they were substantially carried out.

What does the future hold ? In so far as the improvement is due to better provincial government one may dare to hope it will be permanent. There seems to be a little more independent thinking—and voting—than formerly. But this belief must be held cautiously and prayerfully, for the forces of degeneration in these matters are, like gravi-

tation, the persistent ones, and to move upward is to struggle.

The permanence of the federal contribution must be judged still more uncertain. Here it is not a question of the quality of the administration but the generosity of the financial—and equivalent—assistance. How long will this last? The thought recurs that the interests of the various sections of Canada collide at many points and the Government is therefore surrounded by a fierce struggle of conflicting interests in which the strongest must generally win out. When prosperity sheds its softening influence over public affairs the bitterness of the struggle is modified, and some satisfaction can be given, from an overflowing Treasury, to all parties. That was the happy situation in 1927, when the recommendations of the Duncan Commission came to be considered. But things are different now. The world depression, a feature of which is the desperate condition of the market for Canada's principal product, has had its withering effect upon public as well as private finance, and rich surplus has changed to gaping deficit. No one knows how long the lean years will last, but it seems that the process of readjustment will be longer and harder than most people would have believed possible two years ago. In circumstances like these, concessions having financial effects are not so readily granted, and bargaining in general is closer. If this, or indeed anything else, robs the maritimes of their present comparative prosperity the memory will not fail to be revived of how profitable, to its sponsors, from the standpoint both of economics and politics, was the maritime rights movement.

II. The Beauharnois Investigation

THE outstanding event of the last session of Parliament was undoubtedly the investigation by a committee of the House of the Beauharnois power project and, of the relations of the Beauharnois Power Corporation with the two political parties, particularly with the Liberal Administration of Mr. Mackenzie King which was responsible for approving of the plans of the corporation.

The Beauharnois (or Soulanges) section of the River St. Lawrence is one of the three important stretches between Lake Ontario and Montreal which are obstructed by rapids. It therefore has a vital place in the project for the building of a deep channel and the production of hydro-electric power which has now been before the people of Canada and the United States for over a decade.* These rapids lie in a stretch of the river some 14 miles in length between two broader portions of the stream named Lake St. Francis and Lake St. Louis. The section lies wholly within the bounds of Canada, and also within the province of Quebec. Between the two lakes there is a fall of 83 ft., making possible a total production of almost two million horse power of electrical energy, or about two-fifths of the total possible production from the river. Probably one-third of Canada's entire population is concentrated within the area available for a market, Toronto being within easy reach of transmission to the west, and Montreal only some 25 miles to the east. With deep water navigation to the ocean and cheap power, the immediate vicinity may become one of the world's richest industrial areas.

As early as 1926 Mr. R. O. Sweezey, a civil engineer of Montreal, became actively interested in the Beauharnois site, and planned, as he stated in a letter, to

> enlist with our syndicate two or three individuals, who in addition to providing some cash as their fair share, can assist us in getting

* See The Round Table, No. 72, September 1928, p. 832, and No. 81, December 1930, p. 172.

our rights extended or enlarged so as to develop the entire available flow of the St. Lawrence at this point. As the whole situation is entirely within the province of Quebec, our influence has to be exerted only in Canadian political circles—that is, at Ottawa and Quebec.

After purchasing certain rights to the diversion of water which dated back to the days of French rule, Mr. Sweezey and his associates pressed their case at Quebec, and in April, 1928, obtained from the provincial government permission to divert a maximum of 40,000 cubic feet per second for a period of 75 years at an annual rental of $50,000 plus $1.00 per h.p. on the understanding that the company would develop a capacity of 500,000 h.p. within ten years and that authorisation would be obtained from the Federal Government "in so far as its rights are concerned." The right was also given to expropriate land for building a canal.

The company then hastened to push the offensive on the Ottawa front. Application was first made for the right to divert ultimately the entire flow of the River St. Lawrence, the company proposing that it would spend up to $18,000,000 in completing the canal for navigation with locks and other necessary works. In the face of powerful protests, however, the company at a hearing arranged by Government on January 15, 1929, amended its application to a request for 40,000 cubic feet per second. The canal was to be built suitable for shipping, with a minimum depth of 27 feet, and was to be freely available for navigation at any time that the Dominion Government completed the locks, the land for such works being supplied by the company. On March 8, 1929, an order-in-council* gave the Dominion Government's consent to the proposal.†

* P.C. 422.

† Later in the year permission was given the company to take over the right to divert another 13,000 c.f.s. previously granted to the Montreal Cotton Company. In 1931 the Quebec government gave its permission to divert still another 30,000 c.f.s., but this has not yet been passed on at Ottawa.

Twenty-eight conditions were imposed, among them being the following:

(II) The Company shall not commence the construction of the works until detailed plans of construction and all necessary information respecting the said works have been submitted to and approved by the Minister, provided that such plans and information shall be submitted within one year.

Plans were submitted by the company on July 29, 1929. These were not approved then or later; nevertheless, the company commenced construction on its expropriated property on August 7.

On May 22, 1930, Mr. Gardiner, the Progressive leader in the House of Commons, delivered a powerful attack on the legality of the order-in-council and the financial manipulations of the company. Mr. Bennett, then Leader of the Opposition, evidently struck by the exposure, declared that power should be developed

under terms and conditions that enable such power to be available to the Canadian people on the cheapest possible terms. These resources are held by us from Providence in trust, not for the few but for all; they are held in trust for the Canadian people and not for the few . . . When I contemplate what those figures meant this afternoon, my feeling of resentment gets the better of me.

Mr. Bennett, however, asked Mr. T. L. Church, a Conservative member from Toronto, and a staunch upholder of public ownership, to drop his proposal for the annulment of the company's rights, and nothing came of Mr. Gardiner's protest. The general election followed, and the new Government under Mr. Bennett, faced with the staggering difficulties of unemployment and business depression, left the Beauharnois problem alone.

There the matter would probably have rested had not the Progressive and Labour groups in the House of Commons returned to the attack on May 19 last. Obtaining permission from the House to discuss "a definite matter of urgent public importance," they launched a sweeping

indictment of the whole Beauharnois development upon the following lines: that the order-in-council was illegal because the Dominion Government "had no authority under the Navigable Waters Act to grant the right to divert and use this water for power development, and the whole Beauharnois development is without real legal foundation and contrary to the laws and treaty obligations of Canada"; that the company had prepared plans providing for the diversion of the whole flow of the river; that it had sold bonds on the representation that it would eventually get the whole flow; that its plans of construction had not been agreed to by Government as required in the order-in-council, in spite of which a canal big enough to take the whole flow was being constructed; and that "under this development, unfortunately, a gigantic alienation of the natural resources of this country to private interests for exploitation is taking place under the monstrous financial scheme that was fully disclosed to the House last year." Mr. Gardiner, of the Progressive group, declared that

> the gigantic control, on the part of small groups of financiers, of these immensely valuable resources upon which, as the Prime Minister said last year, the life, the welfare, the happiness and well-being of millions of people in the future depend . . . is a matter of the gravest concern to the people of this Dominion. And any alienation of these resources to private interests by order-in-council must be investigated . . . In my opinion, the time is coming when, if necessary, amendments to the British North America Acts must be secured in order to give this Government authority to preserve the rights of the consuming public.

The immediate result of the debate was the appointment of a committee of the House for a special investigation. Premier Bennett admitted that the canal under construction was much larger than necessary for the diversion of 40,000 c.f.s., and that no plans of construction had been approved, but he offered no comment on the demand for annulment of the charter, and expressed the view that those who had invested in good faith must be

protected. The committee sat from June 15 to July 22, and for over a month provided headlines for the newspapers from the Atlantic to the Pacific. It examined thirty-five witnesses, and its printed proceedings and report fill almost a thousand pages. It did not by any means investigate every aspect of the problem, but on certain points its revelations were sensational. Its finding may be briefly summarised. The charge was confirmed that the work of construction was proceeding according to plans which had not received approval, and that in fact the work was not in accordance with the plans that the company had submitted. It was found that the breaching of the Hungry Bay dyke necessary for the diversion had been carried through without governmental authority, and that the plans of remedial works for the protection of navigation had not been worked out. The opinion was expressed, however, that the general scheme of the work was not inimical to the interests of navigation, and should be carried through. The committee recommended,

> That the Parliament of Canada take such action as may be within its power, and without prejudicing the rights of the Province of Quebec, to procure the development of this project in such a manner as will best serve the people of Canada.
>
> That should the rights of the Dominion and the Province of Quebec come in conflict, every effort be put forth to arrive at a satisfactory agreement, so that the project may not be imperilled by delay.
>
> That definite action be taken to preserve the rights of navigation and the complete jurisdiction of Parliament in respect thereto.

Much, but by no means the entire story, was laid bare with regard to the financial history of the company and the very great profits already realised by the promoters. The general result was summarised as follows:—

> As the situation now stands, the promotors of the Beauharnois project, involving the exploitation of a great natural resource, have been able to secure to themselves a return of all moneys advanced

by them or any of them, a profit of $2,189,000 in cash and 1,000,000 class A common shares, which, if saleable at the market quotation of $4 per share, would be worth $4,000,000. This cash profit was paid out of moneys borrowed by the Beauharnois Power Corporation, Ltd., by the sale of its bonds.

To complete the project up to the point where 500,000 h.p. will be produced, they will require a further sale of bonds in a capital amount of $46,000,000. If this were accomplished, the power project would have been constructed completely on borrowed money, and the promotors would be in control of this vast enterprise owning 1,620,000 of the class A shares out of a total issue of 1,799,995, and also the five management preferred shares, which for ten years give to the underwriters practical control of the company's affairs, and all of this without the present investment of any money.

On July 31 Premier Bennett made his statement of policy to Parliament. He strongly condemned the Beauharnois corporation for its attitude of defiance to Government. Asked why the company was allowed to proceed with construction although its plans were not ratified, he replied that there were before his Government no plans submitted within one year of the passing of the order-in-council as the order had required, and that the company took the view before the committee that all it was doing was digging a ditch on its own land. To the layman this sounds like legal chop-logic, especially as the order stated that the approval there granted might be cancelled "in case of failure by the company to observe or perform any of the provisions and conditions" which were then imposed. Mr. Bennett seemed to stand more firmly on the national interest when he declared that further diversions than those granted would render the river unnavigable in its natural bed, and that the Navigable Waters Protection Act contemplated no such interference by order-in-council and without reference to Parliament. As to restitution of moneys which investors might think had been misused, he declared that the Government had no control as it could not institute civil proceedings. Criminal prosecution was a matter for the provinces, but as the deputy Attorney-General of Quebec had been

retained by the Beauharnois company, Mr. Bennett was "satisfied there will be none."

To deal with the situation for the moment, Mr. Bennett had two Bills passed. By these the right of the Beauharnois company to divert 53,000 c.f.s. was ratified by Parliament, and the canal and its appurtenances were declared to be "works for the general advantage of Canada." Exactly what this may mean it is hard to say, but it appears that the project will go on as a private enterprise with a reorganised management more agreeable to the Government and the banks.

There is little prospect of St. Lawrence power—one of Canada's greatest natural resources—being developed as a public enterprise. Mr. Bennett is sharply opposed to any tendency towards government ownership or management of business concerns; Quebec is hostile to public ownership; and even Ontario, with its great publicly owned hydro-electric system, seemed to many to play the game of private exploitation when the Hydro-Electric Commission contracted in 1929 to take 250,000 h.p. from the Beauharnois company at $15 per h.p.—a price sufficient to yield a handsome profit. It was not the first purchase of power from a private company, and the Commission defended its action in a public statement. Among its supporters there has, however, been a display of considerable uneasiness, especially as the agreement seems to have come at a very opportune time in connection with the financial and political operations of the company.

Finally, it may be observed that the Beauharnois issue has once more raised the constitutional question of the respective rights of the Dominion and provincial legislatures. From the point of view of the ultimate destiny of the Dominion as a united nation, this is perhaps the most serious aspect of the whole problem. The British North America Act can be amended only by the Parliament in London, and while there is no doubt that any proposal by Canada whereby she would secure the right to amend

her constitution would be accepted in London, there is little evidence at present of a serious discussion of the problem in the Dominion. Powerful forces will be arrayed against any change in the present situation, because of fear of interference with minority and provincial rights. Under present conditions the Imperial Parliament may be called upon to face the difficult, thankless, and dangerous task of dealing with highly contentious constitutional problems for whose settlement the Canadian people should make themselves responsible. In spite of the clear intention of the Canadian framers of the British North America Act that the Federal Government should have strong powers in dealing with matters which it might consider to be of national importance, even although they lie entirely within one province, there has been a strong tendency in recent years to magnify provincial rights at the expense of Federal jurisdiction. This has shown itself in judicial decisions and in political pressure which could not be disregarded by either Liberals or Conservatives at Ottawa, especially as Ontario and Quebec, the two most powerful provinces, took the lead in pressing provincial claims. So far as the St. Lawrence is concerned, it is admitted in general that the Dominion has the right to protect and control navigation, and that the provinces have the right to develop power; but legal questions of far-reaching importance with regard to ownership and jurisdiction are unsettled. In 1929 certain questions of principle with regard to power and navigation were submitted to the Supreme Court of Canada, but the answers were indefinite, and the order-in-council was issued in a haze of legal uncertainty. Mr. King's Government, while contending before the Supreme Court for extensive rights of jurisdiction, appeared to adopt a very much weaker attitude in dealing with the Beauharnois application. Without infringing the right of a province to power which might be developed within its borders, the Dominion Government might, it was felt by many, have retained

prestige and leadership with regard to a question of great national importance by refusing to deal with it piecemeal, and by seeking the co-operation of Ontario and Quebec in framing a national policy. Some of the reasons for the loss of that opportunity may be suggested by the story in the preceding pages. It remains to be seen whether the Dominion Government will regain the ground lost. The specific question with regard to Dominion-provincial rights in the Beauharnois project is to go to the Supreme Court. When that decision is given it may be possible to suggest what is meant by Mr. Bennett's Act of August 1, in which the Beauharnois canal was declared to be a work "for the general advantage of Canada."

Canada.
October 1931.

AUSTRALIA

I. The Struggle towards Financial Rehabilitation

THE period under review began bravely and optimistically enough, as may be read in the confident title of the Financial Emergency Bills which were introduced in all the Parliaments to carry out the resolutions of the Premiers' Conference in June. They were entitled measures "for meeting the grave financial emergency existing in Australia, re-establishing financial stability, and restoring industrial and general prosperity." The measures for implementing the Premiers' plan have now (with some exceptions which will be described below) passed into law. But the quarter has been one of disillusionment and anxiety, and none of the nation's leaders can see the outcome of our difficulties clearly enough to inspire us with courage and enthusiasm. Much has certainly been done already. But its effect has so far been negative rather than positive; we have been bringing the drift under control rather than getting the vessel back to her course. This phase has doubtless been common to the period of recovery from all previous depressions. But this depression has been so analysed and anatomised for the sake of the elector, and its end hailed so often for his encouragement, that opinion has become peculiarly liable to impatience and disappointment. Australian opinion, moreover, is only now beginning to distinguish clearly between those causes of our troubles which are really within our own control and those which are not, and confusion of thought on this point has encouraged the man in the street to dream that once the

great public economies were made and budgetary equilibrium came into sight, there would be immediate signs of a return to industrial and general prosperity, heralded perhaps by financial aid from overseas. But the swift development of Britain's financial crisis dispelled this latter hope; an unhappy public began to realise at last that its sacrifices are not mere temporary adjustments to a sudden shock, but are only stages in the painful process of deflation towards a less expensive standard of life; budgetary equilibrium itself is still far distant. As the quarter closes, opinion is clutching desperately at the straws of hope offered by Great Britain's departure from the gold standard. If the new British policy brings to a head the whole problem of international debt settlement, it may offer to Australia, with other debtor countries, some prospect of relief. The other vital question, for Australia as for the agrarian communities of Europe, is whether the economic and social structure of the community can he held together pending an improvement in markets abroad.

The Conversion Loan

The Premiers' plan itself was fully dealt with in the last number of The Round Table,* and it will be sufficient here to trace the main features of the attempt to implement it. Internal debt conversion and the reduction of all adjustable government expenditure (salaries, wages, grants and pensions) by 20 per cent. were to go on side by side. The conversion was controlled by the Commonwealth, since in the financial agreement of 1927 the Commonwealth has assumed liability for all State debts, and it was carried out in virtue of a variation of that agreement, signed by all the Premiers, and to be embodied in legislation by all seven Parliaments. The States have also had to pass legislation empowering trustees to convert securities held on trust. The amount to be converted was £556 million; securities on conversion were to be allocated among new

* See The Round Table, No. 84, September 1931, pp. 895–903.

securities whose dates of maturity ranged approximately between 7 and 30 years, at an interest rate representing on the average a reduction of 22½ per cent.; holders were urged to make definite application for the conversion of their holdings, but the Act provided that, unless actual dissent was signified, conversion would be automatic. The official appeal to bondholders was based solely on the financial difficulties of the Governments, and on the need for patriotic sacrifice from every section of the community, and the Act provided that holders who dissented should receive new securities maturing at the same date and bearing the same rate of interest as their existing securities. The result was eminently satisfactory; some £490 million was converted on application, and some £48½ million more by effluxion of time. This made up 97 per cent. of the total holdings. The holders of only the remaining 3 per cent. (£17½ million) dissented. The country actually had the welcome, though of late unhappily rare, experience of being cited in London as an example to be followed.

There remained the problem of what was to be done with the unconverted £17½ million. The treatment of dissentients had caused acute controversy at the Premiers' Conference in June, and the problem had been left unresolved at the instance of the leaders of the Opposition in the Commonwealth Parliament, so that no penal alternative might be threatened against dissentients, to mar the psychological effect of a voluntary appeal. At the same time, the Premiers' Conference made no attempt to conceal its determination that the sacrifice must be a common one, and that some way would have to be found of bringing in dissentients. "Although it is not specifically stated in this resolution," said Mr. Theodore, "it is agreed implicitly, and without any equivocation, that if people do not convert they cannot be allowed to go free of making a contribution to the national sacrifice." It was only on this express understanding that Mr. Lang agreed to the Premiers' plan. In the event, the vagueness of the future probably had a

greater coercive effect on bondholders than a specific threat would have done, and no holder supposed for a moment that if he dissented the Government would fulfil his contract to the letter. Penal taxation was freely discussed during the Conference; but a very considerable proportion of the dissentients is understood to have been made up of holders whose securities mature either this year or next, and who are concerned with the availability of their capital to meet other needs rather than with any interest they may gain in the meantime. There was, however, no promise to pay off the unconverted bonds, as there was in the Goschen conversion of 1889. But the Premiers' Conference was faced at the beginning of September with the sheer impossibility of finding an additional £17 million in the near future to pay off the unconverted bonds as they mature. It fell back on compulsion and decided that—except in cases of proved personal hardship, for which it was thought that ample provision could be made out of sinking funds—the dissentients should have their holdings converted compulsorily by Act of the Commonwealth Parliament, which may require some complicated legal adjustment. The step must be profoundly regretted. It must to some extent weaken the good effect caused by the voluntary character of the main effort. Nor is the small amount involved any real justification where the principle of repudiation is at stake. The only point that can be taken in support of compulsion is, that the consent of the holders of the other 97 per cent. gives the same kind of warrant for extending like terms to the remainder, as is given in bankruptcy proceedings when the court makes an order based on the consent of a large majority of the creditors.

Reductions in Public Expenditure

The reductions in adjustable expenditure were treated (except in New South Wales, which is dealt with elsewhere in this article) largely as a simple matter of arithmetic, and

while grants were reduced by an automatic 20 per cent., salaries were reduced on a scale more or less steeply graduated after the fashion of income tax rates. In the long run, however, indiscriminate economy of this sort may well turn out badly. If the reductions were to be temporary only, they would produce relatively little effect. But on the assumption that the country is now firmly set towards a deflation which will reduce general standards to levels comparable with pre-war days, a more scientific revision of expenditure seems called for. The whole Australian people, individuals and Governments alike, has indulged in many extravagances in the boom years, and the path of wisdom would now be to revise our activities in the light of what it is really worth while spending money on. Some things we have been doing we might now usefully eliminate altogether. In some directions, on the other hand, any reduction at all is folly, not to be justified even by reference to the plausible slogan "equality of sacrifice." It is a common error at the moment to think in terms of the persons on whom sacrifices are being imposed rather than of the work to be done, and the general sense of urgency obscures the long-term considerations, such as the extent to which salaries have in the past shared in the recent prosperity, which are essential to real equality.

So obsessing has the idea of "equality of sacrifice" become that the Parliaments of three States (New South Wales, Victoria and Western Australia) have included the Supreme Court judges in their scheme of salary reductions, on the same terms as members of the public service. The importance of preserving the independence of the judiciary was not so much overlooked as outweighed—with the support, it must be admitted, of a considerable body of public opinion—by the desire that no income should escape the general reductions. Thus, to reduce salaries, which have for the most part remained stationary for anything up to fifty years, may be both inequitable and even unwise, but is at least consonant with the spirit of the

time. The strongest objection to this breach of British constitutional tradition—and it has been vigorously expressed—is that a modern democracy needs, not less but more than ever, a judiciary which has nothing to fear, or hope, from Parliament. It is understood that in all the States the judges have themselves offered contributions from their salaries; of the justices of the High Court, interference with whose salaries is prohibited by the constitution, some have offered to accept a reduced salary, others to forgo their travelling allowances.

Only one of the Australian Parliaments (in Queensland) has ventured, in making provision for reductions of expenditure, to do what the Imperial Parliament has now done, to substitute reduction by Order in Council for direct parliamentary regulation.

The reduction in wages and pensions has earned, as was recorded in the last number of THE ROUND TABLE,* the vigorous disapproval of the Labour party organisation. The Labour Governments in South Australia, Victoria and the Commonwealth had to break down opposition not only in the parliamentary caucus but in the local and federal executives of the party organisation. Mr. Hill in Adelaide, Mr. Hogan in Melbourne, and Mr. Scullin and Mr. Theodore in Canberra were strong enough to proceed with the plan, though the malcontents in Adelaide succeeded eventually in carrying a motion for the expulsion from the party of all members who had supported it. A special conference of the federal executive of the party organisation (six members from each State) was called at the end of August to consider this proposal, but rejected it by 22 votes to 13. In June, the same body had declared its hostility to this part of the plan, but had recognised that, to bring about the downfall of the Labour Governments, would be disastrous to the party. The desirability of averting a split in the party was just as great at the end of August, indeed more so, as several elections are beginning

* See THE ROUND TABLE, No. 84, September 1931, p. 903.

to draw near. It was, therefore, not surprising that a compromise was again reached, though the South Australian branch seems determined to persist in its original policy. The federal executive again declared that reductions in wages, pensions and social services cannot be accepted as any part of Labour's policy, since they violate the substance of the ideals and principles for which the Labour movement stands ; and it instructed Labour members, both Federal and State, that any further reductions of the kind must be resisted. This may perhaps be regarded as merely face-saving. The party organisation is not likely, at a time like the present, to risk the downfall of a Labour Government. The real significance of the resolutions passed at the party conference is rather to be found in the re-affirmation that the whole policy of deflation is wrong, and that the essential nature of the crisis is monetary and can be met only by a policy of monetary and banking reform. " Plenty of meals but no tickets," is one Labour journal's summary of the whole position. The left wing in the federal parliamentary caucus has begun to press again for the fiduciary note issue to which the party had pledged itself earlier in the year.

Reduction of Private Interest Rates

One other part of the Premiers' plan calls for mention—the reduction of private interest rates or, more precisely, reduction of interest on mortgages and on bank deposits and advances. Legislation to secure these objects has been opposed so tenaciously by the Legislative Council in Victoria, that the Victorian Financial Emergency Bill was delayed till nearly the end of September. The report of the Premiers' Conference had left the matter as follows :—

> Concurrently with the reduction of bond interest must go a reduction in private interest. This is mainly a matter for the banks, who are co-operating to that end. Reductions of interest are being arranged between the Commonwealth Bank, the trading banks, and the savings banks, which will result in the rapid reduction in the interest on money required for trade and industry. This reduction

> of interest will be supplemented by legislation giving relief to mortgagors. This legislation forms part of the plan.

The real ground taken by the Victorian Legislative Council was that, while recognising the necessity for the reduction of private interest, it thought that such reduction would inevitably be made at once in all proper cases as a result of discussion between debtor and creditor, and, in the long run, by the operation of economic forces ; that legislative interference with private contracts was strongly to be deprecated ; and that in any case the legislation actually proposed was clumsy and unsatisfactory. The Government, in reply, drew a distinction between bank rates and mortgage rates. Its defence of the legislation as to bank rates was that the trading banks in Victoria seemed to be holding back in part from the reductions contemplated by the Conference. When they offered a reduction of one per cent. in rates for advances by October, a compromise was adopted under which the banks were included in the measure, but the provisions were to have no operation until proclaimed, with the consent of both Houses. As to mortgage rates, the Government's defence was that it was pledged to implement the plan " one and indivisible," and that legislation for the relief of mortgagors formed part of the plan. It was, however, clear that the draft mortgage legislation had been adopted almost without discussion at the Conference, and that the legal difficulties involved had scarcely been appreciated. Indeed a certain inattention to the legal aspect of the exceedingly complicated operations involved in the proceedings was a marked feature of the whole Conference. This was due partly to haste, and partly to the fact that, though efficient legal advice was available, its value was reduced to a minimum by the failure of the Conference, till a very late stage, to agree on the more important points of policy. The Victorian Legislative Council's stand, unpopular as it has been, has probably done the community a service, since it has directed close attention to the measures adopted. The legislation has, in some

States (New South Wales, Victoria, Tasmania and Western Australia) proceeded by way of automatic reduction of interest rates, unless the mortgagee can satisfy a tribunal that, having regard to the relative position of borrower and lender, reduction is inequitable; in the other States (Queensland and South Australia) the onus is on the mortgagor to apply for a reduction, which he is entitled to get unless the mortgagee can show that it is inequitable. The scheme of the legislation provides generally for a reduction of 22½ per cent. in interest, but with a minimum interest rate of 5 per cent.

The Budget Position and General Rehabilitation

Ever since Sir Otto Niemeyer's visit, the real centre of political interest has been in the Premiers' Conference and the Loan Council (at present practically indistinguishable in personnel and identical in function) rather than in any of the Parliaments. In the quarter under review, their principal function has been the "policing" of the plan. They met early in August to consider, partly a request from New South Wales for urgent financial assistance, and partly the budget plans for the financial year 1931–32 in the light of events since June. New South Wales was accorded the advance required in order to pay civil service salaries, but only on condition that Mr. Lang came into line in implementing the plan. The possibilities of budgetary equilibrium were carefully examined, and the Loan Council before it adjourned took the significant step of appointing a standing committee of under-treasurers and economists to examine continuously, and report upon, the budgetary position of each State, and its conformity with obligations under the plan. At the same time a similar organisation was adumbrated for the Premiers' Conference in the form of a permanent secretariat. Its first task was to gather information and report to a subsequent meeting upon action to relieve unemployment. Here were two important processes at work—not merely the first definite step in the

transformation of the Premiers' Conference from a gathering into an institution, but a definite step also in facing the long-term problem of industrial rehabilitation.

The Premiers and Treasurers reassembled at the beginning of September to discuss the reports of the two committees. The budgetary position turned out to be disquieting. In June, allowing for such shrinkage of revenue as then seemed likely, the year 1931–32 was planned to produce a total deficit of only £15 million, which the banks agreed to finance. In September, it was clear that the deficit would probably amount in all to about £18 million; the New South Wales figures were only vague. Conferences with the bankers followed, but the banks would not undertake to advance more than £16 million for the year, leaving the Governments to make up the other £2 million either by fresh taxation or by fresh economies. As to unemployment and rehabilitation, the secretariat had had totally inadequate time to make a thorough analysis, but reported in grave terms. Employment cannot in the long run be increased, it urged, unless the country can export at world prices; it cannot even be kept at the present level unless the financial resources of the country are used to their limit to keep the wheat grower in production, to maintain the existing volume of employment on public works, and to provide or stimulate enough additional employment (*e.g.*, on gold mining, paper pulp and fisheries) to set moving the gradual revival of business and enterprise. The secretariat's report therefore contemplated both a long-term policy of reduction of costs, a review especially of all forms of government assistance to industry, and an immediate policy of stop-gap measures in order to maintain the country's economic and social structure for the time being. The report caused a good deal of public disappointment; to the unthinking, because it was so grave in its outlook; to the more thoughtful, because its immediate recommendations seemed to be to keep on the old disastrous methods. The banks, after anxious conferences, eventually agreed with

evident reluctance to grant still further credits, not indeed to the amount of the £16½ million, which the secretariat thought would be necessary, but at any rate to the extent of £3 million to provide a bonus of 4½d. a bushel on wheat of the 1931–32 season, and £4,250,000 for the first half of the financial year for public works already in progress. But, of course, nobody really expects a permanent solution along these lines, or from any action that can be taken within Australia herself. Without a rise in world prices the country is facing not merely a measure of default abroad, but collapse at home. In such circumstances the almost feverish interest with which the development of Great Britain's new policy is being followed, and its result canvassed, will be readily understood.

II. Mr. Lang and New South Wales

FROM its origin in 1891, the Australian Labour party has been strongest in New South Wales, and more particularly in Sydney. It might, therefore, have been predicted that in Sydney the party would produce its finest flower, its most logical and uncompromising leader. And, as Australians are fond of ideals but impatient of technique, Mr. John Thomas Lang only adorns the national type in showing himself more hearty in his zeal for the under dog than skilful in advancing his interests.

Since 1917 Australian Labour has become conscious of an affinity between the political regulation of trade and industry, slowly evolved as *socialisme sans doctrines* during the party's youth, and the economic philosophy of the Russian communists. Some of the inner group in the Sydney Trades and Labour Council have visited Moscow, and evidently share its hopes of a world-wide reconstruction of society. Possibly Russian example has confirmed the New South Wales branch of the Australian Labour party in its zeal for strict discipline. Certainly the distinguishing

mark of Mr. Lang's leadership in the present Parliament, as compared with his 1925-27 term of office, is to be found in the caucus of 55 supporters who, under pressure from the party machine outside, support with steady docility the policies propounded by the Premier. At times there are private mutterings of revolt, notably from Labour members for country constituencies. But there is no revolt. The division bells break in upon every Opposition speech which threatens to damage the Government's prestige, and at their call the caucus files in full force before the tellers.

To what end ? In name the Bills put forward by Mr. Lang differ little from those of earlier years or of other State Houses to-day. Mr. Lang's proposals for a drastic extension of industrial arbitration, for confiscatory taxation of all but the most moderate incomes, and for reduction of salaries in the public service, suggest that he and his associates see somewhere in the near future the communistic objective of the classless society. Instead of equal chances to rise and " fair and reasonable " treatment for the less lucky, Labour now seeks to dispense altogether with middle-class leadership.

Mr. Lang's election programme in October 1930 was, it will be remembered,* little more than an assertion of Labour's will to maintain governmental spending. Under his premiership and treasurership, the maintenance of the standard of living was to be hampered neither by the Premiers' agreement of August 1930, nor by the Loan Council. It had been evident, however, even before his election, that neither London nor New York would keep up the flow of loan money that this programme presupposed. Mr. Lang was, therefore, thrown back on local taxable fields which the Federal Government was already denuding, and upon the lending capacity of Australian investors and banks. In December 1930, to the dismay of his followers, he raised his predecessor's unemployment relief tax on wages and incomes from 3d. in the pound to 1s. Even so it

* See The Round Table, No. 82, March 1931, pp. 435-441.

was hardly adequate for the growing burden of the "dole." On June 15, despite all financial difficulties, the relief ration scales were increased by 25 per cent. Railway freights and fares, income taxation and every source of revenue continued to shrink, but Mr. Lang's commitments to powerful electoral groups did not allow him to check expenditure.

As he proclaims that the way out of the depression is to maintain the spending power of the public, he has been forced by the inadequacy of ordinary revenue to turn to any supplies within his reach. But such rough and ready methods as withholding from government creditors the money he needs for his civil servants and people "on the dole," have involved, either as a result of sheer rashness, or because incidentally he desired to destroy confidence in middle-class institutions, the closing for four months of the New South Wales Government Savings Bank. This bank, like all Australian savings banks, had been paying out cash at a steady rate ever since depression and unemployment set in. But in February the nerves of the depositing public were badly shaken by repudiation proposals* and by unchallenged press statements that the Government was not paying the interest that it owed to the commissioners. Withdrawals at once grew disproportionately greater than those from other savings banks, culminating in a violent "run" on the bank in April. On April 21 Mr. Lang asked the Commonwealth Bank board, who control the Commonwealth Savings Bank, to take over his bank. The depositors next day withdrew a million and a half pounds, and on April 23 the bank suspended payment with its cash reserves down to £214,085, although it had £7,218,469 "at call at the New South Wales Treasury," and £49,552,202 in securities, mainly of the New South Wales Government. Negotiations with the Commonwealth Bank went on for three months but eventually collapsed and, under pressure, Mr. Lang has reopened his savings bank under a

* See THE ROUND TABLE, No. 83, June 1931, p. 664.

new Act, a new board of trustees and a new guarantee against political interference. Though empowered to borrow £10,000,000 on debentures, the new board has still to find enough cash to set the cycle of deposit and investment going again. Otherwise the depositors' only hope still lies in the absorption and liquidation of the old bank's assets by the Commonwealth Savings Bank.

Whenever he has sought accommodation through the Commonwealth Bank and the private trading banks, the New South Wales Treasurer has been met by the need of accepting the control of the Commonwealth Government and the Loan Council. Before Mr. Lang's accession to office the New South Wales Government's bankers, the Bank of New South Wales and the Commercial Banking Company of Sydney, had stipulated that open overdrafts would not be granted, and that ways and means advances would be made only against definite securities, such as Commonwealth Treasury Bills. Mr. Lang, finding his credit balances with his own bankers on the wane, asked the acting Commonwealth Treasurer, Mr. J. A. Lyons, to approach the trading banks throughout the Commonwealth for "temporary accommodation." The banks, however, saw no good reason why they should aid and abet Mr. Lang in what seemed an attempt to evade the control of the Loan Council. Through the Chairman of the Commonwealth Bank board and the Chairman of the Loan Council, they notified Mr. Lang that all borrowing by governments, whether in the form of public loans, Treasury Bills or overdrafts, should be controlled by the Loan Council in accordance with the resolutions of the Melbourne Conference in August 1930.

Mr. Lang next sought to escape out of the net of unified financial control through an apparent gap in the 1927 financial agreement on State debts. The Commonwealth, by the terms of that agreement, assumed responsibility for the payment of interest on the State debts. Mr. Lang, prompted by his Attorney-General, set out to exploit the position by refraining from paying the Commonwealth.

Thus, surely, he thought, he would be able to use the interest money as "purchasing power" for his civil servants and unemployed. Who was to stop him? Would dog eat dog, and one Labour Government proceed to Federal execution against another?

Mr. Lang's default began on April 1. As he had calculated, the Commonwealth Government at once found in London £800,000 to meet the interest that should have been paid that day, plus exchange. Part of this sum, £243,000, the Commonwealth then recovered by stopping contributions from Federal revenue due to New South Wales under the 1927 financial agreement. For the balance the Commonwealth and the other five States issued a writ in the High Court of Australia on May 13. Further defaults by New South Wales, new payments by the Commonwealth, and writs in the High Court followed each other rapidly during the next few weeks, until the rest of Australia had paid to British and American bondholders £1,673,000 on Mr. Lang's account. The actions have not yet come on for trial, but the burden that Mr. Lang had cast on Australian shoulders generally provoked in April the long expected, and often announced, refusal of the Commonwealth Bank to finance further short-term borrowing, as a result of which the Premiers' Conference met last June and the first all-round attempt was made to secure balanced budgets. Mr. Lang's part in shaping the Conference plan was surly and contemptuous. The enemies who had so unreasonably thwarted his own plan were now, he claimed, slowly accepting it. He heatedly denied the contention in sub-committee of the experts, whose report formed the basis of the negotiations, that on New South Wales lay a special duty of retrenchment, in that she had maintained an exceptionally lavish standard of government. By furnishing on the last day of the experts' deliberations the barest outline of the contents of his not yet presented budget he had effectively cramped their analytical zeal. The Commonwealth and the less wealthy States

announced that they would faithfully cut down wages and salary rates by a fifth. By sheer effrontery Mr. Lang made use of the free hand left to each Treasurer in making this reduction to turn the whole policy of economy into a *reductio ad absurdum*. He proclaimed that he would spare the purchasing power of the people and look to the higher incomes for almost all the additional savings that he was going to make. The salaries of government servants, he announced, would be reduced and £500 a year would be the maximum.

This threat, however, was not immediately acted upon. On June 26 the Premier rushed through the Legislative Assembly an emergency taxation measure which, he professed, would raise £16,000,000 during the financial year 1931-32. Its schedules proposed fresh taxes on wages and salaries rising from 1s. in the pound on weekly incomes of more than four and less than five pounds, up to 5s. in the pound on weekly incomes of ten pounds and over. Similar levies were to be made on "company incomes" and personal incomes other than those derived from employment. "By taking from those in receipt of regular incomes who have a surplus, and employing the money in reducing our huge army of unemployed," said the Premier, "we shall achieve a position of true equality of hardship, but out of it we will emerge a solvent State whose feet are planted firmly on the road back to prosperity." "On the way to Sovietism, you mean!" interjected an Opposition member. "And a good deal better then than now!" retorted a Minister of the Crown.

To the general relief, the Legislative Council rejected without hesitation this spendthrift Bill. This again brought the Premier into direct conflict with the Governor.* When the defeat of the Bill was imminent, Sir Philip Game had attempted to avert a demand for the "swamping" of the Council by suggesting a round table conference of all

* See THE ROUND TABLE, No. 82, March 1931, pp. 440–1; No. 83, June 1931, p. 666.

parties upon the lines proposed by His Majesty in the Irish crisis of 1914. The Government spurned this proposal, and the Premier requested Sir Philip Game to nominate a large number of new Councillors. The Governor refused. Mr. Lang's view is that it is a Governor's duty to accept his Ministers' advice in all matters, and that Sir Philip Game's conduct amounted to a denial of self-government to New South Wales. Accordingly the Premier referred the question at issue to the Dominions Office. The Secretary of State again refused to interfere, discreetly hinting that the matter seemed eminently one to be settled by the people of New South Wales. The Governor's view is that Mr. Lang has no mandate from the people of the State to pursue his present policy and does not, in fact, command popular support, and that his own duty as Governor is to ensure, so far as in him lies, that the forms of representative government are not used to flout the people's will. At one stage, indeed, the Governor even considered the possibility of exercising his legal power to dismiss Mr. Lang and dissolve Parliament, but he decided that such a step would be bound to provoke a popular outcry, and that it would be best to throw on to the Premier the onus of appealing to the people if he so desired. Mr. Lang has, no doubt for the best of reasons, shown no desire to go to the country. It is too early yet to estimate the full significance of the Governor's attitude in the present crisis, and it is always arguable that in the long run it is better to allow the whole weight of responsibility to fall on an electorate for the results of its own choice. But there can be no doubt that, for the moment, the Governor has vindicated his position under the constitution, and that his firmness has saved the State from total chaos.

Thwarted by both Legislative Council and Governor, Mr. Lang was nearly at the end of his tether. There would be barely enough for workers' wages, and nothing for the " blackcoats' " salaries when the civil service came to be paid on August 6. This was a bleak outlook for a

Premier who had promised over and over again a restitution to the service of even the $8\frac{1}{3}$ per cent. that his cheese-paring predecessors had taken from it. As August 6 drew near, he hurled another parliamentary thunderbolt, the promised measure under which the salaries of Ministers, judges, members of Parliament and all public servants were not to exceed a maximum of £500 a year, and reducing all salaries between £260 and £580 a year by 20 per cent.

The critics of the measure had little difficulty in convincing the Legislative Council that Mr. Lang would do better to effect his savings on similar lines to those on which the Commonwealth and the other States had carried out their economies. Whereupon the Council amended the Bill, and Mr. Lang, in his hurry to obtain Commonwealth Treasury Bills from the Loan Council wherewith to pay his civil service, introduced a new Bill on the lines suggested by the Legislative Council. And so to Melbourne where, the Loan Council having relented, he got his Treasury Bills, and the Commonwealth Bank duly discounted them. Then, five anxious days late, the government servants received their pay.

He is a great optimist, however, who thinks that Mr. Lang has been brought to heel by the Loan Council, or that his budget for 1931–32, hurriedly presented on the eve of yet another session of the Loan Council, conforms to the spirit of the June Conference plan. It shows an estimated deficit of £8,300,000. This, Mr. Lang explained, would be reduced to £5,410,000 by " economies not yet worked out in detail." His published estimates bristle with items which cast doubt upon this pious hope. Incredible estimates of increased revenue, deliberate payments of wages and salaries in excess of those prevailing elsewhere, a determined refusal to reduce the pay of railwaymen and tramwaymen to the federal basic wage, these things hardly looked like a " genuine effort to reduce controllable expenditure."

So on he fares. If Mr. Lang and his very active associ-

ates at the Trades Hall are working for a communistic reconstruction, they certainly are doing so with a minimum of disturbance to the outward peace of society. Under the Lang régime, the New South Wales police, an admirable and impressive force, have a completely free hand in dealing with the attempts of professed Communists to aggravate the class-war by street rioting. The offers of a "New Guard" of "parlour militarists" to come to the assistance of the police in the event of disorder seem at the moment unnecessary, if not provocative. But there are subtler ways of altering the face of society than by blacking its eye!

III. Mr. Theodore and the "Mungana" Affair

MOST Australians are heartily glad to have the Mungana affair, with all its disturbing effects, settled at last. It will be remembered that in July 1930*, Mr. Theodore resigned the office of Commonwealth Treasurer in consequence of the finding of Mr. Justice Campbell, a retired Supreme Court judge from New South Wales, and appointed a Royal Commissioner by the Queensland Government, that, along with others, Mr. Theodore, then Premier of Queensland, had been guilty of dishonesty in connection with the purchase by the Queensland Government of certain mining enterprises at Mungana. Mr. Theodore, who had not given evidence before the Commission, demanded that the Queensland Government should, by bringing proceedings against him, give him an opportunity of "confronting his accusers." After removing some legal difficulties, the Queensland Government brought a civil action against the four persons concerned (one of them another ex-Premier of Queensland, Mr. McCormack) claiming damages in respect of a conspiracy to procure by unlawful means the purchase of the Mungana mines by the Government at a price of £40,000, when they were worth only £10,000 at best, or, in the

* See The Round Table, No. 81, December 1930, pp. 185-7.

alternative, in respect of a fraudulent sale by the defendants to the Crown. The case was heard before the Chief Justice, Sir James Blair, and a jury of four, and resulted in a unanimous verdict for all the defendants on both counts, the jury answering a series of twenty-five questions unequivocally in their favour.

The result is a happy one, so far as the purity of Australian political life and the public reputation of the country are concerned. The only regret that can be felt is that Mr. Theodore did not in the end "confront his accusers," in the popular sense, by going into the witness box. The verdict that the sworn advisers of the Crown were not guilty of any dishonesty or corruption is so satisfactory that it is perhaps a pity that it was not based on the fullest and most searching examination of all the evidence which could possibly have been obtained. The whole incident will probably have a beneficial effect on Australian parliamentary life as a whole. In a country where the population is small, where political feeling runs very high, and where government activities are so far-reaching, members of Parliament will have to consider more carefully with what industries they can with propriety allow themselves to be associated. It is natural, but regrettable, that Mr. Theodore and the Labour party should treat the jury's verdict as the triumphant exposure of what he himself has denounced all along as a campaign of political calumny and persecution on the part of the Nationalists. This aspect of the case will doubtless embitter the State elections in Queensland next year. But the defendants in the Mungana action undoubtedly had a case to answer, and the rumours of irregularities in connection with the purchase of the mines had been so persistent and damaging that it was the clear duty of the Queensland Government to have them fully investigated.

Australia.
October 1931.

SOUTH AFRICA

I. South Africa and the Gold Standard

VERY shortly after it became known that Great Britain had abandoned the gold standard, it was announced on behalf of the South African Government that this country would not follow her example, but would remain on it. This intention has been reaffirmed on several occasions by members of the Cabinet in the strongest terms. The underlying motive inducing the Government to take this decision was probably partly political, for the present crisis provides a magnificent opportunity for demonstrating that South Africa is no mere economic satellite of Great Britain, but a fully fledged planet in the world system. In this case, however, economics and politics appear to be for once allied, and the general consensus of economic opinion in this country appears strongly to support the Government's action. Thanks to its gold mines, this country, as a whole, is less seriously affected by the depression than perhaps any other in the world; for although those sections of the community which depend upon export markets are suffering severely, the gold mines provide the majority of the population, directly and indirectly, with an assured market for their goods and services, and consequently with incomes which have hitherto shown comparatively little decline. White unemployment is estimated at no more than 20,000 to 30,000 out of a white population of some 1,800,000, and while deficits will be shown this year on the budgets of the central Government,

the four provincial councils, and the State railways, the present burden of taxation, at any rate upon the moderately well-to-do, is comparatively light, and this section of the population could if necessary bear a considerable increase in direct taxation without serious hardship.

From the point of view of the balance of trade the position is also strong. The heavy declines in the values of farm produce, diamonds, and base minerals exported has been more than offset by reductions in imports (caused naturally and without recourse to panic measures such as import prohibitions), with the result that for the twelve months ending August, 1931, the surplus of visible exports over visible imports was £18,800,000 (South African), compared with an average during recent years of about £16,000,000 (S.A.).

The Union of South Africa is therefore under no direct compulsion to abandon the terra firma of the gold standard, and to adopt in exchange a standard based upon the economic and financial conditions of another country, and upon the politics and policies of an overseas government of uncertain composition, over whose actions she will have no kind of control. If South Africa were to exchange the gold standard for the English sterling standard, any tendency towards inflation in Great Britain would compel her to choose between either following blindly the policy of that country, or returning to gold, or maintaining a paper standard of her own, based neither upon sterling nor upon gold, but hovering in the void somewhere in between.

Another point which is frequently made is that, since not merely the prosperity but the very existence of South Africa depends upon the continued use of gold as a basis for currency by the great nations of the world, any step by South Africa which might, in however small degree, encourage the abandonment of this use of gold would be a step in the direction of national suicide.

Finally, the Government stands to reap a very substantial financial benefit from remaining on the gold standard.

The interest charges on that part of the national debt which is held in Great Britain will be considerably reduced, the saving to the Government at the present rate of exchange being estimated at about £1,500,000 (S.A.) per annum. This saving will incidentally reduce still further the net surplus of invisible imports, already reduced appreciably by decreased payments for freight on imports and decreased dividends on diamond shares, to probably not much more than £20,000,000 (S.A.) per annum, compared with an estimated total of about £23,000,000 (S.A.) in 1929. The net "adverse" trade balance to be filled by foreign borrowings of new capital for the coming year should be less than £2,000,000 (S.A.), as compared with average foreign borrowings of about £7,000,000 (S.A.) during recent years.

While, however, the Government's decision is supported by the bulk of informed opinion, it cannot be denied that the break with sterling has caused several serious difficulties, some of which have yet to be overcome. This country has hitherto had no real foreign exchange dealings, rates having been determined by the simple method of adopting the latest rate quoted from London, modified as necessary by the current South African-London rate. The latter has for the past six years been almost absolutely fixed, with the English pound at a slight premium over the South African pound, due to the need for recouping the Reserve Bank for its expenses in shipping the output of the gold mines to London either in the form of bullion or of specie. Prior to the return to gold in 1925, when both Great Britain and South Africa were off the gold standard, the rates on London were fixed from time to time by agreement between the banks according to the supply and demand for exchange as shown by the alterations in their London balances. Now for the first time it has become impossible for the banks to determine the exchange rates on London with reference either to the cost of shipping gold or to the state of their London balances. South Africa has become

an independent gold standard country among her peers, and is painfully learning to adapt herself to the responsibilities of her new status. In the absence of any existing financial machinery to deal with this unprecedented situation, there was at first almost complete confusion, which lasted until about the end of September, when, for the first time since the break, the South African-London rates were brought into approximate accord with the New York-London rates. As soon as this occurred it became possible for arrangements to be made to open up direct exchanges with other gold standard countries. The banks can now quote direct rates with New York, with the South African pound only very slightly below gold parity. Direct exchanges with Paris, Amsterdam, Rome, and other gold standard centres are now being arranged, and quotations on these centres will be possible shortly. These rates will, of course, remain practically stable, and will facilitate trade with these countries, while the frequent fluctuations of the rate on London naturally impose considerable difficulties on our much larger trade with Great Britain, especially as this country has as yet no forward exchange market.

On the whole, it is probable that the worst of the confusion is now over. But another and even more serious difficulty has arisen. It would appear that many South Africans believe that sooner or later the English pound will return to parity, or at least be stabilised at a figure considerably higher than that ruling at present, while there appears to be a growing expectation that South Africa herself will be forced off the gold standard in the near future. As soon, therefore, as English sterling was quoted by the banks at a substantial discount, a very large demand arose for transfers to London from people who desired to take advantage of the exchange rates to pay off debts, to provide for future payments, to obtain bargains on the London Stock Exchange, or even merely to obtain balances in London as a pure speculation. On the other

hand, persons owning funds in England are tending to refrain from bringing them out in the hope that an improvement in the exchange will save them at least part of their loss. The banks have therefore found themselves selling large quantities of English sterling and buying very little. At this time of year the London balances of the commercial banks are about at their lowest ebb; these banks have therefore been saved any serious loss in the depreciation of the value of their London balances, but are, on the other hand, unable to meet any heavy drain of exchange. They have therefore been compelled to obtain supplies of foreign exchange from the Reserve Bank, which, on September 18, owned bills in London to the value of £6,427,000 (English). By October 9 the Reserve Bank's holding of bills in London, which forms the main foreign exchange reserve of the country, had been reduced to £765,000, though, on the other hand, gold to the value of £2,306,000 had been accumulated overseas, in addition to a normal amount of £5,730,000 held in the Union. The Bank's total reserve in London had therefore been reduced by £3,356,000, or more than half. If the demand for foreign exchange remains insatiable, this reserve may be entirely exhausted, and unless credits can be arranged overseas, the Reserve Bank may be compelled to refuse to sell more exchange. Gold would then be withdrawn, and as the Reserve Bank's holding within the Union already shows little margin over its legal requirements, the Government would be compelled either to suspend the Act or to authorise the Bank to refuse gold. The suspension of the Act would permit of the export of a further £5,500,000 (S.A.) of gold, but it is not likely that the Government would allow the legal reserve to be entirely drained before abandoning the gold standard.

The banks have been endeavouring to check the demand for exchange by attempting to restrict sales to "normal trade and personal requirements," but this policy has met with only partial success, and on October 10 a statement

was issued by the Minister for Finance informing the public that this policy of restriction had his full support, and that all the resources of the State would be employed, if necessary, to keep the country on a gold basis.* While, however, restriction may check the drain to some extent, it cannot prevent it altogether so long as the public can withdraw gold from the Reserve Bank in Pretoria and ship it; while restrictions on the withdrawal and export of gold will, of course, be tantamount to admitting that the country is off the gold standard. It is still doubtful if the country will be able to avoid this step.

Even if the reserves of foreign exchange are able to stand the strain of the abnormal demand, the effect of the depletion of the resources of the commercial banks will probably be to compel these banks to restrict advances, bringing about a renewal of the financial stringency of two years ago, and ultimately a reconstitution of the depleted foreign balances by means of a further reduction in imports. If, of course, the present speculative demand for English sterling should be succeeded by a corresponding movement in the opposite direction, the reason for such a curtailment of imports would disappear.

Should this immediate exchange difficulty be overcome, there will remain the difficulty of import and export prices. Prices of raw materials in England have already risen almost sufficiently to offset the fall in the exchange value of the English pound. But the gold prices received by South African exporters of such commodities as eggs, fruit and dairy produce are likely to remain lower for some considerable time, while local manufacturers are already

* On October 29—since this article left South Africa—the Union Government announced a 10 per cent. export bounty, and a primage duty of 5 per cent. on imports, and latterly (see *The Times*, November 11, p. 19) has been making enquiries in various countries with a view to raising a loan of £10 millions for the support of the South African pound. On November 12 the South African Bank rate was raised from 5 to 6 per cent., and the next day the Transvaal Chamber of Mines (with one dissentient) passed a resolution in favour of leaving the gold standard and linking the currency to sterling.

preparing to complain of increased competition from English imports. Pressure is therefore being brought to bear on the Government from two sides, and while at present it seems determined to resist this pressure, it is impossible to say whether this resistance will be continued indefinitely.

Finally, if the English pound remains depreciated, but not restored to gold at a lower parity, the problem will sooner or later arise of obtaining foreign loans. Such loans could not well be raised in London, for, if the English pound should subsequently return to par, the South African borrower of English sterling would find himself owing £100 (S.A.) for every, say, £80 (S.A.) borrowed, while an English lender of South African currency would find himself owed only, say, £80 (English) for every £100 (English) lent. Whether this country could obtain its requirements of new capital in New York, Paris, or Amsterdam remains to be seen.

Postscript

Since this article was written the news has been received that Southern and Northern Rhodesia have left the gold standard. This development will add greatly to the Union's difficulties, for Rhodesia is the chief, and indeed almost the only, export market for Union manufactures, while, thanks to the Customs Union, the commercial relations between the two countries have been most intimate for many years. Southern Rhodesia uses Union silver coin, while Imperial silver circulates freely in both countries. Bank notes issued in Southern Rhodesia have hitherto been freely current in South-West Africa. The sudden disruption of these intimate ties cannot but cause much confusion and probably serious losses.

II. The Provincial Question

In the last number of The Round Table* reference was made to the re-emergence of the provincial issue. It will be remembered that the financial difficulties of the provinces have made it necessary that the problem should be dealt with in some at least of its aspects, and that the Government extended to the Opposition (South African party) an invitation to an all-party conference for the formulation of an agreed policy, an invitation which General Smuts was unwilling to accept, if abolition was to figure on the agenda. It will also be remembered that in the past the Nationalist party has been the champion of provincial rights, that the South African party in Natal is almost solid in its eagerness to maintain its distinctiveness in the South African partnership, and therefore desires an extension rather than a restriction of the powers of the provincial councils, and that the supporters of the abolition movement have in the past come from the predominantly South African party urban centres in the other three provinces.

It has been clear for some time that those Ministers who have been brought most into contact with questions of Union-provincial relations have been veering towards abolition. The weaknesses of the system have come home to them in a manner which was not possible when they were in opposition. Administrative overlapping and confusion as between Union and provincial functions, the irritation caused by double taxation, the deadlocks resulting from a constitutional position in which executives are elected under proportional representation and not responsible to the councils that elect them—these things have created and strengthened in their minds a conviction of the inevitability of radical changes. They have come to regard the provincial

* No. 84, September 1931, pp. 909–911.

system as a concession to weakness, an excrescence on the rounded smoothness of the constitution which must be pared away.

But having come to this conclusion, Ministers were faced with a threefold difficulty. First there is the attitude of Natal—historically never quite in the main current of South African life—conscious of being the distinctively British province, suspicious of many of the manifestations of nationalism, possessed of all the determination of a self-conscious minority to resist anything that might lead to its being swamped and overwhelmed. Now that is an attitude of which political wisdom must needs take account. Natal was a party to the compact of twenty-one years ago which is embodied in the Act of Union. It was, indeed, the only one of the contracting parties that insisted on the holding of a referendum before it accepted that compact. That compact is, of course, not buttressed in South Africa, as is the case with similar compacts in other lands, with the ramparts of a rigid constitution. The Act of Union possesses a high degree of flexibility, imposing but few restrictions on Parliament's freedom in the matter of constitutional change. In other words, the compact was one, not of strict law, but of good faith. But even so the constitution does mark the fact that the provincial system was regarded as one of the important parts of the compact—for it is one of those features a proposed change in which must be reserved for the King's assent. Now that of course, in 1910, meant that the Government in Great Britain, which would then have had to advise the King on such a matter, had the last word, that it could in effect be appealed to on the ground that the proposal was a violation of the compact and of good faith. To-day that is no longer so—the Government of Great Britain cannot advise the King in a matter affecting South Africa alone—reservation survives as a mere form. It is for South Africa herself to decide whether or not the compact of good faith has been broken. Her privileges have grown since 1910. But that very fact

connotes the growth also of her responsibility. The overriding by Parliament of the strongly expressed sentiments of one of the provinces—one of the partners to the compact—in an issue such as the provincial issue, is fraught with more, not with less, difficulty than it was twenty years ago.

Second among the difficulties in dealing with the provincial problem is the question of what is to come in the place of the councils if and when they are abolished. For, let it not be forgotten, the councils were "contrived a double debt to pay." They were a concession to the minority sentiment which favoured federalism twenty-one years ago—but they were also conceived as organs of local government. For in the whole of South Africa outside the Cape Province there were in 1910—and are still—no organs of local government except in the towns. Municipal government is in a relatively advanced stage in South Africa, but in the Transvaal, the Free State, and Natal there are no local government bodies in the purely rural areas—the hostility of the agricultural community to anything in the nature of local taxation, especially to a rate or a tax on land, has hitherto proved an insuperable obstacle. And since the central government of a country as large as South Africa could not deal with all the petty local affairs of the whole of its rural areas, the provincial councils and administrations were created to relieve it of that burden. As for their financial resources, these, apart from subsidies voted by Parliament, have come from taxation which has been borne chiefly by the towns. It is still only in the Cape Province that there is anything in the nature of a property tax outside the urban areas. Here, then, one of the difficulties in the way of abolition presents itself. After abolition—what next? A new and more extensive system of local government, or the concentration of the present provincial functions in the hands of the central government? The latter would mean a deplorable strengthening of the tenddency towards bureaucratisation at which already South

Africa has good reason to be alarmed ; the former, as soon as its implications are realised, is bound to evoke much opposition in the rural areas.

And that brings us to the third of the Government's difficulties—the party considerations involved. The Nationalist party is predominantly a country party, and as such its supporters have not been unduly conscious in the past of the burdens of the provincial system. As a party it defended that system in the days when the Smuts Government showed a tendency to impair provincial rights. How then was the Government to secure its support for a policy of abolition, especially when the inevitable realisation came that such a policy was likely to mean the imposition of new taxation burdens on a farming community already hard put to it ?

In the light of the above analysis of the difficulties, it will be obvious why the Government sought to remove the issue from the party arena. But having failed in that effort as a result of General Smuts's refusal of its invitation, it did not let the matter rest. It announced at the end of the session that the question would be dealt with during the recess. A month or two after Parliament rose it was bruited abroad that a policy had been decided upon. Ministers made cryptic references to their intentions ; the usual crop of rumours circulated ; gradually the stage was set for a declaration of policy, to be made by the Prime Minister himself at the annual Congress of the Transvaal section of the Nationalist party.

That declaration has to some extent cleared the air. It was, however, marked by hesitancy and a lack of precision. General Hertzog commenced by announcing that the Government had come to the conclusion " that the national interests demand that such changes be introduced as will centralise all necessary financial control under the Union Government." This, he went on to say, would entail the disappearance of the present provincial system, but he indicated " that provision should be made for an adequate

system of devolution of administrative functions in regard to certain local matters." As for Natal, the Government was prepared to take account of its strong local sentiment, and to give it the option of retaining the provincial system. The Prime Minister, however, gave no information about the financial conditions on which Natal might retain its provincial council—obviously a point of great importance—or about the nature of the proposed system of devolution of administration. He did, however, state that the Government did not intend to introduce legislation in the life of the present Parliament. The matter would be left for the country to consider, and no constitutional change would be made until after the next election.

Since the Prime Minister's speech the matter has been dealt with in rather more detail by the Minister of the Interior (Dr. D. F. Malan), with whom the legislative responsibility for such matters lies. Dr. Malan's speech marks an advance in two respects. In the first place, he announced the Government's intention to appoint a commission of inquiry to frame a detailed scheme for an alternative system of local government ; in the second place, he quite definitely rejected the possibility of the complete centralisation of provincial functions. " The Government," he said, " will not countenance the further centralisation of administrative functions." And he went on to declare that " local bodies, locally elected, and with a large measure of local responsibility, are the bulwark of a nation's independent character." Moreover, he recorded what he described as personal convictions, which implied *inter alia* the extension of the Cape system of rural self-government to the other three provinces, together with the imposition of local financial burdens on the rural communities in those provinces which do not carry them to-day. Thus far have the Government pronouncements hitherto made taken us. It is clear that they have revealed, rather than solved, the difficulties. The suggested option to Natal, though it has drawn the fangs of the opposition

from that quarter, seems a dubious expedient. It would have the effect of perpetuating Natal's distinctiveness, of separating it more than ever from the main stream of the Union's life, of recognising it almost as a South African Ulster. There is much, it would seem, to be said for postponing a final settlement of the provincial problem until Natal is ready to be treated just like the rest of the Union. Moreover, while Natal's opposition has been bought off, the Government's own supporters have been even more difficult to deal with than was anticipated. Both the Transvaal and the Cape Nationalist Congresses refused to pass resolutions approving of the abolition policy, and adopted dilatory motions instead. The almost exclusively Nationalist Free State provincial council has taken up a severely critical attitude. The Nationalist party is very far from being united to-day in support of the new policy. And with the realisation of the significance of Dr. Malan's remarks as to the system of local government which should replace the councils, opposition seems likely to harden. Of the general soundness of his views there can be no doubt. The absence of local government bodies in the rural areas with a reasonable measure of financial responsibility is to-day the chief weakness in the Union's administrative fabric. But with primary products at present prices the time hardly seems opportune for a move in that direction—and it may even be that the precipitation of the issue at the present juncture will retard rather than accelerate what is otherwise a very necessary development in South Africa.

It is as well, therefore, that the Government is prepared to hasten slowly. A commission of inquiry is to be appointed, and legislation is not to be introduced until after the next election, which in the ordinary course will not take place before the middle of 1934. Many things may happen between now and then.

III. The Problem of the Low Grade Mine

As the question of the gold supply of the world is at present one of importance, it may be useful to look at an aspect of the production of gold which is at present attracting public attention in the Union—that is, the problem of the low grade mine. Expressed in other words, the question is whether, and if so how, the present costs of production can be so far reduced as to enable large areas of gold bearing rock, the gold content of which is not sufficient to admit of mining on the existing basis of costs, to be brought within the limit of payability.

A Government commission is at present sitting to consider this question. It is not the first time that such a commission has sat, and, unless the report of the present commission leads to more practical results than has been the case in the past, it is not likely to be the last. The object of this article is not to attempt to anticipate any conclusions to which the commission may be led, but to call attention to certain facts bearing on the present costs of production as disclosed in the very full and carefully prepared statements laid before the commission by the Transvaal Chamber of Mines.

Public opinion in the Union has been slowly but surely undergoing a change of outlook in regard to the gold mining industry of the Transvaal and its place in the national economy. The traditional attitude of governments and the public towards the gold mines, outside the circles of these more intimately associated with the industry itself, has been to regard these deposits as a sort of windfall, a buried treasure of uncertain dimensions, which was being exploited and appropriated largely by foreign capitalists, and of which accordingly it was the business of the State and the public generally to get as large a share as

possible while it lasted. As the years went on, however, the forecasts of an early exhaustion of the gold bearing deposits have one by one been falsified. The output has gradually risen to its present figure of over £45 millions (calculated on the present gold content of the sovereign), and round it and depending on it the State expenditure, and the commercial and industrial system of the country, has grown to its present dimensions. The question which is now being forced upon public attention, therefore, is not to what extent the industry can be held to ransom, so to speak, by the tax collector or the private individual, but rather what can be done to preserve the industry as a vital part of our national economy for the longest possible time with the maximum output of gold.

It is recognised, at any rate in theory, that the life of the industry is in the nature of things limited. From time to time estimates have been made of the probable rate of decline of the output of the mines, but the period which they have set to the maximum activity and the life of the industry has so often been exceeded by the actual facts of production, that the public in general ceased to attach any importance to them. Lately, however, the fact that certain of the older mines have actually closed down, and that others, including some of the largest, have been unable for some time to show a profit on working, has given rise to a certain amount of anxiety on this point. The latest official estimate predicts that in 1940 the value of our gold production will have fallen from its present figure of £45 millions to £25½ millions and by 1949 to £10 millions. A decline in the gold output on this scale would involve a diminution in the consuming capacity of the country which no one likes at present to contemplate, and for which no one at the moment can see any compensating factor. The salaries and wages bill of the Witwatersrand gold mines for 1930 amounted to £15 millions, while their purchases of stores and so on totalled over £14½ millions, of which over £9½ millions were of South African produce or manu-

factures. For the business and industry of a small community such as ours the importance of these figures is obvious.

It is well known that there are very extensive areas of mineralised rock on the Witwatersrand which are not capable of yielding a profit on the basis of present costs, and much of which, if they cannot be worked in the near future, will, in all probability, never be worked at all, if existing mines through which they could be worked are abandoned, and the shafts and underground workings fall into disrepair. The estimate of future production, which has been already cited, was made by the Government Mining Engineer early in last year, and in connection with it he stated that it had been estimated that, if costs could be reduced by 2s. per ton of ore milled, there would be no appreciable diminution of output for the next eight or ten years. If we take that in conjunction with his own estimate of a probable reduction on existing conditions between 1930 and 1940 of £18 millions, the importance and urgency of the question will be appreciated.

The main directions in which the Chamber of Mines look in the evidence placed by them before the commission for a reduction in costs are the following :—

1. A reduction in the wages of European workers based on the reduced cost of living since they were last fixed.

2. A revision of the Mining Regulations which would permit certain classes of work on which the mines are now compelled to employ highly paid European labour to be done, with (as they contend) equal efficiency and safety, by lower paid classes of labour.

3. Reduction of certain forms of taxation and of railway rates which, they maintain, are at present unfairly differentiated against the mining industry.

4. A reduction of the burden which the industry is at present carrying in the matter of compensation to the sufferers from miners' phthisis.

On the question of wages the Chamber has suggested a

reduction of 5 per cent. The workers concerned have so far shown no sign of accepting such a reduction, and it is very doubtful if the companies would be in a position to enforce it, or would be supported by public opinion in any attempt to do so.

The complaint against the regulations is that they necessitate the employment of numbers of European workers underground who are unnecessary for the purposes of safety and health. What is aimed at is, no doubt, a relaxation of what is known as the "colour bar" regulations, which compel the employment of Europeans in certain classes of work where, if economical and efficient working were the only considerations, labour of a less highly paid type would be used. Here again it is more than doubtful if a demand for revised regulations would be supported by public opinion. It was the fear that the mines intended to replace European by coloured labour on a large scale that caused the disastrous upheaval in 1922. The present time, with unemployment existing on a serious scale, would not appear to be propitious for another test of public opinion on this question.

Differential taxation on the gold mining industry is in force in the case of income tax, which for mining companies is at the rate of 3s. in the pound as against a rate of 2s. 6d. for other companies. This is, of course, not an element in determining production costs, but it is complained of as a deterrent from the investment of capital in mining enterprises. Other imports which do affect costs of production are claim licences and native pass fees. The former constitute a form of taxation which has some justification in the case of claim-holders who are not actively working the ground held by them, but is quite an uneconomic form of taxing producing mines, as it is a mere addition to the costs of production bearing no relation to the results derived. The native pass fees are simply a *per capita* tax on the employment of native labour and have no justification except the amount of revenue that they

produce. These two imposts together are estimated to involve a burden of about half a million pounds.

The complaint of the industry in regard to railway rates is briefly that the railway administration exacts inordinately high rates on the carriage of coal to the mines, and on explosives and other supplies required by them, in order to recoup itself for unpayable rates on the conveyance of other classes of goods—mainly agricultural produce. The complaint is one of long standing and is undoubtedly well founded. It is estimated that a revision of the railway rates on business principles, apart from political and other considerations, would lead to a reduction of £500,000 per annum in the rates charged on the stores used by the Witwatersrand gold mines.

The most serious individual burden on the industry is that involved in the compensation paid to miners suffering from miners' phthisis, and to the widows and dependents of miners who have died from that disease. This is borne wholly by the industry, and involves at present an annual levy of £800,000 which will probably in the near future have to be raised to £1,000,000. There is, in addition, an outstanding liability in respect of pensions to miners and dependents, the present value of which is calculated at about £8¾ millions. This has to be provided for by the companies so that funds may be available for meeting these liabilities after the mines in question have ceased to operate. The whole of this burden is laid on the industry in accordance with the ordinary principle of workmen's compensation legislation that an industry should be made responsible for compensation for the death or disablement of its workers. But the fact that compensation in this case takes the form largely of pensions to sufferers and to their widows and dependents, and that this form of compensation was made retrospective, means that the existing mines are bearing the financial burden of the effects of disease incurred by mines that have long since ceased to exist. The incidence of the disease has undoubtedly been reduced by the elaborate

precautions now enforced to secure healthy working conditions underground, and by the strict medical examination now required as a condition of obtaining employment underground. But, taking this improvement at its best, it will be many years before a material reduction of the total cost can be looked for. In these circumstances it cannot be wondered at that a strong claim is put up by the industry that the State should assume a substantial share of the burden.

There is no space in this review to deal with the question of the supply of native labour. At present, owing to adverse conditions in the native reserves, this is not a serious question. But from time to time a shortage in the native labour complement causes serious anxiety to the mining companies, and they are insistently demanding permission to extend their recruiting field to territories north of latitude 22 degrees South, from which they are at present debarred by law.

The capacity of the industry to carry the various burdens imposed upon it by the policy of past and present governments has been obscured in the minds of the public by the phenomenal richness of some of the mines worked in the early days, by the large fortunes amassed by some of the leaders of the industry, and by a general illusion of wealth which the production of gold on a large scale appears to create. To-day, fortunately, a saner view is possible, both of the importance of the industry as a part of the national economy, and of the effect of heaping unreasonable exactions upon it. The idea that these exactions only affected the pockets of a few mine magnates and oversea shareholders has largely given place to a more accurate appreciation of the advantage, indeed the necessity, of prolonging the life of the industry. It has been said with truth that the whole industry is a low grade proposition. The average gold content of the ore at present worked is not more than about 6½ pennyweight per ton. Only the most scientific organisation, and the employment of the

native for unskilled work, enable such ore to be worked at all. To relieve the industry of some of the unreasonable burdens which have been thrown upon it in the past, so as to bring within its scope extensive areas of at present unpayable rock, and to postpone to as distant a date as possible the inevitable period of its decline, has become one of the pressing problems of South African statesmanship.

South Africa.
October 21, 1931.

NEW ZEALAND

I. Unemployment

VALUABLE work was accomplished by Parliament during its emergency session in March and April, but this did not relieve it of the necessity of meeting again at the usual time for the second regular session. Unemployment, finance and the trade depression were the main burden of Lord Bledisloe's short opening speech on June 25, and a week had barely elapsed before the debate on the Address in Reply had to be interrupted to permit of the introduction of an Unemployment Amendment Bill as an urgency measure. When the principal Act was passed in September 1930, the number of registered unemployed was 6,099,* the Unemployment Board which came into existence on November 20, 1930, had been spending money at the rate of about £24,000 a week, and by the end of last July there was an estimated deficit of about £200,000. More liberal provision was, in consequence, needed to meet an increased and steadily increasing demand. The 1930 Act had imposed a tax of 30s. a year upon every male of 20 and upwards, and, in addition, a subsidy from the Consolidated Fund equal to one half of the expenditure was to be paid into the Unemployment Fund. Under the new arrangement this flat rate will be reduced to 20s., but there will be a charge on salaries, wages and other income, of 3d. in the £, to operate as an emergency tax for one year only, and, though women will continue to be immune from permanent taxation under the principal Act, they

* For full particulars of the Act see The Round Table, No. 81, December 1930, p. 219.

will not, except in certain cases, be exempt under the amending Act. It is estimated that the revenue accruing to the Board from these sources for the year ending next July will, taking into account the £ for £ subsidy, amount to £2,185,000, which is nearly double the income (£1,200,000) previously provided. The increase shows the urgent nature of the problem involved. Nor was there any serious opposition to the new measure. The *Evening Post*, on July 3, took the same line as *The Times* had taken in its comments on the proposals made by the General Council of the Trades Union Congress to the Unemployment Insurance Commission on May 4.

> Contributors are (it said) to be brought in irrespective of their risk of unemployment and, broadly speaking, made to contribute in inverse proportion to that risk. There is to be no relation whatever between the contribution and the benefit of the individual.

Yet, even the *Evening Post* did not withhold its support. It recognised that something had to be done, and done at once, and that the Bill was " the only Bill that could have been introduced " in the circumstances. It was, it admitted, necessary, in spite of its defects on the score of equity, to prevent the gravest hardship.

It must, however, be recognised that our unemployment scheme is not really an insurance scheme at all, and although considerable liberties were taken by the legislature with the excellent report of the Unemployment Committee,* this distinction was not lost sight of. On his return from the Imperial Conference the Prime Minister declared himself more strongly opposed than ever to the " dole," and the Commissioner, in his memorandum on the work of the Unemployment Board, emphasised " certain fundamental principles," in the following passage :

> The Unemployment Fund (he reminded us) is made up by taxation levied over the whole of the community with certain few

* See The Round Table, No. 79, June 1930, pp. 667–8 and No. 81, December 1930, pp. 219–21.

exemptions. It is not an insurance fund in the sense that there is a written contract specifying a premium and benefit. Beyond the fact that the funds must be used for the purpose specified, i.e., the provision of employment in various ways, no one is as of right entitled to any specific benefit. It is erected for the relief of the unemployed worker—the willing and able to work. It is not for the relief of any other kind of distress, caused by, say, age, infirmity, sickness, etc., nor for the relief of the farmer, the business man, nor for any other class than the unemployed worker seeking employment.

In the House of Representatives Labour members complained that the poor man was still paying too much and the rich man too little. But the rich man, in point of fact, pays heavily, not only through the emergency levy of 3d. in the £, but also through his graduated contributions to the Consolidated Fund which, besides supplying the Unemployment Board with half its revenue, pays liberally in other ways for unemployment. Relief works are moreover provided by the Public Works Department on a large scale, and on a smaller one by other departments. The figures of government expenditure under all heads last year are as follows :

	£		£
*Subsidy to Unemployment Board ..	159,247	Department of Lands and Survey ..	21,933
Public Works Department (including main highways)	1,249,446	Subsidies to local authorities ..	116,768
State Forest Service	85,000	Total ..	.. £1,632,394

The total expenditure for the last five financial years under these heads was as follows, during the calendar years which most nearly correspond to them :

	Expenditure £		No. of registered unemployed
1926–27 ..	144,240	1926 ..	.. 1,196
1927–28 ..	482,221	1927 ..	.. 1,982
1928–29 ..	802,709	1928 ..	.. 2,504
1929–30 ..	1,415,592	1929 ..	.. 3,023
1930–31 ..	1,473,147	1930 ..	.. 5,055

* This particular item was only for the last four months of the year.

During the current year over £2,000,000 may well be spent, as the Finance Minister estimates an increase in unemployment subsidies alone of £1,110,000. The unemployed at the end of the March and June quarters numbered 38,028 and 45,264 respectively, and the 50,000 mark was passed on August 29. The total on September 14 was 51,234, which would correspond to about 1,500,000 on the British scale.

In view of the continuous rise in the unemployment figures for the last five years, during three of which the Reform party was in power, and of the abrupt acceleration in the rate of increase during the current year, it seems almost incredible—especially as the same thing has been going on simultaneously all over the world—that even the blindest partisan of the Reform party should still put down the cause of the trouble or of any substantial part of it to the change from a Reform to a United administration at the end of 1928.*

II. The Budget

IN introducing his second budget on July 30, Mr. Forbes indulged in a characteristic understatement. He described the current financial year as " probably the most difficult in the history of this Dominion." If he had said " by far the most difficult," few of his countrymen would have contradicted him. External trade, upon which the prosperity of the country chiefly depends, had for the first time—especially during the last few months—felt the full force of the world depression, and every source of revenue was badly affected. The changes in external trade during the last four years are shown by the following figures :

* The most serious and least excusable of the United party's disservice was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men, and the 12s. 6d. to married men, but the original rates were restored by Mr. Forbes last April.

New Zealand

Year ended March 31	Imports	Exports	Total External Trade
	£	£	£
1928	44,419,000	54,962,000	99,381,000
1929	45,106,000	57,154,000	102,260,000
1930	49,168,000	49,046,000	98,214,000
1931	38,301,000	39,528,000	77,829,000

Exports for 1930–31 were, it will be noted, no less than £9,500,000, or 19 per cent. below those of the previous year, and £17,600,000, or 30 per cent. below those of the year 1928–29. The explanation given by the Minister of Finance was very much the same as last year.

The decline in the value of exports was (he said) due principally to a further sharp fall in prices, the " all groups " export prices index showing a decline of over 28 per cent. for the year. The falling-off in value, however, was not the result of a reduction in the actual volume of exports, considerable quantity increases being shown in butter, frozen meat, and gold. Wool was the only important item showing a reduction in quantity, but this was due not to decreased production but to the carry-over of stocks in anticipation of an improvement in prices.

The decline in exports was unprecedented, but the drop in imports—£10,867,000—was even greater, and the year actually closed with a favourable trade balance of £1,227,000. In Mr. Forbes's words,

The equilibrium in external trade has been largely preserved, but the general contraction in the value of this trade has seriously affected the public finances, as well as all internal business, either directly or indirectly.

Customs duties, always the largest item of revenue, naturally accounted for most of the drop. The total revenue for the year 1930–31 amounted to £23,069,000, £2,051,000 below the estimate and £2,281,000 below the figure for the previous year. Of this deficit customs accounted for £924,000, and next to customs came interest on railway capital, a shortage " due to an unprecedented falling-off in passenger and goods traffic." On the other side of

The Budget

the account the Government is entitled to credit for the fact that expenditure, £24,708,000, was £289,000 less than the estimate, which itself was £203,000 less than the expenditure for the previous year. But with a revenue of only £23,069,000, the net result was a deficit of £1,639,000. This was, however, a small matter in comparison with what might have been expected in view of the steadily accelerating rate of the decline for the last quarter of the year and the first quarter of 1931–32. In a detailed examination of the principal heads, Mr. Forbes gave reasons for supposing that all the revenue items were likely to shrink and all the expenditure items to rise. The following figures give the result of his calculation :

Prospective Shrinkage of Revenue.	£
Customs	2,030,000
Land and income tax ..	600,000
Stamp and death duties ..	690,000
Beer duty	115,000
Railway interest	930,000
Interest on Public Debt Redemption Fund ..	165,000
Other items (net)	280,000
	4,810,000

Prospective Increase in Expenditure.	£
Unemployment subsidies..	1,100,000
Debt services	350,000
Pensions	200,000
Subsidies to local authorities, etc.	125,000
Education ..	00,000
General Election	75,000
Decrease in credits to votes	130,000
Other items (net) ..	250,000
	2,330,000
Less adjustment (equivalent to under-expenditure for 1930–31)	290,000
	2,040,000

It was indeed, as the Finance Minister remarked, a " stupendous task," which faced the Government. With a steadily deteriorating market, they had to make provision for a prospective deficit equal to approximately 30 per cent. of the revenue for the preceding year, in other words, a gap of £6,850,000 had to be bridged. Of the measures taken to bridge it, the most effective and the soundest was the 10 per cent. cut in the salaries, allowances and wages of the public service, effected during the emergency

session. A sum of £1,390,000 was saved in this manner. The postponement of war debt payments under the Hoover plan, which Great Britain has "with characteristic generosity" extended to the Dominions, accounted for £870,000.

Some of the other expedients to which Mr. Forbes was compelled to resort were admittedly of a more dubious character.

> The state of the public finances during the current financial year (he said) is probably more serious than at any time during the past fifty years, if not during the whole history of the Dominion. Further, the economic position generally is such that it is imperative that increases in taxation be kept down to an absolute minimum. Under these circumstances the Government considers that this is a time when any reserves that can be legitimately drawn upon should be used.

It is, of course, obvious that the word "legitimately" begs the question, but members, notwithstanding the fact that there is no guarantee that the necessity will not be even greater next year, were not disposed to be hypercritical. And so the process known at Westminster as "robbing the hen roosts," but which sounds better under Mr. Forbes's more dignified title of "utilisation of reserve funds"—"'convey' the wise it call"—met with no serious challenge. Upwards of a million was obtained in this way—£550,000 from the Reserve Fund in London and £590,000 from the Discharged Soldiers Settlement Depreciation Fund. The full "summary of savings" was as follows:

	£
Reductions in salaries and wages	1,390,000
Benefit from suspension of funded debt payments	870,000
Other economies in expenditure	595,000
Post office surplus and other additional revenue	936,000
Use of reserves	1,140,000
Subsidies to local authorities, etc., to remain a charge on highways account	125,000
	£5,056,000

But even so £1,794,000 was still needed to balance the budget, and to find it it was proposed to raise £730,000 by

increasing the income tax. There was a 10 per cent. increase in this tax last year, and this was to be increased to 30 per cent. Further, the general exemption of £300 was to be brought down to £260, and in place of the more liberal scale hitherto prevailing, this exemption was to be reduced by £1 for every £3 of incomes between £260 and £560 and by £2 for every £3 of incomes between £560 and £800. The residue of £1,060,000 was to come from customs and excise, and the necessary provision was made by a series of resolutions passed immediately after the introduction of the budget. The most important tariff increases were tea 3d. per lb., sugar ½d. per lb., imported beer 1s. per gallon, cut and plug tobacco 1s. 4d. per lb. In the case of apparel, hosiery, carpets, etc. preferential and general rates were increased by 5 per cent. *ad valorem*, and in that of furs and silk piece goods, 10 per cent. was added to the preferential and general tariff rates. A primage duty of 3 per cent. was imposed on all goods otherwise free of duty, and the excise duties on cut and plug tobacco were increased by 1s. 4d. per lb., and those on beer by 6d. per gallon. The amounts expected from the increased duties (excluding the beer duty) were summarised by the Finance Minister as follows:

	£
Amount to be collected from duties hitherto in force	6,500,000
Amount expected from new duties on the undermentioned articles (including surtax)—	
Tea	92,000
Sugar	220,000
Tobacco	180,000
Silk, imitation silk and artificial silk	42,500
Apparel and hosiery	86,000
Chinaware, floor coverings and gramophone records	62,000
Other items	47,500
Primage duty	180,000
	£7,410,000

After making allowances for these increases in taxation

and the above-mentioned economies and adjustments, the revenue for the year will, it was estimated, be as follows :

	£		£
Customs	7,410,000	Interest receipts—	
Beer duty	650,000	Railway capital ..	930,000
Film-hire tax	50,000	Post Office capital ..	535,000
Motor vehicles—Duties		Public moneys ..	745,000
and licences	1,760,000	Public debt Redemption Fund	820,000
Stamp and death duties	3,140,000	Miscellaneous—	
Land tax	1,100,000	Post Office Surplus ..	1,090,000
Income tax	4,230,000	From Reserves ..	1,140,000
		Other	1,346,000

The estimated grand totals for the year are as follows :

	£	£
Revenue		24,946,000
Expenditure—		
Permanent appropriations ..	17,679,904	
Annual votes	7,083,877	24,763,781

which leaves a surplus of £182,219 for the purpose of supplementary estimates and other calls.

The proposals of the Government at once excited the uncompromising hostility of the Labour party. The leaders of the Reform party, however, felt that the issues were far too complicated to permit of any off-hand determination of their attitude, and the Reform press was, as a whole, remarkably free from captiousness. Mr. Holland opened the attack on behalf of the Labour party with the declaration that customs are the most unscientific kind of taxation if you want revenue, that taxing articles like tea, sugar, linoleum and gramophone records meant putting the burden on the shoulders least able to bear it, and that the Government, which had promised to do its best to bring down the cost of living, was doing exactly the opposite. "An attack on the breakfast-table of the people" was, said another Labour member, the most remarkable feature of the budget. (The additional amounts to be raised by direct and by indirect taxation respectively are £780,000 and £1,000,000.) Mr. Forbes's reply was

that the Government considered the method he proposed the fairest way of raising the money. It had, he continued, been said,

> that the cost of living would be raised, but it had already fallen considerably since July 1914—and the full effect of the 10 per cent. cut had not yet been felt. The new duties on sugar would make a difference of ·048 pence only. . . . The Government had not set out on a protective policy, but to obtain additional revenue.

In so far as the press is concerned the eulogy of the *Christchurch Times*, a United organ, and the unqualified detraction of the *New Zealand Herald*, a Reform paper, may be taken as representing the two extremes, but any lack of generosity in Reform journalism was fully redeemed by the *Christchurch Press*, which, though a thorough partisan of Reform, prefaced a by no means uncritical article with the following personal tribute :

> It is due to the Prime Minister that the first thing said about the budget should be that it shows considerable courage. As he defined it, his problem was to cover a prospective shortage of almost £7,000,000 ; and he chose to do it in a single effort. He might have budgeted for a deficit. It is possible now to argue that this would have been the wiser course, and events may prove it with a very bitter logic ; but the Prime Minister's choice has at least these great merits. It will undoubtedly support the Dominion's credit and reputation at home, where both are worth money and a great deal more than money. It shows that the Government, having accepted relief to the extent of £870,000 from British taxpayers, is not going to be indulgent to its own. And third, there is the very strong point that in budgeting determinedly for a balance the Government spares no section ; while budgeting for a deficit would have provoked one section or another, or all sections, to complain of insufficient relief.

The wide-spread admiration which Mr. Forbes's courage and candour evoked also finds expression in an article entitled "a needs-must budget" in an Independent journal, the *Evening Post*.

> A budget which adds 20 per cent. to income taxation and over a million sterling to customs and excise duties is a fair target for

Opposition criticism. But at least this praise must be given to the Prime Minister: he has set himself a goal and has gone forward to it with unflinching determination. On the eve of an election he has resisted all temptation to temporise. He has given his opponents ample ammunition to use against him. In the budget there is not one promise of favours to come; only the prophecy that if the people will face their difficulties with enterprise, thrift, and honest work they will soon reach a road leading to greater happiness and prosperity. This does not seem much to set against an additional £1,800,000 of taxation, and against the economy measures which may yet make greater inroads upon those government services which the people have become accustomed to expect. But can any other party honestly promise more?

III. Coalition at Last

THE movement for the amalgamation of the United and Reform parties has already been described in these pages.* Three months ago it seemed to have reached a deadlock. Mr. Forbes, thanks to the loyal help of the Reform party, had, in spite of bitter opposition, just come through the emergency session with a fine legislative record and great personal credit, and he publicly extended to the Reform party and "others who have the interests of the Dominion at heart" an invitation to combine in order to form a national party to govern the country. On May 6 this invitation was peremptorily rejected by Mr. Coates. He proposed, however, that a small committee of his party should confer with Ministers before the introduction of new legislation. Three months later the matter appeared to have been carried no further. There was certainly no sign in the Reform organisation of disagreement with the attitude of their leader. A considerable body of independent opinion, however, which is not usually unsympathetic to the "Reform" cause, expressed its strong disapproval, and weighty memorials were sent Mr. Coates by business men, especially from Auckland and Wellington, urging him to reconsider his

* See The Round Table, No. 84, September 1931, p. 928.

decision. His reply to a memorial from Wellington was published on August 18. The following extracts give its substance:

I find (wrote Mr. Coates) that the Reform party still holds the opinion that coalition, under existing political conditions, with the United party, either for general political objects or the formation of a Government, would not result in real union or promote stable government, and would not be of advantage to the country, which should be and is our first consideration. Parliamentary history provides precedents of similar combinations of political parties, but all have proved to be transitory and without stability or permanence. . . . After careful examination of the position, we feel that there is no practicable adjustment of the parties at present in the House which could give the strong government we and you equally desire. This object can be achieved only by the electors themselves at the next election.

Mr. Coates did not explain what would happen if the old irrational three-party fight should continue and the result again be an inconclusive verdict on the part of the electors. Nor did he seem to realise the suspicion which he had brought upon his party by his decision. Nowhere indeed was this put more clearly than in the *Press*, itself one of the staunchest of Reform organs.

It is absolutely imperative at present (wrote the *Press* on July 10, referring to Mr. Coates's vehement repudiation of the suggestion that he had been consulted about the Unemployment Bill) that those who approve the sacrifice should say so, and it would be a calamity if the impression were created that the Reform party is less eager to say so than it ought to be. Mr. Coates will have to be very careful if he is to prevent this impression from deepening. The Reform party is committed to co-operation so far as that can be given without violence to its principles, and while there can be no doubt of its help during what remains of this session, it must not allow anyone to say, or anyone to feel, that its real concern is with what follows the session.

Mr. Coates is in a more difficult position than the leader of any party has occupied within the memory of those still in New Zealand politics. The fusion offer, whether this was simplicity or craft, contained nothing when it was carefully examined but a suggestion that one leader should hold the other's hand while both took a leap in the dark. But very few people examined it carefully, or have

examined it yet. . . . The danger (at the election) is not that a majority of the people want a Socialist Government. It is that those who do *not* want socialism may not have a clear opportunity of saying so. The danger that particularly threatens the Reform party is the fact that, if it is not very careful, it will find itself in a position in which it appears to be risking the fate of the community in a gamble for victory and power.

There is no reason (the writer went on to say) why Mr. Coates should not propose some common meeting ground, or at least indicate more plainly that he is willing to join in the search for one.

If he had done it sooner one might have supposed that Mr. Coates had this wise advice in view when, on August 21, he sprang a pleasant surprise on the country by moving the following resolution :

That, in the opinion of this House, the serious economic and financial position of this Dominion necessitates urgent and immediate action to cope with the fall in national income, as revealed by the latest figures, and the consequences arising therefrom ; that, with this object in view, it be a recommendation to the Government that representatives of the political parties should be called together in order to decide what remedial steps should be taken to adjust the national expenditure and to provide for equality of sacrifice and a proper distribution of the burdens ; that in arriving at its conclusions this committee should obtain the best expert advice and assistance from financiers and others ; that in order to enable such inquiry to be carried out Parliament should be adjourned for a short period and further consideration be given to the position when the committee reports to the House or the Government.

In ordinary circumstances such a resolution would, of course, have raised a question of no-confidence, but on this occasion it took the very line that the Prime Minister himself had suggested. Mr. Coates, moreover, explained that he had consulted the Prime Minister and the Leader of the Labour party before moving it. The main points in his speech were as follows : *

The Reform party had had (he said) many conferences during the last fortnight before reaching a decision. There were two courses open to the party—one to go to an immediate election and

* See *The Evening Post* of August 21.

the other to arrive at the decision he had indicated. It was felt that it would occupy two months at least to go to an election, and the Reform party had decided that the time had arrived for all parties in the House to come together in an endeavour to meet the position. Therefore the suggestion that representatives from each party should meet in conference and with assistance of outside experts draw up a plan appeared to be the best course. . . . One of the reasons why the Reform party was so concerned was that it had been receiving S O S signals from farmers and others whose position was desperate. . . . They would be lucky if they were able to maintain the present prices.

He did not mean anything in the nature of pessimism, but just to indicate that the parties in the House might with advantage be called together to consider the whole position. There were those who said that New Zealand was in a better condition than Australia, and that was no doubt so, but there was a danger that the Dominion would drift into the position Australia was in. There had been a tremendous drop in imports, and even with the increased customs tariff it was doubtful whether it would reach the estimate. That factor must increase the difficulty of balancing the budget. The income tax estimates for the year appeared to be optimistic. The railway accounts showed a severe and alarming falling off. Then, members had to consider the strong probability of a difficult situation next year. . . . The Prime Minister had discussed the position with him, and also the Leader of the Labour party, and he was indebted to both Mr. Forbes and Mr. Holland for placing the matter before the House.

Mr. Forbes, on behalf of the Government, welcomed and seconded Mr. Coates's motion.

He could not (he said) but agree with the conclusion which had been arrived at by the Leader of the Opposition. He had felt for a long time that the financial position of the country could not be dealt with by a minority Government. First and foremost there was the question of the farmers' finances, and as the whole country's welfare depended on that industry, they must realise that everything hung on the welfare of the primary producer. That was a problem which loomed up very large. There was no doubt that the farmers' difficulties were multiplying and that they would go on multiplying, and that the House would have to give serious consideration to that problem. The Government's budget was a straight-forward and honest budget, but there was a serious weakness—the use of the reserves. When that happened it was necessary that they should have some plan for the future.

He looked upon the committee as a very valuable contribution

to what should be done to meet the situation. The question of a plan for the future was very pressing. He thought all agreed that more definite measures should be taken than had already been adopted to meet the position. He welcomed the fullest investigation of the finances—public, local body, and private—by an independent committee, and if it brought down recommendations the House would have to consider them very seriously. He suggested that the committee should consist of three members from the Government, three from the Opposition, three from the Labour party, and one from the Independents. . . . One of the matters that the committee would have to look into would be the means of putting the measure through Parliament. The committee would also have to take into account the postponement of the elections. Labour voices: "Oh!" Mr. Forbes said all questions facing the country, including the postponement of the elections, would come before the committee.

Mr. Holland announced that the Labour party would readily assent to the motion except that he did not agree to the proposal to adjourn the House. He also took strong exception to the Prime Minister's suggestion that the general election, which is due in November or December, should be postponed.

He hoped that no section of the House would give a thought to the postponement of the elections. There could be no more grave breach of confidence of the people, and the Labour party would vigorously oppose any such move. Nothing would do more to spread discontent amongst the people.

Mr. Coates was willing to meet Mr. Holland's objection to the adjournment, but he dashed any hopes that something better than inter-party consultation was in his mind.

His motion, he insisted, had not the intention of a national government; a national government to him meant nothing. The job was what position had we got into and what was the plan necessary to remedy the situation.

After the reference to the adjournment of the House had been deleted the motion was carried without opposition, and the following committee of ten appointed: for the

Government (United party), Mr. Forbes, Mr. Ransom, and Sir Apirana Ngata; for the Opposition (Reform party), Mr. Coates, Mr. Downie Stewart, and Mr. Jones; for the Labour party, Mr. Holland, Mr. McCombs, and Mr. Savage; Independent, Mr. Wilkinson. The Committee held its first meeting on August 23 and spent about a fortnight in taking the evidence of bankers, financiers, economists, farmers, merchants and others. It then decided to devote the week ending September 16 to the preparation of its report.

Nobody was surprised at the failure of the parties to find common ground which Labour could also share, but few were prepared for the agreement between the two principal parties which the Prime Minister announced on September 18.

I desire to inform the House (he said) that the information given to the Special Economic Committee, which has been sitting for the past few weeks, has disclosed the necessity for immediate action being taken in regard to the finances of the Dominion. I am therefore pleased to announce that, as a result of conferences between representatives of the Opposition and the Government parties in the House, it has now been agreed to form a Coalition Government from the two parties. It is not possible for me to make a fuller statement at this stage, but I hope to be in a position to inform the House of the details and final arrangements on Tuesday next.

On a motion for adjournment Mr. Holland and other members of the Labour party expressed a good deal of indignation at the Prime Minister's announcement, mainly on the grounds that the Committee, as its name proved, had been appointed "to deal not with political considerations but the economic conditions of the country;" that the deliberations of the Committee had been broken off by a purely political arrangement; and that the intended postponement of the elections would amount to "a temporary political dictatorship" which would provide "all the elements for insurrectional movements." But the chief interest of the debate turned on Mr. Coates's attitude, for he had the key of the position the whole time in his

own hand, and he had now put it to a use which he himself had apparently regarded as out of the question only four weeks before when he moved his motion. The crucial passages in his statement were as follows :

I as Leader of the Reform party am opposed and have been opposed to anything in the form of fusion, or shall I say coalition. My statements to the country were clear, and I was sincere in those statements. But the nature of the evidence placed before the Committee was enough for any man to be concerned about the immediate welfare of this country unless the problems were tackled immediately. Those problems must be tackled with determination and absolute fairness to every citizen of the country, and on a policy or programme calculated at least to bring about stability, confidence and, I hope, rehabilitation to the country. While we are discussing elections, while we are discussing this policy and that policy, we are not getting anywhere, and it is only from a very strong sense of public duty that I have asked my supporters and candidates—and they are behind me to a man—to carry through a programme of legislation the nature of which has been discussed with members of my party and with the Prime Minister and his group, and there is general agreement as to the necessity for action being taken without any further delay. If we fail to take that action we shall be neglecting our duty to the people of this country. . . . It must be remembered that this arrangement which has been made is a combination which does not destroy either party. Since it cannot be a national arrangement it is a coalition for the purpose of passing legislation that both parties deem essential and necessary in the interests of the country.

Mr. Forbes will, it is announced, still be Prime Minister ; and Mr. Coates Leader of the House. The number of Ministers will be reduced from 14 to 10. It is, however, already obvious that an effort will be made by Reform die-hards to minimise the benefit of coalition by preventing the postponement of the general election, and thus limiting the term of the new Government to about two months.*

* On September 22, the day after this article left New Zealand, the Forbes-Coates Government was sworn in, with Mr. Forbes as Prime Minister and a Cabinet of ten. Mr. Forbes explained that it was necessary to have a strong Government to take immediate steps towards financial rehabilitation. The postponement of the election was a matter for the new Government to decide. Parliament would adjourn till October 2, and the Government would announce its full policy on October 6. Some of the proposed measures, Mr. Forbes added, could not wait for a general election. On October 23 Mr. Forbes announced that it had been decided not to postpone the general election. The Government felt it imperative that its policy of sound finance should have the country's emphatic endorsement. Mr. Coates announced that the Reform and United parties would not break apart for the election campaign. It is believed that the election will be held on December 9. (See *The Times*, September 23 and October 24, 1931.)

IV. The Statute of Westminster

"NO carping criticism" were the words used by Mr. Coates in describing New Zealand's attitude towards Great Britain on the eve of the 1926 Imperial Conference. In exactly the same spirit Mr. Forbes, though an opponent of Mr. Coates in local politics, declared that New Zealand had "no complaints and no demands" to bring before last year's Conference.

I wish (he said in the House of Representatives on August 17, 1930) to make it plain at the outset that the present Government share in no less measure than previous Governments the traditional attitude of New Zealand towards the United Kingdom. We value very highly our continued association with the Mother Country, and it is our wish to maintain this association as close and as intimate as possible both politically and economically. . . . We have not in any way been embarrassed by the terms of our association with His Majesty's Government in the United Kingdom, nor have we been restricted in the control of our affairs.

It is not disputed that Mr. Forbes, New Zealand's representative at the 1930 Conference, was true to the spirit of this declaration, and faithfully maintained the tradition established by all his predecessors, regardless of party. The only complaint against him is that he gave an exaggerated idea of the importance which New Zealand attaches to Imperial preference, and that he interfered at times in a controversy which is a burning issue in British domestic politics, in a manner which no British Minister would dream for a moment of imitating where a Dominion was concerned. Certainly the public opinion of the Dominion would not tolerate it if he did. The second, and the more important, of these criticisms was well put by Mr. Downie Stewart during the debate on the report of the Imperial Conference on July 21.

My view of the matter (said Mr. Stewart) is that he (the Prime

Minister) and his colleagues were quite entitled to put forward their viewpoint; but, when it meant going right across the traditional free-trade policy of Great Britain, it was a little hard on the British Ministers to be openly accused of wobbling and quibbling. That appeared to me not to be very good form. Supposing an Imperial Conference were being held in Australia or New Zealand, and the representatives of Great Britain urged us to remove all our customs tariffs, and, on our refusing to do so on the ground that it was our traditional policy to raise revenue and protect our industries by a tariff, they indulged in remarks such as were used in England by some of the Dominion Ministers. I do not think that would tend very much towards promoting Imperial unity.

With this exception, however, the propriety of the Prime Minister's attitude was not impugned, and the harmony of the general approval was marred by no party differences. His action with regard to the Statute of Westminster was not merely approved, but highly commended. Not a voice was raised, either in the Legislative Council or in the House, to claim for New Zealand the powers which are to be extended by this Statute to the other Dominions. Yet both Chambers were able unanimously to pass the petition to the King advocating the Statute, because, at the instance of Mr. Forbes, New Zealand had been specifically excepted from its operation until such time as she elects to adopt it, a provision which elicited a handsome compliment from a political opponent of Mr. Forbes.

The exception of New Zealand from the effect of the Statute which is to be passed at Westminster (said Sir Francis Bell in the Legislative Council on July 23) is a tribute to the loyalty of this country, and a still greater tribute to the men who have had the courage and foresight to advocate it. I am sure that, in days to come, my honourable friend the Attorney-General will have the enduring satisfaction that he, as must be the case, advised, and the Prime Minister adopted, a provision in this Statute to be passed by the Imperial Parliament at Westminster which has the effect of declaring that New Zealand is not one of the Dominions that seeks to hold power or right beyond her territorial limits, or to enter into relations with foreign Powers except through the ambassadors of His Majesty.

New Zealand.

September 21, 1931.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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THE INTERNATIONAL CRISIS

I. A Lull in the Storm

IN contrast to the previous six months of hurricane, the last three have seen a lull in the storm. They have not been marked by any such world-shaking events as the Hoover Moratorium in June, Germany's "Black Monday" in July, the dramatic fall of the British Government in August, the sudden departure of England and other countries from the gold standard in September, and the amazing general election of October. There have even been some reassuring symptoms, which have led to a faint revival of confidence on the stock exchanges and to what is vaguely termed "a better feeling" in business. In America private hoarding seems to have been arrested, the President's financial measures have to some extent restored faith in the soundness of the banking system, the tone of Wall Street is more buoyant, despite the growth of unemployment, the persistent low levels of production and prices, a huge budget deficit and the threatened insolvency of New York, Chicago, and Philadelphia. In England, the prospect of a balanced budget, the steadiness of internal prices, the absence of currency inflation and of panic have gone some way towards dissipating the fears of immediate and general collapse in Europe that were entertained in the autumn. In Germany, the political situation has become noticeably more stable since Dr. Brüning has shown his determination to preserve order and to take drastic measures to improve the economic

position. In France, the rapid growth of unemployment has brought home the truth that, despite her gold stocks and her comparative self-sufficiency, she is not immune from the depression. Though her growing difficulties are but another proof of the deepening of the crisis, they may eventually infuse a better understanding of the troubles of others and with it the beginnings of a more conciliatory spirit. All these items on the credit side of the balance sheet are worth faithfully recording, not only on account of their intrinsic value, which it is only too easy to overestimate, but because they have lifted, if only slightly, the blanket of hopeless pessimism which was exercising a numbing influence upon every upward movement.

II. The Decline of Trade

FOR all these pale rays of light, however, the needle of the economic barometer remains firmly set at " stormy." A glance at the debit side of the account shows that it is still overwhelming. None of the fundamental features of the crisis, political, monetary or commercial, has yet been radically dealt with. As a consequence, paralysis has continued to gain ground through the greater part of the world's economic system. Issues of capital are rapidly drying up. During the last quarter of 1931 they reached incredibly low figures in London and New York, neither of which lent a penny to any foreign country. The number of bankruptcies continued very high in Germany, Italy and the United States, and showed signs of sharp increase in France during the last few months. In spite of a large favourable commercial balance, the gold reserves of the Reichsbank continued to melt away. Commodity prices showed little sign of rising, though a tendency to stability during the last months of the year suggested the hope that they might now have touched bottom. Production indices still sagged slowly downwards. Dammed

by artificial barriers growing almost weekly in number and variety, international trade shrank into ever narrower limits. As it shrank, the scramble to secure export trade at any cost became intensified, and the determination to prevent imports more desperate, especially in countries unable to borrow abroad whose trade balance remained their only asset for meeting their external obligations. Hence, in addition to tariffs, quotas, prohibitions and other purely commercial obstacles, the Governments of 13 countries in Europe and 8 countries in South America had by January forbidden the purchase of foreign currencies, except with the permission of their central banks or some other authority, which is rarely and capriciously granted. In central Europe " standstill," which is already the *mot d'ordre* for finance, will shortly be the fact in commerce also. Already we see the fantastic spectacle of Hungarian weavers unable to obtain sterling offering pigs in exchange for Lancashire yarns with which to keep their mills going and their people employed. The only logical consequence of State control over dealings in foreign exchange is its extension to all foreign commerce. The Brüning decrees have already obliterated many of the characteristic features of individualist economy in Germany. The creation of trading corporations on the Soviet model to handle all Germany's external trade seems to be an almost inevitable completion of the system, nor would it be particularly difficult to reconcile with German conceptions of the functions of Government. Indeed, those who can afford to look on current history with a philosophical eye may be disposed to wonder whether we are not already embarked upon a transitional voyage, with the shores of nineteenth-century individualism already fading into the past, and some unknown haven of well or badly " managed economy " awaiting us in the future.

But putting aside this interesting, if uninviting speculation, it is not difficult to sum up the net result of this internecine commercial warfare, which has proceeded from

the complete derangement of the world's financial system. There are only three methods of effecting international payments—through gold, credit, or goods and services. No country, except France, Holland, Switzerland and the United States, has sufficient reserves to enable it to meet any substantial deficit on international payments, however temporary, by shipping gold. This method is therefore practically eliminated. The destruction of confidence has almost arrested the extension of credit by those countries which are in a position to furnish it. Moreover, existing debts, both public and private, have been multiplied to such an extent by the fall of prices that debtors, whether they be States or individuals, are prepared to make every effort to avoid assuming the burden of any further indebtedness. A farmer in eastern Europe now has to provide three times as much wheat to meet the interest on loans or mortgages as he needed a few years ago. In these circumstances credit has largely ceased to perform its commercial function, to the immense detriment of trade. There remains only payment in goods. If there were no tariff barriers in the creditor countries, no difficulty would arise. England became the greatest creditor country in the world by keeping an open market, in which all her debtors could sell their goods. This meant that she had a deficit in her visible trade balance, but a large surplus on her balance of payments. If, during the past five years, the debtors of France and the United States had been able to pay what they owed in goods, a great deal of the present trouble would have been avoided. But both France and the United States are highly protectionist countries by tradition. They would not lower their tariffs in order to admit their debtors' payments in kind for fear of upsetting their domestic production. As long as they were prepared to extend credit to debtor countries, no serious consequences followed, but from the time when they were no longer willing to lend, it became impossible to meet their claims in full except by heavy payments in gold. As they

have now already received the great bulk of the gold available, most of their debtors have practically reached the position of being unable to pay at all.

Moreover, as the result of the slump in prices followed by the financial crisis, all countries owing money abroad—and that means the vast majority—being unable to use gold are seeking to preserve their balance of payments and their financial stability by paying their obligations in goods—that is to say, by exporting more than they import. Consequently they are endeavouring to stimulate exports and to limit imports. Germany, as the largest debtor, affords the outstanding example, and her special difficulties are described at length in another article in this number.* How is Germany to meet her external obligations? Her gold reserves are almost exhausted, she cannot obtain fresh credits, the markets for her goods are being steadily circumscribed. The nations to which she owes either reparations or private debts cannot hope to obtain the payment either of interest or capital as long as this state of affairs exists. Yet none of them is apparently disposed to take steps to facilitate her payments. The American tariff still stands as high as ever, France, Switzerland and Holland are imposing import quotas on various types of goods, and finally, Great Britain is busy building a tariff wall. The creditor countries are thus forcing Germany to insolvency. By protecting their home markets they are sacrificing their financial to what they believe to be their commercial interests.

But the plight of Germany is only some degrees worse than that of other debtor countries. As has been shown, there are many others desperately resorting to the same expedients—restrictions on foreign exchange, coupled with the attempt to increase exports and cut down imports—in order to obtain the means of facing their foreign debts and of safeguarding their monetary security. It is obvious that everybody cannot have a favourable trade balance

* See page 294.

simultaneously. The result is that these measures largely defeat their own ends by greatly reducing the whole volume of international trade. The Economic Committee of the League of Nations calculated in January that the sum total of international commercial transactions had shrunk by no less than 40 per cent. in 1931 as compared with 1929. In other words, international trade is gradually coming to a standstill. The Committee was unable to discover any remedy as long as the financial crisis persisted. As they put it, they were "for the moment unable to formulate useful suggestions for trade policy, until the necessary solutions have been found in the field of international settlements and suitable alleviations and adjustments have been effected to relieve the financial tension."*

III. The Financial Dilemma

WHAT then are the financial measures that are available to restore the situation? They are by no means obscure, and may be broadly summarised under two headings—the suspension or cancellation of debts and the revival of international lending. Unfortunately, neither of these operations is of a purely technical character. Both are dependent on the solution of political problems of the first magnitude. As has been frequently emphasised in The Round Table, the world's elaborate financial and commercial machinery has been constructed on international lines. The more its smooth working is interfered with by artificial obstructions aimed at achieving purely national aims, political or economic, the slower the rhythm of industry and commerce becomes and the more quickly does general prosperity decay. We are now witnessing the most lurid illustration so far afforded of this elementary truth. In the words of the foreign bankers who have just consented

* League of Nations Economic Committee. Report to the Council, January 20, 1932.

at Berlin to prolong Germany's private credits for another year, "the present extreme crisis must bring home to all peoples of the world the fact that all countries grow poor together. The obverse is as true. All countries grow rich together. A lightening of burdens and a greater freedom of trade, enriching one country, will enrich all." Unhappily it does not require many sentences to prove that this lesson is still far from having been learnt, and that the application of the financial remedies, which are now generally recognised as imperative by all informed persons, is being fatally blocked by the want of co-operation and understanding between nations.

It is pretty universally agreed that the existence of reparation payments is one of the elements that have played a big part in bringing about the present crisis. It is certainly agreed by every competent person who has examined the situation that Germany cannot continue payments now or for some considerable time to come. It is generally accepted that cancellation of all reparation payments would lift a load and a fear from Europe, and would in all probability set the hands of the economic barometer moving once more upwards. In these circumstances, it might be thought that cancellation would appeal even to the French as an obvious step towards curing their own troubles, which are thickening every day. They are quite well aware that the receipts from reparations entered on the credit side of their budget will never be paid into their Treasury this year or next or the year after. But for political reasons, which will be considered in a moment, the French Government stands out like adamant for the maintenance of the Young Plan, which has been in its coffin for months. Its corpse is already disintegrating, but an extraordinary value is still attached to its skeleton.

A similar situation exists as regards the war debts owing to the United States. The President, acting on the advice of American bankers and economists, whose view is probably almost unanimous, proclaimed his famous one-year mora-

torium in June. When Congress assembled in December, it grudgingly approved it, but vented its ill-humour by adding a rider intended to restrain the President from entering upon any negotiation for the reduction or cancellation of the debts. The majority of Congressmen probably know well enough that any substantial payments are unlikely for some time to come. Some of them probably realise that to wipe out the debts would contribute to reviving general prosperity to an extent which would swell the dwindling public revenues far more than the payment of all the European debt-instalments, even if they could be collected. But Congress, like the Chamber of Deputies, is hugging a skeleton for political reasons, which will be further analysed.

If the effort to raise the burden of debts and reparations is being thwarted by political considerations, the same obstacle stands still more formidably in the way of the other financial remedy—the resuscitation of international lending. Who can be the borrowers and who the lenders ? In their present turmoil neither India nor China supplies an inviting field for enterprise. There are few countries needing money in Europe or South America which can offer the necessary security. In the Spanish- and Portuguese-speaking countries of both continents, economic and political conditions are so disturbed as to offer little attraction to the investor. Central Europe is in no better condition. The internal state of Germany and Austria, though improved, can hardly be said to inspire confidence. With large credits frozen already, it is scarcely to be expected that the American, British, French, Dutch and Swiss bankers will look at any further demands for loans from those countries until the measures prescribed by the Basle Committees for their rehabilitation have been carried out and produced their effect. As long as there is unrest in central Europe, there is no feeling of security which would prompt the capitalist to tie up his money in Poland or the Balkan States. We are thus inexorably brought back to seeking first the

exit from the political imbroglio, before any real hope can be entertained of emerging from the world depression. The Young Plan Committee in December arrived at precisely the same conclusion as did the Basle Bankers' Committee in August. " The adjustment of all inter-governmental debts (reparations and other war-debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence, which is the very condition of economic stability and real peace." They too appealed to the Governments " to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike." Nothing was done by the Governments between August and December in response to the cry of the Bankers' Committee. We may now proceed to examine the chances of greater heed being paid to this last exhortation, which rings more like a cry of distress than one of mere alarm.

IV. The Political Dilemma

WHEN one reflects for a moment on the incredible failure of the statesmen to act upon the unanimous warnings and recommendations of successive teams of experts, one is at first inclined to ask whether the great men of the world are all alike stricken with palsy. No one supposes that they are incapable of understanding the reports made to them and their implications. Mr. MacDonald, Mr. Hoover, M. Laval and Dr. Brüning are probably above the average of statesmen in intelligence, and all of them have at one time or another uttered words which show clearly enough that they comprehend the position and all its dangers. What then is the secret of their impotence ? For those who believe that democracy with its inestimable privileges of liberty and licence is the best form of government, it is somewhat melancholy to reflect that at least until

Mr. Chamberlain made the statement which is quoted later, Signor Mussolini was the only responsible Minister of a great country who had dared to speak the whole truth. He has openly advocated the *coup d'éponge* for reparations and war-debts alike, and one cannot help suspecting that he ventured to do so because he had no general election and no popular press to fear. Italy, too, would lose money, if no payments were received from Germany, but no Italian is in a position to run a demagogic campaign against cancellation. The appeals to the primitive instincts of uneducated opinion, which have been ruthlessly and unscrupulously launched in the United States, Great Britain, France and Germany, are impossible under a dictatorial régime, because they would be contrary to State policy. One is sometimes tempted to wonder whether the world would be wallowing in its present troubles if the rulers of the other four great countries concerned had the same freedom of action. But each of them has to take his country as he finds it, and their difficulties become apparent quickly enough when their political situation is reviewed.

Of the four leaders of democratic countries Mr. MacDonald is in by far the most fortunate position. He at least has got his election over with considerable success. Though the Prime Minister is not free from internal embarrassments, he is able to pursue a foreign policy, upon which in many of its essential features all parties are broadly agreed. In particular, since the date of the Balfour Note there has been no serious division of opinion in England on the subject of debts and reparations. As far as lay in its power, every British Government has been in favour of wiping them out. Mr. Chamberlain, in a clear and emphatic statement in the House of Commons on February 2, renewed adherence to that policy on behalf of the present Administration. They had, he said, urged the necessity for the Governments to come together immediately to conclude a permanent settlement of the reparation question on the basis of a frank recognition of the facts

established in the Young Plan Committee's report. That proposal having proved impracticable for the present, the Government had agreed to the postponement of the intergovernmental conference till May or June, when conditions might be more favourable. Mr. Chamberlain added :

> The legal obligations of Germany are laid down by the Hague Agreements and cannot be altered or annulled by the unilateral action of Germany. . . . But it is equally clear, from the report of the Basle Committee, that Germany is not in a position to resume the fulfilment of these obligations and that consequently when the creditor Governments come to consider future arrangements, that fact will assuredly have to be taken into account.

The Balfour Note policy, of all-round cancellation if possible, has rarely been more decisively expressed. As far as sacrifice is involved, it was made when the debt settlements were signed, by which this country renounced all claim to reimbursement, save of such sums as it was called upon to repay the United States. Some people are inclined to argue that we let off our debtors too soon, and should have done better to keep a hold on them. In the long run, however, it will probably prove that the adoption of a generous policy by the second creditor country as a contribution to general economic recovery was a wise and compelling example. But though Lord Balfour found the key, and the present Government is still offering it to the world, it has to be used by others before the door can be unlocked.

Germany may be taken next, the core of the international problem. As was pointed out in the last number,* parliamentarism has broken down in Germany, but nothing has yet taken its place. Dr. Brüning is still a parliamentarian in name, occasionally making the gestures of a dictator. Hitler is a dictator by profession conscientiously making the gestures of a parliamentarian. The truth is that Germany has not yet been educated to democracy. Hitherto the crisis has not provoked a national reaction along con-

* The Round Table, No. 85, December 1931, pp. 78–84.

stitutional lines. The natural inclination has been rather to form organised and armed forces of a distinctly unparliamentary character. Hence the tranquillity of the country is constantly perturbed by the parades and counter-parades of these pseudo-military bodies, of which there are now no less than four—the *Stahlhelm* and the Nazi Storm-troops on the right, the Communist Red-fighters on the left, and in the centre the *Reichsbanner* formed to defend the republican régime. These warring factions have produced a great deal of commotion at home and abroad. They have stirred the apprehension of revolution and civil war within, for which there was some justification, and the fear of German aggression without, for which there was very little. As long as there was an unstable Government at the helm, dependent on the will of a Reichstag which no longer commanded the confidence of the people, the political importance of these organisations was considerable; but as soon as Dr. Brüning, backed by the President, showed that he was resolved to govern, the star of Hitler and the other partisan leaders began to wane. It was realised that their armed forces were so evenly balanced that they cancelled each other out. A Government determined to preserve order could crush any of them by using the police and the Reichswehr, aided by its opponents. The fear of a Communist or Nazi *coup d'état* has thus faded into the background during the last few months. The country at once responded to leadership and backed the Government in a great effort to make the emergency decrees effective. The German nation put forth a tremendous endeavour to improve its economic position by a drastic experiment in general deflation on the Australian model. Its consciousness of that endeavour under resolute guidance has already done something to dispel the mood of despair. The fact of that endeavour has also done something to revive in foreign countries the belief in Germany's willingness and ability to help herself.

This improvement in the German position was beginning

to produce some effect in France. The Government was obviously seeking a "formula" which would permit the skeleton of the Young Plan to be preserved, even if the body could not be embalmed. It realised, however, that no further payments could be expected in the immediate future, which meant, as most people privately admitted, that reparations were finished for ever. An influential paper of the moderate Left even flew a kite in favour of complete cancellation. But to the French mind the reparation question is not an isolated problem. If reconciliation with Germany could be purchased at the price of financial claims which are no longer enforceable, the bulk of the French people would probably waive them with a shrug of the shoulders. But the majority of Frenchmen do not believe in any such possibility. Just as the evacuation of the Rhineland was followed by the proposed Austro-German customs union, so they are convinced that the sponge would hardly be dry on the reparations slate before Germany advanced further demands for re-armament and the revision of the eastern frontier. The complete scrapping of the Young Plan would be interpreted as a sign of weakness, which would further loosen the structure of security erected by the peace treaties. These fears seemed to be confirmed by Dr. Brüning's statement to the British Ambassador, which was generally and apparently wrongly understood as a deliberate repudiation of the obligations freely accepted by Germany when she signed the Young Plan at The Hague. The reaction in France was such that the Government immediately stiffened its attitude both on reparations and disarmament. The German Chancellor, on the other hand, could not have openly declared his willingness to resume payments at any future date. To have done so would have tied his hands before entering upon the Lausanne Conference and would have raised a storm in Germany against further payment of "tribute."

A complete deadlock was thus created. The British Government, which had been using every effort to push

on the Conference, reluctantly acquiesced in its postponement, seeing that it was already agreed that disagreement was inevitable. If no general election were pending in France or Prussia, the risk of holding the meeting might still have been run; but neither the French nor the German Government dared modify its position within a few months of an appeal to the people. It may prove that in six months' time the tension will have relaxed, but in the meanwhile Europe can only flounder on deeper into the morass.

Moreover, there was yet another element which would in any case have darkened the prospects at Lausanne. Under the pressure of Congress Mr. Hoover had withdrawn the helping hand he had held out last summer. For him, too, a doubtful election was beginning to draw unpleasantly close. A revulsion of popular feeling had set in against the generous mood of the moratorium. Its mixed reception and the negative result of the Laval visit made the American taxpayer less willing to shoulder the burden of the European debts, until he saw some evidence of a real effort by Europe to set its own house in order. The spectacle of our continent's inglorious failure to restore a peaceful atmosphere necessary not only for its own but also for America's prosperity began to exasperate American opinion and to produce bitter disillusionment as to America's part in a war which had apparently settled nothing and unsettled everything. When the average Middle-Westerner looks at the endless wranglings over reparations, frontiers and tariffs growing yearly more acute as the new race in armaments gets under way, is he to be blamed altogether for harking back to the isolation of George Washington, or for thinking that peace is defined in Europe as "*la guerre sous une autre forme*"? That is not a kind of peace which he understands. The United States was beginning to learn from its present troubles the need for co-operation, but after the rebuff suffered by its first move, the American public is unlikely to favour a second attempt, whether there be a Republican or a

Democrat at the White House, until it sees some likelihood that co-operation will be fruitful and effective. For that the primary condition is the establishment of real peace in Europe, which cannot be accomplished without a real beginning of disarmament.

It is this attitude of mind which largely explains the surly temper of Congress and the refusal of the American Government to participate in the Lausanne negotiations. It does not follow, however, that, if an agreement were reached here, the United States would be unwilling to make its contribution to an all-round settlement. Any clear sign of returning harmony in Europe would probably evoke a response in America. The response will be all the readier if the Disarmament Conference gives proof of reaching concrete results. Unless it does, the settlement of the reparation problem will not by itself suffice to clear the air. As no settlement is yet in view, the Conference opens in circumstances which make success more than ever difficult and more than ever vital. As if the schisms of Europe were not enough for it to contend with, its prospects have been materially clouded by the League's failure to secure respect for the Covenant in China. Whatever reasons or excuses may be advanced, the fact remains that the Council was entirely unable to prevent the use of military force as an instrument of national policy. It is too early yet to apportion responsibilities, but the representatives of the great Powers, among which the British Government still holds a pre-eminent position, were not at first even willing to mark their disapproval of the breach of the peace pacts by endorsing the American protest. The consequences in the Far East are not yet predictable. Their far-reaching possibilities have already been brought nearer home by the threat to Shanghai, which has fortunately brought about co-operation between Great Britain and the United States. Their co-operation in this field is enormously important in itself, but equally important is its possible extension to other matters. In the mean-

while, however, the initial failure to uphold the guarantees of peace provided by the League and the Kellogg Pact has already had unfortunate consequences in Europe. The fears of war which are one of the root causes of the depression would have been sensibly allayed by successful League intervention in the Manchurian affair. Its absence has had a correspondingly disturbing effect. To the initiated it is easy enough to draw distinctions between Oriental and European quarrels, but the ordinary man simply argues that if the League cannot preserve the peace in the East it cannot be trusted to do so in the West. To many countries the League is the foundation of their security. If it is a broken reed, the only alternative is to resort to the old methods of alliances and armaments, which must ultimately create such another system of mutual hates and fears as inevitably culminated in the Great War, how inevitably Mr. Churchill has convincingly shown in his first and last volumes.

It is not a reassuring situation, nor can the British Government be absolved of its share of responsibility in bringing it about. It gave no lead in the Manchurian affair, which might have been checked and confined to manageable limits by a show of firmness at the outset. The inaction of the Council of the League was interpreted in Japan as condonation, if not approval, by the great Powers, including the United States, of military action, and has thus encouraged its extension on a scale which threatens the balance of power in the Far East. It is reassuring that at the moment of writing the British Government has finally accepted the United States' demand for co-operation in dealing with the critical situation which has now arisen in consequence. Any other course would have jeopardised Anglo-American friendship, which is bound to be the corner-stone of British policy and the best guarantee of peace. It may be hoped that it is not too late to prevent a conflict of incalculable dimensions and to restore the respect for international engagements.

It may also be hoped that the British delegation at Geneva will maintain a positive attitude towards disarmament. If we believe that disarmament is essential to peace in Europe and that peace is essential to economic recovery and stability, we are bound to give proof of the courage of our convictions. We have made a substantial contribution by accepting the limitation of naval armaments, but that does not exhaust the possibilities of reducing expenditure for warlike purposes, which weighs heavily on our own and on every other budget. The world's troubles will not cure themselves. Energetic and agreed action by the principal Governments is necessary, and it cannot be initiated without a decisive lead.

All these problems, however, really form part of a single complex, and cannot be profitably handled individually. The British Empire occupies a position in the world's affairs which places a large share of the responsibility for leadership on the shoulders of this country. It is perhaps better situated than any other to form a comprehensive and sympathetic understanding of the warring points of view, which have to be reconciled if any radical solution of the present political and economic chaos is to be found. It can only be discovered by infinite patience and unwearying reasonableness which avoids antagonism towards any of the principal actors in the unhappy drama. It would be a mistake, at this stage at any rate, to make common cause with any of them in opposition to the others. However misguided the French or German or American attitude on debts and reparations may seem to some of us, each is the outcome of strong, even passionate convictions, which cannot be ignored and which must probably receive some measure of satisfaction if a solid settlement is to be reached. As the United States would not ratify the pact of guarantee, or Great Britain the Geneva protocol, France is still unwilling to admit any relaxation of the peace treaties which might be made a precedent for demanding further political concessions. It may not be impossible to obtain a

final settlement of the reparation problem at the price of a guarantee of a ten years' political truce, during which no question should be raised as to the territorial provisions of the treaties. Germany has hitherto refused to give any such undertaking, but as complete economic collapse looms nearer, she might be willing to revise her attitude, if at the same time some substantial beginning were made in general disarmament. As Great Britain stands to lose on her German investments considerably more than France by the default of Germany, her interest lies in making some sacrifice in order to promote such a solution, not forgetting that it would demand of France very considerable sacrifices, in appearance at any rate. The real value of the Disarmament Conference lies in the continuing opportunity which it offers for the simultaneous discussion of all the inter-related problems which constitute the existing impasse. It is useless to treat them separately. Reparations by themselves present a completely insoluble conundrum. The same is true of disarmament, tariffs and the monetary question. If regarded, however, as parts of a single problem, it is not inconceivable that a way out of the European tangle may be found. Once Europe could show that it had settled its differences, the way would be open for the discussion of war debts with the United States under circumstances affording some prospect of success. It is certainly much too soon to despair of a solution being worked out along such lines, and every effort of which the British Government is capable should be tried in order to bring about a European arrangement as the first step in a general liquidation of the international troubles which are bearing the world down. The other line of advance which has been suggested is that we should seek an agreement with the United States, perhaps in conjunction with Italy, as a preliminary to an arrangement with Germany independently of France. The objections and dangers of such a course are obvious enough to indicate that it could only be adopted as a last resort. The present position, though

grave enough, certainly does not warrant such an expedient being considered. There is still time and opportunity for Great Britain to play her historic rôle of intermediary in Europe, and to seek its salvation and her own by means of an understanding, to which France, Germany and Italy would be consenting parties. In the long run, as recent history has shown very clearly on several occasions, no artificial or imposed solution can hope to stand. It is only by free understandings freely arrived at that the peace and prosperity of the world can be secured. To bring them about account must be taken of realities, not only economic and financial, but also psychological. If the international crisis were due to material facts alone, it would be already abating. Its gravity consists in its largely originating in fears and passions which gradually acquire accumulating force. The peoples are, however, growing more conscious of their miserable situation and are eagerly looking for a sign. There are indications which show that the conditions for launching an economic recovery exist, but a decisive turn in the political situation is needed to give it the impetus required to set it on its way. The next few months will probably decide whether the clouds begin to lift or whether we plunge into the perils of another tempest of unprecedented violence.

IMPERIAL PREFERENCE

I. A Great Opportunity

THE forthcoming Ottawa Conference, which originated merely as an attempt to cloak the failure of the 1930 Imperial Conference in the field of trade co-operation, must now be recognised as a great opportunity—an opportunity to prove that, in spite of political devolution and local nationalism, the British Commonwealth of Nations is capable of acting as one, in pursuit of an end which is valuable not merely to a few of its members at some particular time but permanently to the whole Commonwealth, and indeed to the world. That change from an excuse to an opportunity is the last phase of an evolution in men's minds, both at home and in the Empire overseas. The war destroyed the insularity of British public opinion. The desire, so strongly displayed now in the United States, for isolation from Europe was shown to be vain, while with the growth of internationalism went the decay of Little Englandism. Popular faith was pinned to great international experiments—the League of Nations, the International Labour Office, the World Economic Conference. Now a reaction has set in. No one in a position of responsibility denies that the League of Nations must remain the corner-stone of our foreign policy, but, successful as it has been in so many important spheres, it has not yet brought peace to men's hearts; the constant efforts to break down barriers to trade, while they prevented any great rise in tariffs in the Old World,

left Great Britain still stripped for the race but still naked and ashamed in a concourse of gladiators; labour conditions have not been equalised, and there is no bogey more terrifying to the imagination of the working man than lower standards of life abroad. All these things had sown the seeds of doubt even before the present crisis. Now the British voter sees the actual or imminent collapse in Europe of the economic and political system which he and his countrymen have expensively supported with money and with guarantees, and a feeling of national self-reliance, shortsighted as it may be in some of its manifestations, was his natural reaction. But his disappointment does not yet embrace the Empire, and the Ottawa Conference is the chance to prove that it need never do so. To him the inhabitants of the Dominions are not and never will be foreigners; they are not concerned in the European tangle of debts and reparations and frontiers and security, of which he is heartily sick. So British opinion is turning towards the Empire for those things which it asked of internationalism, but has so far asked in vain.

The general election of October enabled these forces to be mobilised, not so much because it returned a Government free from inhibitions about tariffs, as because it awoke in the British people feelings which had long lain dormant beneath a blanket of domestic differences. The sentiment that has come to the surface is compounded of a desire to use any instrument, provided it be used boldly, to revive trade and bring better times, a growing doubt of the effectiveness of our cosmopolitan trade policy, and a hope that the Empire might give us what our European ties had failed to secure. For one thing, sterling had declined in value relative to the franc, the mark and the dollar, but the currencies of the Empire had mostly moved with sterling, and the electorate thought—vaguely as it must in these matters—that the community of interest so displayed might make it worth while for the members of the Commonwealth to get together, and to act in concert as a real

world economic power. The sentiment was, perhaps, primarily nationalist, but events have taught us our impotence to withstand alone the sweep of world economic forces, and the impossibility of cutting ourselves off either in trade or in politics from the outside world, so that while the horizon of our hopes was narrowed it still included at least the members of the British Commonwealth. With them we start with sentiment on our side; we have no barriers of political antipathy to break down. Their standard of life is as high as or higher than ours. Within the Commonwealth, at least one forcible motive for restrictions upon international trade is absent from the start, since we do not need to think in terms of self-sufficiency and defence. These are logical reasons for attacking the problem of trade barriers within the British Commonwealth first, and for postponing our efforts in relation to other countries for a later occasion, but the strongest reason of all is the impulse given to imperial co-operation by the ebullition of public sentiment.

And in the distant Dominions something of the same spirit seems to have emerged. The success of "national parties" in Australia and New Zealand, the agitation for the abandonment of the gold standard in South Africa, are waves of the same flood as swept Great Britain. In Australia the ejection of the Labour party from office meant a change on the tariff issue, the reverse of that which occurred in the mother country, but high protectionism in the Dominions has been no less an obstacle to the development of a concerted Imperial economic policy than free trade at home. Mr. Bennett's imposition of dumping duties on British goods after the divorce of sterling from gold seemed to betoken a reverse tendency, but (as to some extent in South Africa also under similar circumstances) the measure was criticised by many supporters as well as by opponents of the Administration, and it was subsequently modified in Great Britain's favour. Personal observation shows that—perhaps because of the exposure by the Beau-

harnois scandals of the part played by big business in forming the policies of the great parties—there is in Canada a very general desire that the tariff should aim rather higher and achieve rather more than the artificial and expensive support of industry in the East. In Ireland the abandonment of the gold standard was indeed the signal for a fresh demand by the Republicans for the creation of an independent Irish currency, but at the same time it exposed, as Mr. Cosgrave's Government was quick to retort, the commercial inter-dependence of Great Britain and the Free State, and an official Irish delegation has already visited London to discuss the terms and purposes of an imperial trade agreement.

It is more than a fortuitous combination of circumstances—in which economic adversity plays an important part—that has caused the outlying members of the Commonwealth to welcome with peculiar warmth a search for an imperial economic policy. For close on a hundred years the history of the British Commonwealth has been dominated by political devolution from the centre and the growth of independence in the parts, of which economic nationalism was at once the result and the symbol. India, Burma, Ceylon, the African territories, the West Indian islands and other "crown colonies" have still some marches to tread along that road, but the Dominions, through the world war and their recognition at Paris as independent Powers, through the post-war Imperial Conferences, the Balfour Memorandum of 1926 and the Statute of Westminster, have been brought close to the end of the journey. Political nationalism having thus achieved its end, the economic nationalism that accompanied it will certainly change its direction into new and broader channels. It has, of course, been tempered by a generous measure of preference granted by the Dominions to Great Britain—which the mother country has looked upon as some return for the great imperial burdens she has borne, in the fields of defence, finance and of trade, too, as the metropolis of the Commonwealth, apart from the preferences that she has

so far granted; but generally speaking the preference has been a by-product of a policy designed in relation to local and not to imperial needs. Some nationalists in the Dominions, especially in Canada, have opposed the growth of industrial protection; relieved of their fears of political domination by Great Britain, they are turning to the Empire as a means of securing the greater freedom of world trade that they desire. Some nationalists, on the other hand, have been equally ardent advocates of protection; but when legislative autonomy is secure there is no longer any need to demonstrate it by displays of fiscal independence, and nationalists of the latter kind, too, are far more willing to consider the possibilities of the Empire as an economic unit now that it is obviously not a political unit. From a more rational economic view of the Empire we may yet proceed to a healthier political view, which will reconcile the independence of the parts with the development of a common policy for the whole, seeking the advantage of all through the promotion of world peace.

But a great opportunity always implies a great danger, the danger of failing to grasp the opportunity. If this fresh and powerful sentiment is spilled upon the ground or is allowed to engender merely a set of unnatural bargains for the benefit of special interests, it may never appear again. If the British Commonwealth, with all the force of imperial loyalty and of common blood and tradition to strengthen its purpose, cannot by concerted effort stem the tide of economic nationalism and set an example to the world, what can be expected of conclaves and alliances which have no such bonds? The failure would be a failure in the eyes of the world, and the consequent sneers at the boasted unity of purpose in the Commonwealth would be accompanied by general disillusionment and cynicism. How can France and Germany be expected to agree on the complex matters of disarmament, frontiers or reparations if on the simple issue of economic policy Great Britain and her Dominions cannot reach an accord?

II. More and Better Trade

IT is therefore all the more important to be sure what we hope the Conference may achieve and what irresistible limitations there are to its possible achievements. We have thought too long of a system of imperial preference as implying fresh restrictions upon trade, and thus fresh dangers to our economic welfare. The Ottawa Conference will fail if it does not approach the problem from precisely the opposite standpoint. The purpose of an imperial economic system is to cause trade to flow not less but more freely. We want to exchange more of our products for more of the products of our fellow members of the Commonwealth. No member has, in the long run, any interest in cramping the trade of the world, and negatively we do not wish an imperial preferential system to diminish world trade just as, positively, we wish it to enlarge empire trade. An imperial economic policy, therefore, which was only a super-nationalism in the field of trade and tariffs, imposed upon the unrestricted nationalism of the parts, would be a disaster to the Empire and to the world; it would strangle the trade by which everyone of us must live, and, what is more, would contain the germs of its own defeat. An Empire still divided by high tariff walls, and ringed about by an almost unscaleable barrier against the rest of the world, would be an Empire doomed to decay if not to disruption; yet it is the inevitable conclusion of economic policies urged upon us by some who most emphatically profess and call themselves imperialists.

We shall therefore not make much progress at Ottawa if we have not at the back of our minds the conception of trade as a mutually advantageous interchange of goods and services. Within the limits set by considerations of defence, social policy or monetary difficulties, the more trade the better for everybody. Tariffs, in this light, far

from being in themselves a national asset, are an unfortunate necessity imposed by the action of others or by fundamental national policy. If a tariff is valuable in itself, a reduction of the tariff on British imports is as harmful as a reduction of the tariff on imports from foreign countries, and the " sacrifice " must only be made for an equivalent return, which itself takes the name and appearance of a sacrifice by the other party to the reluctant bargain. Let there be no more talk of "mutual sacrifices" or " concessions " to be made at Ottawa. The basis of the new imperial economic system must be mutual advantage or it will be an unsubstantial, jerry-built makeshift doomed to early collapse. Buying and selling are reciprocal functions and the wealth that goes into a country by purchase should be regarded with no greater suspicion than the wealth that goes out by sale. If the world has not yet learnt that lesson then we had better shrug our shoulders and wait until the complete breakdown of international exchange drives us to a system of barter which would teach us the lesson painfully in words of one syllable.

It does not follow that all purchases and all sales are equally advantageous. We recognise that proposition in our national laws, which regulate the sale of liquor, medicaments and other commodities. Internationally we tend, for what many believe to be equally sound reasons, to regulate purchases rather than sales, though we have also made some attempt to control the export of armaments and dangerous drugs. In the present issue perhaps the most important consideration determining the control of international trade is the balance between industry and agriculture. The Dominions long ago decided that at whatever sacrifice they would not consent to remain merely producers of foodstuffs and raw materials, and by now their industries have become a national necessity as well as an object of national pride. In Great Britain the gradual submergence of agriculture beneath a growing volume of industry and services has called forth a corresponding protest which has

considerably influenced public policy in tariff matters. These ambitions, like the special relations between members of the British Commonwealth and outside countries (*e.g.*, Great Britain and the Argentine or Scandinavia, Canada and the United States) must form part of the data of the forthcoming negotiations. It is no use our entering the Conference unless on these fundamental points we know our own minds and have carefully explored the ground.

III. The Policy of Great Britain

THE general attitude of Great Britain is perfectly clear. We are a great trading nation, absolutely dependent for livelihood on the maintenance of world trade. Roughly 60 per cent. of our exports go to foreign countries. Nearly one half of our vast overseas investments have been made outside the British Empire. It may be that if we had placed more of our capital in the Empire, and particularly if we had invested more in commercial enterprise there and less in foreign government loans, our export trade would have been less precarious and less dependent on the policies and prejudices of foreign countries. Certainly we would be glad if the percentages were more favourable to the imperial link, and perhaps the Ottawa Conference may help to bring about such a change, but in the meantime our existing position cannot be left out of account. Nearly £200 millions of our normal annual receipts, as a country, come from invisible items, other than long-term interest, directly or indirectly dependent on the commercial prosperity of the world at large, an amount which we cannot afford to see further diminished. Our position as manufacturers and bankers for the world, on which our livelihood depends, has been based on cheap food, cheap raw materials and the stimulus of free competition. Hitherto, therefore, while it has been a principle of our policy that any import duty

should, if possible, carry an imperial preference with it, we have been prevented from extending any large measure of preference to the rest of the Commonwealth by the simple fact that economic necessities have demanded the retention of general free trade. Some believe, indeed, that those necessities remain equally forcible now, especially since the depreciation of the pound has already given us some of the advantages that were expected from protection, and that we should still be unwise to change our policy even in the hope of expanding trade within the Commonwealth. That question, however, is not, and need not be, argued in this article because it is already apparent that, for good or ill, Great Britain will very shortly have a general and systematic tariff for the dual purpose of revenue and protection. In hazarding the established benefits of our former policy, we are motivated partly by the need to defend ourselves against the effect of tariffs elsewhere on our own balance of trade, partly by the desire to arrange a common economic policy with the rest of the British Commonwealth. If we, for that purpose, are prepared to forsake free trade it is more than reasonable to expect the Dominions at the same time to modify their policy of high protection. Of imperial preference Great Britain must demand that it should expand rather than diminish the aggregate of international trade, that it should enlarge her exports and not merely injure her competitors in one market so as to intensify their aggression in others. That is not an impossible demand. It is false economics to contrast our imperial and our foreign trade and to assume that a rise in the one must necessarily be accompanied by a fall in the other. One of the foremost reasons for the decline of our overseas trade since the war has been comparative lack of adaptability. World changes in demand and in productive capacity have accounted for most of the decline in our staple export trades; in some of the newer industries—motor cars, aeroplanes, artificial silk, and many others—our progress has been encouraging, but it has not

been fast enough to make up for the decline in the heavy industries, cotton and wool. If we could place greater reliance on the home and imperial markets we might well be strengthened rather than hindered in foreign markets for these new products.

But if our aggregate of trade is to be enlarged our imperial policy must be flexible enough to allow us to take advantage of any special opportunities that may arise outside the Empire. It would be foolish to shut out the rest of the world for ever from advantages which the members of the Commonwealth accord to each other, and to make those advantages wholly dependent on such exclusion. Since the British market is as important to the foreigner as the foreign market is to Great Britain, we should fear tariff retaliation not so much for its direct injury as for the harm it would do to world trade as a whole, but the repercussions upon our own position would be serious enough. Moreover, our imperial ties would be no more than fetters if, while suffering all the disadvantages of protection, we were to be prevented from reaping its benefits in securing special concessions from foreign countries on the strength of the bargaining power that it would afford. That is especially true at the present moment, when the negative success of traditional commercial policy in securing "tariff disarmament" has driven many countries to seek a way out through customs unions and preferential systems. The Scandinavian countries, for instance, followed Great Britain in abandoning the gold standard, and are now putting their heads together for the development of a common trading policy in which, sooner or later, they are bound to invite Great Britain's co-operation; together, they rank with our best single customers, and for their part they are so dependent on the British market that they are bound to offer advantageous terms which, desirable as it may be to divert some of our demand for their products towards Canada, Ireland and New Zealand—not to mention our own home producers—we should at least be in a position to consider.

The attachment—in their own interest—of so many countries to sterling in spite of its inconvertibility into gold has been remarkable, and might be employed, as we suggested last December,* to organise a new international exchange system which would avoid some of the perils of the post-war gold standard; if nothing is done in the meantime, Ottawa will present an opportunity for taking a first step in that direction. But to leave all foreign countries out of a sterling union would be a grave error, yet it would almost inevitably follow if the new system of imperial preferences were to be aggressively directed against the rest of the world and were to forbid preferential arrangements outside the boundaries of the Empire. Sir Herbert Samuel, speaking in the House of Commons on February 4, asserted that this would be true of the actual tariff proposals that he was denouncing; that criticism, if well-founded, would be of great moment, and it is to be hoped that the Government will bear in mind the importance of not unduly tying their hands at Ottawa for negotiation with foreign countries. The point is not by any means of purely British interest. South Africa has already, for what seemed to her good and sufficient reasons, concluded a commercial treaty with Germany by which that country receives all the subsequent preferential advantages extended to Great Britain, and there is no saying when opportunities may not arise for making other special arrangements, say between Canada and the United States, or Australia and Japan.

IV. The Scope of Preference

EACH of the Dominions, before putting up proposals at Ottawa, will have to consider its own fundamental national policy, its relations with third parties, its internal political situation. The scope of preference, or other methods of expanding trade (of which tariff preference is plainly only one) is thus somewhat limited, and cannot,

* See The Round Table, No. 85, December 1931, p. 55.

indeed, be clearly delineated until policies are determined and technical details more fully explored. But a rough indication of the magnitudes involved is given by the following tables, showing the imports of manufactures into the Dominions and of foodstuffs and raw materials into Great Britain.

I. Imports of Food and Raw Materials into the United Kingdom
Annual Averages 1924–29, *in £ million*

	From British countries	From foreign countries	Total
1. Total imports of merchandise ..	380	866	1,246
2. Grain and flour, etc.	45	63	108
3. Meat	26	85	111
4. Butter, cheese and eggs.. ..	37	48	85
5. Fruit	9	29	38
6. Sugar, tea and tobacco	44	42	86
7. Raw textiles	73	101	174
8. Wood and manufactures thereof	6	58	64

II. Imports of Manufactures into the Dominions and India
Annual Averages 1924–29, *in £ million*

	From United Kingdom	From other British countries	From foreign countries	Total
1. Total imports of merchandise—				
(*a*) Canada	36	11	169	216
(*b*) Australia.. ..	64	19	66	149
(*c*) New Zealand ..	23	11	14	48
(*d*) South Africa ..	34	10	26	70
(*e*) Irish Free State..	49	2	11	62
(*f*) Newfoundland ..	1	3	2	6
(*g*) British India ..	92	14	82	188
2. Iron and steel semi-manufactures	19	0	14	33
3. Agricultural, electrical and other machinery ..	31	1	35	67
4. Motor cars, etc., and parts	8	5	33	46
5. Other metals and manufactures of metal ..	25	2	29	56
6. Cotton piece goods ..	51	0	13	64
7. Other manufactured textiles and apparel ..	56	9	39	104

Of course it would be absurd to expect that any agreement should cover even the majority of the items contained in the tables, and indeed it would be dangerous if it did, but the size of the figures shows at least that, other considerations apart, the field is large enough to make an attempt at an imperial preferential system worth while. It has been stated with authority that the Dominions imported from foreign countries in 1929 as much as £280 millions' worth of goods of a type which could be satisfactorily produced in Great Britain, and while the figure may be a little exaggerated by the inclusion of classes of manufactures in which foreign countries have for one reason or another an overwhelming superiority, it can scarcely be put at less than £200 million on a conservative reckoning. At the 1930 Imperial Conference Mr. Scullin stated that Australia was importing between £40 and £45 millions' worth of goods from foreign countries of a type in which Great Britain could compete.

The question of the division of manufacture between the Dominions and Great Britain is perhaps more complicated than any other which will be raised at Ottawa. Here in particular careful preliminary investigation will be necessary, since discussion in general terms is bound to be fruitless. The question to be settled is, how can wasteful competition be supplanted by advantageous specialisation? There are many lines of manufactures which the Dominions attempt —or may attempt—to make for themselves but which, for want of a large enough market or of associated industries, they can only produce very expensively, whereas in other lines, which they are perfectly competent to manufacture, they are hampered by the cut-throat competition of British and foreign producers. If the Conference can replace this wasteful division of effort by specialisation, standardisation and concentration of production, it will do much to enhance the industrial efficiency of every member of the Commonwealth. Even were the only result to be a precaution against unnecessary overlapping in future development,

that would be a step forward from the chaos of the present. Representatives of the steel industry are known to have been considering the problem of intra-imperial trade in these terms for some time past, and last year, at the invitation of the Canadian Government, a mission of British industrialists visited Canada especially with the view of discussing possibilities of complementary production. The Federation of British Industries and other interested bodies in Great Britain are adopting the same line of approach, as well as attempting a direct estimate of the possible markets for British goods in the Dominions. These valuable semi-private investigations must, of course, be linked up with official preparations. In Great Britain a special committee of the Cabinet is being advised by inter-departmental committees of officials who are reviewing very closely the possible scope of preferences and other means of enlarging trade with the Dominions. Each of the latter, of course, has its own method of preparation. Even six months before the proposed date of the Conference—not by any means too long a time—it is plain that in matters of production and trade the ground is being much more carefully explored than it has been before any previous Imperial Conference.

V. Methods of Negotiation

THIS exploration will indicate the possible field of preference or other devices. But there is another vital point to be settled, namely, by what method should the attempt to enlarge trade within the Commonwealth be made by the British Government, with whom the initiative is bound to lie. A suggestion has been put forward,* with considerable cogency, that instead of going to the Conference prepared to grant some isolated

* Letters to *The Times* from Mr. Richard Jebb, December 23, 1931, and January 5, 1932.

favour, such as a wheat quota, in return for whatever particular and unrelated offer the Dominions might make affecting our exports of manufactures, " we should establish in our next budget a tariff designed throughout to meet our own domestic needs, but with at least two scales of duty : (1) the general tariff, *i.e.*, applying to all countries not subject to exceptional treatment ; and (2) the preferential tariff, applying alike to all parts of the Empire. In fixing the rates of duty on each class of goods, care is taken to safeguard the primary object. If it is protection, the preferential rates must be kept high enough ; if revenue, the general rates must not be too restrictive. So we should immediately reach the goal, of effective Britannic reciprocity, by a certified path which avoids any preliminary bargaining, with its inseparable risk of friction and failure." That plan has undoubtedly a great deal to recommend it. Its chief merit is that it would safeguard Great Britain against " buying a pig in a poke," against obtaining preferential advantages of hypothetical value from the Dominions in exchange for an alteration of her own trading arrangements of whose defects or merits she could have had no experience. It would safeguard her, too, against building up a patchwork preferential system in the Empire without a principle and without any conception of an ultimate goal.

If, however, the plan means abandoning altogether the idea of negotiating with the Dominions on the basis of alterations in our tariff and in theirs, it is presumably impracticable. The indefinite postponement of the Conference to which we are pledged, and to which the British electorate and Parliament keenly look forward, would let slip the opportunity of using the enthusiasm of purpose that we have described, until a vague future date at which it might no longer exist. In so far as the plan implies only the construction, before we negotiate, of a general tariff system in which the Dominions and colonies receive substantial preference, it is already being put into force.

Many of the very real dangers which the proposal is designed to obviate will disappear if the principles outlined in this article are upheld at Ottawa ; that it is to say, if no country enters the Conference without a clear idea of what fundamental tasks it intends its tariff system to perform, and if arrangements are reached only on the score of mutual advantage, not mutual sacrifice, in accordance with a conception of the Empire as a collection of autonomous units trading more and more fruitfully and on a greater and greater scale with each other, while at the same time not attempting in any way to isolate themselves from the rest of the world.

But there are two further choices that must be made regarding the method of approach to " effective Britannic reciprocity," choices different from Mr. Jebb's antithesis though implicit in it. Granted that a conference is held with the purpose of securing some understanding between the Dominions and Great Britain upon reciprocal trade advantages, whether by tariff, quota or other means, is the outcome to be a set of commercial treaties binding the parties in precise terms, or the continuance of the traditional policy of free and automatic preference under the guidance of a " gentleman's agreement " ? There is much to be said for the latter alternative, provided the understanding were broad and flexible enough to allow any party to modify its tariff, if necessary, without raising an accusation of breach of faith. It would preserve beyond dispute the tariff autonomy of the members of the British Commonwealth and the adaptability of their fiscal arrangements to meet either an economic emergency—a crop failure, a collapse of prices, the breakdown of an exchange system—or a change in their fundamental economic policy. It would avert the danger, which many believe to be acute, that the use of imperial sentiment to manufacture commercial pacts will destroy the sentiment and leave only the pacts.

The case for the opposite course cannot be logically

presented until the second choice has been made. Is Great Britain to be bound to offer the same terms to each and all of the Dominions, or may she discriminate between them ? The disadvantages of the former alternative are not always fully realised. Not only would a commercial treaty to which six Dominions (not counting India or other parts of the Empire) must simultaneously be parties be extremely difficult to negotiate ; it would be almost impossible to maintain, since a change in government in some one or other of the Dominions occurs very frequently, and since each of them jealously cherishes its constitutional right to alter its taxation—indirect as well as direct —as and when it pleases. In no one of the Dominions, let alone Great Britain, is the tariff " out of politics," in the sense in which it is so in France or other European countries. Thus the septempartite agreement would swiftly wear thin with friction against Dominion tariff autonomy and against jealous suspicions, among certain of the parties to the bargain, that they had not got quite as advantageous an exchange out of it as their fellows. That last objection holds, in some measure, against automatic preference also, but if a bargain in black-and-white must grant the same terms to every member of the Commonwealth it would certainly be preferable to have no written bargain at all.

Would we not, then, be well advised at this stage to abandon the principle of equal preference for all parts of the Empire, for the sake of progressing more rapidly towards the enrichment and enlargement of intra-empire trade and of dealing faithfully with those Dominions which are willing to offer us the greatest advantages ? If progress is to be held up indefinitely by the reluctance of a single Dominion to modify its protectionism, the hope of expanding commerce by imperial preferences had better be abandoned from the start. Any Dominion which stood aside at first would be able to come in as soon as it became aware of the advantages it was missing. At all costs the

Ottawa Conference must bring about a net lowering of tariff barriers, so that each of the participating countries may receive a balance of advantage through the profitable expansion of trade. We believe that the best way of achieving that purpose is for Great Britain to be prepared, if necessary, to enter into separate gentleman's agreements with groups or individual Dominions, as a preliminary to a general accord which might mature only after years of experience, and in any case fitted mentally into a scheme of what intra-imperial trade really ought to be in relation to world trade as a whole.

Such a plan would avoid some of the pitfalls that lie in the path of imperial preference when it turns towards the other parts of the Empire. India, for instance, as her representatives have frequently pointed out, is not in a position either politically or economically to grant any substantial increase of imperial preference ; were she then to share fully in the advantages which the Dominions had secured in exchange for enlargements of their own preferences to British products they might legitimately complain. Should the colonies participate in those advantages or not ? Only those most ignorant of the structure of the Commonwealth could imagine that a simple Act of the Imperial Parliament can establish in the colonial empire a system of reciprocal preferences, or " Empire Free Trade," or for that matter any other alteration of fiscal policies. Ceylon, the West Indian Islands, the African territories and other colonies have in these affairs a large measure of self-government with which we would attempt to interfere only at grave peril to the amity that exists between them and ourselves. In West Africa by the Treaty of St. Germain-en-Laye, in the mandated territories by the terms on which we hold the mandates, we are bound not to establish preferences against foreigners. And over the whole of the non-self-governing Empire trade policy must be guided by the consideration that any attempt to build barriers against the rest of the world and make the

colonies just such a private preserve as they were in the eighteenth century would arouse the dangerous resentment not merely of the colonies themselves but of the whole of the foreign world. To treat the whole Commonwealth as one in trade relations is, therefore, manifestly impracticable—a fact which has, indeed, been recognised already by the British Government in its tariff policy—and we would thus do well to retain the utmost freedom of action by allowing at least the possibility of differential preferences within the Commonwealth. Such a course would not be the novelty that it appears at first glance, for it is the established practice of the Dominions themselves.

VI. Conclusion

LET us now sum up what seem to be the fundamentals of any system of imperial trade regulation, including preference, which is to be of lasting value. It must take into account the fundamental economic policies of the participants, including the balance between their industry and agriculture, and their commercial relations with the rest of the world. Once those essentials have been determined, it should imply a progress towards a lowering of tariffs and the breakdown of economic nationalism generally; it must expand rather than diminish the volume of world trade. While for the time being it may injure third parties it must not be directed against them, and must leave them an opportunity of participating in preferential advantages in exchange for equivalent undertakings. It must not be of such complication or duration as to tie the hands of any party unduly in its trading relations either within or outside the Commonwealth. Above all, it must be based on the principle of mutual advantage and free consent.

We believe that with the goodwill that has already manifested itself, and with careful preparation by experts

and consultation between representatives of the industries affected, those ideals can be maintained. With them to guide us, at least a start can be made towards the development of the Commonwealth as a real economic entity with a policy and a purpose of its own. Outside the field of tariffs there is more than a little to be done. The research, investigation and scientific study carried out by the Empire Marketing Board and the Imperial Economic Committee might be organised on a broader scale. Marketing and advertising, especially of British manufactured goods in the Dominions, are questions that must be raised either at the Conference or by direct contact among the interested parties. The work begun by the British Engineering Standards Association and the British Standards Institution should be " boosted " into standardisation for the Empire, a measure which would do more for the expansion of British manufacture than many an imposing tariff reduction. Imperial co-operation is overdue in many spheres, including those of the film industry, telegraphs and broadcasting. Even if the decision goes against setting up a permanent central organisation, more frequent contact among the economic advisers of the several Governments will be essential if there is to be any real imperial economic policy, and in particular the prejudices and personalities of Whitehall must no longer be allowed to prevent the organisation of an imperial statistical bureau, or at least the assimilation of imperial statistics to a common standard. Above all, dangerous or futile as such a course may seem, the question of migration and settlement must be discussed in some form or other, because until it is settled the economic future of the Empire remains hazardous and its economic policy a makeshift. In all these matters Ottawa presents an unexampled opportunity. Let it not be lost or abused for want of foresight or preparation.

CHINA, JAPAN AND MANCHURIA

I. The Manchurian Problem

MANCHURIA is a land of opportunity. It aroused in Russia dreams of a Pacific Dominion and offered her a warm-water port for the development of eastern Siberia. Its empty spaces and vast resources have since held out to Japan the apparent solution of pressing domestic problems. And China alone of the three Powers concerned seemed to be unaware of its crucial importance. From 1896 down to very recent years the political weakness, venality and shortsightedness of successive Chinese Governments gravely impaired the rights of China in Manchuria and gave Russia and Japan opportunities of aggression which they were not slow to use. The history of Manchuria since the Sino-Japanese War of 1895 is well known and will not be retold here; but, in estimating the real situation created by the events of the past forty years, we may epitomise the story by saying that Russia, France and Germany saved Manchuria for China by forcing Japan to relinquish the Liaotung Peninsula in 1895, that Japan in her turn did China an even greater service by driving Russia out of South Manchuria in 1905, but that in the years which have followed Japan has often given China and other interested Powers reason to suspect that the final aim of Japanese policy was the political as well as the economic control of Manchuria either by a veiled protectorate or by annexation outright. The action of Japan in annexing Korea in 1910 gave force to the suspicion.

Only late in the day did the Chinese Government awake to the danger, and when it awoke it found that its fundamental rights and its essential interests in Manchuria were heavily mortgaged and its power to redeem them quite inadequate. Thus the legacy of the past makes the problem of to-day; and no treatment of it will be effective which does not take account of the character of the legacy. Whether the means taken to achieve certain ends by Japan and China in Manchuria be regarded as fair or foul, competent or incompetent, the heart of the problem lies in a conflict of indisputable rights. More than once the Chinese have signed away their rights under the duress of force or bribery, but that does not impair the legal validity of Japanese interests thus created, which are founded on treaties that any law court on earth would recognise as binding on both parties. Public opinion, however, knows that treaties are not eternal, that they begin to decay before the ink is dry upon them, and that the problems they raise must be regarded in terms other than mere law. Once we take the dispute out of the region of strict legal right and look at it in a broader way we see that it is really a conflict between indisputable legal claims on the Japanese side and fundamental national rights on the Chinese. It is not the first time that there has been a difference between law and moral justice; and we have learned in our history that resistance to the law is sometimes the way to get justice. But those who resist the law must know what they are doing—which has not been the case with much of the Chinese resistance to Japanese rights in Manchuria. The plain fact is that the Chinese feel that unless they oppose the extension of Japanese control in Manchuria by every means in their power, both legitimate and illegitimate, their future as the real owners of Manchuria will be seriously prejudiced, while the Japanese refuse to allow their great enterprise in developing the resources of the country to be injured by Chinese disorder.

The foundation of Japanese rights, in the treaties of

1905 with Russia and China, and of 1915 with China alone, buttressed by agreements (public and secret) regarding military and railway questions, is well known. These documents have been made available to the public in a score of volumes, of which the latest is Mr. C. Walter Young's standard work.* Moreover, when it appeared that the Chinese Foreign Office was inclined to deny not only the validity but the existence of one of the more important secret agreements, the Japanese Government announced (January 14, 1932) that the agreements were privately communicated to the British and American Governments soon after their signature, *i.e.*, in 1906, and had been originally withheld from publicity by request of the Chinese Government itself. This statement has not so far been denied by the Chinese Government and may, with reservation, be accepted as true for all practical purposes. Therefore the legal basis of the Japanese case cannot be seriously questioned, and until the treaties and agreements, one or all, are amended or denounced there can be no effective change in the situation. But, while the treaties are the legal instruments of Japanese rights in Manchuria, there is something more vital than a legal claim in the motive which inspires Japanese intransigence whenever any Manchurian issue is raised. The generation which was brought up to believe, and fought the Russian War in the belief, that Manchuria was the land of salvation, is still alive, and though the failure of Japanese colonisation has shaken one of the main pillars of that faith, there are still strong material reasons to support it. Sentiment, too, is a powerful factor. The chief glories of the Japanese army are enshrined in Port Arthur and the battles of the Manchurian War, and in many a temple throughout Japan there are images in bronze and iron, cast from Russian weapons, that remind the worshippers, young and old, in a way in which the Achilles statue in Hyde Park has ceased to remind England, of

* *Japan's Special Position in Manchuria.* (The Johns Hopkins Press, Baltimore, 1931.)

victories hard-won over a once dangerous foe. And if the blood of Japan was poured out to protect the homeland from a foreign danger, the treasure of Japan has since been spent to foster the asset thus acquired.

In the years immediately following the Manchurian War, Japan believed that she could send the surplus of her rapidly growing population to find new homes in the rich open spaces of Manchuria. The policy of the Manchu dynasty had closed them to the Chinese within the Great Wall, and, with the Russians driven back north of the Fengtien border, a region capable of holding twenty million settlers lay open to the hungry Japanese peasant. The Japanese Government left nothing to chance, knowing perhaps that the small cultivator would require some inducement, backed by official pressure, to uproot him from his home in Japan. Those were the days before the great expansion of Japanese industry, and though the spectre of overcrowding was no more than a cloud the size of a man's hand on the horizon, it had begun to disturb far-seeing minds. Moreover, the Government realised that the legal rights of Japan in Manchuria would receive an immense reinforcement if, in the course of a generation, the land could be filled by their own people. So the Oriental Development Corporation, founded in 1908 to perform the task of Japanese colonisation in Korea, was authorised to extend its colonising enterprise to Manchuria in co-operation with the newly created South Manchurian Railway Company.

The task proved beyond their power, but before they confessed failure a new factor came in to offer consolation. In 1910 Japan annexed Korea, and the Korean peasant was thenceforth cast for the part originally assigned to his Japanese brother. By the act of annexation the Koreans passed under the Crown of Japan, became Japanese citizens and acquired extra-territorial rights in China. Thus transformed they could be employed as useful pawns in Manchuria. Their extra-territorial character gave them immunity from Chinese taxation and from administrative

or judicial interference with their liberty, and conferred on them the right to settle in Manchuria, while their natural habits made them more effective competitors with the Chinese in agriculture and other occupations than the Japanese could ever hope to be. Given a sufficient lapse of time, their prolific powers would people the empty land and China would awake one day to find that her three eastern provinces over the Wall were gone for ever. It was a pretty plan, designed with no little sense of reality, and it so far succeeded that there are now over 600,000 Koreans in the country. They have not done all that was expected of them and might have done more. They cannot be described as the zealous and devoted agents of the new plan, for though they do not love the Chinese, they have stronger reasons for hating Japan, and they could not be trusted to pick the chestnuts out of the Manchurian fire merely for the *beaux yeux* of Tokyo. Hence a slower *tempo* in the whole proceeding, which delayed the fruition of Japanese ambitions and, by so much the more, saved the interest of China. Had the colonisation of Manchuria by Koreans and Japanese from 1910 to 1920 proceeded at anything like the pace at which the Chinese migration subsequently moved between 1925 and 1930, the situation would be different to-day ; but whereas in these five years at least three million Chinese went to Manchuria, in the previous twenty less than three quarters of a million Koreans and a quarter of a million Japanese had effectively settled there.*

The failure of this colonisation plan led Japan to lay a somewhat different emphasis on the value of Manchuria. Japan's place in Manchuria first and foremost is politically essential to her because it keeps Russia out. Its second value is the investment she has made there, which is to-day reckoned at £214,000,000 ; but not all of this

* In 1930, according to the *Manchurian Year Book* for 1931 (published by the East Asiatic Economic Investigation Bureau, Tokyo), the population of Manchuria consisted of 28,259,873 Chinese, 607,119 Koreans, 228,810 Japanese, 102,198 other races.

is really Japanese money, for £16,000,000 of it in sterling alone originally came from the pockets of British investors who took up the bonds of the South Manchurian Railway; and a further large sum, both in sterling and in United States dollars, is now invested in Japanese government bonds and other paper which in fact represent interests in Manchuria. The total foreign investment in Japanese undertakings in Manchuria is difficult to estimate, but it must be an appreciable proportion of the whole. The third value of Manchuria to Japan is (*a*) as a source of vital raw materials and (*b*) as a market, on which a brief description of the economic situation of Japan will throw some light.

The essential domestic problem for Japan is to find sustenance and elbow room—perhaps one ought to say sustenance or elbow room—for her increasing numbers. The natural increase in her population is 700,000 per annum, for whom she must either open new fields of emigration or secure new markets. In either case her domestic problem dictates her foreign policy, and, as emigration has practically failed, her foreign markets and her sources of supply have become ever more vital to her. In 1913 she imported about 4 per cent. of her consumption of rice, in 1928 the figure had risen to over 16 per cent. ; she imports practically all the raw cotton she requires ; and of the iron ore consumed in Japan proper, 91 per cent. came from outside sources in the five years ending December 31, 1930. To pay for her yearly increasing imports of metals, coal and food, she must export produce of her own making, chiefly raw silk and cotton manufactures : so that the Japanese position to-day is that raw silk is raised and exported (mainly to America) to pay for imports of raw cotton, which is made up into yarn and cloth and then sold abroad to pay for the rice, beans, coal, and heavy metals which Japan is obliged to buy in foreign markets. Her invisible exports (*e.g.* shipping services, etc.) play some part in balancing the account, but the returns they give are not likely to increase so largely as to fill the gap. The foundation upon which

her foreign trade stands is too narrow to be safe. Two staples, silk and cotton goods, amount to over 60 per cent. of the total exports ; and two countries, the United States and China, are the markets for more than two thirds of the exports.

China, sharing with the United States the bulk of Japanese exports, is therefore one of Japan's most important markets. But, as the Yangtze Valley and South China take the major share, North China can claim only the lesser part ; and when from Japan's trade in North China we deduct that which proceeds to the interior *via* Tsingtao and Tientsin, there remains for Manchuria only a fraction of the whole. The total exports from Japan to all destinations in 1929 were yen 2,149 million (over £200 million*) ; her exports to Manchuria were 138 million Haikwan taels (roughly £17 million*), which means that Manchuria takes 8 per cent. of Japanese exports. As an existing market it thus has a comparatively small value, whatever may be its prospective value in better times when Chinese immigration has filled its empty spaces. For purposes of comparison—and to place the whole hyperbole of Manchuria in its proper perspective—we put on record the fact that Japan's export to the United States is worth six times as much as her export to Manchuria.

As a source of supply for Japan, Manchuria has a somewhat different tale to tell : for in 1928 Manchuria supplied one third of her pig iron (British India supplying one half) and two thirds of her imported coal. Of iron ore Manchuria supplied none, the whole import being divided almost equally between China proper and the Straits Settlements. Of the soya bean Japan takes twice as much from Manchuria as from any other area ; but a still greater part of the total Manchurian production goes to Europe and America.

* Conversion from these currencies into pounds presents very difficult problems, as the yen was not at that time anchored to gold and the value of the tael fluctuates with the price of silver. The figures in sterling have been inserted only in order to give the English reader a rough idea of th magnitudes involved.

Thus it is to be concluded that the economic value of Manchuria to Japan is considerable, but by no means so great as is often assumed. As a source of coal and the heavy metals it is important, and from the point of view of supplies in time of war even more valuable if not vital ; as a source of food supply it is not negligible ; but as a factor in the total trading interest of Japan it cannot for one moment be compared with China proper, or the United States ; while even India is a better customer than Manchuria. And when we reflect that the trade of Great Britain with Manchuria is £7,000,000 it will be seen that our legitimate stake in the future of the country is no mere thistledown and that the Japanese claim to an exclusive interest finds little support in cold fact. We have good reason to insist that in any negotiation between China and Japan the " Open Door " shall not be closed.

Let us now resume the general argument. The colonisation policy, having failed to transplant Japanese settlers to Manchuria, achieved a limited success with the Koreans ; but even this partial success had awkward consequences for Japan. It added a new point of friction to the rapidly deteriorating relations with China, and in 1931 led to a series of incidents in south-eastern Manchuria, in certain districts north of Chang Chun and in Korea itself which materially contributed to the present crisis. Disputes between Korean and Chinese farmers over irrigation rights and other things provoked disturbances near Chang Chun, as well as south of Mukden, and led to anti-Chinese riots in Seoul and Chemulpo. Strongly worded notes passed between Nanking and Tokyo, but their importance was soon overshadowed by the greater crisis to which we must now turn.

II. The Trouble Spreads Southward

THE general situation in Manchuria has undoubtedly deteriorated during the last three years. Three causes appear to operate. After Marshal Chang Tso-lin's death his son exercised a weaker control and disorder grew apace. In the second place, the economic depression of the world depressed Manchuria because of the lessened demand for her major products, and thus created new unrest among the peasants. In the third place, the advance of the revolutionary sentiment from the south introduced a political factor of disturbance which had hitherto played but a limited part. And it ought perhaps to be added that Japan is not guiltless of allowing her agents to play the part of *agents provocateurs* in the general *mêlée* of banditry, economic distress and intrigue. As this condition developed, the long controversy over Manchurian railway questions came to a head. The Chinese had, for some years, openly violated the terms of the original railway agreements of 1905 and 1915 and had pushed forward the construction of lines avowedly designed to compete with the South Manchurian Railway and to make the port of Hulutao the rival of Dairen. Against this violation the Japanese Government has never failed to protest and has used every device in its power to persuade or compel the Chinese to desist, or at least to confer with the directors of the South Manchurian Railway upon the whole problem. At the same time, successive presidents of the S.M.R. have declared that there is room for all the railways now operating or planned, but that their economic co-operation will be impossible if they are not co-ordinated.

Last June a new president of the S.M.R. was appointed in the person of Count Uchida, a former Foreign Minister. The Japanese press had expected to see a business man placed in the post, and saw in the choice of a politician so

eminent a new proof of the importance of the whole Manchurian problem and a sign that the Japanese Government hoped to secure a settlement by amicable means. It was announced at the same time that a Sino-Japanese joint committee had been set up to investigate railway construction, and, in the semi-official words used in Tokyo, Japan intended to "spare no effort to reach a comprehensive settlement." The principal Chinese delegate at the proposed conference was Kao Chi-yi, whose antecedents did not inspire much confidence. Mr. Kao was that confidant of the Young Marshal Chang Hsueh-liang who in December, 1928, in the ante-chamber of the Marshal's dining-room, had shot Chang Yin-huei, the Tuchun of Heilung-kiang, and had received as his reward the reversion of the latter's lucrative post, the directorship of the North-Eastern Railway Commission, which controls all the purely Chinese railways in Manchuria as well as the Chinese interest in other lines. During the weeks that followed Count Uchida's appointment eight months ago negotiations for the proposed conference were undertaken, and at a preliminary meeting the opening date of the conference was decided. But when the day came, Kao Chi-yi was not to be found. Mukden was combed out for the missing director and he was eventually run to earth in a strange resort, but once more gave his trackers the slip and has not since appeared in Mukden. For meanwhile events of greater moment put the conference out of men's minds.

It is significant that at the time when the conference was due to meet Japanese feeling in Manchuria was running very high, and that the S.M.R. Board had declared that it might be necessary to "discipline" some of the more ardent Japanese patriots in order to calm the atmosphere. Their endeavour was to convince Mukden, Nanking and the world in general of the sincerity of their attempt to establish a co-operative policy, and to prove beforehand that if the attempt failed Tokyo would not

be to blame. But the events related in the December number of THE ROUND TABLE* not only destroyed the railway conference but aroused the suspicion that persons in high position both in Manchuria and in Tokyo had never any intention that it should succeed. In this matter, as in many others, the dual character of the Japanese Government, whereby the Foreign Office and the fighting services pursue conflicting aims, was well illustrated, and one of its results is that the Japanese case loses much of the international support that it otherwise deserves. This does not mean that the general admiration of Japan's economic achievements in Manchuria would make the world approve of a Japanese annexation; still less does it suggest that any other final result is probable, possible or justifiable except a Manchuria wholly Chinese; but it implies a genuine desire to see the claims of Japan, based on past agreements, justly treated. The Japanese have themselves endangered their interests more heavily than any Manchurian bandit or even Mr. Kao Chi-yi himself could ever do, and have beclouded their own rights by intemperate action. The plea of Chinese obstruction, procrastination and disorder, while pointing to the radical cause of all this evil, is no more than an excuse on the lips of the military party in Japan, who, *more suo*, have taken the wrong way of dealing with it.

Had the Japanese Government conducted its policy in Manchuria in 1931 with greater restraint and foresight the trouble would not have spread to the Yangtze Valley and thence to the rest of the world. The trouble did so spread for reasons that are well known. As already shown above, the authorities of the South Manchurian Railway have never failed to protest against Chinese violation of the railway agreements of 1905 and 1915; but with every Chinese attempt to evade the issue raised by their own railway policy Japanese impatience grew. Though Japan felt she had a serious grievance against China in this

* THE ROUND TABLE, No. 85, December 1931, p. 91.

matter, she refrained from strong action until disorder in Manchuria actually threatened the physical security of her own railway. Last year the South Manchurian Railway was attacked by bandits almost every week; and as the Japanese believed they could get no redress from the Chinese Government they took matters into their own hands. But it seems very likely that the Japanese military authorities in Manchuria went far beyond the first intention of the Government in Tokyo, and they took such drastic action that Chinese reprisals were provoked in the form of the boycott all over China, and especially in Shanghai.

Shanghai became the centre of disturbance because in it Japanese interests are greater than in any other part of China, because there were more Japanese goods to interfere with and because the more extreme forms of Chinese nationalism are there at their strongest. In a word, Japanese interests in Shanghai offered to the Chinese boycotter a big target at which he naturally aimed his shafts. Naturally, too, though unwisely, the Japanese retaliated by attacking the centres of boycott organisation, which lie in Chapei. Thus, though the direct connection between Manchuria and Shanghai is not at first obvious, disorder in Manchuria provoked Japan to act, Japanese action in its turn provoked the Chinese boycott, and the boycott set Shanghai ablaze.

By their fatal failure to foresee the political consequences of an undefined military policy the Japanese are now on the defensive before the opinion of the whole civilised world, and a problem capable of treatment by firm and patient political action has become a danger to the common peace. The Japanese have themselves to thank if the Powers seem now disposed to take a hand in the Manchurian settlement. Henceforth it will not be possible to pretend that Manchuria is the parochial cockpit of a local conflict or a preserve of Japanese colonial capitalism in which she can do what she likes regardless of Chinese or other interests. The imperialist nationalism

which rules the mind of the General Staff and the secret powers near the throne in Tokyo must give way to a more temperate, less exclusive philosophy, and the Japanese nation must understand that the collective system of international co-operation has come to stay.

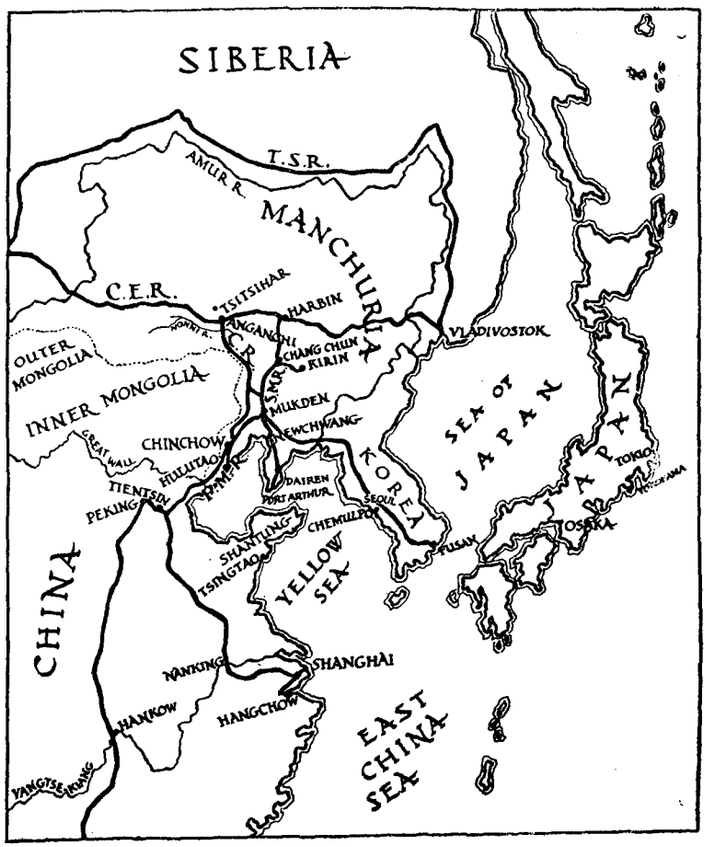
It is true that the treaties of 1905 and 1915, on which Japan takes her stand, directly concern China and Japan alone: for no other Power was a party to them: and in strict punctilio Japan may conceive herself justified in excluding any other participation. For ordinary practical purposes such bilateral procedure would not be criticised by any other authority, not even the League. But when the subject has proved intractable, when a new and vastly more important international instrument than any Manchurian treaty has since been created in the Covenant of the League for the handling of such disputes, when, moreover, both parties to the dispute are also signatories to the Covenant, the case is profoundly altered. At no time during the making or signing of the Covenant did Japan challenge its jurisdiction in the Far East; she made no attempt to restrict its operation, in the way she endeavoured to exclude from the Consortium Agreement, for instance, certain of her Manchurian and Mongolian undertakings; and, at the very height of this Far Eastern crisis, one of her own representatives (Mr. Sato) acted as the mouthpiece of the League in the Polish-Ukrainian controversy. In all this Japan has cut the ground from under her own feet, and her refusal to permit any third party to play broker in the Manchurian dispute cannot be accepted. It presumes the right of Japan to dictate as in 1915 the manner in which this negotiation shall proceed and to prejudice, indeed to determine beforehand, the issue of all negotiation; it denies the existence of any international interest in Manchuria; it is deliberately adopted as the easiest way to exploit the weakness of China, and it robs Japan's signature of the Covenant and the Kellogg Pact of much of its moral value.

The Council of the League itself is much to blame. Making full allowance for the need of caution in handling the Manchurian dispute, making further allowance for the knowledge that some of the Chinese had offered Japan at times the greatest provocation, it is difficult to believe that the Council of the Stresemann-Briand-MacDonald days would have acted so feebly. The Council is not an executive body, but it allowed at least one opportunity to pass in which action would have had an executive effect. When the Japanese forces were proceeding westwards from Mukden last autumn, the Council could have interposed to set up the nucleus of a neutral zone by placing in Chinchow an international garrison drawn from the ships and battalions of the Treaty Powers, members of the League, then serving in the Far East. Such action would have calmed the situation at once and much of the tragedy since enacted would have been averted. To-day the re-entry of the League upon its path of international duty depends more on the success of Anglo-American intervention in Shanghai than upon the Lytton Commission. If and when the Shanghai incident closes without war, the League must act with greater resolution; and when the Lytton Commission reports, the Council and the world ought to be in possession of a comprehensive review of the Manchurian problem more complete, up to date and authoritative than any that has yet been made. The Lytton Commission was created by unanimous resolution of the Council on December 10, 1931, in order "to contribute towards a final and fundamental solution by the two Governments of the questions at issue," and it is empowered "to study on the spot and to report to the Council on *any* circumstance which, affecting international relations, threatens to disturb the peace between China and Japan or the good understanding between them on which peace depends." Theirs is a wide mandate indeed!

To this resolution both China and Japan made certain

reservations, but none of them touched the fundamental function of the Commission, and, although either party may hereafter demur to the conclusions of Lord Lytton and his colleagues, neither of them can repudiate its part of responsibility for setting in motion an engine of international enquiry which may carry them both far from where they now stand. It goes without saying that, if the Lytton Commission plays the part assigned to it with a statesmanlike insight, the partisans of extreme nationalism on both sides of the China Sea will gnash their teeth, for no honest enquiry can give either of them a clean sheet; but the partisans of a just settlement will all the more rejoice. The Lytton Report may yet prove to be the means whereby Japan will discover that the dual character of her Government is fatal to sound policy, and China will learn that her domestic peace and her place in the family of nations cannot be secure until her people establish a government of real authority over them.

SKETCH MAP OF JAPAN, NORTH-EASTERN CHINA AND MANCHURIA



C.E.R. stands for Chinese Eastern Railway (Sino-Russian).
S.M.R. stands for South Manchurian Railway (Japanese).
T.S.R. stands for Trans-Siberian Railway (Russian).
C.R. stands for the combined Chinese lines, some built with Japanese capital, some with Chinese capital, which are intended to compete with the S.M.R.
P.M.R. stands for Peking-Mukden Railway (Chinese).

NOTE.—Only the main-line through railways have been marked on this map. For fuller information on the railway position in Manchuria, see the ROUND TABLE, No. 70, March 1928, p. 256.

THE RESULTS OF THE ROUND TABLE CONFERENCE

I. Great Expectations

NO good purpose would be served by attempting to disguise the fact that the results of the Round Table Conference have fallen very far short of the expectations formed when the Conference first assembled in the autumn of 1930. Even at the end of the first session, a year last January, in spite of the difficulties which still stood in the way of settling the fundamental points at issue between the majority and the minority communities, and particularly between the Hindus and the Mahomedans, the outlook was not devoid of promise. The glowing conception of an all-India federation had emerged and had been acclaimed by every section of opinion represented at the Conference table, by British, British Indian and Princes alike. Considerable progress, too, had been made towards defining the subjects with which the Federal Government would have to deal, and towards the delimitation of the respective spheres and powers of that Government and of the Governments of the Indian States. Best of all, the Indian delegates and most of the British delegates found themselves in general agreement upon the vital question of the limitations to be imposed upon the autonomy of the Federal Government when it came into existence. In other words, the thorny problem of safeguards concerning defence, external relations, finance and commerce appeared to be well on the way to solution. It is true that the British Conservative delegates reserved their opinion on this crucial matter until they could see the picture of the future government as a whole, and know exactly what they were being asked to agree to. Nevertheless, as the speeches of

Lord Peel and Sir Samuel Hoare showed, the Conservatives were deeply impressed by the unanimity of the Indian delegates on the question of an all-India federation, and were fully aware of its possibilities. They realised that an autonomous political unit of this kind would bring far greater stability than could be expected if British India were to stand alone. Thus, when the first session of the Round Table Conference ended, there were strong hopes that the basis of an agreed constitution for the whole of India would be reached at a later session. But for the problem of minority safeguards, the confidence would have been almost complete.

Compare this situation with the circumstances in which the second session of the Conference came to an end at the beginning of December, and—a still more painful contrast—with the condition of India to-day. Why were the hopes of the first session not fulfilled, and why have things come to the present pass in India ?

II. The Cold Fit

TO answer these questions it is necessary to turn to developments in India during the interval between the end of the first and the beginning of the second sessions of the Conference, that is, between January and September. The essence of these developments can be put in a single sentence. The unanimity on the question of an all-India federation, which was the outstanding feature of the first session, had been steadily melting away. This disintegration started in more than one quarter at the same time. In the first place, Hindu-Moslem relations became more and more strained as the weeks went by. The terrible affair of Cawnpore, the trouble at Benares, the first outbreak in Kashmir, and the rising tide of Mahomedan feeling consequent upon these and other events resulted in a prodigious amount of political activity among the Mahomedans.

Hundreds of public meetings were held throughout the length and breadth of India, at which their spokesmen expounded their claims and the safeguards which Mahomedans must demand if they desired to maintain their civic and religious rights unimpaired in a self-governing India. And gradually, as was to become apparent at the second session of the Conference, the Mahomedans became so obsessed with the importance of these claims and safeguards that everything else was relegated to the background. The all-India federation lost its attraction for them, since they knew that, whatever weightage might be given to them in the federal legislature, the Hindus would still remain a strong majority. Moreover, they perceived that the inclusion of the Indian States in the federation would strengthen the Hindu position, since the vast majority of the people of those States are themselves Hindus. The Mahomedans, then, returned to the Round Table Conference last autumn with their minds set upon two things: first, the undesirability of proceeding any further with the idea of an all-India federation until their own claims had been conceded; and, second, a refusal to abate any jot or tittle of their claims. What these claims were we shall shortly see.

But it was not only on the Mahomedan side that the enthusiasm for federation had cooled between January and September. The Indian Princes who declared for federation at the first session asserted that they had no doubt that their views would be shared by the majority of their brother Princes. It is, however, difficult to find any confirmation of this prediction in the event, and during the summer one of the most important of the representatives of the Princes at the Conference, the Maharajah of Patiala, issued a manifesto in which he receded from the position that he had taken up at the Conference on the question of federation in favour of an alternative plan; briefly, this contemplated a closer union of the Indian States themselves through the medium of an improved and strengthened Chamber of Princes, which could act

for princely India as a whole *vis-à-vis* British India and its Government. It was, moreover, soon apparent that the Maharajah's revised views were meeting with considerable support from other Princes, and their Highnesses of Dholpur and Indore, to mention two of his more important supporters, joined their voices to his. In fact, it became increasingly clear that, as the implications—financial and political—of federation became better understood, the Princes liked the prospect less and less, and some even of those who did not declare against federation or favour the Patiala-Dholpur-Indore scheme have, nevertheless, asserted more narrowly the conditions on which they will go into federation.

Lastly, the All-India National Congress regarded the proceedings in London with undisguised disfavour. An all-India federation would obviously not be under their control. The Princes and the Mahomedans alone could, and would, see to that. In spite of the Irwin-Gandhi pact, the Congress working committee proceeded with their anti-Government activities and propaganda, afraid lest the promise of the Round Table Conference should be realised and their own position and prestige destroyed. The results already achieved by the Conference were derided by them, and the modifications of Indian autonomy, which Sir Tej Bahadur Sapru and the other Indian delegates were prepared to accept, fiercely denounced, with the result that some even of the moderate delegates began to feel that these modifications ought to be watered down. The Indian Princes also came in for their share of attention. Congress spokesmen emphasised the undemocratic character of government in the Indian States, and the duty of British Indian delegates to take up the cause of their peoples. Some measure of popular representation must, they urged, be insisted upon as a condition of the States being allowed to enter into a federation with British India. Congress orators even went so far as to say that the whole princely order would be swept away by them when India

achieved her independence. Congress, then, had no helpful contribution to bring to the cause of all-India federation.

III. The Second Session

THUS the second session of the Conference opened in ominous circumstances, and the presence of Mr. Gandhi, while it heightened the interest of its proceedings, did nothing to further its labours. He was, indeed, too deeply committed by his previous acts and declarations to be able to take a constructive part in work directed to the creation of a federal India which, though largely autonomous at the centre and almost completely so in the provinces, would have its autonomy restricted in some of the most vital of the Federal Government's functions. From the outset of the second session it was clear that the Mahomedans were more united and determined than they had been before, and it speedily became apparent that the initiative was in their hands. It will be remembered that the first session ended in a deadlock over the problem of safeguards for the minorities. That deadlock continued. The minorities sub-committee of the Federal Structure Committee met at once, came to no solution, asked for an adjournment, still came to no solution, and asked for another adjournment, which Mr. Gandhi, who had been acting as convenor and chief mediator, declared would be the last he would ask for. In due course, at a meeting of the Federal Structure Committee, he announced to the Prime Minister that he had failed to negotiate any compromise between the majority and the minority communities. His own attitude had not made the attainment of one very easy, for he steadfastly refused to listen to any proposal for a separate electorate for any community except the Mahomedans, the Sikhs and the Europeans. In particular, he was adamant on the question of separate electorates for the depressed classes, insisting that they

were Hindus and must be brought within the pale of Hinduism, both in religion and politics. The majority of the depressed classes would, no doubt, be perfectly willing to be regarded as Hindus, if the higher castes would treat them as such, and allow them access to the temples, schools, wells, public buildings, and so on. But their spokesman, Dr. Ambedkar, who was just as determined as Mr. Gandhi, though in the opposite sense, would not hear of any settlement which did not give his community separate representation, and on this point he broke completely with Mr. Gandhi. The depressed classes were solidly supported by the other minorities except the Sikhs, who were, however, concerned with only one province, the Punjab, in which they had made up their minds that the Mahomedans should not be guaranteed a majority on the Council, and who were superbly confident in their own ability to look after themselves. To the Mahomedans Mr. Gandhi was prepared to make very wide concessions, although, had the occasion to make these concessions actually arisen, he would have been strenuously and quite openly opposed by Dr. Moonje, the leader of the All-India Hindu Mahasabha, whom, with sublime egocentricity, he did not think it necessary to consult. However, the deadlock reached on the question of separate electorates for the depressed classes, Indian Christians and Anglo-Indians brought the negotiations to an end before the critical points at issue between Hindus and Moslems could be thrashed out. And these points raise fundamental questions. Their essence is not to be found in the Mahomedan claim for this or that percentage of seats in the central or provincial legislatures, or in the demand for a fair proportion of places in the government services, or in other lesser claims of a formal character. It lies in their claim for a statutory majority on the Bengal and Punjab Councils (their request that Sind and the North-West Frontier should become full major provinces with all their appanages in the way of governor-in-council and legis-

lature had already been granted) and in the demand that the provinces should be vested with every power that could possibly be taken away from the central Government. The pith and marrow of their claims are there, for in this way they would obtain complete control over north and north-western India, since between Delhi and Patna lies a corridor which is still strongly Mahomedan, where the old traditions of Mahomedan rule linger. Secure in their control of this, the most important part of India—for it is the key of the land frontier—the Mahomedan could rest secure, confident that his culture and religion would develop and expand, and that he could protect the scattered minorities of his co-religionists in other parts of India. This, then, is the gist of the Mahomedan claim to-day, and it is easy to understand that, if it had come to the point, the Hindu representatives could not have granted it. The Sikhs, moreover, from the very beginning of the Round Table Conference, have never faltered in their determination to resist to the end any attempt to give the Mahomedans a statutory majority in the Punjab over all other communities combined. Here, too, there is complete deadlock at present.

This account of the difficulties of the minorities problem will help the reader to understand why the results of the Round Table Conference have hitherto been so disappointing. Still more important, it will enable him to realise the scope of the task before the British Government if it ever decides to settle the question itself in the absence of an agreed settlement between those concerned. Enough has, at all events, been said to show that at best His Majesty's Government can only impose a standstill arrangement, which could do no more than prevent this fundamental problem from becoming more and more insoluble as the poison of discord spreads.

Thus the Federal Structure Committee of the Conference—only this Committee and the Minorities Committee were summoned in the first instance—was

compelled to confine itself to the fringe of its subject, and to deal with more or less formal matters, such as the question, of the supreme court, of the division of powers between the two houses of the proposed federal legislature, and so on. The sudden and, from the point of view of the delegates, the lengthy interruption caused by the general election inevitably enhanced the formality of the atmosphere, for all the British delegates who were members of the House of Commons had to be away in their constituencies. The Indian delegates showed the most admirable restraint in these trying circumstances; and no praise is too high for the sense of patriotism, understanding of the difficulties of their British colleagues, and the devotion to duty that they showed. Lords Sankey, Peel, Lothian and Snell did work of incalculable value in helping their Indian fellow delegates to keep up their spirits, and to press on with such work as could be done under these trying conditions.

And one problem, the thorny question of federal finance, was examined during these days by a sub-committee of the Federal Structure Committee under the chairmanship of Lord Peel. Here again the Conference had to face delicate and important issues, for finance is the life-blood of politics, a subject which, the Princes knew, touched not only their pockets but their internal sovereignty. Naturally they walked warily and preferred to have concrete proposals, specimen budget figures and so on set before them, before committing themselves to any definite arrangement. The report of the sub-committee did not therefore put forward any scheme for a federal financial system for all India, but it did contain a survey of the problem and its difficulties, and it carried the matter an appreciable step forward with its proposal—unanimously accepted—that two committees should be formed to continue the investigation in India and to find out the facts on which an ultimate settlement would have to be based.

But by the time that all this had been done and Parliament had reassembled, the life of the second session of the Conference was obviously drawing to its close. Yet the Conference had hardly even touched its main business—the great question of the degree of autonomy that should be given to the all-India Federal Government, in other words, of the safeguards that would be required by Great Britain and accepted by Indian nationalist opinion, and particularly by its left wing represented by Mr. Gandhi. Bound up with this problem were, of course, the vitally important questions of the safeguards and privileges claimed by the minorities, and of the place that the Princes were to occupy in the federation. Inside princely India, moreover, there was the further question of the relations between the smaller Princes and their more powerful brethren. None of these matters had been settled, and time was pressing. And at this point another deadlock occurred. The Mahomedans announced their definite refusal to discuss the question of autonomy at the centre and of British safeguards until the minorities problem, and especially their own claims, had been dealt with—until, in a word, they knew where they stood. Since the breakdown of Mr. Gandhi's negotiations with them and the other minorities, they one and all—with the exception of the Sikhs and a section of Indian Christians—had agreed upon a number of basic conditions which must be fulfilled before they would enter into a federation, and they presented to the Prime Minister a document signed by the leaders of the various minorities concerned in which these conditions were set out. There is no need to recite them in detail, for they simply reduced to black and white the fundamental claims that have already been discussed, and the actual percentage of representation claimed by the various minorities in the different legislatures—federal and provincial. This deadlock proved to be insuperable, at any rate in so far as the Mahomedans were concerned. The question of the degree of autonomy to be granted to the

all-India federation and of safeguards in the spheres of defence, external relations, finance and commerce was discussed, but the Mahomedans took no part in the discussion. It was impossible therefore for the Federal Structure Committee to report any definite conclusions on these matters.

In fact, it became clear towards the end of the session that the Mahomedans are not at present ready to proceed with any scheme of autonomy in Indian government outside the provincial units, and they made no secret of their attitude. The great majority of the Hindu delegates, on the other hand, would not have anything to do with this point of view, and, believing that His Majesty's Government was contemplating the introduction of provincial autonomy, leaving the arrangements at the centre virtually unchanged, they sent a strong protest to the Prime Minister and published it in the English press. Thus right up to the end of the session a state of uncertainty, disagreement and impatience persisted. There was an orgy of speech-making at the final plenary meetings, but it simply served to bring out the discordant, irreconcilable views which have hitherto made it impossible to construct any scheme which would apply all round, or have any chance of receiving general assent.

If Mr. Gandhi's name has entered little into this narrative it is because, apart from the fact that he represented the views of the All-India National Congress, he played a comparatively unimportant part in the proceedings. He had no constructive proposals to make, either at the meetings of the Conference or in his private talks with British politicians and others, and far from being the spokesman of all sections of Indian opinion he could not even speak as the representative of the Hindus; for the more constructive minds among them soon grew impatient at his academic utterances, whilst the other elements resented, and indeed openly repudiated, his claim to speak for the whole of India. There is little doubt that he could have

played a great part had he chosen to turn his mind to construction instead of to destruction, and if he had set himself seriously to understand the point of view of the minorities. But in London, though he often seemed to be on the point of throwing his influence on to the side of construction, he relapsed into the rôle that he has so frequently played in India, that of destructive critic.

IV. The Results

AND so it came about that Mr. MacDonald's statement—the last act of this fateful second session—had on the whole to record a failure. It reaffirmed the determination of His Majesty's Government to do all that it could to assist the creation of such a federation of all India as the Prime Minister had foreshadowed when he closed the first session in January 1931. It also announced the decision of the Government to press on with whatever preparatory work could be done in the meantime—the revision, for instance, of the franchise was to be considered by a franchise committee, and the work of the two financial committees referred to above was to be continued. Further, a working committee of the Conference was to be set up in India to keep in touch with the Viceroy and, through him, with the British Government. The Prime Minister had also to announce that the sense of the Conference was against making any change in the constitution of India, such as the introduction of provincial autonomy, until it could be effected by a general statute as part of a comprehensive scheme covering the whole field of government in India. He dealt carefully with the minorities problem, hoping that the leaders of the various communities might be able to reach agreement among themselves, and he added that, if they did not, His Majesty's Government might have to put forward a provisional scheme.

Slight as these results are when compared with the hopes that were pinned upon the Conference, they are at any rate more satisfactory than they would have been had the British delegates made any attempt to exploit the deep differences that we have described. Much of the credit for keeping the Conference going at all is due to Lord Sankey and his British colleagues. Parliament also played its part nobly in the proceedings subsequent to the Conference, for it supported in ungrudging fashion the policy of the Prime Minister and the Government which is outlined in the statement discussed above. The House of Commons rejected Mr. Churchill's hostile amendment by a shattering majority, and the House of Lords, in regard to whose action it is no secret that the Government felt many qualms, accepted the statement of policy by a handsome majority after a debate in which Lord Irwin participated.

In the meantime, Congress has once more plunged India into unrest,* and other sections of political opinion have followed its lead. The Franchise and Finance Committees are likely to find much the same elements boycotting them as boycotted the Simon Commission. Some of the Liberals, and, this time, all the Mahomedans, will co-operate with the Committees, but the question inevitably arises, how long can we go on with our schemes of reform while large and influential sections of Hindu opinion boycott them and render the co-operation that we desire impossible? The Government of India must maintain order—Lord Irwin is just as strong upon this point as Lord Willingdon. The road to an all-India federation is by no means so smooth or so straight as many people imagined. That is the lesson of the Round Table Conference up to date.

* An account of events in India after the rising of the Conference will be found on page 322.

REPARATIONS IN PRACTICE

I. The Economic Escalator

SINCE the early autumn of 1929, when the stock market crash in New York released the brake from the forces that were already impelling prices towards their present disastrously low levels, the economic world has been slipping down a vicious spiral. At times its progress has been sickeningly swift, but every now and again descent has been checked either by normal counteractive economic forces or by special events like the Hoover moratorium or the institution of a coalition government in Great Britain, and there has intervened a period of quiescence and readjustment, if not of recovery. As these lines are written we are passing through just such an interval. There has been, in the past few months, no further catastrophic fall of commodity prices; indeed the depletion of stocks or the restriction of output has in some cases already brought about a rise. Emergency financial measures in the United States, whatever their ultimate effect, have at least checked the gloomy procession of bank failures to which we had become accustomed. Certain of the countries exporting primary products, including Canada and Australia, have succeeded in building up an export surplus in spite of the low level of prices. A new standstill agreement has just been signed for Germany, who by dint of the most painful belt-tightening has built up an export balance of trade sufficient to meet her current obligations for interest and sinking fund, though not for any considerable repayment of her short-term debt. The political situation in Europe, described

at length in an earlier article,* if it bears all the signs of complete deadlock, has not grown perceptibly worse in the last month or two. But the comparative tranquillity of the moment must not lull us into complacence. The vicious spiral is unfortunately an escalator, which must carry us downwards, even though our relative descent is checked, until the movement is definitely reversed. With every month, every week that passes, hope ebbs away, scepticism sits more firmly in the place of confidence, and nearer and nearer comes the inevitable day of reckoning, when issues can no longer be evaded and readjustments must at last be made. If the times are not for us, they are against us; and if we are not recovering, we are sinking.

The economic world, it is true, is making its readjustments. Bankruptcies, exhaustion of stocks, reduction of wages, suspension of interest payments, devaluation of currencies, budgetary economies, changes in international trade balances—these processes are tending to bring about a new state of equilibrium, with several disastrous features such as colossal unemployment, it is true, but capable, if once an upward movement begins, of forming the basis of a new expansion of our economic life. Unhappily, no such expansion is yet in sight, because the confidence is wanting which is absolutely essential for its commencement and continuance. The lack of public and commercial confidence, resulting from political disturbance, operates both nationally and internationally. Certain countries, either because of their inherent economic strength or because of their abandonment of the international gold standard and the control of their balances of payments, are in a position to embark locally upon a moderate measure of industrial expansion without putting their international economic relations into serious jeopardy. The most obvious example is, of course, the United States, who, in spite of her recent heavy losses of gold, is quite capable of indulging in a programme of raising internal prices without doing

* See p. 227.

any grave harm to her external balance of payments; she is indeed launching a series of legislative experiments with the aim of assisting private banking enterprise, which has sunk into such a precarious condition that banks with liabilities totalling over $2,000 million (£400 million gold)* have suspended payment since October, 1929. But so depressed is the state of public confidence that even these endeavours are likely to fail if nothing new transpires, in the field of public affairs, around which faith may crystallise. The initiation of inflation, except by the disastrous method of budgetary failure, requires a measure of confidence among business borrowers as well as easy credit conditions. In the international sphere, the efforts of one country to construct a new equilibrium in its international balance, by tariffs or exchange control or other measures, have frequently succeeded only in rupturing the equilibrium attained by other countries, who have been driven to still further restrictions, international trade meanwhile sinking lower and lower both in value and in volume; as Sir Walter Layton recently observed, "Everything balances at zero." Normally differences in current balances of payments are financed by international lending, at short-term and at long-term, and this has been the proper and profitable method whereby the wealth of the world has been expanded. But now the freezing of one block after another of international banking assets, and the entire lack of confidence in the soundness of potential borrowers, have brought international lending to a standstill, and indeed the mere necessity of self-preservation has led many of the creditors to attempt repatriation of their funds as swiftly as possible. A slight revival of confidence, and repatriation might be arrested; a little more, and short-term lending on self-liquidating security might be a little expanded; still more, and a few long-term loans might become marketable. The paralysis of the international banking system is

* All conversions from foreign currencies, whether it is so stated in the text or not, have been made at former pars of exchange.

caused by want of confidence, and the want of confidence is, in very large measure at least, caused by political difficulties.

II. Reparations and the Crisis

IF one were to ask any practical business man what single measure would do most to restore the confidence of lenders and to reverse the motion of the economic escalator, he would certainly answer: a settlement of the reparations and war debts question—though opinions would naturally vary as to what would constitute a just settlement. Assuming that he is right, it is as well to compare some of the magnitudes involved in order to convince ourselves of our folly in allowing this problem to drag on, apparently no nearer to solution than it was six months ago. The capital sum represented by the Young Plan annuities has been estimated at £2,100 million gold, which is roughly one half of the nominal value of British capital invested abroad and likewise about one half of our normal national income per year; the fact that in the course of the present crisis the industrial output of Germany has declined by about one third, that of the United States by one quarter, and our own by perhaps one fifth, is sufficient proof that the current loss of wealth in the world in a single year, through the continuance of the crisis, far exceeds the total amount payable in reparations over a period of nearly 60 years. The payments to the United States suspended in the Hoover moratorium year amount to £54 million, but the prospective deficit in the Federal budget for 1931–32 (before allowing for emergency taxation or economies) amounts to £436 million, notwithstanding the fact that there is no direct federal appropriation for unemployment relief. Great Britain's average annual receipts from reparations in the first 37 years of the Young Plan amount to £17½ million; whereas £114 million was paid in 1931 in unemployment

insurance benefits. The direct and proportionate connection between these several items may be open to question, but at any rate it is beyond doubt that, whatever the direct financial effect of such a policy on national budgets, the sweep of the sponge on the reparations and war debts slate would, as the first move towards economic recovery, be financially advantageous to all concerned.

Let us, therefore, for the moment leave all political considerations aside and ask why the abolition of reparations in particular would be expected to have such disproportionate economic effects. The history of the payment of reparations from the German side, like the history of reparations in its political aspect also, can be divided into two periods, before and after the Dawes Plan. Up to 1923, Germany's internal budgets had not been regularised, and her external balance of payments likewise contained abnormal and unstable items. The transfer of capital assets already abroad did not, of course, present any exceptional problems in international exchange. A capital levy in 1919, and other measures of heavy taxation were not, however, sufficient to meet the other reparation demands of the Allies, based on the fantastic figures of capital liability that ruled in that period. Nor was the transfer of the actual cash payments across the international exchanges effected by dint of normal current items in Germany's balance. She had, in fact, a large inward balance of commodity trade. The speculation in marks alone—a process which left speculators outside of Germany with assets which afterwards became practically worthless—provided Germany with sufficient foreign exchange to meet her cash reparation payments. The Ruhr occupation, whatever its merits in convincing Germany that France was in earnest, was hardly an immediate economic success. Up to 1924, therefore, it is possible to say that both internally and externally the payment of reparations was at once the cause and the product of the catastrophic inflation of the mark.

With the signature of the Dawes Plan in August, 1924, a new chapter began which lasted up to the beginning of the violent fall in prices and the reversal of international credit movements, two years ago. Confidence in the future of German economy was restored, and from 1924 to 1930 inclusive, Germany imported a net total of £900 million of foreign capital, including £450 million of long-term loans. These sums (except the Dawes Loan) were not lent with the direct object of furnishing the wherewithal to pay reparations. They were lent, for the most part, to German banks, industrial firms and local governments, which had no direct reparation debts. But they did two things: they provided the foreign currency for which the reichsmarks raised by the Reich Government could be exchanged, and they so far enlarged the annual income of the country that reparation dues could be raised without, for the moment, any enormous budgetary insolvency. A small proportion of the loans was undoubtedly spent on assets of an extravagant and non-productive character, such as the bathing establishments which have received such publicity in the American press, but by far the greater part was expended on the development of Germany's resources and the supply of working capital, of which Germany had been denuded by the inflation.

But while for the time being this régime worked satisfactorily, it was piling up dangers for the future. In the first place, despite the increase of wealth that the influx of foreign capital involved, and despite the budgetary measures imposed by the Dawes Plan, the German Government still found it difficult to raise sufficient taxation to meet both its internal and its external obligations. In the first two years of the Dawes Plan, special resources were provided under the Plan for the payment of reparations. Between 1926 and 1931, the Reich budget showed an accumulated deficit of £133 million, compared with an expenditure of £440 million on "external war charges," but in considering the German economy as a whole it is

more proper to take the accumulated deficit, over the same period, of the combined budgets of Reich, States, communes and Hanseatic cities, which amounted to £220 million, or one half of the reparation payments. Thus while externally Germany was virtually not paying reparations at all, internally she was raising by taxation, after meeting other public expenditure, only one half of the sums required. This was only to postpone the day of reckoning. In the second place, the interest charge on the foreign debts that Germany was incurring was gradually piling up, until in 1930 it amounted to at least £40 million (even after deducting interest on German investments abroad), that is to say, roughly one half of the reparation charge due in that year. This again made the future most hazardous. Third, and perhaps most important, the supply of working capital in Germany out of foreign funds was fraught with grave dangers. Short-term loans, wholly secure and self-liquidating individually, could not be withdrawn in any great volume simultaneously without bankrupting the country. The entire German economic life was placed at the mercy of foreign creditors and of conditions of political confidence. Finally, German economy was built up on the basis of an adverse balance of trade, the maintenance of which depended on the continuous inflow of foreign capital, and the reversal of which would entail a devastating upheaval of the trading relations between Germany and her neighbours.

The effect of these considerations began to be felt when the flow of foreign investment, much curtailed in 1929, was almost entirely dried up in 1930. Between 1928 and 1930, Germany was forced to change an adverse balance of trade of £65 million into a favourable balance of £75 million. The effort of finding this new net export of £140 million was enormous, and reacted very unfavourably, not only on Germany's own economic condition, but also on that of the countries with which she trades. Imports from the United States, for instance, fell by about £35

million in the two years, while Great Britain, France and Belgium likewise saw a large reduction in their sales to Germany. The latter's principal reparation creditors, along with Scandinavia and the American continent, were also the chief purchasers of her increased exports; France and Belgium between them accepted £28 million more of German products in 1930 than in 1928, despite the fall in prices meanwhile. There can be no doubt that the pressure of Germany's efforts to secure an export balance considerably accelerated the precipitate fall of world prices in those two years. Thus the lesson that, in default of lending, which scarcely solves the ultimate problem, reparations can only be paid in goods, was being very painfully learnt. Germany did indeed obtain, in the Young Plan of 1929, a reduction of her annual reparation obligations as compared with the standard Dawes annuity, but the almost complete cessation of capital movements, the continued fall in prices, and the collapse of central European credit following the failure of the Credit Anstalt, so injured her capacity to pay that had Mr. Hoover not intervened with his moratorium proposal she would almost certainly have been forced to declare a suspension of payments, possibly beyond the terms of the Young Plan.

III. Germany Under the Moratorium

WHAT has been the economic position of Germany since she was relieved for the time being, in July last, of the obligation to pay reparations? In brief, the Hoover moratorium, largely because of the doubts and delays that accompanied its ratification, did not succeed in restoring confidence in Germany's economic position. The want of faith of her creditors in her capacity to sustain the great burden of foreign debt she has incurred, and their general loss of liquidity owing to the incapacity of debtors throughout the world to meet their obligations,

and the huge depreciation of securities in general, caused them to continue their attempts to withdraw funds from Germany. The arrangement of a credit of £20 million for the Reichsbank, and the application of other special measures to safeguard the short-term obligations, failed to stem the outward flow. The seven-Power Conference, held at the end of July to consider the financial difficulties of Germany, recommended a renewal of the Reichsbank credit, a concerted arrangement among financial institutions to maintain existing credits in Germany, and the summoning of an expert committee to consider her whole credit situation. These proposals were carried out. The credits were renewed. The experts committee published their report (commonly known, after its principal author and the chairman of the committee, as the Layton-Wiggin report) on August 18; they were unable to recommend any definite plans for the consolidation of short-term credits and the provision of additional working capital for Germany, for want of any firm political foundation, and they thought it essential that, before the prolongation of credits came to an end, the governments concerned should give to the world the assurance that international political relations were established on a basis of mutual confidence, "which is the *sine qua non* of economic recovery," and that the international payments to be made by Germany would not be such as to imperil the maintenance of her financial stability. In other words, they tossed the problem back to the governments. Meanwhile the banking creditors of Germany, in conjunction with representatives of the debtors, had drawn up an agreement for the general maintenance of short-term banking credits in Germany, subject to certain conditions, for a period of six months. The agreement, which was due to terminate on February 29, 1932, did not cover by any means all the short-term investments in Germany—indeed little more than one half of the total of nearly £600 million—and the conditions were such that about one fifth of the credits covered by the

agreement were actually repaid before the end of the year.

It seems appropriate to pause for a moment and examine the character and distribution of the private and public indebtedness of Germany to foreign countries. A careful census taken by the Reich Government at the end of July, 1931, revealed the following figures: —

FOREIGN INVESTMENTS IN GERMANY*

In Millions of Gold £'s.

Creditor Country	Loans from Banks	Other Short-term Loans	Long Term Loans	Total
United States ..	119	34	310	463
Great Britain ..	81	19	76	176
France	18	15	21	54
Holland	62	39	55	156
Switzerland	58	34	50	142
B.I.S.	38	—	—	38
Other countries ..	26	43	32	101
Total ..	402	184	544	1,130

These figures do not include investments in real estate, participations in private firms, and other forms of "direct investment," estimated by the Wiggin Committee at roughly £300 million. Perhaps the most striking points that emerge from the table—both very important in relation to the political treatment of Germany's obligations—are the enormous size of American investments, especially in long-term loans, and the comparative smallness of French participation. The non-banking credits included in the second column comprise for the most part the deposits of foreign commercial firms arising out of or for the purpose of carrying on business in Germany, and credits extended between industrial or commercial concerns and their subsidiaries or branches; it appears likely, therefore, that against the total of that column there may be set German credits of a like nature abroad, to at least a com-

* *The Economist*, Reparations and War Debts Supplement, January 23, 1932.

parable amount. These non-banking credits were not covered by the standstill agreement described above, and some part of the subsequent drain of funds from Germany may be ascribed to their liquidation.

The strain placed upon the Reichsbank (which by an emergency decree has been given a monopoly of all foreign exchange transactions) is illustrated by the rough estimate of Germany's balance of payments adopted by the Young Plan Advisory Committee in December.

GERMANY'S BALANCE OF PAYMENTS IN 1931

In Millions of Gold £'s.

Credits		Debits	
Export surplus for year, including services and deliveries in kind ..	150	Reparations up to June 30	40
Utilisation of foreign assets of German banks ..	65	Interest and normal amortisation on liabilities abroad	75
Rediscount and other credits	60	Balance, representing capital withdrawn ..	245
Drawn from gold and devisen reserve of the Reichsbank	85		
Total	360	Total	360

The Reichsbank's reserve, which stood at £131 million at the end of 1930, and even at £126 million at the beginning of June, 1931, had fallen by the end of the year to £57 million, of which £31 million represented the amounts due under the rediscount credits furnished by central banks and by the Bank for International Settlements. The successful effort to maintain the gold standard under these conditions demanded the most severe credit deflation in Germany, with consequent injury to trade and industry. The volume of unemployment at the end of the year was about 5½ million out of approximately 21 million employed persons. The maintenance of a large export surplus in spite of low prices and in spite of the adverse effects of exchange control, tariffs and exchange depreciation in

other countries, likewise imposed a severe strain on German industry. The emergency decrees of the Government have involved heavy sacrifices and stringent economies. The salaries of public servants have been reduced in eighteen months by over 20 per cent., and large increases of taxation have included the raising of the income tax and additional heavy duties on beer and tobacco. Considerable reductions have been made in the scope and scale of unemployment benefits, and contributions have been increased. The Government's programme, now being faithfully carried out, includes a general reduction of prices, wages, rents and interest on long-term obligations. The regimentation of Germany's economic life is thus steadily advancing in scope.

IV. THE FUTURE

ON November 19 the German Government declared, in accordance with the terms of the Young Plan, that Germany's exchange and economic life might be seriously endangered by the transfer in part or in full of the postponable portion of the reparation annuities. In endorsing this declaration, the advisory committee appointed by the Bank for International Settlements pleaded for the adjustment, without delay, of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world, as the only lasting step capable of re-establishing confidence.

Meanwhile the banking creditors of Germany had been negotiating a prolongation of the standstill agreement. The new agreement, extending for one year the undertaking to keep short-term credits in Germany except as allowed by the strict provisions regarding withdrawal, was signed on January 24. The schedule of future repayments is to depend on the transfer capacity of the Reichsbank, which in turn will be largely dependent upon the developments

in the German export situation. Instead of a fixed schedule of repayments at fixed dates, the future determination of what can be repaid has been left to an advisory committee representative of the creditors, who will from time to time consult with the German authorities. The bankers observed, however, that

> The credit problem is not solved when reluctant creditors agree to prolong credits out of consideration for the debtor who is embarrassed, and out of consideration for the general economic situation of the world, in which the debtor occupies a vitally important place. The credit problem is solved when creditors cheerfully and confidently continue credits which they might withdraw at their own convenience. The all-important thing is to restore the basis of credit. It is obvious that a settlement of Germany's international payments, which are now under discussion between the Governments, is a vital element in this problem, as indeed are the inter-allied debts, which are in intimate economic connection with them.

Thus the problem of restoring the German economy to health has once more been handed back by the bankers and the economists to those who alone are capable of providing a permanent solution—the Governments of the world. A mere prolongation of the present condition of suspense is not enough. The re-establishment of confidence is essential if the world is not to drag steadily down to disaster. Germany cannot long maintain her existing régime of severe privation, and even if she could, it is doubtful whether, in the absence of a big improvement of world economic conditions generally, that would be sufficient to prevent her being forced to declare a general moratorium on her foreign obligations and perhaps to subject a much larger proportion of her economic activities to direct government control. It has been estimated that in 1932 her obligation in respect of interest on foreign debts, together with normal amortisation on long-term debts, will amount to £70 million. Interest from German investments abroad may be set off against payments due on foreign "direct" investments in Germany. Thus a surplus of some £70 million on her balance of trade in commodities

and services is required to meet that first charge alone, not counting reparations or any provision for repayment of short-term foreign debt. In 1931 Germany's export surplus amounted to some £150 million, but it is doubtful whether it can be maintained for long at that level. Much of the exports of 1931 represented the accumulation of stocks by merchants abroad (in anticipation of tariffs or for other reasons) which will not be replenished on the same scale. Imports have already been cut down almost to a minimum. The devaluation of sterling and other currencies, systems of exchange control, and general increase of protective tariffs, including those of Great Britain, further injure the possibility of expanding exports. If the precarious structure now built up were to collapse, what would happen? It is, perhaps, possible to paint too lurid a picture of the financial crisis that would result in the creditor countries, but London and New York and the lesser centres would be forced at best to adopt new and exceptional restrictive measures, which in the case of London at any rate would gravely damage the existing financial structure. In Germany itself, even if inflation and the consequent political upheaval were avoided, the Government would be forced, in face of the growing stagnation of the country's economic life, to encroach still further on the sphere of private enterprise, already so gravely handicapped. The consequences of the virtual overthrow of the private capitalist system in such a highly developed industrial State can only be guessed at. It is obvious, at any rate, that the prospect of extracting reparations from Germany, delusive as it is at present, would entirely vanish. Considerations such as these, modified of course by necessary political factors, should weigh more heavily in the determination of reparations policy than speculations as to what Germany could pay under this or that set of ideal circumstances.

THE UNITED STATES IN THE NEW YEAR

I. The Old Year

THE year 1931 found no mourners by its bier. The hopes that had stood by its cradle had vanished with the first touch of an unfruitful springtime. The prognosticators and the forecasters, the economists and the statisticians, the bankers and the writers of financial "services" who had cheered the last days of 1930 with the prospect of "recovery in 1931" were long ago put to rout. Just as no one in 1929 had been sufficiently pessimistic about 1930, so no one in 1930 was sufficiently pessimistic about 1931. The question now is, can anybody be sufficiently pessimistic about 1932? Are we in the transition period from one business cycle to another or are we going into a new epoch of civilization altogether? Will future scholars date from 1929 the decline and fall of western civilization—as we now hear on every hand—or will this depression take its place with those of 1837, 1857, 1873 and 1893 as differing rather in degree and outward phenomena than in cause or kind? It must be admitted that there is much—alarmingly much—to support the former view. The profound political reactions of the steady shrinkage in prices and incomes, the complete overthrow of all the equilibria of international trade, the powerful and mysterious changes in currency and exchange, all point to something infinitely larger than the routine expansions and contractions of the business cycle. If we

are being hustled helplessly to a new world what are to be its features and its landmarks? Where will its highways lead? No country ever faced a new year with more hopes and more misgivings than the United States at the dawn of 1932. So vital are the economic questions of the hour that even the identity of our next President becomes of very minor importance. He is significant only as a still unknown force in solving the depression.

And whatever may be the ultimate historical significance of the period through which we are passing, it certainly marks a change in all our moods and habits as striking and as sweeping as that produced by the war. Even those who have suffered no crushing material losses have felt the weight of the depression upon their spirits. Much of the reckless gaiety of the 'twenties has vanished with the paper profits. It may be that we are entering upon a sedater age, more cautious in its pleasures as in its investments. Perhaps Victorianism is due for a revival. There are already symptoms of it in the shops. Moralists in abundance preach to us on the sins of materialism and would have us believe that the depression is a "blessing in disguise." They recall to memory those spiritually minded men and women who saw in the war a great uplifting and purifying influence in a world too devoted to pelf and self. But to the rest of us a man dying on the battlefield in war, or from malnutrition in peace, attests so completely man's incapacity to deal with his environment that any talk of purification or blessings is the purest humbug.

Meantime the business writers and statisticians go on with their charts plotting the graphs of stock prices, bond prices, and commodity prices, inventing thermometers of business activity, recording car loadings, electric power consumption in kilowatt hours, and goodness knows what. It is astonishing to the layman to observe how carefully are kept the hospital charts of that great invalid, American business. And it must be admitted that the parallels between this and earlier depressions, in security and commo-

dity movements, are so striking as to make one believe that it is easily possible to exaggerate the difference between this and the classic depressions of the last century.

If it is not too morbid let us look backward and see just what did happen to us in 1931. It was a year as spectacular as it was disastrous. The average prices of industrial stocks, which seemed incredibly low on January 1, rallied for a brief two months, but closed the year at a trifle less than half of what they were at its beginning. Railroad stocks fared materially worse—indeed, current quotations would suggest that the future of the railroads was in the past. Bonds, which are accounted the most conservative investments, still held on July 11 at an average price of approximately 92·70, but closed the year at 73·36, recording an unparalleled collapse. Commodities, which averaged on the Fisher index 77·7 for January, sank in December to 66·7, a drop of eleven points for the year and of 33⅓ per cent. from the base of 100 in 1926. Activity of steel mills, which never went above 57 per cent. in 1931, closed the year below 25 per cent. Automobile plants turned out two million cars as against nearly three million in 1930 and almost five million in 1929. It would be easy to multiply these statistics. The financial papers overflow with indices, each more discouraging than the last. But one needs no financial papers to sense what is happening. Unemployment in all classes of society, the impoverishment of those accounted rich or moderately rich, retrenchment in almost every family circle, and the sombre series of suicides, bring the depression home to everyone. At the dawn of the new year, it bestrides us inexorably.

Can one find anything reassuring to say about the *annus mirabilis* that is past? Undoubtedly yes, but the appraisal of the factors is as yet difficult. What is most important is that the united strength and intelligence of the nation are now arrayed, as never before, against the forces of economic destruction. There is no longer any evading the facts. We are faced with a major crisis as grave as the war and

in some ways more difficult, for there is no conventional technique for this new type of conflict. The Administration, the banks, business houses, industrial leaders, householders, even the labor unions, have banished all comfortable thinking and are trying to meet the emergency. Their failure—in some degree—seems assured; their success—ultimately and in essentials—is certainly not to be despaired of. We shall win the depression as someone said the war was won—"from the bottom up"—from the labor and sacrifice of the millions.

Reassuring signs appeared in the final quarter of 1931 in the shape of a rise in the price of silver and in sharply increased prices for wheat and other agricultural products. These price flurries have largely subsided, but they afford hope. The flicker of an eyelash may not be much, but it is always a good sign in a corpse.

II. New Year Remedies

As for 1932, utterances are cautious. The people who predicted "recovery" in 1931 are making no such mistake to-day. Practically no responsible people are saying that another twelve months will get us out of the wood. Rather the feeling is that another twelve months will give us a clearer idea of bearings and direction in the wood, a knowledge of the trees, and a better capacity for woodcraft. Commodity prices are holding steadier, and the brief improvements of the autumn might return for a longer sojourn. Public attention is being focussed on the vital problem of our railroads. The powerfully organized and strongly entrenched railroad labor unions have stubbornly and thus far successfully opposed the wage cuts which are indispensable if the roads are to survive. But their opposition is generally believed to be weakening. The Interstate Commerce Commission and the public are coming to realize that the railroads have not been allowed to do well

enough in good times to permit of their surviving unassisted in bad times. No less a tribunal than the United States Supreme Court has twice taken judicial notice of the depression, by recognizing that a rate decision of 1928 is not applicable to present conditions, and by setting limits to the powers of the Interstate Commerce Commission to dissipate operating revenues in rate-making experiments. In another decision it has set aside the attempt of a local government to compel the working by a railroad of an unprofitable line. Legislative recognition will slowly be accorded to the competition of other agencies of transportation so that trucks, waterways, airways and pipelines will ultimately come in for a certain amount of regulation and taxation, from both of which they are now relatively (though by no means wholly) immune.

On January 4, President Hoover delivered to Congress a message advocating eight measures to combat the depression, namely, the strengthening of the Federal Land Bank system, the creation of a reconstruction finance corporation to furnish credits otherwise unobtainable, the creation of a system of home loan discount banks, an enlargement of the discount privileges of the Federal Reserve Banks, the development of a plan to advance money to the depositors of closed banks, the revision of laws affecting railways, the revision of the national banking laws, and drastic economy in federal expenditures.

The project of the Reconstruction Finance Corporation has been realized with a celerity which attests the capacity of Congress to act promptly when the national welfare seems to be at stake. The new Bill creates a corporation with half a billion dollars of stock subscribed by the United States Government. It has the power to issue a billion and a half dollars in bonds or other obligations unconditionally guaranteed both as to principal and interest by the United States. Its policies will be dictated by three federal officials, the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Farm

Loan Commissioner, and four private citizens of whom General Dawes is already named. The corporation will make advances "fully and adequately secured" to banks and other fiduciary institutions in need of help. "Upon the approval of the Interstate Commerce Commission," the Corporation is empowered "to make loans to aid in the temporary financing of railroads." It may also accept drafts and bills of exchange arising from the actual export of commodities (except war material) already shipped. The provisions of the statute follow almost precisely those of the War Finance Corporation created in April, 1918, which was organized to assist in the conduct of the war but actually rendered its most valuable service in the depression of 1921-22 in enabling banks with slow assets to "carry" the existing loans of their farmer customers. The War Finance Corporation had a powerful effect in 1922. Public knowledge of its powers and resources restored confidence even before its funds were made available. And that, of course, is what is hoped now—to prevent the terrorized liquidation of everything, a liquidation which in the last few months has undermined public confidence and created its own causes. No circle in the last year but has been vicious.

III. Reparations and War Debts

SITTING with the new year before one, one goes back over the memories and phrases of the years gone by. What a nasty ironic shrew the muse Clio has become! How she has flung back in our teeth the lovely phrases of yesteryear. The "war to end war" might better have been christened a "war to perpetuate war." The world that was to be safe for democracy is so perilous and insecure that it is safe for no political system. "We shall soon," said Mr. Hoover, in accepting the Republican nomination on August 11, 1928, ". . . be in sight of the

day when poverty will be banished from this nation." Mr. Hoover will have to write some new campaign speeches in 1932. The old ones will not do.

Some of the derided phrases read better now. There was the man who was shouted down for advocating Peace without Victory. But it was an old man who kept saying "*Je fais la guerre*" who carried that still vivid day, and "*Je fais la guerre*" still rings in our ears, the curse of the embittered dead upon the generation of their survivors. One wonders if man can ever attain the moral stature to conduct his own affairs. The issues of fate seem somehow more sharply drawn; the tragedy of our generation is to-day more stark, and more embittering. What of those thirty million young men who were killed or maimed? Where are the results worthy of their sacrifice or of the great and high emotions with which they made it? Surely if ever bankruptcy and failure were written across the page of history it is now. As in the 'sixties, we have resolved that those men ought not to have died in vain. But who can assure us that they have not?

It is to such melancholy reflections as these that one leaves the charts of securities and car loadings. And it is to such melancholy reflections as these that thoughtful Congressmen must have turned in the debate on the moratorium. The reparation question is a simple one. There is Germany condemned by the jury verdict of Versailles to pay an unsettled sum in damages when everyone agrees she can at present pay very little. Never mind how good the jury was or how just the verdict. The Young plan supplemented the jury verdict by fixing a schedule of annuities to extend to the year 1988 and to aggregate over twenty-seven billion dollars. We are now pretty well persuaded that a plan calling for huge payments extended over two entire generations is only a scrap of paper. The Hitlers will fight and the Hitlers will be, if not right, successful. Or more likely they won't fight but will merely talk. One need not go east of Suez for

passive resistance. If Americans will not give up their liquor because their own constitution tells them to, why should Germans give up their money because somebody else's treaty tells them to? It is the same thing. In the long run public opinion governs a nation. All we can do about that is to have a new war. Everyone recognizes that that solution is no solution at all. Even France with her heritage of fear sees that.

Americans would, therefore, cancel or at any rate greatly alleviate the reparations burden. There is also the excellent though selfish argument that payment of reparations will imperil or prevent the repayment to American citizens of some three and a half billions of dollars loaned by them to German States, municipalities and industries. Of the total indebtedness of Germany on private long-term obligations, 57 per cent. is said to be held in this country. It is natural, therefore, that our citizens should feel more concerned about this aspect of German indebtedness than about German reparations in which, directly at least, they have no interest.

As opposed to the German reparations there is the twelve billions of dollars in round figures owed to us by European countries, which accounts for roughly two thirds of our national debt. This obligation is contractual—funded, not assessed by any jury good or bad. Nor was it all directly a contribution to the prosecution of the war. Much of it represents post-war loans to European countries, but undoubtedly it helped to pay the piper for the costly tune to which we danced for more than four years. If we forego that debt a large part of the bill for the war is handed on to us. The European countries could pay ultimately even if a moratorium were essential now. Reparations or no reparations, why, we are asked, should they repudiate or we forego?

The United States Government (wrote Woodrow Wilson in 1920) fails to perceive the logic in a suggestion in effect either that the

United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the Allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavoured heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of inter-governmental indebtedness. . . . The United States Government recognizes the importance, in the interests of peace and prosperity, of securing the restoration of financial and industrial stability throughout Europe. The war debts of the Allied Governments, the treaty obligations of Germany under the reparation clauses . . . have or may have an important bearing in making plans to accomplish such restoration.

Here, at least, is a declaration that has not lost its significance with time. In fact, it can stand as the classic statement of the case against any cancellation of the war debts. The new Congress ratified Mr. Hoover's moratorium agreement with the proviso that :—

It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced, and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

On the other hand, it is probably safe to say that the cause of out-and-out cancellation would have more advocates in the United States to-day than ever before. Twelve billion dollars is a tidy sum. But the shrinkage in listed stocks in 1931 came to very nearly that; the shrinkage in stocks, bonds, and commodities far exceeded it. In the prosperous years that followed the war we reduced our national debt by some ten billions of dollars, suffered no great hardship, and progressively reduced federal taxation. If we could start the motors of the world by assuming the debt it would be worth while. To cut short the depression by a single month would be worth the sacrifice. And it is generally agreed that the war debt and reparation problem is now the millstone about the neck of international trade. It is what causes the maldistribution of the gold supply.

It cripples Europe's capacity to buy American goods. The fierce flame of hope that leapt up last June when the moratorium was first proposed illustrates the immense power of the psychological influences which might be unleashed by any relaxation of international obligations. Moreover, advocates of cancellation point out that the debt settlements as negotiated are unfair on the basis of present economic conditions. For instance, England under the Baldwin agreement experiences a debt concession of only 19·7 per cent. as against a concession of 75·4 per cent. to Italy. And, of course, all payments are automatically increased in terms of commodities by the collapse of commodity prices. Annual payments on the war debt amount to less than one eighth of the present expenditures of the Federal Government and less than one seventeenth of the value of our foreign trade in a hypothetically "normal" year.

No doubt a powerful factor in the ultimate decision will be Congressional pride, which is always forcing the inquiry, unparliamentary but searching, "Why must we be 'suckers?' Why must Uncle Sam always pay?" And no less influential will be the consideration of international armament. For if money remitted from the debts owed to us goes to pay for armaments which will simply serve to perpetuate the impossible system that brought us to this chaos, then our only course must be to insist upon the utmost farthing—the last centesimo. Figures published in this country indicate that last year France, Czechoslovakia, Italy, Poland, Rumania and Jugoslavia each spent more than ten dollars on armaments for every dollar paid to the United States. The allies together are spending annually for armaments seven times as much as their present annual payments to the United States of less than two hundred and fifty million dollars. Statistics of this sort tend to dry the tears of sympathy which might otherwise flow for our unhappy debtors. But if money concessions on our part can influence political and budget

concessions in Europe, looking to some better ordered and more stable condition in Europe, then there is an argument with a powerful popular appeal. Perhaps the wisest estimate of present American public opinion comes from a capable diagnostician of American and foreign sentiment, Mrs. Anne O'Hare McCormick. She has recently said that Main Street's mood

> is one of trouble and dark uncertainty rather than of bitterness, but in its panic it is easily swayed by any argument. Its first instinct is to turn out anybody in office in favor of almost any outsider. It yearns above all for action, audacity, which explains the enormous popularity throughout the west of direct tactics like those of Governor Bill Murray of Oklahoma. At this moment, though there is a distinct hardening of heart toward Europe, a general stiffening of nationalistic sentiment, it would be easy to persuade America either to cancel all the war debts or to insist on the last farthing. We want nothing so much as to be told with enough assurance which way to turn.

The last three years have indeed illustrated the almost uncanny suggestibility of the American people. Somehow or other it seems certain we are going to get on with this debt and reparation problem in 1932. We must get on with it; and facing it is bound to mean progress in our troubles.

IV. The Budget Problem

ASIDE from legislation, good and bad, designed to alleviate the miseries of the depression and to start the nation on an upward course, and aside from the problems arising from our comparatively untried status as a creditor nation, the major question in Washington is a fiscal one. We closed the fiscal year ending June 30, 1931, with a deficit of $902 million, which included $440 million for statutory debt retirement, or a net increase in the debt of $462 million, plus additional cash in the treasury of $153 million, or a total debt increase of $615 million. For the fiscal year ending June 30, 1932, the Treasury estimates a probable net

debt increase of $1,711 million. The importance of the decisions thus forced upon Congress is hard to overestimate. After years of preaching on the sin of the unbalanced budget, the time has come to put our precepts into practice. It is obvious that the first necessity is for retrenchment in all fields of governmental activity. But it is equally obvious that no retrenchment now practicable can cure the situation. And so Congress must decide whether to borrow the amount of the anticipated deficit or to increase taxes or to combine the two in a workable, if not a popular, program.

Fortunately the Treasury Department and the Administration, though facing a popular election within the year, are addressing themselves to the situation courageously. Mr. Mellon said to the House Committee on Ways and Means:—

> A fundamental thought which I wish to present to you is that current receipts and expenditures of the Government should be brought into balance for the next fiscal year beginning with the coming July, so as to put an end at that time to any further increase in the public debt. This is essential, not merely for maintaining unimpaired the credit of the Government, but also for reinvigorating the entire credit structure of the country. The Administration is determined, with your cooperation, to arrest this borrowing process on June 30 next.

Mr. Mellon has outlined to Congress a two-year emergency program whereby the Treasury hopes to raise $920,000,000, or enough to balance the books in the fiscal year ending June 30, 1933, and $390,000,000 additional during the current fiscal year. He recommends that the per cent. rates of 1½, 3 and 5 per cent. on incomes of $10,000 or less should be raised to 2, 4 and 6 per cent. respectively, with surtax rates at 1 per cent. on incomes over $10,000, running up to 40 per cent. on incomes (if any) of half a million. He further recommends increased rates on tobacco, a slight increase in corporation tax levies, taxes on automobiles, radios, cheques and drafts, telephones, telegraph and cable messages, and an increase in estate taxes.

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Business sentiment in the country is impressed with the moral and exemplary value of governmental economy and a balanced budget.

Could you have a more depressing psychological effect (asked under-Secretary Mills) than the promise of the United States Government, backed by the total resources of the people of the United States, depreciating 18 points in ninety days? Why? Because of the fear that instead of meeting our needs through legitimate, sound means, afforded by taxation, we propose to attempt to issue billions of dollars of securities to the public.

. . . The courageous thing to do and the right thing to do is for the Government of the United States to stop borrowing and balance its budget and live within its income; and nothing . . . will have a greater effect right now than just that action on our part, because you must not forget that while there have been very many economic forces that have tended to produce the present depreciation in prices and values, in the latter phases of this depression period the psychology of fear and the loss of confidence have played even a greater part than the economic factors.

The Administration is also resisting the temptation to increase revenues from the pockets of the "rich," and Mr. Mellon told the Ways and Means Committee that "many not now taxed (under the existing federal income tax law) are very definitely in a position to make some contribution to the support of government."

It should perhaps be noted that one reason for the drastic decline in public revenue is the predominant part played by the income tax in our fiscal system. This tax produced for the calendar year 1928 $1,164,000,000 and for the calendar year 1930 $474,000,000. It is thought that individual taxes on 1931 incomes will not exceed $300,000,000. That taxes decline more rapidly than incomes is due partly to the graduated tax scales and partly to the provision of the tax law which makes capital net gains taxable as income and capital net losses deductible from income. As everyone who has any capital at all has suffered losses which he may realize if he likes without necessarily incurring actual loss, e.g., by selling one

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depressed security and buying another, the payment of taxes has been reduced for many people to nothing but a voluntary contribution to the support of government, a manifestation of public spirit to which few citizens in any country are as yet educated.

Just what tax Bill will ultimately pass it is too early to say. Control of the national House of Representatives is with the Democrats, and Republican control of the Senate is largely theoretical, so that perfect harmony is scarcely to be expected. Europeans will remember the precedent of Woodrow Wilson and a Republican Congress. Nevertheless, the Democrats have shown a disposition to realize that cooperation in measures to rout the depression will gain them more voters next November than long harangues about the sins of the Administration and the petty manœuvres of party obstruction. This is well for the country, and the distrust of Congress which was a byword no more than a year ago has largely subsided and been replaced by a belief that Congress can and will "do something" to better conditions. That it can do immense harm by cheap and easy remedies no one denies. But the virtue of a balanced budget and sound legislation for the banks and railroads is no less obvious.

Meantime those who bear the brunt and burden of the depression are unbelievably calm and patient. There has been a notable lack of tumult and civil disorder, a notable absence of men crying out against capitalism or democracy or our established institutions. Rather we find a faith that this is an hour of national crisis to be met and overcome by work and fortitude and voluntary relief to the unemployed. On the vindication of that faith by the future depends not merely the economic, but the political, future of America.

United States of America.
January 26, 1932.

INDIA: THE STRUGGLE WITH CONGRESS

I. India and the Round Table Conference

SINCE the publication of our last article from India* events have moved with startling and dramatic rapidity. The cloud of depression and uncertainty then hanging over the country has, to some extent, lifted in spite of the recent incidents and ordinances. In the constitutional sphere the signs are more favourable than seemed possible during the summer and autumn, and in the political field there is a straight fight on a clear issue between Congress and the Government. The gloves are off. Whether or not any substantial progress was made by the Round Table Conference in elaborating the mechanism of the future constitution, and in spite of its failure to secure an agreed settlement of the communal problem, every impartial observer recognises that a marked advance has been made. The air has cleared. The Prime Minister's statement, and the emphatic approval by both Houses of Parliament of the policy embodied in the White Paper, have left no room for doubt in the minds of reasonable people as to the determination and intentions of Great Britain. The consequent diminution of the feeling of pessimism and distrust which animated many Indian statesmen, even of the more moderate school, is a factor of great psychological importance. And, whatever the nationalist press may write about the inadequacy of the Prime Minister's statement, the opinion is gaining ground that some really solid

* See The Round Table, No. 85, December 1931, p. 100.

and lasting work has been done. The Round Table delegates have now returned to India, and their pronouncements (except, of course, Mr. Gandhi's) on the subject are marked, on the whole, by a robust, if cautious, optimism and a firm belief in the value of continued co-operation. There are signs that confidence in the good faith of Great Britain is returning, and prophecy is indulged in as to the date of the establishment of the new constitution. The fact that the Round Table Conference will remain in being in India in the form of a " consultative " committee, under the chairmanship of the Governor-General, as deputy to the Prime Minister, and the appointment of the Franchise, Federal Finance and Indian States Inquiry Committees, which are now engaged on their labours, provides a clear and convincing proof of the Government's determination not to mark time, but to carry out their programme with the greatest speed compatible with care, undeterred by the many forces of disruption still actively at work, and of their willingness to seek by the method of conference and discussion a solution of the problems still outstanding. The ready acceptance by Indian public men of invitations to serve on these committees is an encouraging sign of the belief of non-Congress opinion in the greater value of co-operation as compared with the barren campaign of civil disobedience. If any further proof of Great Britain's purpose were needed, the speech of the Viceroy to the Assembly on January 25 gives it in full.

The tactics of Congress have not been unexpected, as the extremists for some time have had the upper hand. They were scheming during Mr. Gandhi's absence in London to force the issue and to leave him on his return no alternative but to declare for a resumption of civil disobedience. Mr. Gandhi's own position made this easier. His behaviour at the Round Table Conference revealed his lack of constructive statesmanship, and his indifference to practical issues. It showed that he could not speak for

India as a whole, that his claim to dictate terms on behalf of the Congress to other sections of the body politic was contested and resented by Mahomedans, by the depressed classes and by many Hindus themselves, and, finally, his failure to "cut any ice" at the Conference greatly lowered his prestige. If he had any inclination to make a spectacular gesture which would bring him back into the limelight, it would certainly have been strengthened by this failure in London. Many observers felt convinced that he would resume the civil disobedience movement after a half-hearted attempt at artificial negotiation, and it is easy to understand how circumstances drove him to forsake the path of co-operation. By precipitating action in the North West Frontier Province and the United Provinces, his lieutenants had left him little choice, even if his personal inclination did not point in the same direction. These lieutenants, whether Abdul Ghaffar Khan on the Frontier or Pandit Jawahar Lal Nehru in the United Provinces, had made no secret of the fact that they hoped to secure through the civil disobedience movement the complete independence of their country. They anticipated that Mr. Gandhi would keep the Government of India in play, by negotiations with the Viceroy, while they completed their preparations for the "war." At the convenient moment Mr. Gandhi would announce the cessation of the negotiations, and the carefully matured plans for civil disobedience, which were intended to take full advantage of the serious financial difficulties of the country, would then be put into operation. The Congress leaders were out in their calculations. The Government of India took immediate action. Their firm and vigorous measures caused surprise and consternation in the Congress camp and robbed the leaders of the interval for further preparation which they had expected. The Congress working committees are now unlawful bodies, many of the leaders are in jail. The issues are clear-cut. On the one hand, in the constitutional sphere a march along the road

to self-government, on the principles adopted by His Majesty's Government, is now in progress—over very difficult and tricky country in some parts of the journey—and, on the other, in the political sphere there is the Government's determination to crush what is in effect an unarmed rebellion for the purpose of winning independence.

II. The Red Shirt Movement

WE must now describe the main events which led to this dramatic *dénouement* and set forth, as far as possible, the reactions in India as a whole to the policy of the Government in determining to fight the Congress and simultaneously to proceed with reforms. The months of November and December were a very critical period in the history of India. Government was beset with difficulties. The Congress leaders, in spite of the Delhi Pact, were making preparations for the resumption of the "struggle"—establishing "war" councils, encouraging everywhere the growth of "war mentality" and implanting in the minds of impressionable schoolboys "the glory of the fight for freedom." The falling prices of food grains offered a favourable opportunity for stirring up the peasantry—especially in Pandit Jawahar Lal's own province, the United Provinces. The Red Shirt movement on the Frontier was clearly subversive and opposed to the Irwin-Gandhi settlement, but the Congress deliberately encouraged Abdul Ghaffar Khan, its irreconcilable leader, in his pretensions. The position was thus one of extreme delicacy in which a false move on the part of the Government might have been disastrous. Mahomedan feeling in the Frontier Province and in the Punjab was uncertain, shaken as it was by events in Kashmir. On the Frontier the Red Shirt organisation was making rapid headway, and was openly inspired by revolutionary objects. It was realised that action could not long be delayed against

Abdul Ghaffar Khan, the leader, who claimed to be the *de facto* head of the province. Premature action, however, might have precipitated a conflagration among the Mahomedans of the province and in the tribal areas. The Mahomedans of the Punjab and the United Provinces might easily have extended more than a silent sympathy. Serious trouble in northern India would have presented a golden opportunity to the Congress leaders elsewhere; under their instigation a peasant revolt in the United Provinces, which might have spread to other provinces, would have been on the cards, while in Bengal the revolutionary party, regarding themselves as the "storm troops" of the "nationalist army," would have been inspired to more dastardly deeds of terrorism. The moderate politicians, especially the Hindus, disliked the Bengal Ordinances and gave little support to Government on the plea that the price of their co-operation was the abandonment of measures of "repression." Mahomedans generally were apprehensive of constitutional developments which might run counter to their hopes and claims, and would not wholeheartedly co-operate with Government until those doubts were set at rest. In a situation of such bewildering complexity, Lord Willingdon and his Government acted with firmness and courage. They have now regained the initiative and are proceeding undismayed with the great constitutional task before them.

The events in the North West Frontier Province, the United Provinces and Bengal play such a prominent part in the later developments that a fuller account of them is necessary for a proper understanding of the sequence of events.

To take the North West Frontier Province first, in many ways it has been, as it were, the keystone of the political arch. Congress intransigence went further here than elsewhere and open defiance of authority had reached a highly dangerous pitch. It is still, to a large extent, the touchstone of Mahomedan feeling. In his conciliatory administration,

which it was hoped would win general support in the province for the coming constitutional reforms, the Chief Commissioner was persistently thwarted by Adbul Ghaffar Khan and his adherents, who for the greater part of last year had been making intensive preparations for the renewal of their struggle for complete independence. For ten months, in spite of grave provocation, the Government of the province restricted its action against this movement to measures under the ordinary law. It was hoped that the eventual establishment of a reformed constitution would consolidate public opinion and bring about peaceful conditions. This hope was not realised. The publication of the report of the Subjects Committee in June last made no impression, and indeed a spirit of contempt for law and order was spreading, leading to open defiance of authority and violence to government officers. It was hoped that Mr. Gandhi's participation in the Round Table Conference would mend matters. But again hopes were disappointed. Abdul Ghaffar Khan had been made leader of the Congress movement on the Frontier, and after a tour throughout the province he returned to Peshawar, as a virtual dictator, to reorganise the Youth League as an integral part of the All-India Congress organisation, under the name of the Frontier Provincial Jirga. He urged his audiences to disobey orders passed by Government, delivering inflammatory anti-British speeches. He declared in November that the aim and object of his organisation was "to liberate the country from the foreign yoke. The country was theirs, while the English were enjoying themselves."

At a later meeting, after the Prime Minister's announcement, he declared, "We have two purposes: firstly, to free our country; and secondly, to feed the hungry and clothe the naked. Do not rest until freedom is won. It does not matter if you are blown up with guns, bombs, etc. If you are brave, come out into the battlefield and fight the English, who are the cause of all our

troubles. Congress is a society against the English. The English are the common enemies of the Congress and of the Pathans." During the month of December his following of Red Shirts held large camps in the Peshawar district, at which parades and manœuvres in military formation were carried out. The campaign for the non-payment of revenue and water-rates and for the refusal to take government canal water was steadily pursued. In one part of the Peshawar district a Red Shirt tahsil (revenue office) was opened and collections were made from the zemindars (landowners). Attempts were made to extend the Congress-Red Shirt movement across the administrative border into the Malakand Agency. Meetings were held in deliberate defiance of the Political Agent's order, and, in spite of a strong protest by the local maliks themselves, inflammatory pamphlets were distributed in the Swat territory to stir up disaffection against the Wali of Swat. There was reason to suppose that the Mohmand tribal territory was also penetrated by Congress emissaries. In spite of every effort at conciliation by the Government of the province, Abdul Ghaffar Khan remained obdurate and used the Prime Minister's declaration of December 1 as an occasion for even more open defiance. Resolutions were passed on December 20 at a meeting of the Provincial Congress Committee repudiating that declaration and resolving that nothing short of complete independence would be acceptable. Congress was called upon to abandon the Irwin-Gandhi truce and to proclaim the renewal of civil disobedience. The first week of January was to see the inauguration of a fresh phase of Red Shirt activity, which would be signalised by the ceremony of unfurling the Congress flag at Utmanzai at a New Year's Day parade, and preparations were in train for an impressive demonstration of Red Shirt strength and preparedness.

In the face of these resolutions Government could no longer stay its hand or follow a policy of conciliation. The Chief Commissioner held a Durbar on December 22,

announcing the measures taken by the Government of India and the local government to introduce the new constitution at the earliest possible moment, an announcement which made a deep impression upon the more reasonable people of the province. Immediately after the Durbar, Abdul Ghaffar Khan was arrested and an ordinance promulgated to give the authorities the requisite special powers for dealing with the emergency that had now arisen. Numerous clashes occurred with bands of Red Shirts, but the policy of firmness proved successful, and soon a decided improvement took place. Red Shirts began to apologise and to burn or dye their uniforms. Revenue is once more coming in, and the intelligentsia are concentrating on the early establishment of a reformed constitution on the lines of a governor's province. This may become an accomplished fact by the spring of this year. Details are now being worked out with the utmost despatch by the non-official committees, the Chief Commissioner and the Government of India, and canvassing for election is already in progress.

III. The No-Rent Campaign

IN the United Provinces the Congress leaders planned "to consolidate the position of the Congress, to strengthen their organisation and to prepare the people for any contingency that might arise," and especially to concentrate on the rural areas. The Delhi Agreement was concluded on March 5, 1931; nevertheless, within a very short time Congress gave clear proof that they did not intend to abandon the no-rent campaign which they had vigorously preached in parts of the province during the civil disobedience movement of 1930. The general fall in prices had made the payment of rents a matter of serious and increasing difficulty for tenants, and the situation was, therefore, open to skilful exploitation by the Congress.

It should be explained that in the United Provinces about 95 per cent. of the rents are on a cash basis. Rentals are fixed by agreement between the landlord and the tenant, and are not determined by government agency. In the past the efforts of the State have lain in the direction of securing and safeguarding equitable terms of tenure for cultivators, rather than of attempting to settle the actual rents. The State may remit revenue, and the law provides that when, owing to any calamity, the State remits revenue, the revenue payer, *i.e.*, the landlord, should make a proportionate reduction in the rents paid by his tenants. The Government accordingly decided to announce, after careful enquiry, a remission of land-revenue which would result in the reduction of rentals to about the level of 1915, involving a reduction of 207 lakhs* of rupees in the total of rents in the province. The Congress agents, however, went on steadily inflaming the tenants, and a state of affairs was brought about which not only threatened general disorder, but contained a serious menace to the maintenance of the Delhi settlement. The ordinary processes issued by the revenue courts were executed with the greatest difficulty, and attempts to do so were frequently accompanied by rioting. Crops attached under judicial decrees were forcibly removed ; there were many cases of intimidation by violence or social boycott. In some cases landowners themselves or their agents were murdered, and police were attacked when investigating crime. Abundant evidence was forthcoming of the growing spirit of lawlessness in many districts, largely because Congress volunteers were working in the villages, spreading contempt for authority and sowing dissension between landlords and tenants. Mr. Gandhi visited the Governor of the province and issued a manifesto, some of which was unexceptionable, but which contained the assumption that Congress was an authority competent to decide what rents should or should not be paid, to adjudicate disputes between landlords and tenants,

* A lakh is £7,500.

and to receive complaints against the former lodged by the latter.

This manifesto naturally complicated the situation. Riots and lawlessness continued, and Pandit Jawahar Lal Nehru made it clear that his objective included the total expropriation of landlords, and held out to tenants the prospect that, with the victory of Congress, they would become full proprietors of the lands they cultivated. The Congress volunteers deliberately encouraged a form of class warfare against their landlords, accusing the latter of perpetrating acts of brutal savagery upon their tenants to force the payment of rents. The plight of the tenants during the year 1931, owing to the fall in prices and other economic causes, was serious. The Government, realising that further relief was required, appointed another committee and invited a Congress leader to serve on it, but he declined the invitation. This committee proposed remissions of revenue which involved a total reduction of rents by about 410 lakhs of rupees. On the flimsiest grounds the Congress considered them wholly inadequate, and decided, after some discussion, that a no-rent campaign should be started in the Allahabad district. Later on, after some brief negotiations, during which the Congress put forward impossible claims, which no Government could accept, the Provincial Congress Committee, at a meeting held at Lucknow on December 5, passed a resolution definitely authorising the local committees of Cawnpore, Unao, Rae Bareli and Etawah to commence a no-rent campaign. The possible extension of such a campaign to other districts rendered further action on the lines already pursued out of the question. The dangers of such a campaign had been made abundantly clear, with its possibility of leading to murder and class warfare, and again Government could stay its hand no longer. An ordinance was promulgated empowering the local government and their officers to deal adequately with the no-rent campaign. Pandit Jawahar Lal Nehru and other leaders were convicted

for defiance of orders served upon them and sent to prison. The situation immediately improved and rents began to come in. The provisions of the ordinance have in fact been very sparingly used owing to a restoration of confidence in Government's power to exercise authority, and a very satisfactory comment was the substantial endorsement by the United Provinces Legislative Council of the Government's policy and of the need for the ordinance. A slight increase in prices materially helped.

IV. Terrorism in Bengal

IN Bengal the difficulty was not attributable to the measures adopted by Congress: the Congress party there was torn by internal dissensions, and in spite of the Barhampur resolutions and a determination, if necessary, to act independently of the National Congress (though the province was admittedly unprepared for civil disobedience) was not making much headway. It was the recrudescence of the terrorist movement that gave cause for much serious anxiety. A recapitulation of the many outrages committed, culminating in the murder of Mr. Stevens by two young girls, is unnecessary here, as these events will be fresh in the minds of readers of The Round Table. The consequences were disturbing. In parts of the province, *e.g.*, Chittagong and Dacca, the authority of Government was seriously impaired. The revolutionary party was rapidly growing in strength and numbers: it was well organised and made a strong appeal to the sentimental young Bengali of the middle classes. Many of the known revolutionaries had been detained in detention camps under the Bengal Criminal Law Amendment Act, but this was of little help in itself—discipline was lax and the camps served as a sort of headquarters. Communication with confederates was easy. The movement throve, and in some districts the countryside was desperately afraid. The inadequacy of the counter-

measures taken by the local government was the subject of bitter attack by the European Association and by a new organisation known as the Royalists. Sterner action was demanded, and among non-official Europeans there was constant talk of reprisals. The prestige of the Government was low. Strong measures could not be delayed. The European community rightly demanded the restoration of conditions in which they could carry on their daily business without the fear of assassination. The Chittagong bravoes had to be rounded up and respect for authority restored. The Bengal Ordinances were promulgated at last and many suspects were arrested. Some improvement has taken place and the presence of troops in Chittagong has had a good moral effect. But terrorism still goes on, and very careful measures of protection have to be taken. Every spectacular success which the revolutionary party achieves encourages them and inspires confidence in the ingenuity of their plans to murder Englishmen or any persons who give information or evidence against them. They are completely irreconcilable and will not abandon the cult of the bomb and the revolver with the advent of self-government.

It is indeed one of the most unsatisfactory features of the Bengal situation that fear of the terrorist movement is so widespread. Only on this supposition can one explain the attitude of Congress and the nationalist politicians generally. They fear that when provincial autonomy is attained the revolutionary party will demand a large share of the plums, and so the leaders, while rebuking methods of violence, laud the self-sacrificing spirit of the murderers and cause them to be acclaimed as saints. They compare the murders of innocent people with the issue of an ordinance by Government as alike instances of terrorism, while so sensitive and so squeamish are the Liberal politicians as a class that they profess a detestation of government by ordinance, and pretend that the terrorist movement would subside of itself with the grant of full responsible govern-

ment in the provinces and at the centre. Unless the good sense of the people of India contrives to extirpate terrorism from Bengal, neither a federation of provinces and States, nor dominion status, nor complete independence will bring peace to that unhappy province.

Thus in each of these provinces certain common features were present—a growing spirit of lawlessness and defiance of authority, leading to disturbance, murders, insecurity, and attempts to set up parallel institutions and to exercise an authority equal to that of the established Government. Any Government which did not take vigorous action in face of such a situation would have failed in its first duty, which is to govern. The question was not one of stifling a legitimate political movement, but of preventing disorder and chaos.

V. Mr. Gandhi's Return

SUCH was the general position of affairs at the end of December when Mr. Gandhi was due to arrive. The stage was carefully set, and perhaps the leaders felt little doubt as to the turn of events. The acting president, Mr. Vallabhai Patel, had declared that the coming struggle would be India's last struggle, but that he would leave the final decision to his leader, Mr. Gandhi. Mr. Gandhi himself during the voyage said that he would not take a "hasty step," but his first utterances ashore indicated more than a willingness to do so. At a public meeting he declared that he had hoped that it might be possible for him to find a way to co-operate with Government, but the signs he had noticed had considerably weakened these hopes. "If the fight becomes inevitable, I invite you to be ready, but I will not give up all attempts to save the nation from a fiery ordeal and would not be afraid to undergo any amount of suffering or flinch from sacrificing a million lives." The Congress Working Committee urged upon him that

the present policy of the Government in Bengal, the Frontier Province and the United Provinces meant a definite rupture, and that it was no good trying to patch things up. Mr. Gandhi preferred to postpone his decision until he had ascertained the views of the Government of India. He accordingly telegraphed to the Viceroy, in effect asking for an explanation of the ordinances and whether friendly relations were closed. The Viceroy replied that in Bengal the Government must take all measures necessary to prevent dastardly assassination of their officers and private citizens, that it was impossible to reconcile the activities of the Congress in the United Provinces and the Frontier Province with the spirit of frank co-operation. He was prepared to see Mr. Gandhi but not to discuss with him the measures which his Government had found it necessary to adopt in the three provinces with the full approval of His Majesty's Government.

The Congress Working Committee, on Mr. Gandhi's advice, proceeded to pass a lengthy resolution in which they questioned the accuracy of the Government's statement of events, described the Prime Minister's declaration as "wholly unsatisfactory and inadequate in terms of the Congress demand," and declared that nothing short of complete independence would satisfy them. They tendered their co-operation "provided the Viceroy reconsiders his telegram and adequate relief is granted in respect of the ordinances and its acts, free scope is left to the Congress in any further negotiations and consultations to prosecute the Congress claim for complete independence, and the administration of the country is carried on in consultation with popular representatives, pending the attainment of such independence," and, finally, in the event of no satisfactory reply being received, they called upon the country to resume civil non-violent disobedience. This was to include the boycott of all foreign cloth, the boycott of British goods and British concerns, the vigorous picketing of liquor and foreign cloth shops by women, the

unlicensed manufacture and collection of salt, the organisation of processions and demonstrations, civil breach of " non-moral " laws and of laws and orders injurious to the people, and civil disobedience of all important orders issued under the ordinances. They appealed for national economy, the non-purchase of goods on which customs duties are levied, and the boycott of government utility services and concerns such as posts and telegraphs, courts and railways ; they assured the landlords that they had no design on interests legitimately acquired and called upon the landed and monied classes to help the Congress. Mr. Gandhi informed the Viceroy that the constitutional issue dwindled into insignificance in view of the ordinances and denied that events on the Frontier, in the United Provinces and in Bengal were open to the interpretation placed upon them by the Government of India. He stated, however, that the resolutions of the Working Committee would be suspended if the Viceroy would still consent to see him and discuss the present situation arising from the ordinances.

After the threatening resolutions of the Working Committee and the tone of the telegram sent by Mr. Gandhi, the Viceroy felt that he could give only one reply, namely, to express the Government's regret at the resolutions that had been passed, involving the general revival of civil disobedience unless certain conditions were satisfied. The Viceroy added that he considered the attitude of the Congress deplorable in view of the declared intention of His Majesty's Government. " No Government consistent with the discharge of their reponsibility can," he said, " be subject to conditions sought to be imposed under the menace of unlawful action by any single organisation, nor can the Government of India accept the position implied in your telegram that their policy should be dependent on the judgment of yourself as to the necessity of measures which the Government have taken after most careful and thorough consideration of facts and after all other possible remedies have

been exhausted." It was hardly possible for the Viceroy to invite Mr. Gandhi, with the hope of any advantage, to an interview held under the threat of the resumption of civil disobedience. The die was thus cast. Manifestos were issued. Mr. Gandhi in his last public utterance before his arrest urged the country to respond to the challenge of Government and appealed to Americans to watch the course of the struggle and to use, " for the sake of oppressed humanity, the influence of the greatest nation." Mr. Vithalbhai Patel, the ex-president of the Assembly, Mr. Subhas Chandra Bose and Mr. Jamnadas Mehta issued a joint statement condemning the Working Committee's conditional offer of co-operation and urging the establishment of new independence organisations in the country.

It is clear that Government's forbearance in face of grave provocation in the three provinces, the Prime Minister's statement and its acceptance by Parliament, and the assurance of the immediate establishment of a new constitution for the Frontier Province were wholly ignored by Mr. Gandhi and his lieutenants. In effect, they demanded the Viceroy's capitulation to conditions which would make Mr. Gandhi the arbiter of measures necessary for the maintenance of law and order, and which would leave the Congress free to pursue their subversive activities as they saw fit. If the Viceroy had agreed, he could expect nothing from the Congress except the freest exercise of its claim to independence ; if he did not agree, the Congress would immediately embark upon its programme of civil disobedience. To the Congress leaders civil disobedience was not only the natural right of the people—especially when they had no real voice in their government—but an effective substitute for violence. It was obvious that the Government could no longer sit still and watch the progress of a movement that was deliberately designed to paralyse the administration and to inflict the maximum of harm on government, regardless of the loss

it might entail on private individuals. It therefore acted with vigour and promptitude. A statement of policy was issued by it explaining that the movement was opposed to all constitutional principles and that in fighting it the Government of India was fighting the battle not only of the present Government but of the Governments of the future, and that it would be its duty to hand over to the new order a working administration and, to this end, to resist with all its might the forces which would create a state of anarchy and chaos.

VI. Civil Disobedience

MR. GANDHI and Sardar Vallabhai Patel were at once arrested under Regulation III of 1818. On January 4 four ordinances were promulgated to deal effectively and promptly with the Congress plan of campaign—(1) the Emergency Powers Ordinance, (2) the Unlawful Instigation Ordinance, (3) the Unlawful Association Ordinance, and (4) the Prevention of Molestation and Boycotting Ordinance. These ordinances, the titles of which sufficiently indicate their scope, give very extensive powers to the authorities charged with the maintenance of law and order for the protection of law-abiding citizens. The life of an ordinance is six months only, though it can be renewed, and the policy of the Government has always been to utilise its provisions only for so long as the situation demands. In the provinces concerted action has been taken. Numerous Congress leaders have been arrested; many have been served with notices prohibiting them from addressing meetings, taking part in demonstrations, encouraging picketing or actively aiding or abetting the civil disobedience movement. Steps have been taken to close Congress offices, to sequester their funds and to check, as far as possible, new contributions to them. Processions and demonstrations have been on a smaller scale than might have been expected, but in

every large city such demonstrations have been held in defiance of orders. They have been controlled without difficulty and, so far, have not assumed any dangerous importance. The arrest of leaders has passed almost unnoticed. Many persons have been and are being convicted daily and sentenced to varying terms of imprisonment. The presidents of working committees, "dictators" and members of war councils follow one another into office and jail in bewilderingly rapid succession. The authorities on their part have not been slow to mobilise opinion on their side. At all important centres meetings have been convened to pledge to merchants and business men the support of Government against picketing and boycott. It seemed not improbable that a determined effort would be made to picket petrol stations and to prevent the export of wheat, cotton and gold, but so far no great success has been achieved in this direction, and indeed the exports of gold are increasing. The general upheaval and the partial paralysis of government, which the Congress leaders confidently expected would follow their arrest, have not occurred, and victory in the first round has gone easily and unmistakably to the forces of Government. The end, however, is not yet in sight, and despite the absence of any disquieting incidents up to date, a constant strain is placed upon the authorities, who cannot for a moment relax their vigilance, and upon the public generally by the partial dislocation of normal business.

How long the struggle will last it is profitless to try to foretell. The Congress is a powerful organisation and occupies a unique position in Hindu sentiment. At this point, though generalisations are dangerous and need constant revision, it is possible to take some stock of the situation. The most striking feature is the lack of violent reaction against Government's policy. Is this merely a lull before a storm or is it the natural response in the East to an attitude of firmness? The moment was perhaps favourable to the Government. Congress funds were low

and the country was not ready for civil disobedience. The experience of 1930 had been costly to the people and they disliked and resented the perpetual *hartals* and interference with their daily affairs. Some of the main features of the movement, such as the no-rent campaign and intensive boycott, though skilfully devised to strike a shrewd blow at the financial position of Government, were bound to react against Congress by the hardship inflicted upon many individual supporters. The depressed classes, again, have shown themselves definitely opposed to Congress pretensions and organised a monster demonstration against Mr. Gandhi on the day of his arrival in Bombay. The Mahomedans are generally hostile to Congress and to Mr. Gandhi, and so far are keeping themselves aloof from civil disobedience, though they are still uncertain and disunited, and it is far from clear what line they will finally adopt with regard to government policy on the Frontier. At the same time, in the constitutional sphere work is progressing. There has been no difficulty in completing the membership of the Consultative Committee and the various committees appointed to deal with the franchise and federal finance. Much will depend on the labours of these committees, and if a friendly atmosphere can be retained, there is good reason for hope. But here, too, it will not be all plain sailing: the problem of federal finance is so complex in itself and so inextricably bound up with the interests of individual States that many reflective minds regard it as almost insoluble. The Princes have, in many cases, issued manifestos expressing their determination to stand by the Government in their fight against the civil disobedience movement. The loyalist section of the people has been gratified by the proofs of firmness, and the wobblers are turning to Government as the winning side.

The financial outlook is brighter: India's credit stands high and the price of Indian securities is rising. The policy of linking the rupee with sterling has been beneficial, for India's floating debt has been reduced to 61 crores from

84 crores, and the whole of the £15 million sterling loan has been repaid without borrowing. The Bank rate has been reduced, and there has been improvement in the rupee prices of certain commodities, especially cotton.

Thus from many points of view the signs are favourable, and one might logically expect the co-operators to organise an intensive mobilisation of all reasonable opinion to push on reforms with all speed, to make every attempt to capture the new electorate and to consolidate their position against the left wing of Congress, which should become a small but irreconcilable minority, against the time when they themselves may assume responsibility for the government of the country. Unfortunately, there is little indication of this, and it seems likely that attempts may be made to bring pressure to bear upon Government to moderate their present policy against Congress. It is impossible to disguise the fact that the refusal of an interview by the Viceroy to Mr. Gandhi rankles in many quarters on sentimental and quite illogical grounds. Sir Tej Bahadur Sapru has put this point of view in moderate language when he pleads for an early resumption of discussion, and contends that no final solution can be found by the methods now adopted. Dr. Rabindra Nâth Tagore, though not a politician, has expressed himself with greater force. The position may crystallise with the session of the Assembly which is about to begin. What will be its attitude? Notices of motions for the adjournment of the House in criticism of Government's policy have been received and attempts are being made to persuade the Mahomedans, especially those who are dissatisfied on personal or political grounds, to join in an attack upon the Government.* Whether or not such motions are carried, a certain sympathy with the Congress leaders, the general aversion of many politicians from

*A motion condemning the Government's policy in arresting Mr. Gandhi and Mr. Sen Gupta, and other actions under the ordinances, was defeated in the Legislative Assembly on February 2 by 62 votes to 44. Moslem representatives were divided in the voting.

strong measures in times of emergency, and an inability to refrain from making overtures in public to extremists outside the House, may bring about some deterioration in the present situation, and the spring, as is not uncommon in India, may see some intensification of anti-government activity. It is, therefore, too much to hope for an early cessation of the struggle or an early defeat of the extremist element. We began this article on a note of qualified optimism. But the many elements opposed to extremism have it in their power, if they would but seize their opportunity, to turn the present situation to their advantage and to create an atmosphere of more positive confidence.

India.
January 25, 1932.

GREAT BRITAIN: TARIFF REFORM

THE last issue of THE ROUND TABLE left the chronicle of political events at the point where the National Government were about to meet a House of Commons nine-tenths of which were its supporters. The country was clearly on the threshold of a great effort. Would the leaders of the different parties be able to devise in collaboration an effective policy to bring it safely through, or would the clash of views end in deadlock and disintegration? Would a House of Commons containing over 200 inexperienced members and a large contingent of unplaced ex-Ministers keep the ideal of national unity before it? Four months' experience is all too short to give a definite answer, but it is at least possible to say that the prophets of sterility and the prophets of an early dissolution of the National majority have hitherto been confounded. The characteristic feature of the new House of Commons is not the vocal unrest of certain elements, but the hard core of quiet determination that the experiment of a National Government shall not lightly be abandoned.

I. GROUPS AND PARTIES

THERE are, of course, ragged fringes, and the House of Commons is by no means devoid of an Opposition. But the doings of the official Opposition (the Labour party) are to-day more important outside than inside the House. We left the unseated Ministers last December taking stock

of their position, and considering the future line of action of their party. That process has continued. Some, Mr. Shinwell for instance, like Mr. Cole, would not willingly see the Labour party lose their class character, but Mr. Lees-Smith, the ex-Minister of Education, has repeated his conviction that they "are not likely to be returned to power on a purely working-class vote," and he again emphasised the need of "a practical appeal to disinterested men of good will in all classes. . . Our work hitherto," he said, "has been the direct redistribution of wealth by what are called 'social services,' and the increasing taxation of wealth. We have reached the limits to which Socialism can be carried in a capitalist society, and we have now to apply ourselves to problems of fundamental reconstruction and to work out the details of our Socialist doctrine's adaptation to the changed conditions produced by this century's industrial revolution." The same note of uncompromising Socialism is found in other speeches, notably in those of Sir Stafford Cripps, who is generally regarded as one of the "coming men" of the Labour party, and who is among the very few of its leaders who have retained their seats in the House. "Gradualism,' he said in a recent address, "is gone from our programme for ever." As regards practical measures, Labour speakers obviously consider the control of the banking system the most important of their objectives, and the fiscal question has taken a second place. Their difficulties have, of course, been exceptional in the matter of leadership. Soon after they lost Mr. MacDonald, Mr. Henderson, his successor, fell ill, and after his recovery was obliged to occupy himself with the preparations for the Disarmament Conference, of which he is President. Then came the death of Mr. William Graham, the former President of the Board of Trade, a heavy loss for the party. But in spite of these handicaps they have not been letting the grass grow under their feet. A campaign is being carried on throughout the country with the object of enlisting a

million fresh subscribers to the party. Rumours of overtures with the object of effecting a reconciliation between the Labour party and Mr. MacDonald—it was suggested that he might return to his former position in the event of a breakdown of the National Government—have been met by the emphatic repudiation of Labour spokesmen.

Inside the House the official Opposition is, of course, a mere handful, just the 50 odd Labour candidates who survived the election, and it counts for little. Mr. Maxton and his small group, still deprived of the official whip of the Labour party, have established themselves as a separate parliamentary entity.

One of the questions of the moment is, of course, what is Mr. Lloyd George going to do? Hitherto he has been represented in the House by the family party of three, but he is now back from Ceylon with, it is said, all his old health and energy. In the course of an interview on January 8, the day of his return, he gave the world to understand that if the Government announced its policy when Parliament reassembled at the beginning of February, he would be in his place in the House. He has not, however, yet occupied it, and on February 3 the head of his staff sent a chilly refusal to the appeal of a leading Yorkshire Liberal for a fighting lead on the tariff issue. Mr. Lloyd George had, the reply stated, already given "a very clear and uncompromising lead" at the time of the general election. His warning, however, that "the steps taken to ensure a majority of Conservatives in the House of Commons must inevitably result in the overthrow of the free trade system," was neglected by every leading Liberal and almost every Liberal Association, and, if the election figures were a reliable guide, by the overwhelming body of Liberals throughout the country. Now that it was seen that Mr. Lloyd George was right, it was all very well to call for a lead, but it was too late. There was no evidence, except in a few personal instances, that the decision of the Liberal Ministers to retain their portfolios in a tariff administration had met

with anything but approval from organised Liberalism. When a substantial part of organised Liberalism throughout the country showed that it was ready to listen to Mr. Lloyd George, he would be "only too ready to play his part." It is really to the Conservative party that the student in search of a parliamentary Opposition during recent months must turn. Here, among the high protectionists, he will find some of the elements that started, though they did not consummate, the break-up of the Coalition in 1922. Their natural leader is Mr. Amery. So long as he and his friends were pressing generally for tariffs of some sort, they had most of the House of Commons behind them. But now that the Government has produced a tariff policy, the virtue will perhaps be taken out of this movement, though the policy of the Government is not on all fours with the policy this section has favoured. The bulk of members, as Mr. Geoffrey Lloyd said in his maiden speech, clearly want tariffs of some kind, but they will take their pace from the Government. Incidentally, before we leave this subject attention should be drawn to an interesting feature of the new House. A large number of the Conservative supporters of the National Government are new to Parliament, and two things are noticeable about them. They show unusual assiduity in attending debates and an unusual independence in their attitude towards the party machine.

II. The New Fiscal Scheme

WHEN the Government took office last October it found a situation in which everything was in a state of flux. With the pound no longer anchored, and disturbing factors on every side, time alone could show what was going to happen. The Government was like a ship sailing through uncharted seas, with rocks everywhere ahead and visibility low. It had to feel its way. The first step it took was a temporary one devised to restore

the balance of trade, which had been recently moving against us, by checking imports. It imposed for the period of a year duties ranging from 50 to 100 per cent. on a number of dispensable articles and high specific duties on out-of-season market garden produce ; the range of imports ultimately covered by these duties probably amounted in value last year to between £30,000,000 and £40,000,000.

The favourable reception that these proposals met with in the House was largely due to Mr. Runciman, who defended with equal skill both inclusions in, and exclusions from, his list of dutiable articles. The fact, too, that these tariffs were proposed by a Liberal Minister supported by a unanimous Cabinet was a reassuring sign, and Mr. Runciman easily succeeded in defeating a sustained effort by the protectionist group to impose forthwith duties upon imports of iron and steel. So the first chapter of our new fiscal history closed with no further change. These particular duties were accepted by the whole Cabinet. In the meantime executive action in the field of immigration was more than keeping pace with legislative action in the field of imports. Under the Aliens Acts of 1914 and 1919, in consultation with the Ministry of Labour, the Home Office issued a number of orders banning the admission of certain foreign artistes—among others—into this country or terminating their permission to stay here, and generally tightened up the conditions under which foreigners are allowed to enter. This manifestation of economic nationalism was widely criticised in the press.

But it was no secret that something more was coming. Immediately after the departure from the gold standard, things, as the reader will remember, went remarkably well. People had been told of what happened in Germany in 1923, but there was no inflation here, and the pound before long found something like a level of its own, though no one could say whether it was a permanent one. Prices, moreover, did not go up in the way that had been predicted before the pound fell. Trade, too, began to pick up quite

briskly ; indeed, the depreciation of the pound was greeted by a section of the press as one of the best things that could possibly have happened to us. But there was a flaw in the amber. Other countries also went off the gold standard or imposed extra duties to counteract the advantages that followed the depreciation of the pound. We were still, all things considered, doing better than might have been expected, but, with the initial and most encouraging effect of the fall of the pound last September fresh in their minds, people began to get impatient. One often heard the question asked, is the National Government (which people had welcomed as a kind of god in a car) going to do anything after all ? What that " anything " should be was not clearly defined, but the possible alternatives seemed to be three in number: (1) to allow the pound to find its permanent level and form no fixed plan of action for the present, hoping that an improvement of the political situation through a settlement of the reparation question and the success of the Disarmament Conference, combined with international effort in the field of currency and finance, would start a general economic upswing ; (2) to reduce costs by adopting some such scheme as the Germans or the Australians had carried through by means of sacrifices all round, and (3) to impose tariffs or other measures of trade restriction. And there was little doubt in people's minds that it would be tariffs.

During the Christmas recess the fiscal policy of the Government took shape under the hand of two sub-committees of the Cabinet dealing with the balance of trade and with agriculture. As it was revealed by the Chancellor of the Exchequer on February 4, this policy was to impose a general tariff of 10 per cent. on all articles, except those already dutiable and certain specially exempted goods, including wheat (which is to be dealt with by a quota scheme), meat and bacon, British-caught fish, and wool and raw cotton. (When the text of the Bill was published it was found that the free list included also tea—which was

reserved for consideration, along with other beverages, at budget time—raw flax and hemp, hides and skins, newspapers and books, newsprint and wood-pulp, rubber, iron ore and scrap, tin ores, phosphates of lime and a few other commodities of less importance.) Besides these exceptions, goods from the colonies were to be exempt permanently, and those from the Dominions temporarily, i.e., until some new arrangement should have been reached at the Ottawa Conference. It is further proposed to establish an independent advisory committee " for the purpose of giving advice and assistance to the Treasury." The whole field of imports, with the above-mentioned exceptions, will be open to review by the Committee, which may recommend selected additional duties—as high or low as they consider necessary—for enactment by Treasury order after the Treasury has consulted with the appropriate department. No initiative will, however, rest with the Treasury.

Mr. Chamberlain prefaced his proposals with a review of the economic situation, beginning with the bright side. He referred to the improved revenue prospects—largely due to the patriotism of the taxpayer—to the fact that up to the present the cost of living has " almost miraculously " remained unaffected by the depreciation in the value of sterling, which itself has remained steady notwithstanding the repayment of its large foreign credit by the Bank of England without any loss of gold ; to the fact that other countries, also forced off the gold standard, are looking to sterling as the best measure of the value of currency during the period of suspension from the normal standard. Lastly, he recognised the " definite but somewhat partial and uncertain improvement in trade," and what is, he added, perhaps best of all, the more hopeful feeling which undoubtedly exists to-day. In spite, however, of these bright features, we have not, Mr. Chamberlain pointed out, yet turned the corner, and he reminded the House of the deplorable condition of world trade as a result of the catastrophic fall of the gold prices of world

commodities and of the effects of this fall upon a great exporting country like Great Britain. Other bad features to which he alluded were " the extraordinary growth of trade restrictions," such as surtaxes, quotas, exchange control systems, etc., the reparations and war debts deadlock, and lastly the new disturbance in the Far East. Unemployment figures, too, he reminded us, still remain of colossal dimensions. The iron and steel trades were in a stagnant condition ; shipping and industry generally were in the depth of depression. The good effects of the depreciation of the pound were being whittled away, and there could be no confidence that sterling would be firmly established with a heavy adverse trade balance (which Mr. Chamberlain estimated at £113,000,000, even allowing for invisible exports and interest on investments abroad), and with the limits of taxation practically reached and the volume of exports lower by nearly 38 per cent. than in 1929.

The objects of his policy as given by Mr. Chamberlain are summarised by us below :—

(1) To correct the balance of payments by diminishing imports and stimulating exports.

(2) To fortify our finances by raising fresh revenue without unduly burdening any section of the community.

(3) To effect an insurance against the possibility of a rise in the cost of living which would follow an unchecked depreciation of sterling.

(4) To introduce a system of moderate protection scientifically adjusted to the needs of industry and agriculture.

(5) To enable our people under cover of this protection to adopt more efficient methods of production and distribution.

(6) To give the Government a lever for the purpose of negotiation with foreign countries.

(7) To enable us to offer the Dominions advantages in return for those which they now give us or may be disposed to give us.

On these proposals it had proved impossible to secure unanimity in the Cabinet ; four Ministers, Lord Snowden, Sir Herbert Samuel, Sir Archibald Sinclair and Sir Donald Maclean, finding themselves unable to agree to them. It

was, however, arranged that the Cabinet should not break up, and the dissentient Ministers were to be free publicly to oppose the measure.

III. The Discussion in Parliament

CRITICISM has come from more than one quarter. To take that of the free trade members of the Cabinet first, they objected, above everything else, to the scheme on the ground of its permanence. This was Sir Herbert Samuel's main point in the speech which he made in the House of Commons on February 4. The Government had, he said, been given a mandate to take any measure, tariffs or anything else, that could be shown to be the necessary and the right way of redressing the unfavourable balance of trade and helping the nation in the present emergency. But, in the policy put forward, the redress of the balance of trade was only one of several purposes. The Chancellor of the Exchequer indeed had stated the case for a permanent scientific system of protection, the culmination of his father's tariff reform campaign of thirty years ago. Sir Herbert Samuel denied that there was anything in the present situation to justify such a measure. As for the adverse balance of trade, it was " disadvantageous " but not disastrous. It was only one of the causes of the depreciation of the pound, not a vital one, and, even if it were necessary to set the balance right, a 10 per cent. tariff would keep out too few goods to achieve that purpose.

I summarise therefore (said Sir Herbert Samuel) the objections which I submit to the Committee on the 10 per cent. all-round tariff. It is not the right way to deal with questions of the balance of trade ; it will exclude an exceedingly small proportion of the goods which it taxes ; the balance of trade effect will be merely secondary and incidental, and the protective and taxing effect will be primary and predominant. Secondly, this is not a measure which is temporarily dealing with the present emergency ; it is intended to be, and it will be, of a lasting character. Thirdly, it

will tax to the extent of 10 per cent. a greater part of the materials of manufacture and the food of the people. We have to consider whether that is necessary and wise. It is no lever to secure the efficiency of industries, because the privilege of protection is to be accorded to all alike, without conditions. It is no weapon for bargaining with foreign countries, because it is to be the basis of commercial treaties with the Dominions, which will preclude such concession.

You cannot (Sir Herbert Samuel had said) go to the Dominions in July and say, "If you will give privileges to our produce we will give privileges to yours against foreign countries," and then, when an arrangement of that kind is signed and sealed to cover a period of years, afterwards go to the foreign countries and say, "If you cease to penalise our goods, we will give you privileges under our 10 per cent. tariff." It cannot be done. It would be contrary to the bargain entered into.

It might be worth while, he said, tying ourselves up for real Empire free trade, but that, as everyone knows, could never be agreed to by the Dominions.* Nor, continued Sir Herbert Samuel, was it only a matter of a general tariff of 10 per cent. Higher duties, without limit as regards either amount or time, could be proposed by the advisory committee. It was supposed to impose restrictions and qualifications, but could that be done by it without discrimination? Yet efficiency and prices were both essential matters.

The independent advisory committee itself came in for criticism from more than one angle. Sir Herbert Samuel, for instance, pointed out that this committee would have to survey the whole field of British industry in order to make its proposals with regard to duties before the Abnormal Importations Act ceased to have effect, i.e., in a few months, and he considered that this would be an impossible task. Mr. Amery, too, thought that the Chancellor was putting too much upon the committee, and he further considered that he was withdrawing too much from the responsibility of the Government. He did not indeed feel happy that the committee was being

*An article on Imperial Preference will be found on p. 246.

given anything like sufficiently definite marching orders. He pointed out how "curiously chaotic" the present tariff situation was in this country. The differences between existing tariffs had nothing to do with the structure of industry and had arisen purely at haphazard. Captain Macmillan would have developed the tariff committee "into something more than a merely judicial body following the rather unsatisfactory system of the safeguarding duties inquiries," and more on the lines of a real development commission directing and planning the growth of our economic life. Mr. Amery welcomed the Government's measure, but he welcomed it as "an initiative, an adumbration of a tariff . . . a fledgling rather than a grown bird," and he had some fundamental criticisms to make. The fault he found with the 10 per cent. general tariff was the same as Sir Herbert Samuel's—a case of extremes meeting. It was, he said, totally inadequate to perform its purpose. He was, however, thinking more particularly of the protective object in Mr. Chamberlain's seven points. The revenue point he brushed aside—you could get more, he said, by transferring industry to your own country. It would take some time, too, he felt, for the advisory committee to frame the new scale of duties, and meanwhile time would be given for more dumping and uncertainty. The essence of the matter was, in his opinion, time. Many industries were already at their last gasp. Moreover, foreign firms, now thinking of setting up industries here, would naturally wait till the committee's recommendations were out. It would, he thought, have been infinitely simpler to have adopted his own plan—to impose a general emergency industrial tariff of two or three or four grades. It could then, he claimed, have been easily adjusted to "whatever standard and appropriate rate of the highest duties on fully manufactured goods the Government decided upon." And the committee could have been left to rectify mistakes.

Great Britain : Tariff Reform

Sir Herbert Samuel outlined to the House some alternative constructive proposals that he had put before the Cabinet. Briefly, he would have set up an industrial commission to which our industries could submit schemes of rationalisation and for raising capital. If they needed protection during the process he would not be against giving it " whether by licences, quotas or in any other way," subject, however, to conditions as regards prices and to the period being only for so many years, to the consumers having a say in the matter and to each scheme obtaining the sanction of Parliament.

Mr. Runciman's speech five days later was awaited with considerable interest. He had himself always been a free trader and he claimed to be one still. Some of the decisions, he said, inevitably went very much against the grain with him, but the pre-war days, and indeed the pre-crisis days, had gone. He approached the matter as a business man. Sir Herbert Samuel himself would have granted protection for certain purposes. In considering the Government's proposals, Mr. Runciman claimed that he did so mainly as " a director of slimming." Imports had to be thinned down. He agreed with Sir Herbert Samuel that a 10 per cent. tariff would not redress the balance of trade. It would only contribute to that end. But, he added, " the additional duties will fill up the gap." Sir Herbert Samuel had devoted the greater part of his speech to the 10 per cent. tariff—Mr. Runciman indeed twitted him with the comparative mildness of his criticism of the additional duties—but Mr. Runciman himself also concentrated his arguments to a very large extent on the 10 per cent. duties. The point with which he was especially concerned, by contrast with Sir Herbert Samuel, was revenue, though he referred to the " gentle protection " that would result from the duties, to their " slimming " effect and to their value for bargaining purposes. But the £30 million which would be obtained from the 10 per cent. general tariff—and without increasing the cost of living at all—was essential.

The Discussion in Parliament

" The consolidation of the internal financial position, especially from a revenue point of view, and with special relation to our obligations and our capacity to carry through transactions abroad," was the paramount consideration. " We cannot," he said, " afford to reach March 31 short of the full revenue to meet the expenditure of the year." In spite of some bright features in the situation, we were by no means through the crisis. Capital was still being withdrawn from London. The exchange bonus we got from the gold basis countries must disappear in time, as the sterling area, which already included pretty nearly half of the world, extended, and as prices were readjusted. It was the budget of last August and September that kept up the reputation of sterling, that and our enterprise and the integrity of our financial houses. But the splendid effort of the taxpayers (many of whom had had to borrow the money at close on 7 per cent.) could not be relied on again, while the crisis in the Far East and the sudden new increase in unemployment* threatened to add to expenditure. The Bank of England had repaid its credits of £50 million, but there still remained £80 million more which the Government itself had to pay. We could not afford to neglect any source of revenue open to us.

Let me make a very rapid summary, therefore (said Mr. Runciman), of the position in which we find ourselves. We are off gold. We are anchored to trade and confidence. We have only been able to achieve that anchorage by keeping our revenue right up to the level of our expenditure, or, if you like, keeping the expenditure down to the level of revenue. If confidence abroad slackens or is diminished, we shall find the effect of that upon our people here and our industries grave indeed. Indeed, the position will become increasingly worse. As I understand statements made here and elsewhere, there is no member of the Cabinet who says " Leave it alone and it will come all right." No one says that. All that has been swept away—all patient complacency—from the public mind. Neither the public in this country nor elsewhere would regard this

* The number of unemployed at January 25 was 2,592,650, an increase of 218,490 over the previous month.

country as being in a safe position if we were to allow things to drift. We cannot afford to do so.

With half the world off gold, automatic adjustment of our payments and balances abroad could no longer be expected from the ordinary operation of the foreign exchanges and so forth. The Government could deal with the balance between exports and imports, but they could not do much to extend exports except by negotiation, and for that purpose they could, if necessary, reduce the 10 per cent. to get a *quid pro quo*. Mr. Runciman saw no such tendency on the part of northern European countries as Sir Herbert Samuel had mentioned to reduce tariffs in recent months. As regards permanence, nothing in this life, he said, certainly nothing in our fiscal system, was permanent. The advisory committee would have a definite mandate, namely, that it

> should have regard to the advisability in the national interest of restricting imports into the United Kingdom, and the interests generally of trade and industry in the United Kingdom, including those of trades and industries which are consumers of goods as well as those trades and industries which are producers of goods.

It remains to describe the Government's policy with regard to agriculture, with which Sir Herbert Samuel is definitely in sympathy except as regards the tariff proposals. It was announced on February 11 by Sir John Gilmour that agriculture and horticulture would be affected as well as industry by the 10 per cent. general tariff and by the advisory committee's power of raising duties. The wheat producer was to be assisted by a quota scheme intended to give him a guaranteed market and an enhanced price for grain of millable quality. The question of imposing an additional duty on malting barley (or alternatively of adopting a quota scheme for it and the commodities at present covered by the horticultural duties Act of 1931) was being considered.

As regards milk and milk products, the Government aimed at the improvement of marketing. A reorganisation

commission was to formulate schemes, and would also go into the question of diseases in dairy herds. A scheme for the organisation of the bacon industry was being prepared and, if satisfactory, the Government would be ready to regulate imports quantitively. The same thing was proposed for the potato growers and a special reorganisation commission would be appointed, if desired by them, to prepare a scheme. Agricultural questions and research and land settlement were to be promoted as far as our means would permit. Attention would be paid to better grading and identification of home products. No changes were proposed in the system of regulating agricultural wages, but the attention of workers would be drawn to existing facilities for obtaining redress.

Cabinet Solidarity

But there remains another question, the constitutional one of Cabinet solidarity. The common belief has been that, if there is a split in the Cabinet over a point of first-class importance, the dissenting minority must resign, and the novel spectacle of the Home Secretary, Sir Herbert Samuel, in his normal place on the Government bench, standing up and using his considerable powers of argument in order to demolish the Government's proposals excited considerable feeling. Votes of censure on the Government were moved in both Houses: in the Commons by Mr. Lansbury and in the Lords by Lord Banbury—another interesting example of extremes meeting. History and precedents were freely quoted. It was claimed that the doctrine of collective Cabinet responsibility was only a century old and that it really grew with the party system. Lord Hailsham quoted cases in which Cabinet Ministers had voted against the Cabinet, the latest being that of Sir Austen Chamberlain and Lord Carson, who both voted against the Government of which they were members on the question of women's suffrage. Most of the critics were, however, more concerned with practical considerations

than with precedent. Queen Anne is dead, but the British constitution is a living ever-changing organism. That is its strength. The real question is what would be the consequences of this new departure ? Extracts from a Liberal newspaper were read in the House of Commons welcoming the retention of the four free-trade Ministers, and pointing out that " free traders were now bound to mobilise for the support of their principles." Mr. Baldwin complained some time ago at Aberdeen that " one of the difficulties of a coalition Government was that when you passed the ball you never found the other member of the team in the right place." This was not, however, said Mr. Boothby, what the Unionist party objected to in Sir Herbert Samuel. He was exactly in his right place, but when the ball was passed to him " he shot as hard as he possibly could at his own goal." He ought, they felt, to change his jersey. But the main attack was on the Government itself for making the agreement to differ. Sir Herbert Samuel had made it clear that it was not the dissentient Ministers who had been unwilling to go—they had offered to resign—but that their colleagues, at the instance of the Prime Minister and the Lord President of the Council, proposed that the Cabinet should hold together. Lord Snowden, too, declared that the condition that he should have the right to express his own views in the country was not claimed by Sir Herbert Samuel himself but conferred on him by the Cabinet. In spite of the steam let off in the course of the debates, the result in both Houses was an overwhelming defeat of the vote of censure. In the Commons there were only 39 ayes against 438 noes, and in the Lords 7 contents and 74 not-contents, and the Conservative critics, except Lord Banbury, voted with the majority in both Houses. The Government's action was supported on various grounds. Some, as Lord Hailsham pointed out, acclaimed it as an advance forward towards a new principle in political government. Others welcomed it as a return to the good old times when everyone,

Ministers as well as others, could speak their minds. Lord Snowden's view was that " all human progress has been made by ignoring precedents."

There is little doubt that the decision of the Cabinet to hold together has the support of the country generally. It elected the Government as a national, not as a party, Government, and it wishes it to go on with its task, which it has hardly begun. The Liberals, whatever the feeling of the younger men, are prepared to fall in with the decision of their dissentient Ministers, and Lord Grey has given it his blessing.

There are indeed only two questions: first, is the new departure in the interests of the country and, second, will it work in this particular case in practice ? The first question has already been answered by Parliament. Its justification is the number of vital questions which remain to be dealt with, and on which the Cabinet is agreed, *e.g.*, disarmament, Imperial and foreign relations, reparations and war debts, monetary policy, India, unemployment, and the trouble in the Far East. The second question will be answered by the event.

It is possible, however, to consider the prospects. It is obvious that the fears of Conservative critics were not without foundation. Lord Snowden himself remarked that no one could tell how the new experiment would work. Free-trade opposition is clearly not going to remain content with one final protest. " That," said Lord Snowden, " speaking for myself, and I should think for my dissenting colleagues, is a condition that we would not accept. It (free trade) will be an issue at the next election," and the free trader cannot, he added, be expected to leave the field between now and then—it may be for years —open for the protectionists, though he agreed with Lord Banbury that they must defend their proposals outside and not inside the Cabinet. On the other hand, the Cabinet itself obviously believes that the experiment will work. Otherwise they would never have unanimously agreed to it,

and Lord Snowden himself, in spite of his uncompromising attitude, thought the arrangement worth trying, and he further told the House of Lords that it would, in his opinion, "be justified by results." He believed "that we shall be able to co-operate and to continue to co-operate in carrying out the work for which the National Government was formed."

IV. The Industrial Position

THE break-away from the gold standard encouraged a burst of industrial optimism, which the experience of four short months has sadly chastened. The advantages seemed so clear, the benefits so unmistakable. It appeared to be almost a matter of simple arithmetic that, if at a stroke we could cut our selling prices in terms of gold, our exporting position would be enormously strengthened. But even in the first weeks of the new era, prudence dictated that hopefulness should be hedged round with the most gloomy reservations. Now, after five months, the reservations have overgrown and almost checked the hopes. There was up to Christmas an increase of employment in Great Britain at a time when most other countries saw their unemployment figures rising, but there has been no increase—rather a diminution—in the volume of world trade, and in world purchasing power.

In the last number an impression was given of the first reactions of the cheaper pound on British industry. It is much harder to assess their present force. The improvement in employment has been the most tangible sign, and the latest figures show that it was largely deceptive. Between September 28 and December 21 the number of persons on the unemployment registers of Great Britain dropped by 315,800. From the end of October the registers began to be influenced by the disallowances of benefit under the Anomalies Act (which in the main affected married women); from towards the

end of November the disallowances of transitional benefit under the means test began to be felt. Of course, disallowance of benefit does not necessarily entail removal of the applicant's name from the unemployment register, but by December 21, on the Ministry of Labour's estimate, 90,000 of the apparent reduction in the number of unemployed persons was accounted for by the withdrawal from the registers of these disallowed claimants to benefit. This made out the net reduction attributable to an increase of employment to be 225,000, a fairly substantial figure. But the seasonal falling off in employment after Christmas was rather heavier than usual, and the unemployment figures for January 25 showed an increase over the December total of 218,000. This was spread over most industries and parts of the country, and indicated a distinct setback.

As, according to the Ministry, the administrative changes did not vitiate the occupational figures for December, some idea can be formed of the changes in the last three months of the year. The following figures illustrate how the earlier improvement in employment was most marked in textiles and coal, was less noticeable in the heavy manufacturing industries, and was absent altogether in shipbuilding and the shipping services. Building suffered a sharp seasonal increase.

	Percentage Unemployed	
	September 21	December 21
Coal mining ..	30·4	24·6
Textiles :—		
Cotton	45·8	27·4
Woollen and worsted ..	35·5	16·6
Silk manufacture and artificial silk weaving ..	36·9	22·6
Artificial silk yarn	31·3	21·9
Linen	32·6	19·8
Jute	48·3	36·6
Hosiery ..	18·6	10·7
Lace	24·2	14·3
Textile bleaching, etc.	39·6	28·4
Steel melting and iron puddling, etc.	49·2	45·4
Tinplates	42·3	36·5
Engineering, General	30·1	26·8
„ Electrical	15·0	15·1
„ Marine	49·3	51·2
Motor vehicles, etc.	23·6	22·2
Shipbuilding and repairing ..	58·2	60·1
Shipping service ..	32·5	34·7
Dock, harbour and river service ..	38·7	35·4
Building	21·0	28·6
Public works contracting ..	31·0	35·6

The export returns have not reflected an expansion commensurate with this increase in activity. In textiles, from which most might have been expected, the November and December results were particularly disappointing, although January made a slightly better showing. But under the extraordinary conditions of the crisis, the trade returns throw very little light on the real competitive ability of British industry as it has been changed by currency depreciation. Every exporting industry has found its outlets increasingly blocked by steeper tariffs, import regulations and exchange restrictions. A disproportionate part of recent activity has probably been for the home market, but here again it is difficult to weigh up the respective influence on production of import duties and prospective tariffs, of higher gold prices of imports, of wholesalers' anxiety to cover themselves against higher prices, and, on the other side, of forestalling by foreign manufacturers. The bullish atmosphere created by the steadiness of sterling and the political enthusiasm for the tariff may have assisted to keep up the home market, while, at the same time, it has served to obscure the extremely unpromising outlook for exports.

Nothing better can be expected so long as all countries continue their desperate efforts to sell, and simultaneously to prevent other countries from selling to them. The depreciation of sterling, and of the other currencies that followed it, provoked early retaliation in the shape of anti-dumping measures, notably in France, Canada, South Africa, Germany and Holland, intensifying the strangling network of restrictions on all dealings in foreign exchange, which has become almost universal. The British coal industry, for example, found its currency advantage largely neutralised by retaliatory measures like the French and German quotas for imports, the Italian surtax and landing-tax, and by counter-action like the strenuous efforts of the Polish owners—aided by fresh Government subsidies and lower wages—to maintain their exports at all

costs. The cotton industry received a shock when Japan also left gold (in December), and although anti-Japanese feeling should preserve the China market for Lancashire, the military operations there make the demand partially ineffective. It is of limited value to industries such as these to know that their home market is protected by 50 per cent. duties on the top of the exchange protection. Even the woollen and worsted industry which, as the figures quoted show, has the largest fall in unemployment, is largely dependent on exports, and cannot look to either a home monopoly or an extended Imperial trade as a sufficient substitute for its trade with foreign countries.

It can hardly be said that the five months since September 21 have worked any serious change in social standards. The cost of living advanced no more than might have been expected seasonally, and retail prices do not, as yet, show much tendency to rise. Last year saw the most considerable reductions in wage rates of any year since 1922, equivalent, on the Ministry of Labour's reckoning, to an average reduction of 2 per cent. over the whole field of industry, but few changes took place in the last three months of the year, and the movement appeared to have slackened. A second wave is now apparent. In January dockers' wages were reduced by 10d. a day (or 7 per cent. for piece workers), the first change since 1924. This was an interesting settlement, because in the summer the dockers had stood out against any reductions, in the hope that, by taking a stand against deflation, they might reverse a process which to them seemed endless and disastrous. Depression proved, however, more potent than theory, and an agreement was negotiated whereby, at the price of a sacrifice of wages (which still left rates as high as in 1923), they preserved the working conditions which the employers had menaced. The acceptance of the agreement by the great mass of the dockers—once so unruly and so easily inflamed—was a triumph of loyalty and discipline for the Transport and General Workers' Union; its

members stood firm while the small Thames union of watermen and lightermen carried on all through January and into February a solitary struggle against the new terms. The historian of Labour during the crisis will probably note the curious fact that the most active endeavours of Communist propagandists to influence the dockers utterly failed, and, indeed, provoked physical resentment against their interference. The reductions in the wages of officers and men in the shipping service, negotiated in December and January, were also dictated by the extremely serious depression in an industry which, although "unsheltered," had long maintained rates unaltered.

In other industries dependent on export trade there have been few recent changes. The Yorkshire heavy woollen industry in January enforced the wage cuts adopted by other sections of the trade last summer. The movement among the "sheltered" home trades for reductions was seen in the proposals of the London Underground Group for a temporary cut in London transport wages, the agreement for a reduction of tramwaymen's wages, and the action of local authorities in lowering the wages of some classes of their employees.

The cotton industry again presents a spectacle of disturbed industrial relations. At the end of the year the Federation of Master Cotton Spinners' Associations ended the 48-hour week agreement entered into in 1919, but without substituting anything in its place. The intention of securing an agreement for an extension of the working week (a return to the pre-1919 figure of 55½ hours was in contemplation) was frustrated by the unions' refusal to negotiate and by the lack of support from the other sections of employers in the industry. The spinning section of the industry is therefore left without an agreement. So far, however, only a small isolated group of employers, who had broken the agreement while it was still in force, are not observing the 48-hour week. The

incident appears to have no moral except to illustrate the tendency in the textile industries for collective bargaining to lose its old strength. This has already been the experience in the woollen and worsted industry, and it is being repeated in the cotton manufacturing districts, where pressure of internal competition has led to many breaches of wages and hours agreements, and where the unions' reluctance to accept changed methods has led many employers to make their own bargains with their workpeople. The negotiations for a county agreement on the operation of the system by which a weaver works more than four looms have pursued an uneasy course, but with better hopes of success than at any time in the last two years.

The same weaknesses and lack of purpose have been displayed in Lancashire's reception of the scheme put forward by the Joint Committee of Cotton Trade Organisations for the elimination of surplus plant. The proposal is that the industry should go to Parliament for powers to raise money for the purchase and immobilisation of surplus machinery. A levy would be imposed on existing machinery, the proceeds of which would provide service for the loan. A body of trustees, appointed by Parliament, would receive offers of plant which its owners would rather sell at a low price than keep in idleness or assessable to the levy. The existence of a redundancy of at least a fifth of the industry's productive resources has been made abundantly clear. On the most optimistic estimate of the volume of trade that Lancashire can hope to recover in the post-war world, the existence of the surplus remains a fact. The Joint Committee's argument is that all constructive attempts at reorganisation are kept back by the continuance of bitter internecine competition, and that before there can be any successful approach to the problems of amalgamation, of improved distribution, of technical advance, there must be concentration of production in the more efficient plants. The assumption—which appears to be

fully justified—is that in spite of the bitterness of the prolonged depression the normal economic forces have not forced the weaker units out of action quickly enough and are not likely to do so. The industry is urged to attempt to shorten the inevitable process by a surgical operation. The obvious objections are that the cost of the scheme forms an addition to production costs (although, it appears, only a fractional one), and that, as there is no compulsion on owners to sell, the administrators of the scheme will not have full liberty to select and close down the most clearly redundant units. The latter defect is probably inherent in any scheme that comes from an industry nursed in such strong *laissez faire* traditions and comprising such a multiplicity of units. If the cotton or any other industry is to place itself on the dissecting table of the scientific rationaliser it will hardly be of its own volition. As it is, the fate of the cotton scheme is in the balance; it threatens to be defeated not on its merits but by the deadweight of hostility to any kind of united action. A large section of the disorganised industry still prefers to continue (to quote the phrase of the president of the Manchester Chamber of Commerce), as a "mutual suicide society." Still, the very emergence of such a scheme (as of the earlier one in the shipbuilding industry) does mark an advance in industrial opinion. How far it is likely to receive stimulus from the Government or Parliament is not clear. Sir Herbert Samuel's proposals to the Cabinet pointed in the direction of State-sponsored reorganisation, and although the idea seems to have been temporarily submerged by the tariff, it may not be lost.

THE IRISH FREE STATE

I. The General Election

DECEMBER 6, 1931, was the tenth anniversary of the fateful night when the Anglo-Irish Treaty was signed at Downing Street. The executive which then took over the government of the newly created Irish Free State still remains in office. There have been, of course, numerous changes in its personnel. Collins and Griffith, the principal architects of the new Ireland, died before it was a year old—Collins shot in an obscure ambush by his own countrymen, Griffith dying, ten days afterwards, literally of a broken heart. In that tragic hour few believed that William T. Cosgrave, the quiet, little, almost unknown man, so accidentally called to control the destinies of his country, was likely to remain in power until his Government was the oldest in Europe. That he has done so is a tribute not only to his personal qualities of courage, shrewd political sense, and determination, but also to the colleagues who have given him loyal support, and the people who were wise enough to place and renew their trust in his wisdom and integrity. Moments there have been during those ten years when grave decisions had to be taken. Such crises arose when the northern boundary had to be finally settled, when Kevin O'Higgins, Mr. Cosgrave's right-hand man, fell before the assassin's bullet, when Mr. de Valera and his party entered the Dail, and quite recently when armed conspiracy once more threatened the stability of the State.

The political fortunes of this country will, this year, again be thrown into the melting pot of a general election. The Government having seized the earliest opportunity

to take the verdict of the electors, it has now been decided that polling will take place on February 16. Mr. Cosgrave could, of course, have remained in office till September, when his Government's term would expire, but the world developments in economic affairs, which involve the relations of the Free State with other countries—and especially with Great Britain—make it imperative that the Government which handles these difficult and delicate questions should have a fresh and decisive mandate from the people. Moreover, the Eucharistic Congress, which takes place in June, would have made it impossible to hold a general election during the summer months. The Cumann na nGaedheal, or Government party, is standing on its past record. It claims, with considerable truth, that by its policy of scientific tariffs, improved agricultural production, conservative finance, and completing land purchase, it has placed the economic life of the country on a sound basis. On the political side it points to the Statute of Westminster as embodying the full fruits of its external policy, which has aimed at achieving the co-equal status of all the States in the British Commonwealth, and to the position of the Free State on the Council of the League of Nations as proving that we have once more taken our rightful place amongst the nations. At home it justly claims to have restored order and secured respect for the law. The prospect of obtaining from the British Government a preference for Irish agricultural produce should undoubtedly secure many votes in the rural districts, where the farmer has a shrewd idea of the benefits that closer economic relations with England would entail. There can also be little doubt that an agreement has been reached with the British Government about the right of appeal to the Privy Council, and that, already dead *de facto*, this right will soon be formally repealed.* It

* See THE ROUND TABLE, No. 78, March 1930, p. 365, *et seq.*, and No. 84, September 1931, p. 859.

is not explicit in the Treaty and only arises because Article 2 in matters of doubt applies Canadian constitutional practice to the Free State. Inasmuch as this appeal has long ceased to be an even nominal protection for the minority whom it is supposed to safeguard, and who are in no peril, it may just as well be formally and decently buried and forgotten. This then is the strength of the Government's position and programme.

But there is another side to the story. It cannot be denied by any competent observer that the Government is unpopular for many reasons. In the first place it has administered the law and enforced taxation with stern impartiality. It has abolished the old system, deeply rooted in Irish life and tradition, of making influence rather than merit the deciding factor in public appointments. In this connection it is interesting to note that Miss Dunbar Harrison—the young lady whose appointment as librarian in County Mayo* created such a dishonest *furore*—has now been promoted to the position of librarian in a Dublin government office, a solution which is fair to the lady, soothing to the Mayo bigots and good for the Government. The Government is also unpopular amongst a large and soft-headed section of the community who are always prepared to condemn any strong action, such as the setting up of the Military Tribunal, as tyrannical. It has spent considerable sums of money on public works like the Shannon power scheme, the value of which is not at the moment self-evident, and it has refused to yield to the interested clamour of certain industrial interests for "whole-hog" measures of protection. It is quite true that any new Government, if it desired to survive, would have to adopt similar methods, but this is a simple truth which the average Irish elector has yet to learn. It is indeed one of the strongest arguments for a change of Government, were a really strong and competent alternative Government

* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*, and No. 84, September 1931 p. 857.

available. Irish voters do not, however, quickly or lightly change their allegiance, and it is very difficult to say how far the feelings above referred to will find expression in the ballot box. There has undoubtedly been during recent months a marked consolidation of moderate constitutional opinion, as is proved by the fact that Captain William A. Redmond, T.D., has now joined forces with the Government party. At a big meeting in Waterford, Captain Redmond's constituency, on November 15, the reconciliation was sealed by his appearance on the same platform with Mr. Cosgrave, who paid a warm tribute to the services rendered to the cause of Ireland by the old Irish party, and said that the freedom we now enjoy would not have been possible but for the efforts of its leaders. Captain Redmond, on his side, said that he was there to give practical effect, both in spirit and letter, to the response that he made to Mr. Cosgrave's appeal for co-operation. It was idle to deny that there had been differences between them in the past, both of method and of policy, but he could, as an Irishman, claim that they had at any rate one common object, and that was the welfare of their country. This new political alliance is both natural and sincere, but it may be doubted whether its advantage to the Government party will be very great. Captain Redmond's many friends will undoubtedly rejoice that John Redmond's son has at last taken his proper place with the moderate and constructive element in Irish politics, but most of them had already preceded him in that direction, and, like the Duke of Plaza Toro, it is to be feared that he is now leading his army from behind. However, his adhesion to Mr. Cosgrave's party will undoubtedly bring it support, particularly in Wexford and Waterford, where his father's name is justly revered, and many supporters of the old Irish party throughout the country, who have been inclined to sulk in their tents since the Treaty, may now exercise their votes as he suggests. As Captain Redmond has in the past acted as one of the chief spokesmen and supporters

of the licensed trade in the Dail it is quite likely that he may now also secure their support for the present Government. In this connection it is interesting to note that the Government have apparently dropped the Intoxicating Liquor Bill* they introduced in the early part of last year, and that Mr. Cosgrave, replying to a deputation from the trade at Waterford, indicated that if a private Bill was introduced embodying their demands it would receive consideration. The Government can, of course, also count upon the support of the Independent group, which to a great extent represents the Protestant and ex-Unionist elements, and also upon what remains of the former Farmers' party, which has been virtually absorbed by the Government since 1927. The Independents are certain to come back almost intact, as they represent a vote which is not likely to alter, and will probably be augmented by many voters who do not care to leave the Government in uncontrolled command of the political scene, but who nevertheless shrink from supporting Mr. de Valera. It is not improbable that a national panel will be formed of all candidates who generally vote in support of the Government on critical issues, and this would include men like Mr. Anthony and Mr. Morrissey, the two Independent Labour deputies whose support was recently given to the Government during the debates on the Constitution (Amendment) Act.

The policy of the Fianna Fail party at the election was clearly laid down by Mr. de Valera in his address to the sixth annual *Ard Fheis*, or Congress, of the party on October 27. If Fianna Fail secures a majority its first act will be to remove the oath of allegiance from the constitution. After this has been done a fresh general election will be held within a year or two, so as to give the extreme republicans, who now refuse to recognise the authority of the present executive government as constituted by the Treaty and constitution, an opportunity to secure repre-

* See THE ROUND TABLE, No. 83, June 1931, p. 619, *et seq.*

sentation. This new assembly would sit as a constituent assembly deliberately charged with the revision of the constitution, so as to bring it, as far as possible, into accord with the national ideals. To avoid legal difficulties, the office of Governor-General might have to be retained in the initial period of taking over, but the ultimate aim would be to assimilate the office to that of President of the Republic. Mr. de Valera, no doubt stirred by old memories, has probably envisaged himself as the occupant of this position. The whole question of a second chamber, or, if such were thought desirable, of its composition and size, would be referred to the Constituent Assembly. It is noticeable that since Mr. de Valera's supporters have, by the process of proportional representation, begun to permeate the Senate his previous demand for the complete abolition of that body has been watered down. His most interesting admission was that he saw no immediate solution of the partition problem, that force was out of the question, and, were it feasible, not desirable, and that the only hope he could see for the reunion of our people was good government in the Free State and the establishment of such social and economic conditions as would attract the majority in Northern Ireland to throw in their lot with us. This is, of course, the attitude of the present Government. In regard to our relations with Great Britain, he defined the attitude of Fianna Fail as one of non-co-operation so long as Britain persisted in any attempt to force the terms of the imposed Treaty upon us. As regards economic problems, their aim was to make Ireland as far as possible self-sufficing. Home producers were to be given security in the home market, and every branch of agriculture would be protected; wheat growers would be given a guaranteed market at a fixed price based on the cost of production for all the sound milled wheat that they produced, the importation of such foreign wheat as was needed would be placed in the hands of a Wheat Control Board, and the importation of flour—except the relatively small quantity required for biscuit making—would be

prohibited. In dealing with questions of agricultural and industrial development they propose to have the aid of an advisory council whose function it would be to examine and report to the Government on the possibilities and methods of promoting existing industries and establishing new ones. Care would be taken to ensure that fair working conditions were maintained in all the protected industries and that there was no profiteering at the expense of the community. A national housing board would be established with power to enter into contracts for building, to control the trade in building materials, and if necessary to engage directly in their production and importation, and in the erection of houses. They also propose to proceed with a systematic division of the larger agricultural holdings.

During the subsequent proceedings Mr. de Valera stated emphatically that there was no body in this country with the right to take human life, and, although he did not except the properly constituted government of the country, we must presume that this was implied. Such an admission would have been more valuable if it had been made many years ago. Even this statement was made extempore, and by no means coincides with the atttitude taken up by Mr. de Valera's new paper, the *Irish Press*, or with the views of many of his own followers. It is obvious that on this, as on many other questions, his party speaks with two voices, and if it does not win the election—or even if it does—these divisions are likely to be accentuated. His promise to retain the land annuities in the Free State Exchequer and to apply their proceeds to a scheme of complete de-rating, to reducing uneconomic annuities, and to industrial development, still remains a prominent feature of his programme, and will no doubt secure him votes in the rural districts, although it would, of course, be more attractive if it involved, as his wild men originally stated, the non-payment of annuities to anyone.*

* See THE ROUND TABLE, No. 74, March 1929, p. 379, *et seq.*, and No. 80, September 1930, p. 820.

It is notorious that the Fianna Fail war chest is not in a healthy condition, and during the proceedings at the Congress Mr. Lemass, T.D., definitely stated that the task of raising an adequate election fund had still to be faced, and indicated that each constituency would have to be self-supporting to a very large extent.

The Labour party is in somewhat similar plight, and if it succeeds in returning the same number of members as at present it will be fortunate. Its strength lies chiefly in the urban districts, and its policy of modified State socialism makes little real appeal to the working class. It may, however, occupy a very important position after the election, because it is not improbable that it will hold the balance of power between Fianna Fail and the various parties aligned behind the present Government. Its decision in that event would undoubtedly be influenced by the class of Labour member elected. The present leader of the party, Mr. O'Connell, T.D., is a national school teacher of moderate views who would hardly be happy in the same boat as Mr. de Valera's followers unless he could definitely decide the course it was to take. His dilemma is indeed that of all reasonable and intelligent voters because, as Mr. Desmond Fitzgerald, the Minister for Defence, has recently pointed out, the Irish people have a perfect right to change the existing constitution in any way they like, and could even remove the oath clause in the Treaty by denouncing the Treaty, but in that event the British would have the right to assert any powers they had before the Treaty, and a nation which broke a treaty could not expect the goodwill or moral support of the world. Moreover, the man in the street is perfectly well aware that if Mr. de Valera obtains a majority in the Dail, his Government will not be in power for two months before the hedgerow heroes—who have diplomatically disappeared since the Military Tribunal was set up—assert their authority by their usual methods of the threat and the gun, and Mr. de Valera, as he has always done, will toe the line and

do what he is told—if indeed he is not unceremoniously kicked out—and people of his Kerensky-like temperament usually are. The real intentions of the Irish Republican Army are clearly indicated in a document recently captured and published by the Government, which counsels a suspension of drilling and violence pending the general election, and calls on its members to wait and to feel confident. It is obvious that the present policy of the extreme element is to lull the moderate voters into a sense of false security, so that they will vote for the Fianna Fail party, and to renew their own activities if and when Mr. de Valera is returned to power. This policy is also dictated by the fact that the Military Tribunal set up under the Constitution (Amendment) Act* has begun to function and is discharging its task with justice and expedition. Its sentences have been reasonable, and its general conduct inspired by the simple rule that the innocent shall not be convicted and the guilty shall not escape; in fact it has administered the law without fear or favour, and, as Captain Redmond cogently pointed out in the Dail, people who claim to be soldiers cannot object to being tried by soldiers. In several cases those brought up for trial have confessed the error of their ways and have been released on their own undertaking not to take part again in illegal organisations. The only severe sentences so far inflicted were those of five and three years imprisonment on the brothers Gilmore, two typical young fanatics, who were convicted of assisting in the foundation of an illegal military force and of being in possession of arms and ammunition—namely, the large cave dump of military stores found near their house at Kilakee in the Dublin mountains. The attitude of Sinn Fein, Miss Mary MacSwiney's organisation—which is now as dead as a door nail and merely playing at politics—towards the election is quite simple as it will neither nominate candidates nor permit any of its faithful few to vote. As it is still naïve enough to believe in the existence and

* See THE ROUND TABLE, No. 85, December 1931, p. 142.

the *de jure* rights of the Second Dail (which ceased to exist in 1922) it is naturally difficult for anyone to take it seriously. No one has yet explained what will become of the true republican government when the last member of the Second Dail joins the great majority. The strength of the parties at the dissolution was as follows :—

Government Bloc		*Opposition Bloc*	
Cumann na nGaedheal ..	65	Fianna Fail..	56
Independents	11	Labour	10
Farmers	6	Independent Republican ..	1
Independent Labour ..	2		
National League ..	1		
Total	85		67

During the recent session of the Dail the Government were forced to introduce a supplementary budget, owing to an estimated deficit in tax revenue of £900,000. The greater part of this sum is caused by a fall in the revenue from the duties on liquor, which is partly due to a decline in consumption and partly to trade factors. To meet this deficit, income tax has been increased by 6d., which still leaves our standard rate 1s. 6d. in the pound below the rate in Great Britain, and the tax on petrol has been increased by 4d., bringing it up to the British rate. New tariffs have also been imposed of 20 per cent. on harness leather, 2s. 6d. per hundredweight on oats, and 6s. per hundredweight on oatmeal. The change in the tariff policy of Great Britain has necessitated the passage of an Act giving the Government power to impose customs duties to prevent dumping without going through the ordinary legislative procedure, as it is anticipated that foreign manufacturers who have prepared goods for the English market on which an English tariff has been imposed, are likely to divert them here. A heavy tariff on foreign bacon, ranging from 50s. per hundredweight on bacon not exceeding 30s. per hundredweight in price to 5s. per hundredweight on bacon not exceeding 75s. per

hundredweight in price, has already been imposed under the Act, but it does not apply to bacon imported from the British Commonwealth. This tariff was rather unexpected, as the whole question of a tariff on bacon has been recently referred to the Tariff Commission. Mr. Hogan, the Minister for Agriculture, who is notoriously opposed to tariffs, stated recently in the Dail that we were forced to impose high tariffs in order to save ourselves from the bankrupt sales of countries who have been brought to bankruptcy by high tariffs, and that the only permanent hope for the world is less protection and more free trade. He pointed out that if all imports of agricultural produce were now stopped or prohibited we should still have an export surplus of close on thirty million pounds' worth of agricultural produce which our home market cannot absorb.

The triennial election to the Senate, which took place in December, proves that this institution has now become little more than a political waste paper basket in which each party is gently depositing its hangers-on. Not more than eight of the twenty-three newly elected Senators could by any stretch of the imagination be considered as coming within the qualification for membership of the Senate prescribed by the constitution, namely, persons " who have done honour to the nation by reason of useful public service or who because of special qualifications or attainments represent important aspects of the nation's life." Party political service is now apparently the sole qualification for election, and the Senate is little more than a second-hand edition of the Dail. This result is greatly to be regretted, but it was really inevitable when the arrangement by which the Senate is elected, by the Dail and Senate voting together by proportional representation, came into force. The recent election was also remarkable, because one Senator of the Government party canvassed not wisely but too well for a friend, and so upset the nice adjustments of the party machine that a prominent

Government candidate, who is also a southern newspaper proprietor, was not elected. The zealous canvasser—who is in fact the Lord Mayor of Dublin—subsequently made the *amende honorable* by resigning his own seat in favour of the defeated journalist, who was thereupon elected without a contest.

II. The Shannon Muddle and Other Matters

THE public mind is quite properly agitated over the recent revelations concerning the management, or rather mismanagement, of the Shannon hydro-electric scheme. The amount of money expended on the scheme to date is £8,509,515, of which £5,745,130 was for development work, and £2,764,385 for the work of the Electricity Supply Board. The original intention was that the money so advanced should be repaid out of revenue and that profits should be applied in reduction of the cost to the consumer. The Board as originally constituted consisted of a chairman, a managing director, and three part-time members representing commercial interests. Last summer the managing director, Dr. T. A. MacLaughlin, who first suggested the scheme, had to resign his position because of differences with the Government on major matters of policy.* One of these matters was the question of the price charged for current. It soon became public that the financial affairs of the Board were in a state of first-class muddle and that a firm of auditors had been called in to overhaul and prepare the accounts, which had not been submitted to the Dail as required by Statute. During November the Board announced an increase in the price of current, varying in accordance with certain conditions from 12½ per cent. to 25 per cent. The reason given for this change is that the prices previously fixed were too low to be economic. This drastic alteration has naturally

* See The Round Table, No. 84, September 1931, p. 865.

led to some very strong public criticism. Since the increase was announced, the annual reports and accounts of the Board for the year 1929–30, and the comments of the auditors thereon, have been published and have increased the public uneasiness concerning the whole matter. It is clear that the system of accountancy adopted by the Board at the commencement of its activities was most unsatisfactory, and though there is no suggestion of dishonesty, there is overwhelming evidence of inefficient control. Some of the accounts seem to have been in a hopeless condition; dockets and vouchers were inaccurate and often lost or mislaid. It must, of course, be said that during this period the Board was engaged in intense activities. Dublin, Limerick, and 98 other towns were linked to the system during the year; the electricity undertakings of 15 local authorities and 16 private concerns were acquired and the Dublin tramway load was secured. The number of consumers was increased by over 50 per cent. The deficit for the year amounted to £38,199. The figures, as such, throw virtually no light on the economics of the scheme. They have no bearing on the all-important question of the price charged to the consumer, and are valuable only in so far as they provide partial information with regard to the scheme's financial development. The vital year will be the present one, when the whole concern will approach normal running conditions, and it is to be hoped that the accounts for the period will be forthcoming without undue delay. The commercial members of the Board, one of whom is a trained accountant, cannot escape their share of blame for the muddle, and it is remarkable that they have retained their seats on the Board in spite of the declaration of Mr. McGilligan, the Minister for Industry and Commerce, that he was prepared to accept their resignations. The Board has now at last engaged the services of an experienced accountant from the electrical industry, who will no doubt prevent a recurrence of the confusion and let us know clearly how matters

stand. Meanwhile, the public is naturally beginning to ask whether the whole Shannon scheme is not a white elephant. Last summer the Dublin steam power station had to be operated in order to supplement the available water power, and, as the load increases, it is obvious that both the Cork and Dublin power stations will have to be used, because it is extremely doubtful if the Shannon water power can be developed any further on an economic basis. It was urged that the Shannon scheme would materially reduce the imports of coal into the Free State. Ireland normally imports 4,500,000 tons of coal per annum, but steam stations giving the full output of the Shannon scheme would require less than 100,000 tons per annum, or only 2½ per cent. of the total imports. In fact the actual saving is nil, because the imports of coal have increased since the Shannon scheme started, and will probably continue to do so. It is apparently a fact that at the present prices of fuel, freights, and electrical machinery, an alternative scheme on a steam station basis could be provided, feeding a network over the whole of the Free State with current in a far cheaper and more reliable manner than the Shannon scheme can do at the prices now being charged for current. The country as a whole is paying more for its electricity than it would have paid if there had never been a Shannon scheme; it is paying very considerably more than it would have paid if even a small part of the money spent on Shannon hydro power development had been spent on an alternative system of supply. It is to be hoped that this situation will not be permanent. If it is, this generation will gain no advantage from the capital expended on the scheme and will probably want to know why it was ever undertaken.

A more satisfactory electrical development is likely to result from the Drumm battery train,* which had an official

* See THE ROUND TABLE, No. 76, September 1929, p. 834; No. 81, December 1930, p. 160; and No. 82, March 1931, p. 413.

trial early in December, on which occasion Mr. Cosgrave and a distinguished party, including several other members of the Government, travelled from Westland Row to Bray and back. The fifteen-mile journey was made in 24 minutes, and a speed of 45 miles an hour was reached. Adjustments of the motor can raise the speed to 60 miles an hour. The train consists of two coaches for suburban traffic, and the charging apparatus at the two termini is so arranged that, as soon as the train stops, charging automatically begins and automatically ceases when a sufficient charge has been delivered. The company which controls the patents claims to be satisfied on the question of the battery's life, lightness, space, cost and durability under service conditions. If it survives the present tests under ordinary conditions of train service, then our railways will be able to avail themselves of electrification without having to incur the heavy initial expenditure which the installation of an overhead cable or a third rail equipment would necessitate. Apart from other advantages, this would mean an appreciable reduction in operating expenses, particularly on branch lines where the competition with road transport is most felt.

The Government have now introduced their two long-promised Bills to deal with the whole transport problem.* The Road Transport Bill gives the Minister for Commerce control over road transport. It provides that every passenger vehicle must be licensed by the Minister for Industry and Commerce and must work under the Ministry's conditions. Inefficient services may be terminated and licences refused to new applicants. Furthermore, an attempt to produce order out of the present chaos will be made by the establishment of traffic zones. The Railways Bill will allow the Great Southern Railway Company, with the Minister's sanction, to modify or suspend services on small or unprofitable lines, to extend its own road services without the present restrictions and costs, and to make

* See THE ROUND TABLE, No. 83, June 1931, p. 631.

working arrangements with other road services. These provisions will enable the railway to meet its competitors on something like level terms. The operation of the two Bills ought to secure for the public an improved and more economic system of road transport without any increase of costs. The solution of the transport problem, difficult elsewhere, is in the Free State complicated by many special features. Physical and economic conditions are alike unfavourable to the proper development of transport facilities unless tremendous care is exercised to prevent the unnecessary duplication which has been proceeding unchecked for the last ten years. The small size of the country and its deeply-indented coast line provide no scope for the long haul which is the most remunerative form of railroad transport, and the fact that the country is predominantly agricultural and pastoral, and sparsely populated, with its chief centres of population on the coast, where its principal industries are also situated, deprives the railroads of heavy traffic. It is not therefore surprising to find that the 'bus passenger traffic in 1929 exceeded that on the Great Southern Railway. The dividends of that company have now almost reached the vanishing point. Last year its net income dropped to £825,058, the dividend of one per cent. on the ordinary stock was not earned, and in the present year the directors have postponed consideration of the payment of a preference dividend until the final accounts are available. It is obvious that when the new Bill becomes law many of the smaller lines will be closed. But more than this is necessary. The problem of wages, still paid on an extravagant scale, will have to be tackled, and the whole method of a system accustomed to years of monopoly drastically altered to suit public needs and convenience.

Another important problem—probably the most important problem of all—is that of the Housing Bill which the Government introduced in November.* Its gravity is

* See THE ROUND TABLE, No. 77, December 1929, p. 136, *et seq.*, and No. 85, December 1931, p. 152.

proved by the awful fact that there are in Dublin alone 65,000 single room tenements, that 3,370 of those rooms house four persons, and 1,070 of them seven persons. It is calculated that it will take ten years and cost £7,000,000 to remedy this situation. The new Bill is designed mainly to provide for the clearance of these insanitary areas. It does not cut off assistance for the re-housing of the ordinary better-paid working classes but its object is to produce conditions in which they will not have to rely solely on local authorities or on subsidies for the provision of houses. When introducing the Bill, Mr. Richard Mulcahy, the Minister for Local Government, pointed out that since 1922 the Government had provided for the building of 24,566 houses, that State grants amounting to £2,550,000 have been made available, £6,000,000 approximately has been provided by private enterprise, and £2,500,000 by local authorities, making a total of approximately £11,000,000. The efforts of the Local Government Department had also reduced the cost of building from 15s. per square foot in 1922 to 9s. 4d. per square foot in 1930. Apart from the provision of houses, the Bill will give local authorities power to make a complete clearance of unhealthy or dangerous buildings, to improve areas in which total demolition is not warranted, and to acquire derelict sites. It has recently been suggested that the proceeds of the sweepstakes might well now be diverted from the hospitals to the assistance of housing finance. Such a step has much to recommend it, for the hospitals are now beginning to suffer from an embarrassment of riches, and if the slums were eliminated we should be striking at the roots of our physical and moral ills, and proving once more that prevention is better than cure.

The Irish Free State.
February 1932.

CANADA: THE RAILWAY PROBLEM

I. The Royal Commission

THE recent appointment of a Royal Commission to investigate and report on the railway situation in Canada has brought to the fore the whole question of the financial and operating condition of the two great systems and the several minor ones. Accumulated difficulties have been accentuated by the existing economic depression. More than once in the not distant past the peculiar problems of the Canadian railways have demanded careful examination. Some radical changes were made; some lessons were apparently learnt. But still there are fundamental problems remaining to be solved, while some of the lessons taught by the pressure of heavy losses were later forgotten in the days of prosperity.

The Commission was appointed by an Order-in-Council of November 20, 1931, on the advice of the Select Standing Committee on Railways and Canals of the House of Commons, which in turn followed a suggestion made by Sir Henry Thornton, president of the Canadian National Railways, in his evidence before that Committee.

There are seven members of the Commission, of whom five are drawn from different parts of Canada, representing both expert and non-expert opinion, and two are outside advisers. The members are the Rt. Honble. L. P. Duff, Judge of the Supreme Court of Canada (chairman); Lord

Ashfield, chairman of the London Underground Railway; Mr. L. F. Loree, president of the Delaware and Hudson Railway; Sir Joseph Flavelle, of Toronto, the distinguished financier and chairman of the new board of directors of the Grand Trunk Railway that was appointed in 1921; Mr. Beaudry Leman, general manager of the Banque Canadienne Nationale and a former president of the Canadian Bankers' Association; Dr. Walter Murray, president of the University of Saskatchewan; and Dr. Clarence Webster, one of the leading public men of New Brunswick.

The terms of reference give ample latitude to the Commission and indicate that, although their primary concern is with railways, the Commissioners must bear in mind the close relation between rail and other forms of transportation. The terms read as follows:—

> That the Commissioners inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future development of the country, and report their conclusions and make such recommendations as they think proper.

At the first meeting of the Commission, held on December 4, 1931, in Ottawa, statements were made by the Minister of Railways and the presidents of the Canadian Pacific Railway and the Canadian National Railways. The Commission then made a tour of the West, after which they returned to Ottawa and heard evidence from officials of the railways. They then visited the maritime provinces, and later the central provinces. On the long journeys to and from the West the commissioners were accompanied by the chief operating, technical and accounting officers of both railways, with whom they were in almost constant conference.

It is probable that the report of the Commission will be presented early in the spring. The fact that some of the

sessions have been conducted behind closed doors has caused some criticism, but wherever the Commission went ample opportunity was given to anyone who wished to convey his views to do so in public or private hearings. There are, moreover, obvious disadvantages in premature publicity.

II. The History of the Railways

FROM the earliest days of settlement in Canada, transportation has been one of the vital problems. Since most of the first settlements were made on the many rivers and lakes, water was almost exclusively used for communication: indeed, it was because of this readily available mode of transport that settlements were thus placed. Roads were early cut through the forests, but they long remained crude in the extreme and were only used as supplementary to the water system. In the first decades of the nineteenth century the main hope of opening the country for colonisation and commerce seemed to lie in rendering the rivers and lakes practicable for through communication by building canals around the rapids, and thus obviating the need of arduous " portaging."

The first railways in Canada followed the same line of development, being intended as no more than portages around the principal rapids—such as those on the Richelieu and Niagara Rivers. These short railways, while involving a transhipment, could be built more cheaply than canals. The first railway of this type was completed in 1836 and was followed by similar ventures, but by 1850 there were only 66 miles of rail in operation in Canada. After that year progress became rapid, and railways were built as complete routes, instead of being supplementary to waterways. Railways became one of the chief interests of speculators, and groups of financiers vied with each other to secure charters. In the 'fifties the remarkable total of 2,000 miles was added to the mileage in operation, being largely owned

by the Great Western (from Toronto to Windsor and Lake Michigan) and the Grand Trunk (from Portland, Maine and Rivière du Loup to Sarnia and Detroit) together with a number of smaller companies in both the Province of Canada and the maritime provinces.

The formation of the Dominion of Canada in 1867 by the federation of the provinces of Canada (Ontario and Quebec), Nova Scotia and New Brunswick introduced a new element into the development of railways. On the one hand the union of wealth and government promised to render feasible the large railway projects that all the provinces favoured; while on the other hand it was clearly necessary to establish such improved communications as would make the union a reality. This too applied not only to the members of the original federation, but also to those additional provinces the inclusion of which was contemplated from the first. In general the situation called for lines stretching east to the Atlantic and west to the Pacific. The first was part of the original agreement. The Dominion Government was to take over some 350 miles of rail in New Brunswick and Nova Scotia and build a through line to connect the maritime provinces with those of central Canada. This line was completed by 1880 from Halifax and St. John to Quebec, and included not only the maritime mileage mentioned above but also the former Grand Trunk line from Rivière du Loup to Quebec.

The western arm of this great stretch was also made imperative by political considerations. As has been mentioned, it was hoped that the original federation would soon be enlarged so as to take in the vast area to the west of Lake Superior as far as the Pacific coast. The prairie section of this was simply the preserve of the Hudson's Bay Company, but the part west of the Rocky Mountains was an organised colony. In order to induce British Columbia to join the Dominion as a province it was agreed in 1870, amongst other things, that a railway to British Columbia should be begun within two years and completed

within ten. This promise, which may well be regarded as courageous now, was widely regarded as mad then. Apart from a population of some 36,000 in British Columbia there were little more than fur-trading posts in the territory over which the railway was to be built. Traffic of any paying quantity must therefore come from rapid immigration, and it was questioned whether there would be any large movement into what was widely thought of as an inhospitable land. The answer to these doubts was the force of political necessity, eked out with faith and hope. The shortest routes to both east and west were through the United States, but it was strongly felt that there must be communication from one part of Canada to another through her own territory. To some extent this meant a defiance of geography, for railways had to be built for thousands of miles along a narrow strip of Canadian soil, instead of making comparatively easy connections with the American lines. Such connections would have meant not only enormous savings in construction and upkeep, but also obvious advantages for commerce. Rather, however, than accept the political implications of this dependence on another country, the Canadian Parliament was prepared to face the expense of forcing into east and west channels a traffic that would have otherwise tended to flow north and south.

The early efforts to carry out the agreement to build a Pacific railway met with small success, and little was done before 1880 beyond the construction by the Dominion Government of some links in a chain that was to make use of waterways and existing railways. In 1880, however, an agreement was reached with a group of experienced railway men to build the line from Montreal to the Pacific coast in British Columbia within ten years. This group later became the leaders of the Canadian Pacific Railway. Being given the 710 miles of road under construction by the Government, they would be required to build some 1,900 miles. The company was presented with $25,000,000,

25,000,000 acres of land, exemption from duty on construction materials, exemption for twenty years from taxes on land, and other privileges. Construction was pushed ahead with great energy, and by the beginning of 1886 the first trains were running.

The completion of the first transcontinental line marks a milestone in Canadian history, as well as in the development of Canadian railways. The optimism of its supporters seemed to be justified when the Canadian Pacific Railway soon transported thousands of settlers to take up land on the rich soil of the western prairie. British Columbia had been saved for the Dominion, and the whole west was becoming Canadian in reality as well as in name. This first flood of settlers to the great western area led also to a belief that the population of Canada would continue to grow at the same speed, and that the Canadian west would develop in the same way and to almost the same extent as the west of the United States had done.

The first fifteen years of this century saw the planning and completion of two additional transcontinental lines. The Grand Trunk, which had long been operating successfully in central Canada, was anxious to share in the profits arising from the development of the west, and from the advantages to be derived from long hauls. The company, therefore, proposed to the Dominion Government that it should build a line from Chicago, its western terminus, via Minneapolis to Winnipeg and thence to the Pacific coast. This was rejected on the ground that too much of the proposed line would be in the United States. The company then offered to build east from Winnipeg to North Bay (in northern Ontario). Finally, in 1903, the Government induced the company to build a Grand Trunk Pacific Railway from Prince Rupert on the Pacific to Winnipeg; the Government, for its part, to build the National Transcontinental from Winnipeg to Moncton (New Brunswick), thus providing a second transcontinental line in Canadian territory. The Government would then rent

the National Transcontinental to the company for fifty years, for the first seven of which no rent would be paid, and for the remainder of which 3 per cent. of the cost would be paid as rent. The Government would further guarantee the interest on the bonds of the Grand Trunk Pacific up to 75 per cent. of the cost of construction. The company accepted, though with some reluctance, and construction was completed before the war. The cost of construction of both divisions of this line was high.

The third transcontinental line, the Canadian Northern, grew out of the enterprise of two able and resourceful railway builders, Sir William Mackenzie and Sir Donald Mann, who, beginning with the purchase of the 125-mile Lake Manitoba Railway in 1889, gradually added to this by further purchase or construction until an integrated system extended from Vancouver to Montreal. Unlike the Grand Trunk Pacific and National Transcontinental (the two sections of the one transcontinental line) the Canadian Northern was built at low cost, with, of course, the expectation of gradual improvement. While getting the usual help from Governments, the method of financing the Canadian Northern was otherwise unusual. Provincial guarantees—then Dominion guarantees and subsidies—were secured. When the company became better known large amounts were raised by the issue on its own credit of so-called perpetual debenture stock. No money was raised by the sale of common stock, which was issued to the promoters and gave them control.

These two later lines to the Pacific were, therefore, built independently and in the expectation of competition. In 1902 and 1903 negotiations were conducted with the object of securing the completion of a single joint transcontinental line, on the general plan that the Canadian Northern should build in the west and the Grand Trunk in the east. No agreement was reached, however, and the two complete lines were begun. This decision was more responsible than any other one factor for the later grave problems.

There was, of course, need for more construction in the west after the completion of the Canadian Pacific. To a limited extent, moreover, construction had to run ahead of settlement, of which it was a necessary condition. But unfortunately optimism rather than wisdom was the guiding force, and the Government adopted the policy of encouraging the two new transcontinental lines. Since the construction of railways in Canada has always been subsidised, in one way or another, by provincial and federal Governments, the policies of private railway corporations have directly affected not only their shareholders but the taxpayers. Given wise direction, it has been to the advantage of the people as a whole to finance the construction of a satisfactory railway system ; but in the period in question the point was reached and passed when the returns to the people in railway services equalled their financial commitments. In an open letter to the Prime Minister, Sir Joseph Flavelle, then (1921) chairman of the board of directors of the Grand Trunk, wrote as follows regarding the situation which he and his colleagues had shortly before been called upon to face :

> There would be no acute railway problem in Canada to-day if, in 1903, Parliament had refused the proposal to build the National Transcontinental line from Winnipeg to Moncton ; if it had refused to grant a charter to the Grand Trunk Pacific to construct a railway from Winnipeg to the Pacific coast, and had refused the builders of the Canadian Northern further financial assistance, except as the Western Division of the Grand Trunk system, carried through to the Pacific coast. If the Grand Trunk and Canadian Northern Companies had been told they must come together and constitute a second transcontinental line the country would not have been called upon to face the present gravely serious situation, while a powerful corporation, with a serviceable railway from ocean to ocean, owned and operated by private capital would, with the Intercolonial and Canadian Pacific Railways, have given the needed transportation facilities for the present, and reasonable future requirements of Canada.

By 1915 the total mileage in operation in Canada had risen to 34,882. This equipment, which assumed a steady

increase of population and commerce, proved to be of embarrassing magnitude when the financial stringency of 1913 was followed by the war of 1914. Although the economic conditions of 1913 led to unemployment and difficult months for business, it was the war which suddenly and unexpectedly shut off the supply of immigrants to Canada. The total number of arrivals in 1913 was the highest ever reached, 402,432; in 1914 it was 384,878; in 1915, 144,789; and in 1916 sank to 48,537. Such a check to the growth of the country could hardly have been foreseen. The loss of immigrants meant a blow to the railways in the west, from the loss not only of revenue in original transportation, but also of the continued business which they would have brought. Since the war, owing in part no doubt to the advance of social legislation in European countries and in part to the new Canadian policy of restricting immigration, the numbers of immigrants have never risen to half of the 1913 figures.

III. The Canadian National System

THE war caught the railways in the process of completing a policy of expansion and greatly aggravated existing sources of danger. As has been indicated, all the Canadian railways represented public investment in some form. The Canadian Pacific had by this time long since ceased to be a drain on the public purse, though this was partly accounted for by the empire that it had gained in its original grant. The railway was, however, more than paying its way. The Grand Trunk proper was suffering from two difficulties—absentee directors and its guarantee of, and cash advances to, the Grand Trunk Pacific. The management had been greatly improved under a former American railway manager, Mr. C. M. Hays (who was lost in the *Titanic*), but the final control was in England, where most of the stock was held. Wisely or no, the

Grand Trunk Pacific had been constructed in permanent form, which was intended to make for low operating costs, but the investment proved to be too high for the available traffic. The Canadian Northern Railway was still incomplete at the outbreak of war, and was moreover faced with unexpectedly expensive construction in the Rockies. These two later transcontinentals, as not a few observers (including Laurier's Minister of Railways) had foreseen, were cutting each other's throats.

To keep the weaker railways going the various Governments had poured out money in the form of direct subsidies, made land grants and guaranteed bonds. Only from an operating point of view could most of the Canadian railways be regarded as private companies. But the Governments had thus heavily invested because railways were essential to national development and private capitalists were not willing to take the entire burden of establishing and operating railways under comparatively pioneer conditions. When the war brought an acute crisis to the Canadian Northern and Grand Trunk Pacific, however, the Canadian Parliament began to consider whether it would not be better to take over the management as well as the financial responsibility of those roads which were in distress. The rise in wages and materials, the almost entire cessation of immigration, and the fact that foreign investors were concerned with their own problems made the war years serious for the Canadian railways, already suffering from the effects of over-optimism.

The Canadian Government had for some years been the direct owner of railways, the Intercolonial of 1,592 miles, the National Transcontinental of 2,003 miles and the Prince Edward Island railway of 279 miles, making up no mean total. In 1916 a Royal Commission was appointed to report on the whole problem of transportation—the status of the three transcontinentals, the reorganisation of any of the systems, including their possible acquisition by the State, and any other matters that seemed relevant.

The Commission consisted of Sir Henry Drayton, chairman of the Board of Railway Commissioners, Mr. W. M. Acworth, an English authority on railways, and Mr. A. H. Smith, of the New York Central Railway. A majority report was presented by the first two which was of great significance in the history of Canadian railways.

In their report the Commission found that the Canadian Pacific Railway was the only one able to meet its obligations to the public, and that this success was due partly to able management and partly to generous aid at its inception. On the other hand they found both the Grand Trunk and the Grand Trunk Pacific to be bankrupt. Whereas the former had paid out 36 million dollars in dividends in eleven years it was unable to put its lines and rolling stock into proper condition. By a majority recommendation the Commission advised that the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern, the Intercolonial and the National Transcontinental be owned by the Government and operated by a board of trustees constituted by Act of Parliament and incorporated as the "Dominion Railway Company."

These recommendations were in general followed. The Canadian Pacific was left as a private company. Following an Act of Parliament, the Canadian Northern was acquired on October 1, 1917, by the payment of ten million dollars for the capital stock. In March, 1919, the Minister of Railways was appointed as receiver of the insolvent Grand Trunk Pacific, and shortly afterwards the road was taken over by the Government. The Grand Trunk was acquired in 1919 by an Act of Parliament, which provided for the appointment of a board of arbitration to determine the value of the capital stock of the company, with the exception of the 4 per cent. guaranteed stock. The board as appointed consisted of Sir Walter Cassels (chairman), Sir Thomas White for the Government, and Mr. W. H. Taft for the company. A majority report was signed on September 7, 1921, by the two first-mentioned members, who found *no*

value in the first, second and third preference stock or in the common stock of the Grand Trunk. The arbitrators commented, as had the members of the 1916 Commission, on the fact that dividends had been paid when the other obligations of the company made such a course unjustifiable. Sir Thomas White's conclusions may be quoted:

> (1) The actual earning power of the Grand Trunk Railway Company of Canada, before, during, and since the war, and, so far as can be estimated, for the future, does not justify the assumption that any profits would, from the date of the acquisition by the Government of the preference and common shares, viz., May, 1920, ever have been available for distribution to the holders thereof, after providing for the contingent liability of the company in respect of Grand Trunk Pacific securities guaranteed by the company and dividends upon the "guaranteed stock."
>
> (2) Having regard to its own continuing heavy deficits, the necessity for making provision for deferred and extraordinary maintenance and capital construction, and its heavy liabilities in respect of securities of the Grand Trunk Pacific Railway Company bearing its guarantee, the Grand Trunk Railway Company of Canada, but for the financial support of the Government since May, 1920, must have been forced into a receivership.
>
> Upon these conclusions I find that the preference and common stock of the Grand Trunk Railway Company of Canada has no value.

In these circumstances the Government saw no reason for taking any action, whether or not it would have been good policy to do so, in the way of making a "compassionate allowance," which the majority arbitrators had intimated was a question for the Government and not the board to decide. It was apparently felt by the Government that for a number of years the company had continued to pay large sums in dividends to the shareholders regardless of the needs of the property and of the company's obligations to the Government. In respect of the three railways acquired, the obligations assumed by the Government amounted to about 936 million dollars. By January, 1923, when the Grand Trunk, the Canadian Northern and the Grand Trunk Pacific were incorporated in the Canadian National Railways, the direct cost to the Government had risen to about

1,321 million dollars ; or, in other words, the Government had in the interval spent some 395 million dollars in improvements, extensions and the acquisition of additional mileage.

From 1923 onwards there have been two great Canadian railways—the Canadian National and the Canadian Pacific, with the former operating a somewhat greater mileage. In the years of prosperity before 1930 both companies added to their property in mileage, equipment and such contributory enterprises as hotels and steamships. The Canadian Pacific continued to pay handsomely, its operating profit being $51,694,000 in 1928. The Canadian National, too, under its new and active management, was able to show an operating profit of $49,558,000 in 1928, although its total capitalisation of $2,074,585,000 made impossible an otherwise satisfactory balance sheet. In addition to its already large mileage, the Canadian National has become responsible for the operation of a line built by the Government, the Hudson Bay Railway, which has recently been opened to the port of Churchill. This line is intended primarily for the movement of grain, and large elevators have for that purpose been built at Churchill.

The economic depression of 1930, therefore, found both the Canadian National and the Canadian Pacific in process of completing large commitments, and in vigorous competition. The loss of revenue, which became increasingly serious, has gradually forced an economy of services and in some cases co-operation in place of competition. Both railways have made reductions in salaries and wages of 10 per cent. In June, 1931, the Canadian Pacific was obliged to halve its dividend in deference to a fall in profits of five million dollars between 1929 and 1930.

The Canadian National, less able from the nature of its composition and capitalisation to withstand the loss, showed a decline in net operating revenue from some 40 millions in 1929 to 16 millions in 1930. It is generally felt that both railways are in such a condition that serious

public consideration must be given to their future. Railway crises have more than once in the past been faced in Canada, and there is reason to believe that a general improvement in economic conditions would offer a large measure of relief. On the other hand, the pressure of present conditions has brought to the fore a desire to examine the problem of railways and transportation as a whole in Canada ; and it may well be that lessons will now be learnt that will serve for good and bad times in the future.

IV. The Basic Problems

THE main strategic problem of transportation in Canada is a geographical one. The territory is not only vast in proportion to the population, but the bulk of that population is stretched along a comparatively narrow line of settlement in the southern parts of the Dominion. By their determination to provide a system of railways that would serve their needs without dependence on the United States, the Canadian people have set for themselves a fine national aim but a permanent economic difficulty. Great parts of the railways have been thrown across areas which at the time of construction produced little local revenue ; and while in many of these the situation has improved by immigration and by local industrial and mining development, there still remain sections in which there is no immediate prospect of considerable settlement. An examination of railway and population maps of Canada and the United States will quickly reveal the peculiar Canadian problem. As has been shown before, for example, the Grand Trunk wished to build a transcontinental line that would follow the easy route south of Lake Michigan, but this was unacceptable to Parliament because it was not a Canadian route. Instead of this, all the transcontinentals were built to the north of Lake Superior, where construction was very expensive, and where there was little prospect of local revenue.

Thus a Canadian system of railways presupposes a large machine for a small population. The total steam mileage in operation in Canada is 42,000, while the population is approximately ten million. The population per mile of railway in Canada is only 235, while in Great Britain it is 1,800, in France 1,235, in Germany 1,770, in the United States 480, and in Australia 220.

Given the problems arising from these general conditions, has wisdom been shown in the creation of the Canadian railway system as a whole? Have we built to a greater extent than was wise or necessary? Has the construction been economical and suited to the conditions for which the lines were required? There can be little doubt that there has been overbuilding, dating from the fatal decision early in the century to add two more transcontinentals to the existing Canadian Pacific. As has been shown, efforts were made in 1902 and 1903 to prevent this but without avail. Both the Canadian Northern and the Grand Trunk have been defended against the charge of unwise expansion by the argument that each would have succeeded without the other; but this is, of course, merely to say that their decisions to build separately after their failure to agree in the first place led to damaging competition. Nor can the Government of the day escape blame, for had they followed the advice of their more far-seeing members they would have refused the franchises and the subsidies without which the roads could not have been built. But it is easy to be wise after the event, whereas in the period in which these enterprises were started many prominent Canadians thought that the future of the west would be one of continued and rapid growth and that the three lines were essential to its development.

In some cases lines have been abandoned where traffic has not warranted all that were built; yet the capital expenditure remains, and this is particularly one of the problems of the Canadian National, since the Canadian

Pacific was able to plan a unified system. The cost of construction has varied considerably. Some of the lines were built in the belief that a high first cost made for low maintenance. Whether this be a sound principle or not, it has happened that one of the most striking examples of this—the National Transcontinental—is now one of the least used of the main lines. Could the Canadian railways be built again, there would no doubt be many changes, but since we must accept the legacy of the past as we find it, the present problem is to determine what are the measures best calculated to correct the mistakes of the past and ensure a more satisfactory future.

V. The Issues To-day

THERE is inevitably much speculation as to the recommendations to be made by the Royal Commission. Without our entering on the dangerous field of prophecy certain of the issues may be examined.

At present private and State ownership exist in almost equal extent. It has been pointed out that operating costs would be appreciably reduced if the two great railways were in some way merged so as to avoid the waste involved in severe competition for a limited amount of business. Anything in the nature of amalgamation, however, would meet with wide disapproval, especially in the west and Ontario. The removal of competition would have obvious disadvantages for the customers of the railways; but an almost greater problem arises from the fact that either public or private ownership would have to be abandoned. Both of these, however, have considerable support, and any Government that felt it necessary to sponsor amalgamation would have to answer to an angry electorate in many districts. To turn over the whole railway system to private ownership would apparently mean in some form to give the Canadian Pacific a monopoly; and proud as Canadians are of this great corporation,

few of them wish to see it—or any other company—in such a position of power. On the other hand, and in spite of the real achievements of the Canadian National in the face of almost overwhelming difficulties, there must be great doubt as to whether the public would be adequately served by a public company which had no competitor to keep it at its best. Moreover, there must always be anxiety as to whether such a company could be kept free from political influence with all its unsatisfactory concomitants.

If amalgamation seems unlikely, there remains the question of co-operation. In places the two companies carry on a competition that is unfruitful to both and, apparently, economically unsound. Although it seems logical that they should divide the country into " spheres of influence," and each do a profitable business within its own territory, this is not easy to arrange in detail. Many of the small competing lines are feeders for the main lines, and essential to their life. Further, the most profitable business that the railways do is in long freight hauls. This is best explained by a further quotation from the letter of Sir Joseph Flavelle to the Prime Minister in 1921 :

> For purposes of comparison . . . the Grand Trunk system affords an opportunity to estimate the effect of short-haul traffic, which is noticeable in that system, as compared to long-haul traffic characteristic of the Canadian Pacific Railway. The Grand Trunk Railway system, operating 4,775 miles of road, during the year 1920 moved 33,026,658 actual net tons, and were paid for the service $80,686,623·00. The Canadian Pacific, operating 13,402 miles, moved 29,919,645 tons, for which they were paid $143,878,185·00. You will observe that the Grand Trunk, moving 3,100,000 tons more freight than the Canadian Pacific, received in payment $63,191,562·00 less for their services than that company. The greatest single factor in this remarkable difference is, that while the Canadian Pacific carried each ton an average of 463 miles, the Grand Trunk carried each ton an average of 212 miles. Or, stated in another way, the Canadian Pacific received $4·81 for each ton, while the Grand Trunk received $2·44 for each ton. The costs at terminals to collect and distribute, including switching, are as much per ton whether the freight is short hauled or long hauled.

Since the creation of the Canadian National, that company has been enabled to take its share of the profitable long hauls; and it seems almost inevitable that some measure of apparent duplication must remain if both companies are to continue to do this part of the business. In some places, however, duplication has already been abolished by agreement; and it may well be that the Commission will recommend that this process should be carried further. One complication in this respect remains: the inevitable complaint that one or other of the companies is being sacrificed to the other. Any argument of this nature is particularly likely to develop from the fact that there is an unfortunate tendency for people to take sides as supporters of public or private ownership.

Another possible approach to the problem of reducing expenditure is to advise the lessening of expenditure within each railway. This would come under such heads as curtailment of luxury equipment (which has reached a high level on many of the principal trains), cessation of building both of new lines and of hotels and summer camps. Perhaps, too, it might involve the scrapping of minor (and even some major) lines which do not, and apparently cannot, pay their way. There is no doubt that the Canadian public is provided with luxury in travel that can with difficulty be reconciled with the economic obstacles against which the railways have to strive. Our rates are low, our standard of equipment is high, and the actual cost of maintaining the services is high. Assuming that the public would be unfavourable to any material increase in rates, can we maintain this expensive paradox ?

There is evident need for the railway problem to be studied as a whole, and it is possible that the Commission may propose some machinery for this purpose. Even a purely advisory body might be of great value if it were composed of able men who could see the problem in terms of the country as a whole, and make recommendations to the still independent companies.

Canada: The Railway Problem

Judging from their terms of reference it may be assumed that the Commission will to some extent consider the railway problem as inseparable from the problem of transportation as a whole. There are three main forms of transportation at the present time that compete in some degree. The canals, hope of the 'thirties, have received a new lease of life in the project for the complete canalisation of the St. Lawrence waterway. Already the canals enable boats of 14 ft. draught to proceed from Montreal to the head of Lake Superior. Apart altogether from the St. Lawrence scheme, the total cost of canals up to the end of March, 1929, was $216,585,487—a very considerable total. If the St. Lawrence scheme should be carried through it would to some extent constitute an alternative route to the sea competitive with those of the railways. And such outlets have already been increased by the completion of the Hudson Bay Railway, which revived the old route long used by the Hudson's Bay Company. Roads have also come back into prominence as a means of through travel. The motor car and the motor truck have made heavy inroads into the passenger and freight traffic of the railways. Very considerable sums have been spent on roads by the provinces and smaller government bodies, and it is an open question whether the comparatively low taxes on motor vehicles do not make for an unfair competition with the steam railways. Local traffic has suffered particularly, but there seems to be an increasing tendency, generally, for both passengers and freight to "travel on rubber." Some railways in the United States have met this menace by themselves operating motor trucks in conjunction with their train services, but the possibilities of this have not yet been fully explored.

The fundamental problem is to transport a limited number of people and a limited volume of freight in the most satisfactory and economical way. But we are not starting *de novo*. The railways exist, and their expense of building cannot be reduced by taking thought. If road

travel is cheaper, what will happen to the railways? Even in prosperous times one might pause to consider whether he present transportation system can stand the additional competition of a Hudson Bay route and the partial competition of a St. Lawrence waterway without the addition of considerably more business. The problem of transportation has always bulked large in Canada, but for the most part the problem has been to secure enough transportation. It seems that we have now got into an era of too much transportation—not too much, of course, for the business and pleasure interests of the people, but too much for the country to afford. Under the peculiar conditions prevailing in Canada it may be argued that to subsidise our transportation facilities is worth the price, but this is a dangerous avenue of thought unless it be followed with the greatest caution. There are already enormous sums sunk in railways, roads and canals. There is sometimes a danger that transportation may be regarded as an end instead of a means.

Apart from such over-building as may exist, and such unnecessary expense as may have been incurred, the causes of our present discontent may be examined under three main heads.

(1) The falling off of traffic consequent on the economic depression. This general problem has affected other railways than ours; for example, the railways of the United States are in many cases in financial difficulties. In 1928 the Canadian National had gross earnings of $304,000,000, but in 1930 this figure was cut to $250,000,000. The Canadian Pacific also suffered a heavy loss of revenue. The general slump in business readily accounts for the lack of traffic, but the marked reduction in the movement of grain has been a particularly serious factor. Clearly the effect of the depression on the railways is a problem beyond their control. The same cause is responsible for the loss of revenue in businesses of almost every character.

(2) Competition between the railways is, to some extent,

a cause of loss of revenue that is within control. But, as has been seen, this can only be modified within limits. If, as is widely thought, a degree of competition is to the advantage of the customers of the railways, there must be some compromise. We cannot in this respect both eat our cake and have it.

(3) Finally, the competition between railways and motor vehicles is a serious problem. There are in Canada approximately 1,239,000 motor vehicles, of which 166,000 are motor trucks. This is a total only materially exceeded by the United States with 26,500,000. The motor car is no longer a luxury but a normal mode of travel, since in Canada there is an average of one car for eight persons. Motor buses, too, have secured a considerable business ; in some places electric railways have been abandoned because of the competition of buses, and in many districts the local traffic of the steam railways has suffered severely. Local train services have been reduced from lack of business, and recently a deputation from a suburban town, who were asking for increased train services, were told that they could not have trains in the winter if they insisted on using their cars in the summer. Everywhere in Canada good through roads have been built, and in the summer one can see endless lines of cars, many of them from distant American States, passing on the main highways. Part of this traffic has arisen only because of the motor car, but a portion of it is at the expense of the railways. Even more serious is the competition of the motor truck, since the carriage of freight is the most profitable part of a railway's activities. One sees trucks loaded with all manner of goods and covering great and small distances.

It has been often suggested that the motor vehicle competes unfairly with the railway, since the expenses of the latter are greater than those of the former. The solution offered is to make the motor vehicles pay for the roads and thus put the competitors on an equal footing. This solicitude, it may be noted, is not so much owing to a

greater love of the railways as to the fact that they represent an enormous public investment, which is being endangered. There are, however, several objections to the apparently simple solution of heavier taxation. One is that the public would not like it in practice, however much they might approve of it in theory. Though they might gain indirectly through the improvement of the position of the railways, what they would chiefly notice would be more expensive motor transit without reduced rates on the railways. A second obstacle to change is the fact that much of the motor traffic is to and from the United States. This is particularly true of the tourist trade, and as this stands second amongst our industries, and is invaluable in redressing the balance of trade, it cannot lightly be endangered. But if the American cars which use our roads were not taxed, should the burden fall on the Canadian motorist ? Thirdly, the main highways are provincial, while the chief public interest in the railways is federal. This brings us—as most important Canadian problems seem to bring us—to the disputed powers of Dominion and provincial Governments. Could they, or would they, co-operate in balancing the rights of motor and railway transport ? The respective control of provincial and federal Governments over the water-power on the rivers used for navigation still seems to be unsettled, and the course of this dispute augurs ill for an easy settlement of the transportation question as a whole.

The personnel of the present Royal Commission assures a careful, detached and able study of the transportation problem in Canada. While it may be assumed that Parliament will give considerable weight to their findings, any action taken will presumably follow a debate in which many and conflicting views will be presented. The interests of various districts and groups are in some respects dissimilar, and if any radical recommendations are made by the Commission they must run the gauntlet of the usual parliamentary criticism. The wide interest that has been shown

in the railway question, however, suggests a general desire to face realistically what is one of our fundamental problems, and, not without pride in past achievements, to attempt a solution of the particular aspect of the problem that comes in our day and generation.

Canada.
January 1932.

AUSTRALIA

I. The Federal Elections

IT is notorious that very few parties can survive a term in office during times of economic distress; this is particularly true of a Labour party, or for that matter of any party of reform. While times of depression are times of curtailment and retrenchment, the popularity of a party of reform depends on the measure of its advance towards more or less unattainable objectives, and its normal programmes are based on the expectation of buoyant revenues. Its supporters are not convinced by the most valiant record of orderly retreats, or even of positions barely held. These considerations apply with peculiar force to the Australian Labour party. Its whole theory of representation subordinates the individual to the group—the Minister is subordinate to the caucus, the caucus to the party organisation outside. To get from the party machine the flexibility that government demands in times of crisis is virtually impossible. It is not surprising, therefore, that the onset of the world economic depression should, in Britain and in Australia, have broken the Labour party in office. But few critics could have expected a collapse so sudden or so complete as has occurred in both countries in the last quarter of 1931.

Mr. Scullin's Ministry came into office at the end of 1929, supported by the largest single party in Australian political history, numbering 46 in a House of 75. Owing to internal dissensions within the party, the Ministry failed to keep its supporters together, and in little more than two years was driven to the country by a defeat in the House, inflicted on a deliberate vote. Mr. Scullin will muster no more than 14 supporters when the new House assembles in February, and will thus have lost some 70 per cent. of his

following. When it is remembered that so recently as 1928 Mr. Scullin was returned as leader of an Opposition of only 31 against Mr. Bruce, some idea will be gained of the changes that have taken place in Australian opinion within three years.

The Labour Government was in trouble from the start. To begin with, it had only one real mandate from the electors—to maintain and improve the federal arbitration system; and a strongly Nationalist Senate was by no means willing to allow the Ministry to rewrite the Arbitration Act at its pleasure. But in truth the Scullin Ministry came into office on a wave of feeling almost entirely unrelated to the real task which lay before it—to take measures to meet the economic depression; and it was on those measures that it eventually came to shipwreck. Every fresh development in ministerial policy served only to split the party more hopelessly. The trouble began with the re-appointment of Mr. Theodore to the Treasurership, on the Prime Minister's return from the Imperial Conference, and before the action arising out of the Mungana charges had come on for hearing. That step cost the Labour party two Ministers, Mr. Lyons and Mr. Fenton, who went into Opposition, the former to become Leader of the Opposition. These two were followed in course of time by three other Labour men. Hard upon these events there followed, in February 1931, the Premiers' Conference at which were put forward the three proposals which have become notorious as the "Lang Plan," and Mr. Theodore's counter-policy, an instalment of controlled inflation. Mr. Lang proposed that no interest should be paid overseas until Britain brought Australian interest rates into line with the Anglo-American war debt settlement; that the interest on public internal loans should be reduced compulsorily to 3 per cent.; and that a currency based on production and governmentally controlled should be substituted for the existing bank-controlled currency. These proposals were summarily rejected by the Premiers,

but Mr. Lang characteristically refused to abandon them, and the result was a feud between the New South Wales branch of the Labour party, dominated by Mr. Lang, and the federal Labour authorities, dominated by Mr. Scullin and Mr. Theodore. Mr. Lang's group attempted to coerce the Labour members from New South Wales in the Federal Parliament into supporting his views. Mr. Theodore's group replied by asserting that in defying the properly constituted federal committees Mr. Lang's group had forfeited its right to be considered part of the Australian Labour party. Five of the New South Wales Labour members of the House of Representatives, led by Mr. Beasley, eventually formed a kind of "Lang Cave," hostile to, and contemptuous of, the Government and actually holding the balance of power in the House, but unwilling for some time to strike the Government down at the risk of an appeal to the people. Meantime, finding "controlled inflation" unpopular, the Government had reluctantly agreed to the proposals now familiarly known as the "Premiers' Plan," involving a quasi-voluntary conversion of the Commonwealth and State debts, and a reduction in government salaries, wages, pensions and other adjustable expenditure. The acceptance of the latter part of this plan caused further dissensions in the Labour party, just as a similar issue was to split the British Labour party a little later. The Labour Governments had trouble with their own supporters in their respective Parliaments (there was said to be a majority of two only for the plan in the federal caucus), and the party organisations throughout the country were very hostile, especially in South Australia. A great many of the rank and file were inclined to the view that to accept the plan involved a betrayal of vital Labour principles, and that it was the clear duty of true Labour men to go out of office rather than take responsibility for such a policy.

In these circumstances, it can easily be imagined that the Prime Minister had no desire for an early appeal to the

country. His position had been greatly weakened in Labour circles, and his record in office had not been such as to retain for him the large body of support from unattached electors which had been accorded him in 1929. His obvious dependence on Mr. Theodore aroused misgivings in many quarters, and so also did his vacillation on monetary policy. These misgivings were intensified towards the end of the year, when it became clear from ministerial pronouncements that, when the election did come, the Government would put forward political control of the currency as the main issue. The time was therefore very unpropitious for the Government when, at the end of November, Mr. Beasley announced his intention of moving for the appointment of a Royal Commission to enquire into allegations that Mr. Theodore was *inter alia* using unemployment relief works in his electorate (at the Commonwealth dockyard at Cockatoo Island and elsewhere) as a means of purchasing votes. It is said that this was a mere pretext—and certainly very little was heard of it during the election campaign—and that the attack was really launched because the Scullin-Theodore group seemed to be making headway in Sydney against the Lang group. The announcement just previously of an amalgamation between the State Savings Bank and the Commonwealth Savings Bank, on terms which would enable the former to make immediate and substantial payments to its depositors, was, for instance, regarded as a triumph for Mr. Theodore. Mr. Beasley pressed his motion, which was duly carried, with the support of the Opposition on November 25, and the Prime Minister advised the Governor-General to dissolve the House of Representatives. In granting the dissolution, Sir Isaac Isaacs took the opportunity of placing on record his understanding of the present constitutional position of a Governor-General in the exercise of the prerogative of dissolution. Formerly it was expected that the Governor-General would exercise his own discretion in the grant of a dissolution, and refuse a

request for a dissolution from a Ministry defeated in the House if he thought it in the public interest to do so. In a letter replete with citation of authorities, Sir Isaac Isaacs explained that, in view of the present constitutional position of a Governor-General, as laid down at the Imperial Conference of 1926, he did not feel it his duty to exercise a personal discretion, but contented himself with taking the Prime Minister's advice. Sir Isaac Isaacs added that if he had had to exercise a personal discretion the result would have been the same. But he put it, in effect, that the Governor-General is to stand in the same relation to his Ministers as the King does to his in Great Britain, and that the King would in such circumstances accept ministerial advice. This declaration will probably become a definitive statement of the position of a Governor-General. This sort of thing is one of the by-consequences of appointing a distinguished constitutional lawyer and judge to be His Majesty's representative.

The Government determined on an early election, partly no doubt because it precluded Mr. Lang, and certain other vigorous opponents of the Ministry, from resigning their seats in State Houses in time to contest federal electorates. Polling took place on December 19, a little more than three weeks after the Government's defeat in the House. As usual, an election was held at the same time for the eighteen seats in the Senate (three in each State) whose occupants are due to retire in June, 1932. The Senate, it will be remembered, consists of six members elected from each State voting as a single electorate. Senators hold their seats for six years, and half retire every three years.

The Opposition parties had barely completed arrangements for consolidating their ranks. In order to bring in Mr. Lyons and his ex-Labour followers, and to compose certain other differences, the Nationalist party abandoned its name, and a new party was formed with the clumsy and rather misleading name of "United Australia party,"

and with Mr. Lyons as leader and Mr. Latham as deputy-leader. (The "alias" party, Mr. Lang's journal calls it; many will regret that the opportunity was not taken to bring to an end the period of more or less "fancy" names and return to the name "Liberal," which grew up and became acclimatised in Australian politics and which stands historically for policies very close to those for which the United Australia party will doubtless become known.) Mr. W. M. Hughes, it may be added, after his abortive attempt to found an independent party of his own, came into the United Australia party. Between the United Australia party and the Country party fairly close co-operation was achieved. They did oppose each other in a few electorates, but nowhere where there was any real danger of losing the seat to Labour by a divided vote. The federal and the State (or Lang) Labour groups both nominated candidates in most of the New South Wales electorates, in a good many cases not so much with any expectation of success as with a view to testing the strength of the rival groups among Labour supporters. Each group also nominated its three candidates for the Senate election. In addition, the Lang group nominated a few candidates in Queensland, Victoria and South Australia, but this was for purposes of propaganda rather than with any expectation of actually winning seats.

Perhaps because the time was so short and the election so sudden, perhaps because the people have had rather a surfeit of plans and programmes in this troubled year, the election issues were never very clear or distinct. For the best of reasons no party leader was willing to adumbrate a detailed course of future action. The main policy speeches were, of course, those of the Prime Minister and of Mr. Lyons—an odd juxtaposition, for not only had the two men fought the last election from the same platform, but they probably think more alike in politics than almost any other two members of the House. Mr. Scullin put forward the achievements of the Ministry as the principal

ground for returning it to office. Mr. Lyons treated the record of the Ministry as his principal ground for urging the electors to reject it. The one positive policy which the Labour party put forward was a change in the monetary system. The Commonwealth Bank—or so it seemed from the rather vague terms in which the policy was discussed—was to become, as the Labour party has always wished it to become, a trading bank in active competition over the whole range of banking business with the private banks; a distinct central bank was to be created and if the intentions of the Ministry were rightly to be gathered from their previous banking proposals, the central bank was to be subject to political control. At any rate its immediate function was thought of by Mr. Scullin in terms of "releasing" sufficient "credits" to put all the workless back into employment.

The policy sketched out by Mr. Lyons was even less precise than the Prime Minister's. He traced the dissensions within the Labour party and the vacillations of ministerial policy; he invited the electors to follow Britain's lead and reject a party which had fallen into discredit through failure to deal with economic necessities. He made no promises, he asked only for the return of a Government which would command confidence at home and abroad. He pleaded, like Mr. Ramsay MacDonald, for a "doctor's mandate."

As the campaign wore on, the United Australia party leaders introduced a little more definition into their policy. Opponents began to recall the stand taken by Mr. Bruce and Mr. Latham in 1929, and to predict the abandonment of the Commonwealth arbitration system if Mr. Lyons were returned to power. Mr. Latham promptly disavowed any intention of repeating the experiment of 1929, and though (like the Labour party at the preceding election) his party was determined to increase the sphere of conciliation in the arbitral system, he declared that they would not introduce any major change without first consulting

the people at a referendum. Ministerialists also raised the cry that the tariff would be in danger from a Lyons-Latham Ministry. This attack was parried by a declaration that the United Australia party was definitely protectionist, but that it advocated a sane tariff, based in all cases on the recommendations of the Tariff Board, and adjusted where possible so as to extend the area of Empire trading. The onslaught on the tariff led in the last weeks of the Parliament by the Nationalist Senators did, however, afford ministerialists a colourable ground of attack. United Australia party speakers were able to show clearly enough that the tariff schedules brought in hastily by the Labour Government at intervals ever since it took office bristled with anomalies and even absurdities, and were imposed generally without prior consultation with, and often contrary to the subsequent recommendation of, the Tariff Board. Indubitably the tariff stood in need of revision —as well as validation—at the end of 1931. But Labour speakers pointed triumphantly to the fact that at the time of the dissolution the Senate had dealt with only the first eighteen items on the list, and had reduced thirteen of them. Since this fact alone was quite enough to frighten electors who had any doubts of the United Australia party's firmness on the tariff issue, and a certain loss of support in this issue was inevitable, the leaders of the party might well have taken a bolder line about the tariff, and so kept their hands quite free to do what the situation may turn out to require. But it is easy to say this after the event. To have acted in such a way before polling day may perhaps have demanded a more robust confidence of success than the facts then warranted.

The Country party did not play as large a part in the campaign as might have been expected. Having always had to depend on a number of votes in country districts which would normally go either to the Nationalists or to the Labour party, the Country party has never been able to stand openly and uncompromisingly for farming interests,

but has had to make compromises in all directions and steer a middle course, hoping to be able to exercise a moderating influence upon any Government in power, even possibly to hold the balance of power itself. In this election Dr. Page did pronounce definitely in favour of a downward revision of the tariff in order to afford relief to export industries and to facilitate an extension of Empire trade. (It would, however, be a mistake to suppose that Australia's policy for the forthcoming Ottawa Conference was canvassed in any serious way during the election campaign.) Dr. Page also advocated a number of constitutional amendments, in particular one to facilitate the creation of new States. This has all along been an objective of the Country party. In New South Wales it has recently become a matter of considerable importance, since in a number of rural centres disgust with Mr. Lang's administration has produced movements for separation from New South Wales.

As polling day drew near, ministerialists pushed their monetary policy as much as they could into the background, feeling apparently that it was unsafe ground to fight on. The Opposition, of course, was by no means inclined to let it drop. Opposition speakers dwelt on the evils of inflation, and claimed that the history of the New South Wales Savings Bank showed the insecurity of the people's savings if Governments were allowed to meddle with the banks. Thus, instead of a campaign of promises, it developed into a campaign of terrors. Each side claimed support because of the dangers of putting the other into office. But it is very doubtful whether there was much public conviction on any of these dangers. There was a vast deal of talk during the campaign, but little real excitement. Feeling not unnaturally ran strongest in New South Wales where, in addition to the contest between the Labour and anti-Labour forces, there was a bitter internecine battle between the federal and the State Labour groups, the more bitter since the factions were divided by loyalty to persons rather than by adherence to principles. The

federal Labour group denounced the Lang group as wreckers and as the real enemy of the workers, since only in solidarity could the dangers of a Lyons-Latham triumph be averted. The Lang group denounced the Scullin-Theodore group as weak men of compromise, afraid to embrace the only policy that would save the workers from exploitation by the moneyed interests, and borrowing the only valuable elements in their policy from Mr. Lang himself. Mr. Lang's forces concentrated especially upon Mr. Theodore's electorate (Dalley), and only in Dalley was the Mungana affair brought into the foreground during the campaign. " Yes, we have no Munganas," sang Mr. Lang's supporters at Mr. Theodore's election meetings.

It was difficult for an impartial observer to suppose that the Labour Government stood a chance of being returned to office. In its principal stronghold, New South Wales, its supporters were bitterly divided, the country districts were completely disillusioned about Labour policy, the party had lost support everywhere and apparently had not gained it anywhere. Mr. Lyons, whose star had latterly been a little on the wane, came back remarkably into public esteem and succeeded in arousing a good deal of enthusiasm wherever he went. But only the unbounded optimism of Dr. Earle Page, the leader of the Country party, suggested a turn-over of public opinion as great as that which the polls have revealed. On the eve of the election he prophesied that the Labour party would be lucky to have as many as 25 seats in the new Parliament. He was right. The Labour party has been swept clean out of Tasmania, left with only one seat in South Australia and in Western Australia, and reduced to a handful in Victoria and New South Wales. Only in Queensland did Labour gain any ground. Mr. Scullin went to the polls with 35 supporters. He lost 23 of them (including six Ministers) and even his two gains in Queensland will, as is shown above, give him only 14 seats in the new House. In the Senate election it appears probable that three anti-Labour Senators will be

returned in every State except Queensland. Mr. Lyons will therefore have a following in the Senate of about 28 in a House of 36. In the House of Representatives the state of parties will be:

	Old Parliament	New Parliament
Federal Labour	35	14
State Labour	5	4
United Australia	23	39
Country	11	16
Independent (anti-Labour) ..	1	2
	75	75

Mr. Lyons will thus have an absolute majority, without needing to rely on the Country party or the two Independents.

The most obvious feature of the voting is, of course, the complete downfall of the Ministry and the heavy anti-Labour gains everywhere except in Queensland. In 1929, on the industrial arbitration issue, a certain number of seats which ordinarily are held by anti-Labour members swung over to Labour. It was only to be expected that these would definitely revert to anti-Labour at the 1931 election. This process has certainly taken place. Mr. Bruce's return for Flinders is the outstanding case. Major R. G. Casey, until recently Australian Liaison Officer at the Cabinet Office in London, has also won a seat in this category. But the turn-over is, of course, very much more extensive than this. Many seats which have been Labour strongholds for years have returned United Australia party members. Perhaps the outstanding instance is the Victorian constituency of Batman in which the Attorney-General, Mr. Brennan, has been rejected after having held the seat since 1910. Even in seats which have still returned Labour members the anti-Labour vote is often larger than it has ever been. It is quite clear from this that there is something more than the usual set of opinion against a Ministry in office. On the other hand, the Labour gains in Queensland are commonly attributed to the unpopularity

of the Nationalist Government, which has held office in the State for nearly three years. In Queensland, Labour not only held all its existing seats, but actually gained two and now holds five out of ten seats. Similar developments, however, did not take place either in Western Australia or in Tasmania, both of which have Nationalist Governments, and it is obvious that the general loss of confidence in Labour is very great.

In New South Wales the change is the most remarkable of all. Mr. Scullin now has three seats only, where he had 20 a short two years ago, and 14 when he went to the polls. Mr. Theodore has been overwhelmingly defeated by a Lang group candidate. The Lang group will have four seats—a loss of one. So far as the issue in New South Wales was one between two rival Labour factions the result has been decisive in favour of Mr. Lang. On the primary votes it looked very much as though the Lang group would win nine New South Wales seats. So bitter, however, was the feeling between the rival groups that anything up to half of Mr. Scullin's supporters gave their second preferences to the United Australia party rather than to the State Labour candidates. This explains the loss of several Sydney Labour strongholds to the United Australia party. The voting for the Senate candidates, however, reveals clearly the triumph of the State Labour group over the federal. It has polled nearly 70 per cent. of the total Labour vote in New South Wales. Mr. Lang was believed to cherish an ambition to enter federal politics, and it is understood that the new member for Reid, Mr. Gander, is willing to resign at any time to enable him to contest the seat. But whether Mr. Lang would find the House of Representatives attractive in the new state of parties is at present unknown.

It is always a delicate task to assign afterwards the reasons for action which in many cases was probably quite unreasoning. But some factors, at any rate, which caused the Labour collapse may be isolated with confidence. It

has been well remarked that in times of crisis the elector votes not so much for men and policies as against them. The reasons for voting against Mr. Scullin's party were probably very various. Though relatively little was made of the Mungana affair, for instance, it left behind it widespread misgiving and distrust, both of Mr. Theodore himself and of his influence in the counsels of Mr. Scullin. Again, the career of Mr. Lang has undoubtedly lost the Labour party a great deal of support, not only in New South Wales itself but throughout the Commonwealth. The elector was quite unconvinced by the fact that Mr. Scullin and Mr. Lang were fighting each other; they were both Labour men, he argued, and what is Mr. Lang's policy to-day may very well be Mr. Scullin's policy to-morrow. The history of the State Savings Bank in New South Wales was a telling argument against Labour policy everywhere. Thousands of votes against Federal Labour were votes against Mr. Lang. It is not only in New South Wales that Mr. Lang has smashed the Federal Labour party. But over and above all other reasons for rejecting Mr. Scullin there lay the feeling, which was not altogether fair to him, that he had failed to put the country in the way of prosperity, that the present burden of unemployment is intolerable and that somehow or other a change might do good.

On the morrow of the election Mr. Scullin resigned and Mr. Lyons was commissioned to form a Ministry. Mr. Lyons was anxious to broaden the basis of his administration as much as possible, and accordingly offered three portfolios to the Country party—which had increased its representation by nearly 50 per cent., having swept Labour out of the country constituencies in New South Wales. This offer was refused. The Country party decided that the only terms on which it would enter the Ministry would include the offer of the portfolio of Trade and Customs to its leader. Dr. Page's party will therefore remain outside the Ministry as "benevolent critics." It is quite clear from

this that tariff revision will be the grand issue in the new Parliament.*

The new Ministry will have a clear enough majority, but very grave problems to face. It is perhaps rather a pity that there has been so much talk since the election of better times ahead for all, and work for the workless. On the other hand the new Ministry comes in on a powerful wave of national support and will doubtless command general approval if it rises above party and faces the problems ahead of it in a truly national spirit. The leaders themselves are vigorously alive to this. Perhaps the most serious element in the situation is the smashing of the parliamentary Labour party. Movements are already afoot to try to heal the breach between the two wings of the movement. In the hour of weakness of the parliamentary party, it is very likely that the industrial section will gain control of the entire organisation, and that during this period of opposition the whole party will swing definitely towards the left. The result of the Senate polling in New South Wales shows how strong a grip the industrial section has, in that State at any rate. If the result of this election is ultimately to eliminate the Scullin group from the party organisation as well as from the House, Australia will have, very soon, to face the issue which New South Wales has had to face in the last few months. The contest will be, not who is to work existing institutions, but whether existing institutions are to survive. Australia looks to the new Government to show that existing institutions can work, and can bring prosperity to the people.

* The constitution of the Australian Cabinet was announced on January 3 as follows: Prime Minister and Treasurer, Mr. Lyons; Attorney-General, Mr. Latham; Defence, Sir George Pearce; Trade and Customs, Mr. Gullett; Postmaster-General, Mr. Fenton; Markets and Transport, Mr. Hawker; Home Affairs, Mr. Parkhill; Health, Mr. Marr; Vice-President of the Executive Council, Mr. McLachlan, with Messrs. Bruce, Massy-Greene, Francis and Perkins as Honorary Ministers.

II. The Reduction of Interest

THE Premiers' Conference of May 25 to June 11, 1931*, resolved that the reduction of wages that had been brought about by alterations of industrial awards, the reduction of 20 per cent. in adjustable government expenditure, and the conversion of the internal debts of the Commonwealth and State Governments at an arbitrarily reduced rate of interest should be accompanied by a reduction of rates of interest on mortgages and on the deposits and advances of trading and savings banks. With the fall in prices since 1929, payment of interest at the rates hitherto prevailing, the Conference considered, had become an intolerable burden on all industry, whereas a lower rate of interest would, it thought, reduce costs and so assist industry to recover and stimulate employment.

These reductions have now been made by legislation in the States. But, once launched on the task of rectifying contracts, the legislatures found they had to go further than the Premiers contemplated in their plan; and to-day, six months after the Conference, Bills to alter contracts are still being discussed, and more may follow.

In a report to the Conference a committee of under-treasurers and economists had recommended that a reduction of 15 per cent. should be made in the net return on fixed money claims. This was to be in addition to a special tax of 7½ per cent., to which incomes from property are already subjected. The Conference added these two amounts together and decided that the conversion of government loans should be at a reduction of 22½ per cent., or 4s. 6d. in the pound, of the former rate of interest. This reduction of 22½ per cent. won widespread approval, be-

* See The Round Table, No. 84, September 1931, pp. 894–903, and Proceedings and Decisions of the Conference in Commonwealth Paper No. 236 of 1931, p. 172; *see also* *The Round Table*, No. 85, December 1931, pp. 174–176.

cause it was thought to be about the percentage by which wages had fallen since the onset of the financial crisis. It was well known to the Conference that many holders of fixed money claims had suffered, through non-payment, a reduction in income of much more than 22½ per cent., but the Conference considered it necessary to reduce such fixed money claims as had not already been diminished in order to make possible the other economies that were essential to prevent a collapse. Legislatures therefore adopted Bills based on a draft submitted to the Conference, the effect of which would be to reduce interest on mortgages in the same ratio of 4s. 6d. in the pound, but not to a rate of less than 5 per cent. of the principal except in the case of debentures in New South Wales, on which the rate may be reduced to 4 per cent. In Victoria, New South Wales, Western Australia and Tasmania this reduction is applied by law without the borrowers having to take any step. It is left to the holder of the mortgage to apply to the courts if he wishes relief from the reduction. In Queensland and South Australia the reduction is made by agreement between the parties, but if there is a dispute the mortgagor has the right to apply to the court to have the reduction made. Similar provisions apply to interest payable on contracts for the purchase of land by instalments and on hire-purchase agreements. In most of the States the rights of mortgage holders and vendors of land to recover principal sums by legal action, sale or foreclosure are now to be exercised only by order of a court; but in some States the legislation has been so worded as not to prevent a mortgage holder from agreeing to accept payment of an overdue mortgage by advancing a new loan at 6 per cent., in which case the mortgagor cannot obtain a protection order. The interest on company debentures (if secured by mortgage) and on the loans of local authorities is similarly reduced. Some of the States exclude banks, others include them in these provisions; but in every State there have been reductions both of overdraft and fixed deposit rates. In addition to

the general legislation, some States have passed special legislation for the protection from their creditors of farmers and unemployed tenants of houses. Interest payable under contracts which give no security over property is not affected by the legislation. Interest on new mortgages is not affected, but the rate is tending downwards. In New South Wales and Victoria all rents have been reduced by 4s. 6d. in the pound. In New South Wales also the rate of dividend on preference shares fixed by the memoranda and articles of companies has been reduced by 4s. 6d. in the pound.

The periods for which these alterations are to remain in force vary. In some States mortgage interest is reduced for the whole term of the mortgage; in others for one to three years. In New South Wales no term is fixed for the reduction of dividends on preference shares, but it is possible to avoid the reduction by reconstruction of the company. The reduction of rents lasts only until December, 1932.

It is difficult to assess the effect of these statutory interferences with private contracts. Very large sums of idle money are accumulating; but how far disinclination to invest is due to the fear of legislation that might affect the lender's or investor's rights, and how far to uncertainty as to present values and future prices, no one can say. Australia has long been accustomed to much parliamentary regulation of private affairs, and it may be that the latest extension of such interference will have fewer ill results than in a country less disciplined in the past.

As to the reduction of costs, a saving of less than a quarter of the interest on borrowed money used in industry seems too small to have much direct effect on manufacturing costs; but the saving will greatly assist farmers and graziers who have incurred charges on their properties based on values far in excess of what is justified by the present price of their products. Whether or not an important reduction of costs has been achieved, it seems

clear that the legislation is far from bringing about an equality of loss, either present or future, among lenders and investors. If adjustment of the burden of money claims to changes in the value of money is to be a permanent object of policy, there would be a nearer approach to equality if the amount of all future debts could be made to vary with some general index of prices.

The effect of the world economic crisis on Australia, and the means taken to combat it by Parliament and industrial tribunals, may be summarised. Prices realised in Australia for the principal exports have fallen on the average since 1928–29 by over 50 per cent.; in terms of gold, the prices are only 30 per cent. of what they were some few years ago. The national income, £650 million in 1928–29, was probably no more than £460 million in 1930–31; unemployment, in normal times about 8 per cent., but as high as 13 per cent. in 1929, now stands at 28 per cent. The total deficits of Governments, Federal and State, which were £31 million in 1930–31, and threatened to grow to £41 million in 1931–32, will be reduced according to the revised budgets to £18 million in the current year; results so far indicate a further improvement on the budget estimates. Interest payments on loans contracted in Australia by Governments and local authorities are reduced by 22½ per cent. of their former amount; this reduction runs for the whole term of the converted securities—varying from 7 years to 40 years. Nearly the whole of the interest payable on mortgages and contracts of purchase of land is reduced by 22½ per cent. of the former amount; this reduction—unless there is further legislation—will last on an average not more than two years. Wages in most of the industries under awards of the Federal Arbitration Court have been reduced on the average by 28 per cent. below the rates prevailing in 1929; this reduction, however, varies from quarter to quarter with the Commonwealth Statistician's index number of retail food prices and house rentals. The State industrial

courts (except in New South Wales) have also made substantial reductions of wages.

These readjustments in the distribution of the country's income have been accepted with unexpected readiness, and the disturbance to business has been surprisingly small. Not a little of this adaptability must be attributed to the widespread knowledge of the price-index just mentioned, which by its use in the Arbitration Courts has assisted the public to think of money incomes in terms of purchasing power. There has, inevitably, been much hardship from loss of income, but the appearance of fairness presented by the scheme of adjustment has been a great assistance in procuring its acceptance.

Australia.
December 31, 1931.

Postscript

It was announced in *The Times*, February 11, 1932, that Mr. Bruce, formerly Prime Minister of the Commonwealth, and a member of the present Australian Cabinet, will head the Australian delegation at Ottawa, and that after the Conference he will act as Minister representing the Commonwealth in London. The appointment of a resident Minister in London, to take over at least temporarily the functions of the High Commissioner, is a development of great significance in the political relations of the Empire. (See The Round Table, No. 64, September 1926, p. 682; No. 66, March 1927, p. 231; and No. 81, December 1930, p. 100.)

SOUTH AFRICA

I. The Political Situation

At the moment the political situation in South Africa turns upon the controversy over the gold standard. The Government have linked their fate with its maintenance, and all our resources and all the party loyalty of their supporters in the country will be drawn upon to the utmost to avoid defeat. As this question is dealt with in another section, there remain under this heading only one or two matters of which something will be heard during the ensuing sitting of Parliament, but which are not at present in the first line of public interest. The Bills dealing with the representation of natives and coloured persons in Parliament are still before the Joint Committee of both Houses, which has been reconstituted for the session. It is apparently expected that the Bills will be finally reported during this session, and that they will be accepted or rejected by the present Parliament, so that in the event of rejection a general election can be fought on that issue. So far, the proceedings in the Joint Committee have been kept entirely secret; hence it is impossible to forecast in what form the Bills will emerge from it, or what amount of support the final report will receive in the Committee. The appointment of the Committee was welcomed as an attempt to remove from the arena of party controversy legislation on a matter lying so close to the roots of our political life. Experience in the gold standard controversy, however, has led many to doubt whether

the private judgment of members who support the Government will ever be allowed to run counter to the claims of party loyalty.

Another of our many racial complications is at present the subject of a conference, a sort of small scale Round Table Conference, between the Union Government and the Government of India. The main subject of this conference is the agreement, or agreed statement of policy, which was adopted and published after the meeting of a similar conference in 1927. That event marked the opening of a new epoch in the relations between India and the Union. For the first time the representatives of the two Governments met in conference to discuss the many difficult and delicate problems arising from the relations of the European and Indian populations in South Africa. Such a meeting involved for each side a departure from its traditional position. The Union conceded to the Indian Government a right to interest itself in, and make representations about, the condition of the Indian population here in respect of the domestic legislation of the Union. The Indian Government, on its side, accepted the policy of the Union Government to reduce as far as possible by repatriation the numbers of its Indian population, and was prepared to lend its assistance to a scheme whereby repatriation should be promoted on a more extensive scale than hitherto. From the conference there resulted an agreed statement of policy in regard to the status of Indians in the Union on the one hand, and on the other to the assistance to be given by the Indian Government to a more generous and efficient scheme for encouraging the emigration of Indians from South Africa. But perhaps a more important result of the conference was the appointment by the Government of India of an Agent-General in the Union. That step and the fact that the first Agent-General was the Right Hon. Srinivasa Sastri gave South Africa an entirely new outlook as regards India and its people. His successor, Sir Kurma Reddi, has well and ably carried on

the work which he took over, and, though outwardly the difficulties arising from the presence in South Africa of a comparatively large and progressively assertive Indian population do not seem to be nearer solution, the two Governments have been brought into friendly relations, and full and frank discussion has replaced an atmosphere of misunderstanding and protest.

It was a tacit understanding at the previous conference that the position should be reviewed in, say, five years' time, and this review is now in progress in the form of a second conference. The former conference was a meeting of members of the Union Government on the one side and the representatives of the Government of India on the other. There was, however, a tacit understanding between the Government and the Opposition, which on the whole has been loyally observed, that the Indian question should as far as possible be kept out of party politics. On this occasion the Union is represented at the conference by three Ministers and two members of the South African party, so that any agreement which may be come to may be regarded as the joint responsibility of both the main political parties. The policy of repatriation contemplated by the existing agreement has not fulfilled the expectations that were formed of it by the Union, and it is generally recognised that if any simplification of our problem is to be found in the emigration of Indians now in South Africa it will not be along the old lines of repatriation to India. Whether the present conference will result in a new agreement on different lines, or will be content with an interchange of views and the maintenance of existing relations, will be a matter of history before this appears. In any case our Indian question—the impact of the Indian upon the European population, growing in extent and intensity as the Indians advance in education and competitive efficiency—will be with us for many years still.

The financial outlook is far from reassuring. In spite of economies both in the general government services and in

the railway administration, the current year of account will end with substantial deficits. Further retrenchment and taxation appear to be inevitable and will prevent or neutralise any appreciable fall in costs such as the champions of the gold standard have promised us. The position of the agricultural industries is in many parts of the country almost desperate. Fortunately the gold mines of the Transvaal maintain to the full, or even exceed, their past records of production. That alone stands between us and much more serious trouble.

II. The Battle of the Gold Standard

DURING the past three months the burning questions of the hour, discussed ceaselessly from the platform, in the press, and in private conversation even among persons who normally evince little interest in politics or economics, have been whether South Africa will leave the gold standard and, if so, when. In attempting to answer these questions account must be taken of two separate and partly independent factors—the financial and the political.

The chief financial difficulties which the Government have had to face in carrying out their policy have been due to the great outflow of capital to London, mainly for more or less speculative purposes, the reluctance of many exporters to sell at present prices, and the refusal of owners of funds outside the Union to bring them into the country, until compelled by sheer necessity to do so, in face of the heavy loss to be incurred by realising depreciated sterling. The combined result of these factors has been that, in spite of "rationing," the demand for foreign exchange has been quite abnormally large, while the supply has been unusually small.

Until the beginning of November the excess demand for sterling was met almost entirely out of the London

balances of the Reserve Bank, which on September 18 amounted to nearly £6½ millions. By November 6 these had been completely exhausted, and the sole liquid asset remaining to the Bank was its gold holding of slightly over £6 millions, almost all of which was required as legal backing for its notes and other liabilities. It was known that the efforts which had been made to raise a foreign loan in New York, Paris or Amsterdam had resulted in failure, and during the first days of November it appeared probable that the gold standard might be abandoned at any moment.

Towards the end of the second week of November, however, it became known that the Government had succeeded in inducing the two principal commercial banks to undertake to contribute to an exchange pool the sum of £5 millions from their London assets. At the same time the Reserve Bank rate was belatedly raised from 5 per cent. to 6 per cent., thus permitting, in terms of the Currency and Banking Act, a reduction in its legal ratio of gold reserves to liabilities to the public from 40 per cent. to 32½ per cent., and making available for export in support of the exchange an additional £1,150,000; and it was announced that if necessary the conditions of the Act would be modified to allow of the disposal of additional quantities of gold without increasing the bank rate to the level laid down in the Act.

It is no secret that the commercial banks consented to subscribe their share of the pool only with the very greatest reluctance. In contrast to the Reserve Bank, which had had its liabilities entirely in the Union but its assets largely in London, and which had therefore suffered very heavy losses, the commercial banks' liabilities and assets outside the Union were on September 19 approximately equal. They had, therefore, hitherto suffered practically no losses, and, so long as they were able to maintain this balanced position, any alteration in the exchange rates would affect their liabilities equally with

their assets and they could view with equanimity even the most violent fluctuations. Once, however, they had reduced their London assets without a corresponding reduction in their London liabilities, any improvement in sterling relatively to the South African pound would involve a greater increase in their liabilities than in their assets and would involve them in serious loss.

As the negotiations were carried on in secrecy, the means by which the Government induced the banks to abandon their balanced position and to undertake what was, in essence, a large-scale speculation in foreign exchange, are of course not known. It is, however, possible to make certain guesses which are probably not far from the truth.

In the first place, the commercial banks were at that moment in an economically vulnerable position. In order to pay for the abnormal quantities of foreign exchange which they had bought from the Reserve Bank to sell to their customers, they had already rediscounted practically all the eligible local bills which they had in their portfolios, and had probably been compelled to avail themselves of other facilities besides. The curtailment or withdrawal of these facilities by the Reserve Bank would have rendered them unable to pay for the legitimate exchange requirements of their customers, and they would have been compelled either to sell exchange for which they had not obtained cover (which was, of course, just what the Government was trying to induce them to do), or rigorously to curtail their sales of exchange. This latter step, while offending many valued clients, would have been of no real help to the banks, for the Reserve Bank could then have sold exchange to their customers direct, receiving payment in the form of cheques drawn on the commercial banks. The consequent heavy adverse clearing balance with the Reserve Bank would have depleted their balances with that institution, and in the absence of rediscount or other facilities would ultimately have caused their reserves to fall below the legal minimum, thus rendering the banks

liable to the heavy penalties laid down in the Currency and Banking Act.

The obvious counter to this would have been for the commercial banks to strike at the Reserve Bank's source of supply of foreign exchange by outbidding it for the new gold coming from the mines; but the Government intimated that they were not prepared to allow this, and that if such measures were attempted they would take powers to compel the mines to sell their output to the Reserve Bank only.

The only line of defence still left open to the commercial banks was the rigorous restriction of advances, thus checking imports and compelling some owners of money outside the Union to bring it home. This action the banks have taken, so far as is possible without imposing too drastic a handicap on the business of the country, but its effects are necessarily slow.

On the economic side, therefore, the banks were faced with the choice between acceding to the Government's demands or being placed in a position in which they would be compelled to incur legal penalties. It is possible that if they had stood firm the Government's legal powers would have proved impossible to enforce without bringing to a standstill the whole business of the country. This, however, would have involved the banks in a direct political struggle, probably tinged, since both the chief banks are now London companies, with more than a trace of racialism; furthermore the Government let it be seen that it held behind its back the weapon of a State bank, and while in normal times the commercial banks would probably regard the institution of such a bank with nothing more than annoyance, the threat of the institution of a State bank in circumstances which might give it the support of a strong wave of racial feeling could hardly be regarded with equanimity. Even if the banks had been successful in standing out, their open defiance of the Government would have involved them in an exceedingly bitter political controversy, which would probably have resulted in the

permanent estrangement of a large section of their customers and would have laid them open to various forms of official persecution, perhaps for many years. On the whole it is not surprising that they allowed themselves to be coerced into promising to use £5,000,000 of their London assets to support the South African pound and the Government's policy.

Whether this will in fact result in serious loss to them is still in doubt. After completing their contribution to the pool the banks will have sold £5,000,000 of sterling in exchange for little more than £3,650,000 in South African currency. If they can subsequently buy the whole amount back at approximately the same rate they will, of course, suffer no loss; but if, before they have replaced it, the British pound appreciates in terms of South African money, they will need to pay for it substantially more than they have received, while if the British pound returns to parity with gold, or the South African pound falls to parity with sterling, before they have replaced any of it, they will suffer a loss of over £1,300,000. This loss, while serious, would not be disastrous, for the amount is covered several times over by existing reserves. The effect of the position is, however, to be seen in the heavy fall which has taken place in the values of South African banking shares.

Shortly after the inauguration of the exchange pool a special session of Parliament was held, and the alterations in the Currency and Banking Act were legalised. In addition, the Government took powers to make regulations having the force of law "in regard to any matter directly or indirectly relating to currency, banking, or exchanges" and to "suspend any Act of Parliament or any other law relating to currency, banking, or exchanges." The Government's legal powers under this Act appear to be almost infinitely wide.

Since the formation of the pool the technical exchange position has become very much easier. Between Novem-

ber 6 and December 31 the Reserve Bank increased its holding of gold from £6,072,000 to £8,104,000 and its holding of foreign bills from nil to £41,000. Even, therefore, if we assume that the commercial banks had by the end of the year contributed the whole of their promised £5,000,000 to the pool, the net loss of foreign exchange and gold to the country as a whole was less than £3,000,000 in eight weeks, as compared with a loss of nearly £6,500,000 in the seven weeks from September 18 to November 6. Furthermore, it appears that the intense financial stringency is now beginning to have its effect in a marked reduction of imports, while it is believed that some of the funds at present being held by Union nationals outside the Union will soon be forced to return. From the purely exchange standpoint, therefore, the Union should now be able to maintain the gold standard for several months and perhaps permanently.

While, however, on the economic side the Government's difficulties have diminished, on the political side they have greatly increased. Public opinion throughout the country appears to become more and more hostile to the Government's policy, and many different sections of the community are demanding the abandonment of the gold standard, which, it is generally believed, would be followed by a return of South African currency to parity with sterling, a rise in the apparent price received by the South African exporter and the end, or at least the marked alleviation, of many economic troubles.

In the opinion of the writer it is unlikely that, in the absence of inflation, the abandonment of the gold standard would in fact result in the permanent establishment of the South African pound at parity with sterling. Thanks to the gold mines, the economic position of this country is fundamentally strong, and the return of the South African pound to parity with sterling would probably be followed by an inflow of capital almost as large as the abnormal outflow which has been causing so much trouble during

the last few months. This would not improbably cause the South African pound to rise again to a premium over sterling, and thereafter to hover, with considerable fluctuations, somewhere between parity with sterling and parity with gold.

However this may be, the wool farmer, at present receiving an average price of about 5d. per lb. for his wool, in place of the 1s. 3d. of three years ago; the producer of hides and skins, the prices of some types of which barely cover cost of transport; exporters of fruit, wine, eggs and dairy produce, now dependent almost entirely on the British market, all believe that the abandonment of the gold standard would bring an increase of nearly 40 per cent. in the price which they receive for their produce, and the disappearance of the imminent threat of bankruptcy which hangs over many of those who have bought and mortgaged their farms at the grossly inflated prices of land which have ruled during the past few years.* The man dependent on overseas or Rhodesian dividends, remittances, or pension believes that it will mean the restoration of his income to its former level. The hotel keeper hopes for the removal of the check which the adverse exchange rate is causing to the tourist industry, both from Rhodesia and from overseas. Business men generally expect the disappearance of the element of uncertainty which the absence of a forward exchange market makes inevitable during a period of fluctuating exchange rates; for the removal of the existing restrictions on the sales of exchange by the banks; and for some relaxation of the present acute financial stringency. More important still, to the gold-mining industry it seems to offer the long-sought opportunity of rendering profitable the working of the great masses of low grade ore which at present lie just below the margin of profitability,

* Local manufacturers likewise hope to enjoy a decrease in the severity of the competition from imported goods, and to recover their Rhodesian markets, which they are now in danger of losing almost entirely since both Rhodesias have followed sterling.

and a great extension of the lives of the mines; while to the gold-mining shareholder it appears to offer higher dividends, reduced need for amortisation, and a considerable appreciation in the capital value of his holding.

To all these and many others the gold standard appears as a barrier inexplicably maintained by a tyrannical Government to prevent them from entering the promised land, and in the circumstances it is not surprising that the agitation for leaving it has now attained very considerable proportions, even in quarters which normally support the Government. After some hesitation, the leaders and press of the Opposition are now lending to this agitation their fullest support, and the South African party have thereby obtained the first generally popular plank in their programme that they have had for years.

In face of this agitation the Government have hitherto maintained a bold front. They state that they are absolutely determined to stay on the gold standard, that they are confident of their ability to do so, and that nothing and nobody will divert them from their chosen path. This determination they support by various arguments. In the first place it is claimed that the competitive advantage which the countries that have left the gold standard have obtained is only temporary, that the price and wage levels in these countries will in due course adjust themselves to world parity, and that the present difficulties of this country will gradually disappear. Meanwhile they have arranged to assist the producer for export during the period of transition by giving a subsidy for one year of 10 per cent. (in a few cases 15 per cent.) on all exports of primary produce except gold, diamonds and sugar. The subsidy, which is financed by a 5 per cent. primage duty on all imports, is to be paid direct to the producer, and it is understood that the administration of the scheme has hitherto encountered some practical difficulties. In addition, a dumping duty, equal to the exchange depreciation in excess of 10 per cent., has been imposed

on all imports from countries off the gold standard which are considered to compete with local production.

The Government's faith in the temporary nature of our producers' difficulties would be more easily shared if they were indeed mainly due, as the Opposition also is inclined to infer, to the widespread abandonment of gold. In fact, however, it seems probable that they are due rather to the lack of internal adjustment to the continued fall in world prices, and it may be doubted if our exporters would have been very much better off even if Great Britain were still on the gold standard. He is a bold man who would definitely commit himself to the prophecy of any substantial rise in world prices in the near future.

Another argument which is frequently used by supporters of the Government's policy is that the abandonment of gold would be followed by a large and rapid rise in prices, followed by demands for higher wages and a period of acute labour troubles. It is of course probable that the mine-workers would demand a share of any increased profits earned by the gold mines, and their example would possibly be followed to some extent by workers in other industries. There would also be a considerable rise in the prices of imported goods (though the consumer does not seem as yet to have benefited from their fall to any great extent). Nevertheless, judging from the experience of other countries, in the absence of inflation, it would appear unnecessary for the cost of living to rise by more than, say, 5 per cent. The fear of a large and rapid rise would, therefore, seem to be due to some expectation of inflation. No doubt many of the interests now pressing for the abandonment of gold would be disappointed at its results, and would then proceed to press for some measure of inflation, open or concealed; but this could only take place through the action or negligence of the Government, and for the Government to assume that the abandonment of gold would be followed by inflation is tantamount to their expressing a lack of confidence in themselves.

Another and very strong reason for the Government's policy is that they will thereby save not much less than £2,000,000 per annum on the interest on the country's foreign debt. This will be more than welcome to our Finance Minister, Mr. Havenga, or rather, since much of this debt was incurred on behalf of the railways, to both Mr. Havenga and Mr. Malan, Minister of Railways, both of whose accounts would otherwise probably show a very substantial deficit on the year.

Finally, there has been some tendency on the part of certain members of the Cabinet to leave the narrow and thorny by-ways of economic theory for the broad and well-trodden highway of political rhodomontade. According to them, to leave gold would be to acknowledge that the Union is the economic slave of England, whereas to stay on gold is a sign of our growing independence, economic as well as political, from the hampering and ignoble fetters of the British Empire. He who thinks otherwise is no true South African. To make the Union's economic independence even more manifest, we are now promised a new currency with a good South African name, subdivided on the decimal system. The change-over, at a time when there are already a fair number of complications in the way of trade, will scarcely be welcomed by the business community; and it is hard to see in what way it can provide any remedy or alleviation for our present difficulties.

The palliatives offered by the Government appear to have gone some way towards satisfying local manufacturers, but by the farmers they are declared to be altogether inadequate. The agitation for abandonment grows from day to day, and it seems not unlikely that the Government may have a little trouble with some of their own supporters when Parliament meets at the end of this month. Many rumours are circulating—that the Government will change their policy; that they will resign voluntarily in order to test the feeling of the country at a general election; that they will be forced to resign by a revolt of their own back-

benchers; that they will take advantage of the introduction of the new currency to camouflage a measure of devaluation, thus keeping the letter of their undertaking to remain on the gold standard.

On the whole, it seems probable, though by no means certain, that none of these things will happen. The Government missed their chance of sliding gracefully off the gold standard when they insisted on coercing the banks last November. They could easily have failed to do so, and could have then covered their retreat by laying the blame on the banks. Now that the physical necessity of the step is more remote, it will be difficult for them to abandon the position they have so emphatically taken up. Further (though this argument may carry only a doubtful weight), after conscripting the banks to become their allies in the battle in defence of the gold standard, to betray them deliberately to heavy losses would be one of the meanest actions in the political history of the country. It is even less likely that the Government would choose this singularly unpropitious moment to go to the country. Parliament has more than two years of life left, and there is always the hope that by 1934 the worst of the depression will be over and the farmers ready to listen to the well-worn speeches of their leaders once again. Again, the Nationalist back-benchers are good party men, and while it is not inconceivable that they might carry their revolt into the division lobbies, it is more probable that they will be satisfied by further palliatives and will avoid the necessity for an immediate election, which would result only too probably in the accession to power of the hated Opposition. The devaluation rumour is more credible. But it has received no sort of confirmation from any responsible source, and must for the present be disbelieved.

On the whole, it seems probable that this Parliament will run its full course, and that the Government will maintain their policy, although they will probably have to give various further sops in the shape of increased tariffs,

bounties and subsidies in order to prevent their followers from getting out of hand. Unfortunately they have as yet shown little sign of realising what are the necessary economic concomitants of their policy. For any one country, while keeping its currency at parity with gold, to attempt to maintain a more or less fixed level of prices and wages in the face of a continuous fall in the world price level must result in a position of extreme economic disequilibrium, maintainable only with the help of a large assortment of artificial props.

It is true that the Wage Board has recently shown rather more appreciation of what is economically possible in making awards, while the ill-effects of wage-fixation by law appear to an increasing extent to be palliated by "widespread and systematic evasion." Nevertheless the majority of skilled and semi-skilled wage rates are still legally fixed at high levels under the Wage Act and the Industrial Conciliation Act; prices of wheat and sugar are to all intents and purposes fixed by law at something over twice the world level; prices of maize, butter and cheese are maintained by an artificial local scarcity caused by compulsory export. Prices of imported goods are maintained and increased by customs, primage and dumping duties. Since 1928 the cost of living (food, fuel, light and rent) has fallen by little more than 5 per cent., while more or less comparable falls abroad are: in the United States 15 per cent., and in the United Kingdom 12 per cent. in terms of sterling and 36 per cent. in terms of gold.

In the circumstances, the outlook for this country is not cheerful. The present indications are for continued artificial aids to producers at the expense of the taxpayer; the continuation of exchange restrictions for an indefinite period; and a continuation and intensification of the present financial stringency, which under free competition would lead to a lower price level, but in the artificial conditions here prevailing is more likely to result in

decreased consumption at existing prices, a further fall in production and imports, a rising level of unemployment, and a general intensification of the depression. In the long run, of course, if world conditions do not improve, something must break; but whether it will be the gold standard or the arbitrarily fixed level of prices and wages it is as yet impossible to say.

Note.

Since the above was written, the Reserve Bank has issued a statement in which it announces that in view of the large surplus of visible exports (£17·9 millions for 1931, compared with £17·1 millions for 1930), and a considerable estimated reduction in the net total of invisible imports, it considers that this country can maintain the gold standard permanently, even in the absence of overseas loans.

Subsequently the Government announced the following increases in export subsidies: wool and mohair, from 10 per cent. to 25 per cent.; fresh frozen meat, from 10 per cent. to 20 per cent.; fresh fruit and eggs, from 15 per cent. to 20 per cent.

The cost of the additional subsidies is estimated to be in the neighbourhood of £1 million, and it is not yet clear how they will be financed.

These measures will have two mutually compensating effects on the position of the commercial banks. On the one hand the unlimited selling of exchange by the Reserve Bank to customers of the commercial banks will tend to cause these banks to require additional rediscount and other facilities from the Reserve Bank; on the other, the disappearance of the "outside" market for exchange and the greater willingness of producers to export in consequence of the increased export subsidies should enable the commercial banks to purchase increased quantities of exchange, to sell exchange more freely themselves, and to reduce the necessity for their customers to have recourse to the Reserve Bank.

South Africa.
January 1932.

NEW ZEALAND

I. The Coalition

IT was explained in our last article that the United and Reform parties eventually came together as the outcome of a series of sittings of a special economic committee, drawn from all parties in the House of Representatives, to consider the state of the country. It was never expected that Labour would enter into any coalition with the other parties, and the statements of Labour members of the special committee in the House on September 18 confirmed that opinion.

On the same day the Prime Minister, Mr. Forbes, declared that the information so far laid before the committee made it clear that action must be taken with regard to the finances of the Dominion, and that "as a result of conferences between representatives of the Opposition (Reform) and Government (United) parties in the House the two parties had agreed to form a coalition Government." The next day he definitely announced that he could not allow the committee to continue "unless an agreement was come to for the formation of a national Government and the postponement of the elections." The leader of the Reform party declared that he must consult his party, and the committee, for practical purposes, ceased to exist.

When the House met on September 22, Mr. Forbes announced the formation of a coalition Ministry consisting of ten members, five Reform and five United, to carry out the remedial measures required in the interests of the

country. The following were the members of the new Cabinet:

Right Hon. G. W. Forbes (U.), Prime Minister, Minister of Railways and Minister of External Affairs.
Right Hon. J. G. Coates (R.), Minister of Public Works, Minister of Transport and Minister in charge of unemployment.
Hon. E. A. Ransom (U.), Minister of Lands.
Hon. W. D. Stewart (R.), Minister of Finance, Minister of Customs and Attorney-General.
Hon. Sir Apirana Ngata (U.), Native Minister and Member of the Executive Council representing the native race.
Hon. J. A. Young (R.), Minister of Health.
Hon. R. Masters, M.L.C. (U.), Minister of Education.
Hon. D. Jones (R.), Minister of Agriculture and of Mines.
Hon. J. G. Cobbe (U.), Minister of Defence and of Justice.
Hon. A. Hamilton (R.), Minister of Labour, Minister of Internal Affairs and Postmaster-General.

It was at once noticed that a preponderant representation had been given to the agrarian interest. For of the ten Ministers Messrs. Forbes, Coates, Ransom, Masters, Jones, Cobbe and Hamilton represented the country population, and Mr. Downie Stewart, who, after Mr. Forbes, was more directly responsible than any other man for the coalition, was the sole representative of the large towns. Another feature which at once challenged criticism was the assignment to Mr. Masters, a member of the nominated Legislative Council, of the portfolio of education. For many years it has been understood that the more important departments of State must be administered by Ministers holding seats in the popular chamber. The heavy expenditure on education had given rise to widespread complaint, and the idea that the pruning knife was to be applied by a Minister beyond the reach of popular disapproval created a certain nervousness. The only members of the Cabinet who were new to ministerial rank were Mr. Jones and Mr. Hamilton, two strong farmers' advocates from the South Island. Mr. Masters, however, though now for the first time in charge of a department, had been,

since June 1930, a member of the Executive without portfolio.

In a candid statement to the House, Mr. Coates declared that the Reform party believed that it was the duty of every member of the party to endeavour to assist the country in its hour of need. When Labour, impatient to appeal to the country, pressed him to say whether the elections were to be postponed, Mr. Forbes replied that that was a matter for the Government to consider. The House then adjourned for eleven days to enable the new team to formulate its policy.

The public welcomed the coalition with unbounded relief, even if there seemed to be some personalities in the new Cabinet who could not be expected to work well together. Hopes were, however, centred upon Mr. Downie Stewart, who resumed his old portfolio of Finance. His careful study of economics, his long experience of office, and the happy balance of his cross-bench mind seemed to supply a pivot upon which the new combination could work smoothly.

The shuffle of portfolios was not without its little heart-burnings. One incident which was not anticipated was the appointment of Sir James Parr to the leadership of the Legislative Council. The Prime Minister announced on October 9 that Mr. Masters had asked to be relieved of his duties as leader of the Council, so that he might devote his energies to the control of the Education Department. He would continue to be the ministerial representative in the Council, but Sir James Parr would be the leader of that chamber. It cannot be said that the public was prepared for this appointment either. It is true that the Prime Minister was only following precedent in appointing a retiring High Commissioner to the Legislative Council; but the Government had, for reasons of economy, refrained from filling vacancies in the Council, and Sir James had already taken steps to re-enter politics in the popular House by announcing his candidature for

the Waikato seat in the Reform interest. His appointment to the Council was warmly resented by a section of private members, especially by some of the rank and file of the United party, many of whom had sacrificed their own positions to facilitate the coalition. The unrest which resulted on the back benches was probably encouraged at the time by the feeling of independence in the minds of private members due to the belief that the life of Parliament was to be extended by two years.

II. The New Financial Policy

ON October 6 the House settled down to a short period of serious business. The budget for the financial year had already been submitted in July, but the shifting economic conditions necessitated a new spasm of taxation. Mr. Downie Stewart's "supplementary financial statement," read before crowded galleries and an attentive House on October 6, was a startling revelation of the way in which the financial position was drifting, and of the impossibility of "pegging down" any estimates of revenue as reliable. The situation, moreover, was daily growing worse. Further shortfalls of revenue, together with inevitable additional expenditure on unemployment and other forms of relief, called for an additional £1,595,000 for the current year over and above the heavy provision already made in the main budget. The deficit for the year was now estimated at £8,445,000. Mr. Stewart first dealt with the proposal that New Zealand should seek relief by means of some such drastic readjustment as Australia had adopted, but the conversion of loans was not, he considered, a hopeful avenue to economy in our case, since the average interest paid on New Zealand's debt was only 4¾ per cent. Moreover, there were no large loans approaching maturity at the moment.

In the next place (he continued) any compulsory reduction of interest payable to bondholders would in reality mean default by

the State, and would seriously damage our credit. Whatever the position of private borrowers may be, the State is still able to pay its debts. In my opinion, it could not, and should not, plead inability to pay when the bondholder demands his interest. . . . Moreover, the State is not only a borrower, but a lender of many millions through the State Advances and other departments. If a concession were extracted from the bondholders the State would be expected to pass this concession on to its borrowers. But many of these borrowers have been financed out of loans raised overseas, and under no circumstances could the State claim relief in respect of overseas interest payments. . . . The State would lose more than it would gain, by some hundreds of thousands of pounds. It is well known that mortgage charges are perhaps the chief source of embarrassment to farmers and others . . . but an arbitrary reduction would drive capital away from this class of investment. This would not be in the interests of borrowers themselves. . . Finally, as the State holds about one-third of the mortgages in the Dominion, a reduction in mortgage charges alone would seriously prejudice the budgetary position. It may be argued, however, that although the State is in no position to claim a reduction of its interest payments to its bondholders, nevertheless these bondholders enjoy a secure income, and should be called upon to share in the sacrifices which the whole community is being forced to bear. I agree with the view. But the most effective way to see that the holders of Government bonds bear their share of the general burden is through taxation. If taxation is fairly and justly applied there is no breach of contract between the Government and its creditors.

Important proposals were put forward for the relief of the farming community. Without altogether turning a cold shoulder on the derating of farm lands, the Government proposed to hasten the inquiry by a Royal Commission into local government generally and in the meantime to devote to the relief of rates on farm lands a sum of £250,000, which will be available this year from the Main Highways Fund, intended for normal road construction. Acting upon the recommendation of the Royal Commission on the Land and Income Tax in 1924, the Government proposed to abolish the old graduated land tax, retaining, however, the flat rate of one penny in the pound on the unimproved value of land. "To a considerable extent," it was pointed out, "the burden will fall collectively on

the same shoulders as formerly paid the graduated land tax, although the individual incidence will be different. All income will then be treated alike." This would involve a net burden of £320,000.

As a further measure of relief to farmers the Government accepted the view put by several witnesses before the Economic Committee :

Maintenance of production can be greatly stimulated by fertilisers. It is found that there has been an alarming falling-off in the use of these manures, brought about, no doubt, by the efforts of the farmers to cut down expenses. Under these circumstances it is essential that the prices of fertilisers should be reduced. For this purpose the Government has arranged to share a substantial portion of the cost of the raw phosphate rock. The cost to the Government for this year is estimated at approximately £100,000.

The Minister left to the last a form of assistance which farmers' organisations have for years past declared to be the most important of all, namely, relief from the burdens imposed by the Industrial Conciliation and Arbitration Act.

It is considered (he said) that many conditions and restrictions now in operation in Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference, the chief feature of which is known as compulsory conciliation and voluntary arbitration.

This proposal, to which we shall return on a later page, was most stubbornly fought by Labour at every point and had not been accepted when Parliament was prorogued.

Turning to the question of ways and means, Mr. Stewart said that the reductions in expenditure and in the salaries of the civil service made by the Cabinet Economy Committee at the beginning of the financial year, and by the Finance Act in the early session of Parliament, were estimated at

£2,000,000. Further economies to the extent of £1,000,000 a year would, however, be required. They would be effected mainly by a curtailment of services.

Towards the balance I hope (continued the Minister) to obtain £350,000 by drawing still further upon reserves. A large part of the accumulated surpluses of the Consolidated Fund from the war and post-war years was invested in discharged-soldier-settlement mortgages, repayable by instalments over a long period. The £350,000 represents the repayments of principal by the mortgagors that it is estimated will be available during this financial year. . . . As regards customs taxation, the tariff rates are already so high that the law of diminishing returns is operating over many of the items. . . . For the rest I am driven to review the position and the possibilities of further direct taxation through the income tax. . . . I take it that these taxpayers would prefer to shoulder further burdens rather than see reductions made in old-age pensions, soldiers' pensions, and pensions for the blind. They would equally resent any suggestion that the State should default in its interest payments. A reduction in pensions may at any time become an imperative necessity if the world's price-levels remain low, but for the purpose of my present computations I have laid this on one side.

As regards the New Zealand company tax, Mr. Stewart reminded the House that it was the heaviest in the British Empire, if not in the world; and as many of the companies were engaged in financing primary industries it was not proposed to tax them further. Individual taxpayers had already had their burdens increased by the main budget from 10 to 30 per cent., but "the receiver of gilt-edged income is called upon in these times to bear his share of the burden. He is more concerned than anyone else to see that the State remains solvent." The Government proposals were:

(1) To impose a special emergency tax on the unearned income of individuals equal to one-third of the income tax payable on such unearned income, and to eliminate the 10 per cent. deduction at present allowed on earned incomes up to £2,000.

(2) To include in the assessments (but only for the purpose of fixing the rate and the general exemption) all tax-free income and income taxed at the source, and to remove the present discrimination

in favour of income derived from certain local-body and company debentures.

(3) To impose a special flat-rate tax of 4d. in the pound on incomes of individuals, after allowing a general exemption of £500.

The effect of these alterations with the abolition of the graduated land tax would be a net additional yield of about £230,000. It was not proposed to provide any money this year for State advances, but repayments would be available for additional advances. The additional loan capital for public works would be restricted to £4,750,000; so that in these two departments together there would be a reduction of 50 per cent. in the amount borrowed as compared with the last financial year. In conclusion the Minister confessed frankly that

the best way to cope with our problems while conditions are changing so rapidly would be by a financial dictatorship. As that is not politically possible, the next best course is to make provision to meet the position as we find it now, and review it again before the end of the financial year, so that if necessary and if practicable further steps may be taken to check any further drift and maintain stability in our public finances.

The House forthwith adopted the resolutions increasing the duties on tobacco by 8d. per pound and on motor spirit by 2d. per gallon. Incidentally, a strong demand was made for an inquiry into the retail price of petrol in New Zealand, now standing at about 2s. per gallon, and the Highways Finance Committee declared that it was not justified by wholesale prices oversea.

The concessions made to the country as compared with the urban interest incurred the censure of a section of the press, but the decision not to reduce interest rates on mortgages, etc., met with general approval in the newspapers.

On October 7, the day after Mr. Stewart's statement, a battle royal developed over the question of the cessation of railway construction. When the United party came into office at the end of 1928 it was pledged to a vigorous construction policy, and in spite of the recent change in the

economic position of the railways, and of a strong body of public opinion which is against sinking further large sums in railway works, the Ward Government pushed on vigorously with construction. After Sir Joseph Ward's resignation his successor, Mr. Forbes, felt himself bound by the election promises of 1928, but the deepening depression in 1930 compelled him to view the matter from a new angle, and when the Railway Board was set up in April 1931,* one of its first duties was to consider the advisability of going on with these railways. Its report, which was presented to Parliament on September 10, unequivocally condemned the whole of the new lines. The most important of them was the span between Parnassus and Wharanui, the only gap remaining in the South Island Main Trunk connection between Invercargill and Picton. At present the ferry service between the islands runs from Lyttelton in the South Island to Wellington in the North, a distance of about 200 miles. As the crossing is always effected by night there is no loss of time, and the Railway Board took the view of most business people that, even if the line were completed to the extreme northern point of the South Island, Picton would not supersede Lyttelton as the ferry port. Moreover, the Board believed that the country through which the extension would pass was chiefly pastoral land unsuitable for closer settlement, and that the work was not justified on the basis of either the immediate or the more remote prospects. £415,239 has already been spent on this gap and £2,341,761 would be required to complete it. The Board condemned with equal emphasis the Gisborne-Napier, Waiotira-Dargaville and Okaihau-Rangiahua lines in the North Island and the Kawatiri-Inangahua and Westport-Inangahua lines in the South Island. In no case did the revenue prospects warrant the expenditure, and even the fear of adding to the army of unemployed would not justify continuing the work. To complete all these lines would have cost £5,921,924.

* See THE ROUND TABLE, No. 84, September 1931, p. 926.

It was not until October 7 that the House was able to discuss this report. In the meantime local interests had declared their objections to it, and in the Parnassus and Wharanui district affected by the scheme for the extension of the South Island Main Trunk a strong movement was organised to influence the decision of Parliament. A monster deputation representing local bodies in the northern part of the South Island—especially in Marlborough province—travelled to Wellington by special steamer, and, headed by a pipe band, marched to Parliament House to interview the members of the legislature. Later in the day, at Mr. Forbes's instance, the Railway Board's report was made a matter of urgency, and he himself moved its adoption.

The position to-day (he pointed out—by way, as it were, of excuse for his previous loyalty to Sir Joseph Ward's policy) is different from that of 1928. A great deal of water has flowed under the bridges since that time. In 1928 we didn't have the world depression. The financial position of this country is right down to the limit, and unless we face the position the end may be disastrous. If the Government went on to the market to raise money for lines which had been condemned by the Railway Board it would have no chance of getting it. They had to face the facts of the present ; it was no use talking of the past.

The Labour party opposed the Government's policy principally on the ground of the hardship it involved to the men who would be thrown out of employment. A few other members voted with them on purely local grounds, but the Government carried the day by a steady majority of about 40 votes to 24 and the railway extensions were abandoned.

The two main taxing Bills (the Land and Income Tax Amendment Bill and the Land and Income Tax Annual Bill) were dealt with as matters of urgency on October 14. By the former of these measures the level of exemption from income tax is reduced from £300 to £260, subject to further reductions which remove the exemption altogether in the case of incomes of £800. Another important innovation in this Bill brought tax free debentures, a considerable quan-

tity of which were issued during the war, into the computation of income for taxing purposes. Hitherto these securities have been left out of the assessment altogether. Mr. Stewart held the view that the State had contracted not to tax these bonds, and that it would be a breach of contract to impose a direct tax upon them ; but there was no breach of contract, he said, in bringing them in for the purpose of ascertaining the rate at which a taxpayer should be taxed on the part of his income which was taxable. In the case of the other Bill there was a division on the proposal to abolish the graduated land tax, but it was carried by 33 votes to 26, a few Independent and United members voting with Labour.

Of the other measures required to implement the budgetary proposals the most important were the customs resolutions adopted on November 3. Certain changes were made in the duties on tobacco and cigarettes with the idea of protecting the New Zealand industry. The rates on cigarettes made in New Zealand are now 25s. per 1,000 and 10s. per lb., as compared with 33s. 9d. per 1,000, and 13s. 9d. per lb. on the imported article. The reduction of the duty on wheat and flour in accordance with the Government's promise to diminish the excessive protection given to the wheat-growers of Canterbury was authorised ; but members complained that a tax of 200 per cent. on the value was much more than the country could afford in times of reduced income.*

When the Customs Acts Amendment Act was introduced on November 5 Mr. Stewart explained that the increased revenue, amounting to £1,150,000, expected from the amendments in the tariff was composed as follows:

	£		£
Tea	92,000	Chinaware, etc. ..	30,000
Sugar	210,000	Floor coverings, etc.	18,500
Tobacco	240,000	Motor spirit ..	180,000
Apparel and hosiery	86,000	Other items ..	71,000
Silks, etc.	42,500	Primage	180,000

* The duty hitherto has fluctuated about 1s. 6d. per bushel. The prices to be paid to farmers for the 1931-32 season's wheat crop were announced on

The excise duty on beer raised the total to £1,300,000. In connection with the customs it should be mentioned that Mr. Forbes referred during the session to the negotiations with Canada for a reciprocal agreement to end the tariff war that has developed in the last two years.* After the election it was decided that Mr. Stewart, in his capacity of Minister of Customs, should carry on the negotiations, and he left for Honolulu on December 15 to confer there with the Canadian Minister.†

During the latter part of the session the Labour party continued to press for an assurance about the general election, which Mr. Forbes as steadily declined to give. At this time it was the general opinion in the country, founded on remarks made by Mr. Forbes, that there would be an extension of the life of the existing Parliament. The Labour party was, of course, able to base its objection on constitutional grounds ; but there is no doubt that it also entertained hopes of substantial success at the polls. Nor were these hopes unreasonable. Under the stress of economic forces, measures were being considered almost every day which menaced one or other of the privileges gained for Labour after hard fighting in better times. At every point the party stubbornly resisted anything in the nature of a reduction of the standard of living. The salary cuts in the civil service it opposed tooth and nail ; and at every whisper of a threat to the structure of the arbitration system it rose in arms. Nor have such threats been wanting. Reference has already been made to the repeated demands of farmers' organisations that the farming industry should be entirely exempt from the provisions of the wage-fixing machinery of the Arbitration Court.

December 21 as follows: 4s. 8½d. a bushel f.o.b. Lyttelton, Timaru and Oamaru for f.a.q. Tuscan ; 4s. 10½d. for Hunters, and 5s. 0½d. for Pearl. These prices represent a drop in value, as compared with the previous season, of 20 per cent. The millers are allowing 10s. per ton reduction on flour to assist in reducing the price of bread.

* See THE ROUND TABLE, No. 84, September 1931, p. 938.

† It is reported that an arrangement has been reached, but, at the time of writing, it has not come before Parliament for ratification in either Canada or New Zealand, and no details have been made public.

In a prolonged period of prosperity the country was able to stand the additional cost of such restrictions, but depression is a severer test, and a gradually growing section of the public has been inclined to look askance at the system and to wonder whether things would not be better if it were amended. It has, at any rate, been obvious that in the early stages of the present depression many men might have been kept employed for a longer period if it had been possible to reduce wages so as to make them correspond with the reduced returns. The National Industrial Conference in 1928 exhaustively discussed the arbitration system. On that occasion the employers and farmers put forward a proposal that conciliation should be compulsory but arbitration only optional. Labour, of course, rejected this departure from the principle of the original Act. When, therefore, it saw Mr. Jones, an inveterate opponent of the arbitration system, in the Government and this same suggestion of optional arbitration in the supplementary budget, and therefore part of the Government's policy, it felt that the system was indeed in jeopardy. Other factors also tended to strengthen Labour's belief that it would find plenty of support in the country. There was, for instance, the suggestion that pensions might have to be revised. Many of the civil servants, too, a powerful body, were supposed to be ill-disposed to the Government on account of the salary cuts. Then there were the inhabitants of the towns, who as a whole had received less consideration than those of the country; and in all classes of the community there were people who had had heavy burdens of taxation imposed upon them. Labour lost no opportunity, therefore, of pressing its demand that Parliament should be allowed to expire as usual at the end of November.*

* A want of confidence motion proposed by the Labour party leader on October 14, and an amendment with which the Independents intervened condemning the Government more specifically, were defeated by 46 votes to 23 and 46 to 25 respectively.

III. The General Election

ON October 23 Mr. Forbes at last made a definite statement about the New Zealand elections:

> The Coalition (he said) had been formed for a definite period and for a definite purpose, namely, to put measures into effect to enable the country to balance its national budget and to put into operation a policy that would enable the Dominion to surmount the economic difficulties with which it is at present confronted. That could obviously be achieved only by a Government with a stable majority in Parliament, reinforced by a solid backing of the electors of the Dominion; and therefore the Government had decided to seek the approval of the people in respect of what had been done and to give them an opportunity of extending to the Government the fullest measure of confidence.

Both the leaders of the Coalition appealed to the electors to give it a definite mandate. Though no reference had been made during the session to the British elections, it was generally believed that the result was bound to have a considerable influence on a general election in New Zealand. But the very emphatic verdict that the British electors subsequently gave could not at this time have been anticipated, and the Coalition leaders cannot therefore be held guilty of the charge, sometimes levelled against them, of making party capital out of it. Indeed they took the risk against the advice of at least one shrewd independent organ, and in spite of conditions in New Zealand which obviously weighted the issue against them. The following is a typical comment on their decision:

> We cannot (said the *Evening Post*—Independent—on October 24), welcome the decision, but we recognise that it is at least not so fraught with danger as it might have been had the suicidal course of a triangular contest been taken. We are still of opinion that it would have been more courageous and better for the country had the Government chosen to postpone the general election and thus avoid the grave check which must be given to the growth of confidence.

The *Auckland Star* (Liberal) spoke in much the same sense.

Parliament was prorogued on November 11, and on the same day Mr. Forbes announced that the election would take place on December 2. Normally, there would have been a redistribution of seats following on the quinquennial census, which should have taken place on April 1, 1931. There would also have been a licensing poll at the same time as the electoral poll, but this too was abandoned for a similar reason, economy. The campaign was opened by Mr. Holland's speech at Wellington on November 4, outlining the policy of the Labour party. In it he developed further his scheme for the mobilisation of credit and the creation of a State bank, declaring that

> under existing banking laws the Labour party could raise sufficient credit for immediate industrial purposes employing methods somewhat similar to those adopted during the war. . . . The Labour party proposed now to use the national credit for the purpose of economic reconstruction and rehabilitation. . . . A sum of £25,000,000 spread over a three years' period would be sufficient to put the Dominion once again on its feet.

This estimate of £25,000,000 was freely quoted by Coalition speakers as the counterpart of the £70,000,000 which Sir Joseph Ward dangled before the eyes of the electors in the 1928 campaign.

To avoid vote-splitting the Coalition parties supported the sitting member in constituencies held either by a Reform or a United member in the last Parliament, and agreed upon a single candidate to contest other seats. Generally speaking, this agreement was honourably observed, but there were cases in which the candidates previously adopted could not restrain their ambition and insisted on going to the polls. Several seats were in this way lost to the Coalition.

A manifesto was issued by the Coalition leaders pointing out that the income of the people of New Zealand had fallen in the last two years by £30,000,000. The electors had shown their determination to face their crisis

with characteristic courage and resolution, but the situation was changing so rapidly that the Government of New Zealand must be given a free hand to meet new conditions as they arose. Their first purpose would be to maintain the national finances on a sound basis. Though taxation was heavy there was no alternative but national bankruptcy. With 50,000 unemployed they were determined to make all relief work productive; but the real task was to absorb the unemployed in normal industry. Various measures of relief had already been taken to help farmers. New markets would be explored, the quality of produce improved, and every opportunity taken to promote reciprocal tariffs and develop Empire trade. As the price of land fell, settlement would be vigorously pushed on with government assistance, and workers in towns encouraged to augment their earnings on small holdings.

The manifesto of the Labour party declared that the decision would be a vital one between the drift, gloom and depression, for which the present Government was responsible, and organisation, development and employment. With proper organisation no family need lose its home and no citizen go short. The Labour party proposed, under the existing banking laws, to raise sufficient credit in New Zealand to develop the national resources by a bold policy. Taxation could not go on indefinitely, and it was impossible to tax one section to keep the rest working part time. The national income must be increased, and credit was the first essential. A "planned production of national requirements" and the "co-ordination of all government departments associated with primary production" were foreshadowed. Labour intended to promote reciprocal trade with Great Britain and other countries, to explore overseas markets, and to endeavour to prevent undue price fluctuation. It would further develop industries such as coal carbonising, flax dressing, and motor car assembling, reorganise the boot, clothing and iron industries, co-ordinate transport facilities and reduce interest and rent

charges. Finally the party would reintroduce the graduated land tax on large holdings, maintain the arbitration system, and leave intact the existing system of education, hospitals and pensions.

An unpleasant feature of the campaign was the unusual amount of rowdyism at Coalition meetings, though the Labour leaders time and again protested against it, and dissociated themselves from any interference with freedom of speech. When the nominations closed on November 20 there were 185 candidates for 72 seats, as compared with 212 in 1928, but four seats (including those of Mr. Cobbe and Mr. Ransom, "United" members of the Coalition Ministry) were uncontested. As the campaign developed Coalition candidates made free use of the emphatic verdict given by the British electors on the record of the Labour Government, and Mr. Coates claimed that Mr. Snowden's words applied equally well to the situation in New Zealand: "I do not exaggerate (he declared) when I say that the real issue is between prosperity and ruin." Mr. Stewart, too, speaking at Dunedin on November 23, said:

> I have never made a statement with a graver sense of responsibility than one I am now about to make. It is my deliberate conviction, based on intimate knowledge, that if the policy put before the electors by the Labour party is given effect to New Zealand will, without question, be faced with national default, repudiation and insolvency. Our resources of revenue are drying up faster than our expenses can be curtailed. The only way by which this drift in our national finances can be checked is by the utmost united effort of the whole nation. If an attempt is made to put into operation the Labour party's policy the working classes of the Dominion will be plunged into unspeakable misery compared with which their present lot—hard as it is—is tolerable.

Although, as we have seen, the revision of the arbitration system was proposed by the Government in their supplementary budget, it found no place in the Coalition manifesto. The Prime Minister indeed denied, at one of his meetings, that there was any intention of abolishing arbitration, but he declared that some reform was impera-

tive. "Industry is," he asserted, "in a strait jacket, thanks to the harassing awards of the Court, and the Government will see that they are done away with."

Mr. D. Jones, too, claimed that

> the Government's policy is to provide for compulsory conciliation and voluntary arbitration. A very great number of awards are arrived at to-day under conciliation. We believe that conciliation should be compulsory and arbitration voluntary. We suggest that people of moderate views will meet and that satisfactory agreements will be reached in a great bulk of trades.

While Coalition speakers referred exultantly to the British election, Mr. Holland, the leader of the Labour party, appealed again and again to the traditions of the old Liberal party in New Zealand at the time when Ballance came into power.

Polling was lighter than at the previous election. In the aggregate 82·6 per cent. of the total number of electors on the rolls cast valid votes, as compared with 86·9 per cent. in 1928. Undoubtedly the main reason for the lighter poll was the absence of the licensing issue, but another factor was, no doubt, the reduced activity of the Reform and United party organisations as a natural outcome of the coalition.

The results of the election were as follows:

	1931	New Parliament.
Government.		
Reform	28	29
United	24	21
Independent	2	1
	—54	—51
Opposition.		
Labour	20	24
Independent	5	4
Country party	1	1
	—26	—29

As a result of the election Mr. Forbes has now a dependable majority pledged to support the coalition under his

leadership instead of a mixed team containing elements which had not been elected to support him.

While the Labour party's anticipations of heavy gains were not realised, the steady advance of the party since it emerged less than 25 years ago from the Liberal and Labour parties is very marked. Starting with only one member in the Parliament of 1908 it has steadily gained ground until now it commands 24 seats, only two short of a third of the House.

There were no great surprises. One of the Ministers, Mr. D. Jones, lost his seat, Mid Canterbury, to a popular candidate—a United Coalitionist—who had opposed him on two previous occasions, while at Wairarapa Mr. A. D. McLeod, formerly Minister of Lands in the Coates Government, insisted on standing against the United coalitionist member and defeated him. The four Maori members, who are usually evenly divided between the Reform and United parties, are all supporters of the Coalition in the New Parliament.

New Zealand.
December 24, 1931.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of THE ROUND TABLE in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way THE ROUND TABLE will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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Ottawa

Technical preparation, which is so essential in the economic field, has not been neglected. Preliminary work has been enthusiastically undertaken officially and unofficially, both here and in the Dominions. The Board of Trade has drawn up schedules, designed to show how each Dominion could help the United Kingdom exporter, which have been forwarded to the Dominions for consideration both by their experts and by the Ottawa Conference committees of their Governments; and documents have likewise been prepared in Whitehall to indicate how we can help the Dominion producer. From the Dominions themselves, especially from Australia, come encouraging reports of discussion, consultation, and detailed investigation. Moreover, since the efforts of officials and Ministers must be ineffective without the co-operation and advice of merchants and manufacturers themselves, the prospects of a profitable issue for the Conference have been much enlarged by the decision that government delegations shall be accompanied by business representatives. Great Britain will send six such advisers, nominated by the organisations of industry, commerce, shipping, agriculture and by the trade unions.* It is much to be regretted that no financial expert appears in this list, since, as we observe below, questions of currency and credit are bound to figure in the discussions. It is expected that each of the Dominion delegations will likewise be accompanied by business representatives. Yet vital as the contact between Governments and business interests is bound to be, it will be inadequate by itself in the absence of direct consultation, both now and in the future, between groups of manufacturers in the different portions of the Commonwealth. The imperial rationalisation of industry, which should be one of the primary aims of the Ottawa Conference, cannot be achieved by the deliberations of civil servants and politicians.

* It was announced on May 3 that the advisers would be Sir Gilbert Vyle, Lord Weir, Sir Alan Anderson, Sir Douglas Newton, Mr. J. Bromley and Mr. W. Citrine.

Opportunities of the Conference

The importance attached by the various Governments to the Conference is proclaimed in the list of ministerial delegations. The British delegation will, it is hoped, be headed by Mr. Baldwin, and will include Mr. J. H. Thomas, the Dominions Secretary, Mr. Walter Runciman, President of the Board of Trade, Sir Philip Cunliffe-Lister, Colonial Secretary, and Sir John Gilmour, Minister of Agriculture; Mr. Neville Chamberlain will go too if the business of the Lausanne Conference, which, whatever his personal inclinations, must be his first concern, is completed in time. That is indeed a formidable team. The character of the Indian delegation also deserves remark, for it is headed by an Indian, Sir Atul Chaterjee, and contains but one European, Sir George Rainy; moreover, it includes the leader of the nationalist Opposition. Its composition expresses the recognition, in Whitehall and Delhi, that politically India has come of age and that she may soon have complete charge of her own fiscal affairs. The South African delegation is to be headed by Mr. Havenga, the Minister of Finance, the Australian delegation by Mr. Bruce, the former Prime Minister, the New Zealand delegation by Mr. Downie Stewart, while Canada will possess the advantage of having every member of her Government on the spot. It is, incidentally, of good omen for the success of the Conference that a commercial treaty has recently been concluded between Canada and New Zealand, which roughly speaking restores the *status quo ante* the two years' tariff war in which they had unhappily engaged.

But more important than the personalities will be the policies they represent. In recent weeks Dominion leaders have spoken with no uncertain voice, and in distinctly encouraging terms. Mr. Havenga emphatically denied the charge of the South African Opposition that the Government was apathetic about the Ottawa Conference.

On the contrary (he said), while not entertaining the exaggerated expectations manifest in some quarters, the Government is fully alive

to the potentialities of the Conference, to which the attention of the whole world is directed in the present turmoil of tariffs and trade restrictions. The solution of problems affecting the Commonwealth may well lead to the revival of trade, benefiting not only the members of the British Commonwealth, but all other countries, whose well-being is essential to the restoration of world prosperity.

We may read into this the satisfactory implication that in South Africa's view the Conference must accomplish the reduction of tariffs and trade restrictions, and if South Africa is unlikely to be able herself to propose any far-reaching plans, her delegates will doubtless keep the Conference in mind of the fact that any attempt to construct an exclusive imperial unit or to effect the prosperity of the Empire at the expense of foreign countries would be disastrous to all.

Wise words have fallen, too, from Mr. Rhodes, the Canadian Minister of Finance. In his budget speech he declared that the forthcoming Conference would afford to the British nations an opportunity unique in their history. If, he said, the delegates met in an atmosphere charged with the determination to approach their deliberations from the point of view of mutual advantage, there would result measures which would give marked stimulus to inter-imperial trade and, besides accomplishing this primary object, would release forces and establish currents which might well flow beyond their borders to the eventual benefit of the world at large. It is clear that the current which must, above all, be set in motion is a reversal of the tide of rising tariffs within and without the Empire. That this may imply a reconsideration of some aspects of their fiscal policy by the Dominions is, apparently, realised by the Canadian Government. Colonel Sutherland, Minister of National Defence, recently warned business men of disappointment ahead, if they thought they could be merely sellers, and were not prepared to purchase British goods as well. How far Mr. Stevens, who, as Minister for Trade and Commerce, will be, after Mr. Bennett, the most important

Canadian delegate, is thinking in terms of lower tariffs is, perhaps, more doubtful. In the budget debate he said that the Government hoped, by a readjustment of trade policies and facilities, to give to the Mother Country a larger share of the Canadian market and to buy within the Empire more commodities like rubber direct from the countries of production, and thus open up a larger part of their markets to Canadian exports; while in a statement on the external trade of the Dominion, after congratulating the country on its resumption of the position of fifth greatest exporting country in the world, he said he anticipated that the present successful trend of their trade would be hastened by the Ottawa Conference. Nothing, however, could be clearer than that no possible success can emerge from the Conference if every participant seeks to enlarge its exports without at the same time increasing its imports. With his eye, no doubt, on the Ottawa Conference as well as on the disastrous results of excessive industrial protection, the Australian Commonwealth Prime Minister, Mr. Lyons, recently advised producers to combine in an endeavour to keep down to the minimum the protection given to industries, subject to the necessity of building up secondary industries essential and valuable to Australia. In the Empire, as in the world, the prosperity of every part depends on the prosperity of the whole. The secondary industrial producers of the Dominions cannot take in each other's washing. Their market is the primary producers, whose purchasing power depends on their ability to sell, which in turn depends on the ability of the great importing countries like Great Britain to find markets for their products. There is a circle of cause and effect which can turn viciously or favourably. The task of the Ottawa Conference is to reverse the vicious tendency it has displayed of late years. "The Empire," as Mr. Latham, the Australian Attorney-General, said the other day in London, "is already a vast system of mutual markets. Within this system, for all parts of the Empire there is political security—in itself a very real

commercial asset. Within the Empire sentiment and interest march together."

These declarations by responsible Ministers allow us some assurance that the greatest danger with which the Ottawa Conference was threatened—that it would become a mart in which "sacrifice" would be dearly exchanged against sacrifice—will be averted. To ask any Dominion, or Great Britain herself, to relinquish any vital principle of her economic policy for the sake of imperial fiscal arrangements would be not merely futile; it would jeopardise the whole of the good relations that exist among the partners of the Commonwealth. Those principles safeguarded, the condition of the success of the Ottawa Conference—and here we are reiterating the considerations that were elaborated in an article in our March issue*—is that, on balance, it must produce a lower and not a higher level of tariffs. We seek more trade among the countries of the Commonwealth, but not at the price of less trade with others. Every participant in the Conference comes at once as a buyer and as a seller, and comes, moreover, with the knowledge that not even the completest economic union could render the fortunes of the Empire independent of those of foreign countries; but none is more acutely aware of that than Great Britain. Mr. Baldwin recently stated our problem in terms of a choice of paths. "The natural destiny of our country is economic union with our own flesh and blood. If that cannot be accomplished it may well be we shall be driven to look towards Europe." But that is a false contrast, for we could never prosper by an economic arrangement with the Dominions which excluded us from the opportunity of sharing in plans for widening markets in Europe and elsewhere. The war and economic changes have lowered our ambitions, for we no longer grandly aim at being the workshop of the world; but they need not narrow our vision. Imperial myopia is fortunately not a failing of Mr. Runciman. "Highly as we prize the privi-

* See THE ROUND TABLE, No. 86, March, 1932, pp. 251–256.

leges we enjoy," he said at the British Industries Fair, "in the markets of our kinsmen and fellow-Britons beyond the sea, and the extension of their opportunities here, we are also anxious not to lose any opportunity of strengthening our trade relations with foreign countries." Our special economic ties in the Argentine and with Scandinavia need no emphasis, while our vital concern with other parts of Europe has been brought home to us by the inconclusive London Conference on the Danubian customs preference scheme. The Dominions themselves have similar problems; the time may come, for instance, when Canada will wish to negotiate a preferential trade treaty with the United States, to their mutual advantage, and she would justly complain if she were prevented by her imperial undertakings. The British Empire is a convenient unit within which to mitigate tariff restrictions and to stimulate the flow of trade, but it can never become economically exclusive.

II. THE STERLING GROUP

AT this moment the Empire is marked out, along with certain other countries closely associated with it in trade and finance, from the rest of the world by the simultaneous depreciation of most of its currencies, in terms of gold, after the suspension of the gold standard in Great Britain last September. Can we, at Ottawa or as a result of deliberations there, profit permanently by this fact in establishing an Empire currency system, including therein the Scandinavian currencies and others whose dependence on sterling and on the British economic system has become apparent? The idea is one which has appealed to many of our leading publicists, politicians and business men. Moreover, the Canadian Parliament recently resolved that the Canadian representatives at the Conference should initiate and support measures for the stabilisation of the currencies of all British countries in such a manner as to facilitate trade

between them and to promote the economic unity of the Empire; while in the New Zealand House of Representatives Mr. Downie Stewart, the Minister of Finance, declared his satisfaction that the Ottawa Conference would enable the whole price level problem to be approached from the Empire standpoint, believing, as he did, that concerted action on an Empire scale to raise the sterling price level for primary products might be possible. Since the revival of prices must be far more important both to Great Britain and to the overseas parts of the Empire than the reservation of markets can be, and since tariff measures closely affect the possibilities of monetary manipulation, the general discussion of imperial preferences is bound to raise questions of currency and credit. Mr. Runciman himself, speaking at a London Chamber of Commerce dinner the other day, said that the only way to escape the continuous sag of world prices was for all countries who were linked up with sterling to support each other; that was one of the justifications for making closer union within the British Empire, and afterwards we might well invite other sterling countries to enter into closer relationship with us.

But in no field is it more important to hasten slowly than in monetary organisation, for a currency system, once established, cannot be abandoned without catastrophe. It is clear that neither banking organisation, beset with urgent problems of self-preservation, nor public opinion, shocked by the apparent failure of the existing system to cope with the changes and chances of our post-war life, is ready for a super-central bank, a brand new currency for Empire trade, or any other ideal scheme. Moreover, such is the domination of London in the financial world that the fortunes of the whole new monetary structure would depend upon those of sterling; hence, quite apart from any suspicions which might be aroused in the Dominions, revalorisation of Empire currencies must wait until the future of the pound, whether as a freely managed currency or as linked

with gold at its old or some new level, can be decided, and that is out of the question until we have had longer experience to indicate its true value. Narrow limits are therefore set upon immediate action, but what might be effected at Ottawa is the *de facto* stabilisation of Empire exchanges—not necessarily permanent, for there is nothing sacred about the present or the former rates of exchange—and closer co-operation between the banking authorities of the Dominions and the Bank of England. Between them they may find means, within the existing system, for accomplishing what Mr. Stewart urges. Looking farther ahead, the importance of international long-term lending in the world's economic system, as revealed by the present trade depression, indicates the need for a consultative loan council for the Empire. But if these things are to be discussed, and it is certain that they will be, the delegates must be accompanied by experts in finance as well as in agriculture, industry and trade.

III. Organisation

THE general conditions of imperial preferential arrangements, as well as the technical details, being so complicated, we should be unwise to hope for a comprehensive series of agreements at Ottawa; it will certainly prove impracticable to achieve very much more than agreement in principle. When the Conference is over, the several Governments of the Empire will formulate their economic policies under the guidance of its resolutions until the time has come to review results and make plans for a fresh advance. But many people feel that imperial relations in the economic and allied spheres can no longer rest merely upon periodical conferences of responsible Ministers. There exists, indeed, a number of permanent imperial bodies, but their status varies, their public estimation is inversely proportionate to their number and

the specialist character of their tasks, and their work is inadequately co-ordinated. In a report prepared before the 1930 Imperial Conference, the Federation of British Industries pointed out that "it is a regrettable fact that better machinery exists, in connection with the economic section of the League of Nations, for discussing economic problems with foreign countries than is the case with our sister-nations of the British Empire." The Federation therefore recommended that as soon as possible an imperial trade conference of experts should be held, of an investigatory, advisory and non-political nature, with a view to laying down a sound basis for an imperial economic policy; furthermore, that an imperial economic secretariat should be established formed of men with economic and administrative experience, drawn from all parts of the Empire, to act as a permanent secretariat for the Imperial Conferences. A short while ago the General Council of the Trades Union Congress went to the length of sending a formal deputation to the Dominions Secretary to urge upon him the adoption of the policy which the Council put forward before the 1930 Conference, and which took much the same form as that of the Federation of British Industries. Mr. Thomas, in reply, confirmed his "unabated support of the principles contained" in the Council's memorandum.

The scheme thus endorsed by both parties to our industrial system is so bold and far-reaching that one is moved to reflect that our imperial constitution has developed by much less drastic and more evolutionary steps. The surest way to approach this problem is by way of considering the machinery that already exists. The Imperial Economic Committee, comprising representatives of the British and Dominion Governments, and responsible to those Governments, was set up by resolution of the 1923 Conference; the latter proposed for it a very comprehensive scope within the economic field, but, largely owing to the scruples of one Dominion, its actual work was confined for a while to investigations into the marketing of certain Empire

foodstuffs in the United Kingdom. The 1930 Conference, however, greatly enlarged its terms of reference, which now include, *inter alia*:—

> To facilitate conferences among those engaged in particular industries in various parts of the Commonwealth, and to examine and report on any economic question which the Governments of the Commonwealth may agree to refer to the Committee.

The Empire Marketing Board was constituted in 1926 by the British Government to administer a grant voted by Parliament. The 1930 Conference, after surveying the Board's work, passed the following resolution:—

> The Conference . . . is satisfied that it is valuable to the Commonwealth as a whole, and recommends its continuance and extension in certain directions, notably in the spheres of market intelligence, statistical surveys and market promotion . . . The Conference commends especially that feature of the Board's policy which aims at the concentration and development in the most appropriate centres of scientific team work upon problems of interest to the Commonwealth as a whole.

The Board, for which an income of £1,000,000 per annum was originally proposed, has spent in the six years of its life some £2,900,000; the greater part of it has been used for scientific research and markets investigation, while about £1,100,000 has been devoted to publicity. Grants made by the Board for research and development have covered such subjects as food preservation and low temperature research, animal husbandry, plant breeding, the export of pedigree live stock, and mechanical transport. In the development of markets its efforts have included weekly intelligence services on fruit and dairy produce, the issue of statistical surveys of world production and trade in certain agricultural products, surveys of retail distribution, etc. As a measure of economy, the Board's vote for 1932–33 has been cut down to £300,000.

Besides these two important economic bodies, there are a number of organisations, such as the Imperial Institute,

the Bureau of Hygiene and Tropical Medicine, the Imperial Institute of Entomology and Mycology, the Executive Council of Imperial Agricultural Bureaux, which in their own respective technical fields are carrying on work for the benefit of the Empire as a whole, often with funds contributed by the Dominions and Colonies as well as by the Imperial Exchequer and private sources. For one purpose or another, most of them have received grants from the Empire Marketing Fund, and their work has been of constant assistance to the Imperial Economic Committee, the Ministry of Agriculture and Fisheries, and other economic bodies. Indeed, the application of scientific research to commercial needs has become one of the most important aspects of imperial co-operation. Undoubtedly the work would proceed with greater economy of effort, and its results would be more fruitfully disseminated, if these institutions were possessed of a common centre for the co-ordination of their inter-imperial work, much of which cuts straight across the administrative and constitutional division into Dominions, India and Colonies. Moreover, the creation of such an organisation would give to each member of the Commonwealth a sense of co-operation in a common enterprise (enabling Canada, for instance, to take an active part in the development of the West Indies), and would concentrate the interest and zeal of High Commissioners and other Empire representatives, which at present is dissipated among a number of institutions, no one of them being in itself comprehensive or important enough to arouse enthusiasm. We are far from suggesting that a new super-institution is necessary. Rather we believe that some of the bodies, say the Empire Marketing Board, the Imperial Economic Committee, the Council of Agricultural Bureaux, might merge their functions while continuing much the same loose connection with the more technical authorities as they possess at present. The problem is not, in these days, one of organising fresh and ambitious development, but rather one of administering

reduced resources to the greatest advantage of the whole Commonwealth. Lest the extent of the change should be exaggerated, it would be well if the new authority were to adopt the name of one of the existing bodies ; henceforward we shall, therefore, refer to the proposed institution as the imperial economic committee.

The title which we use for convenience is not meant to beg any questions as to the body's structure and membership. The first point to be decided is that of its scope and function. While to some extent they must be left to take shape as the committee wins the confidence of the various members of the Commonwealth, its general field may be described as that of non-contentious co-operative endeavour—already large and, as the Select Committee on Estimates acknowledged, bound to grow steadily "as the value of such co-operation comes to be more and more appreciated."

In the first place, the committee's terms of reference should cover the present activites of existing institutions such as those listed above, and the normal development thereof. They include scientific research, investigation of markets, commercial publicity, agricultural economics, the promotion of industrial and other technical conferences, the dissemination of scientific knowledge—interpreting "science" in its broadest sense. But, beyond that, the committee should be prepared to undertake any function, within the economic and scientific spheres, that might be laid upon it by the unanimous wish of the several Governments of the Empire. It might, for instance, carry on the work of the present Imperial Economic Committee in promoting the rational division of industrial production between the countries of the Empire, acting in this field largely through the agency of industrialists themselves. One extremely important function which it might soon assume is the co-ordination of Empire statistics, a matter which has received the attention of successive Imperial Conferences without any palpable result, largely because

the highly desirable centralisation of our own official statistical work has not yet been accomplished.

But the absence of specific restriction upon the scope of an imperial committee should not be interpreted as a licence to embark at once on the grave and controversial business which some of its advocates would regard as its principal *métier*. To suggest, as the Federation of British Industries seems inclined to do, that the creation of such a permanent organisation would "take economic relations out of the political field" is to fly in the face of fact. Fiscal autonomy, by which is meant the unqualified and unquestionable right of each succeeding responsible Government to alter the tariff as it pleases, subject only to properly concluded external treaties, is among the most dearly cherished of the Dominions' privileges. At home, in spite of the change that has come over the political scene and the erection of a general tariff, there is no subject over which the politicians more furiously rage. To make the imperial economic committee responsible for the formulation of tariff preferential policies, in the sense in which the Import Duties Advisory Committee is to be responsible for the formulation of tariff policies in this country, would at once prejudice the whole of its scientific work and alienate the esteem of large sections of public opinion. It would seriously endanger, too, the smooth and amicable working of the committee itself. That is not to say that questions associated with tariffs should be automatically excluded from its purview. The assembly and rationalisation of statistical and other facts concerning some definite aspect of imperial tariff relations would be a proper task for the experts of the committee, if its reference to them was unanimously agreed upon by the interested parties.

Thus limited in its field, the establishment of the committee would not involve acutely those questions of responsibility which have exercised many critics. The Imperial Economic Committee, and the Executive Council of Imperial Agricultural Bureaux, which are responsible to

the Governments of all the participating members of the Commonwealth jointly and severally, perform their advisory and even executive tasks without any serious collision with constitutional difficulties. In these days of specialism and complication in government, it is foolish to try to compress political organisations within the forms and categories of Montesquieu or Mill. The kind of organisation that is suggested is a small secretariat with a permanent head, acting under the authority of a committee representative of the different parts of the Empire, which would assume intermediate responsibility for such executive work as it would fall to the organisation to perform.

It is not suggested that additional expenditure would be necessary to carry out the plan. Neither the overhead costs nor the direct expenses on publicity, markets investigation, economic research, and so forth, need be greater than those at present incurred by the merging bodies. Nor does the establishment of the new committee imply any enlargement of the grants which are now awarded to the technical institutions. It is essential to the success and esteem of the committee as a co-operative enterprise that the Dominions should contribute to its maintenance, but their economic difficulties, which are no less than our own, might ban any scheme involving them in any fresh expense at this moment, so to begin with they might be prepared simply to continue, as block grants, the sums that they now pay direct to the various existing inter-imperial bodies, together, perhaps, with some general contribution. Further, just as the British Government has financed the promotion of the sale of their products in Great Britain, through the Empire Marketing Board, so, when the time comes, it is certainly to be hoped that they will feel prepared to subsidise and conduct the promotion of the sale of Empire goods in their own markets. Again, there will no doubt be some pieces of practical research work which it will be requisite and necessary to conduct in the overseas Dominions—concerning, let us say, fisheries in Canada or

Newfoundland, or wool husbandry in Australia. In such cases it would be natural that the Dominion particularly affected, within whose jurisdiction the work was being carried out, should bear a considerable part of the expense. A body of practice in financial matters would thus be built up, and later, as the reputation of the organisation grew, the Dominions might prove willing to contribute regular and substantial sums to the general cost.

IV. Migration

THERE is one further question which it might be suggested should come within the purview of the committee, and that is migration. But, unfortunately, that is no longer covered by the description of " non-contentious co-operative endeavour." The problem of emigration has violently and disastrously changed in the past few years. In 1929 the net balance of British passengers departing from the United Kingdom for places outside Europe was 92,537, of whom 67,671 were leaving for other parts of the Empire. In 1931 there was actually a net inward balance of 35,249, of whom 22,858 had returned from the Dominions and Colonies. The distress of some of the unfortunate emigrants who have been forced by adversity to return has received much publicity in this country, especially in the organs of the Opposition. " The hopelessness of the vast Dominion," " Thousands of young Englishmen lining up in bread queues "—these are the phrases upon which the opinion of the electorate is being nourished. A petition was recently presented to the House of Commons, reputed to be signed by fifty thousand British-born people who, having emigrated to Australia, now seek repatriation, complaining in bitter terms of the " extravagant, misleading and in many cases indubitably false " statements with which they were persuaded to emigrate. Whatever truth there may be in these strictures—it is clear that many of them

are untrue in fact and in inference—the Governments of Great Britain and the Dominions cannot escape all responsibility for past emigration, and they have burnt their fingers badly. For some time to come, therefore, it seems likely that government assistance in this field will be confined to discreet subventions to approved private bodies who will otherwise assume complete financial and general responsibility for their schemes of emigration, and to the resumption of subsidised ocean passages.

That is not to say that the problem can or ought to be avoided at Ottawa. A conference which shirked tasks merely because they were unpleasant or difficult would not hold any hope of real success. Movements of men and movements of goods and capital are tightly linked factors in the world economic system. Advocates of imperial preference in this country frequently claim that although Dominion markets, measured by head of population, are comparatively small, they are expanding through the flow of emigrants, and that their prosperity involves not only wider opportunities for our trade but also an outlet for our excess population. The 1930 Conference declared that the successful solution of the migration problem " depends upon the availability of adequate markets for the products of the Empire and of sufficient capital for the development of its resources." From our point of view in Great Britain, we have regretted that the process of emigration naturally robs us of some of the best, because the hardiest and most adventurous, elements of our population. Critics in the Dominions, by contrast, have sometimes complained, especially in the last few years, that their countries were being used as a dumping ground for the cast-offs of our industrial system. The Ottawa Conference has an opportunity to formulate a wider view of population movements, from the standpoint that the Empire is, or might become, a co-operative economic group with a common purpose transcending its political divisions.

Both sentiment and circumstance favour at this moment

the realisation of that principle, which is the key to success at Ottawa. The change of feeling both here and in the Dominions we have sufficiently recorded in our previous article. In the economic *mêlée* into which the world has been plunged, Empire countries, and especially Great Britain, have been among the first to recover their breath. Now is the chance to make an effort to escape, and at the same time to lead the rest of the world. The interdependence of the countries of the British Commonwealth, and their value as an economic group, have been underlined by the simultaneous depreciation and resuscitation of sterling and other currencies of the Empire, but the difficulties of the currency question warn us not to pitch our hopes of the outcome at Ottawa too high. We are seeking to reverse the tendencies of decades. Still, the opportunity is as great as the task, and if we can show the first hints of success we shall have given both example and encouragement to a distressed and leaderless world.

POSTSCRIPT.—Since the above was written, the report of the Committee of the Economic Advisory Council on Empire Migration (Cmd. 4075) has been published. The Committee, after considering the progressive decline in our birth rate, and the likelihood of a gradual readjustment of our industrial life, conclude that "we are now confronted with a profound disharmony between the economic needs of Great Britain on the one hand, and the Dominions on the other, in regard to migration. Now that it might suit us to send large numbers of our people to the Dominions, it does not suit the Dominions to receive them. When the time comes that the Dominions will again welcome immigrants, it may not be to our economic interest to supply the need." Nevertheless, by reason of other factors, not least because "the sense of unity which animates, and is the main connecting link between, the self-governing parts of the British Commonwealth is largely dependent on the preponderance of British stock in the population of the Dominions," the Committee hold that "when the depression has passed"—but not before—"it will again be desirable for His Majesty's Government in the United Kingdom to grant financial assistance on a substantial scale towards oversea settlement within the Empire."

REFLECTIONS ON THE CRISIS

I

IN the tragic drama, the critics tell us, the master-craftsman will interrupt the inevitable progress of his theme to its catastrophe, so that our minds may come to the climax cleansed, indeed, but not exhausted by those emotions of pity and terror which tragedy awakes. We find relaxation and repose, before the ultimate and almost intolerable strain of the tragic ending, through the withdrawal of Lear from our sight or the scene with the gravediggers or the prattle of her son to Lady Macduff.

For twelve months the course of world affairs has followed the authentic construction of tragedy. Blow has succeeded blow, and the world has seen its economic life exposed to the relentless interaction of disintegrating forces. Now, in an interlude of relative calm, it awaits the unfolding of the drama in which its members, "themselves the authors of their proper woe," are the players. When and where the next blow will fall, whether the processes of destruction can be arrested or will exhaust themselves, or by undermining its material foundations will bring down the structure of our modern civilisation in ruins —all these things are wrapped in obscurity. Nothing is certain except that nothing stands still. The world is moving, even though imperceptibly, either towards recovery or away from it.

This may be thought to be the language of despair. We live in an age in which the human race is perhaps more

instinctively optimistic than ever before in its history. Our own generation has seen such amazing achievements in the conquest of matter, in the subordination of the forces of Nature to the needs of man, that we are apt to overlook not only the delicacy and the artificiality of our economic and financial background, but its ultimate dependence, now as always in the past, on that moral and political sphere in which the progress of the modern world has been so immeasurably less significant.

A political survey of the world to-day discloses little ground for optimism. The crisis has, indeed, confirmed what few Englishmen in their hearts have ever doubted, the genius of their own race and the aptitude of their institutions for government in an emergency. But it has also renewed the old doubt whether in a period of unusual and protracted difficulty the constitutional system and the political practice of the United States are consistent with effective government or lead unfailingly to the spectacle now staged of interminable and profitless wrangling between the executive and the legislature. In Europe we find little but mutual suspicion and unbending nationalism: France, intent on security, a security measured in terms of the weakness of Germany and dependent on the integral maintenance of the peace treaties and the alliances that have grown out of those treaties; Germany, on the other hand, disillusioned and despondent, with no democratic tradition and little faith in democracy, without prospect of a Government founded on general consent, torn between the revolutionary doctrines of communism and the empty and theatrical bombast of the pseudo-fascists. No nation can pursue a consistent or fruitful foreign policy if it has no assurance of stable government at home. With the foundations of government shaken, as in many parts of Europe, the difficulties of international co-operation are intensified and the springs of goodwill and tolerance and enlightenment are dried up. It is, perhaps, a sign of the times, and not a mere idiosyncrasy of the Irish mind,

that Mr. de Valera should have chosen this moment to cast off the shackles of a decade of friendly co-operation and to put in its place embitterment and isolation.

In the economic sphere, every day provides fresh proof that the nations of the world are economically interdependent and that their financial life is built up on confidence. Yet every day records some new shock to confidence, some other attempt to attain national self-sufficiency. As the fall in prices continues,* its effects are seen to be progressively more serious. The most formidable problems are set when all money burdens remain constant and prices of all goods are lowered. The economic machine is thrown out of alignment and is subjected to strains and stresses which it was not designed to carry. There is dislocation in budgets, dislocation in the national balance of payments, dislocation in the productive organism. The life of nations and of individuals becomes a struggle not to create wealth, but to arrest its destruction. Producers strive to adjust their costs to prices, wage-earners fight against the reduction of their wages, debtors all over the world are submerged beneath the immensely increased burden of their debts, creditors seek to maintain their claims and protect their assets. In the struggle between producers and wage-earners, between debtor and creditor classes, the machine slows down and production dwindles. The industrial production of the world† rose from 100 in 1928 to a peak of 112 in 1929, and by December last had fallen to 80. Total production (1928=100) had dwindled by December last to 69 in Canada, to 87 in France, to 59 in Germany, 60 in Poland, 92 in Great Britain, and 67 in the United States. Production means income, and such figures as these imply a fierce struggle everywhere for the division of a vastly diminished aggregate income.

* Wholesale prices in America have fallen 31 per cent. since September, 1929, and over 6 per cent. since September, 1931. Wholesale prices in the United Kingdom converted to a gold basis have fallen over the same periods by 46 per cent. and 24 per cent.

† Index of the Institut für Konjunkturforschung.

The first and chief sufferers are the unemployed, then those with variable money incomes or incomes derived from foreign investment, last of all the wage-earners. By the transfer of wealth from the *entrepreneur* to those with fixed money claims, enterprise and development are stifled, the universal dislocation becomes progressive and the struggle is renewed and intensified.

If it was inevitable that governments should seek to intervene in this imbroglio, it is certain that their intervention has on the whole aggravated the process of disintegration. Government action springs from the desire to mitigate necessary readjustments and from the fear of economic changes leading to social chaos. Thus it has seemed to the countries of central Europe vital to maintain the nominal gold value of their currencies because they regarded the social consequences of a second inflation as hazardous in the extreme. Exchange control, import quotas and restrictions are the natural instruments of that policy. Exchange control to be effective must be complete, and to be complete necessitates the control of all economic activity. The economic life of Germany to-day is effectively managed not by industry nor even by the State, but by the Reichsbankdirektorium, and the result is to tighten the noose that is strangling production. Again, in the effort to achieve a positive balance of payments, every country finds it easier, in a world in which there are no buyers, to reduce imports than to increase exports. But one country's imports are the exports of another, and this general forced abstention from importing must in the long run bring all international trade to an end. If pursued, it cannot fail to reduce the whole standard of our civilisation.

II.

HOW is the world to escape from this impasse? The economic disorder is due primarily to the rapid fall in prices, and it is clear that a general rise in prices to the level of 1928–29 would be by far the most powerful and universal remedy. Leaving for a moment the question whether anything can be done to stimulate such a rise, let us look at the alternative. It is that the world should go through a long agony of adjustment to a lower price level, with all that it involves—the writing down of indebtedness of every kind, internal and external, the reduction of wages and other fixed incomes. This process can be seen operating to-day, but it would need to be carried a great deal further. It would mean repudiation by governments, drastic reorganisation of the capital of public companies, statutory lowering of interest rates and fixed charges, as in Germany. It would bring with it increased unemployment and a general lowering of the standard of life, and no one can foresee what social consequences would follow in their train. On every ground the alternative to a rise in prices is one which no class and no nation can contemplate with equanimity.

But to ask how a rise in prices can be brought about is to plunge into one of the classical controversies of the economists. There are those who would have us believe that our economic life is entirely dominated by monetary factors, and that the central banks, even though through ignorance or perversity they may deny it, have it in their power to produce a trade boom or a trade depression by the simple and infallible expedients of cheap or dear money. Others would allow monetary factors a quite secondary rôle, and would maintain that money follows trade, not trade money. In other words, that an over-production of commodities leads to a fall in prices and that prices will

rise again only when the statistical position encourages buying for a rise—in such controversies truth often lies roughly midway between the extremes. The layman finds it difficult to believe that if central bankers are omnipotent, able men should have practised that profession for so long without discovering the fact. It is not a normal characteristic of any profession to undervalue its own importance in the world. To the layman, again, it must appear unlikely that the abundance or scarcity of credit is without influence on the moment at which the speculative buying of commodities will begin, and private enterprise feel justified in entering upon constructive works of capital improvement. But if wisdom lies in the mean, we shall incline to the view that the operative factors are many and their interactions extremely complex, and for that reason we shall be cautious in announcing panaceas.

Certain facts in the situation stand out. The first is that world stocks of many of the principal commodities are exceptionally large. Of that the following table is sufficient indication.

World Stocks of Primary Commodities

	At Beginning of 1929	At Latest Date	Date
American cotton	3,494,000 bales	8,760,000 bales	April 1, 1932
Copper	292,000 tons	623,000 tons	October 1, 1931
Tin ..	25,000 tons	61,500 tons	April 1, 1932
Rubber	266,000 tons	644,000 tons	March 1, 1932
Sugar ..	4,422,000 tons	8,641,000 tons	March 1, 1932
Coffee ..	15,703,000 bags	34,179,000 bags	March 1, 1932
Wheat	565,000,000 bushels	542,000,000 bushels	December 1, 1931

It is true that stocks are held to-day to a quite exceptional extent by the producer, for the reason that merchants and consumers have lived from hand to mouth. In that respect, the technical position is favourable for a rise, once confidence is restored and buying begins. But when we consider these figures, and others like them, when we are told, for instance, that there is in the world a stock of

Chilean nitrates equal to three and a half years' consumption, we are bound to acknowledge the existence of a formidable obstacle to an early or rapid rise in prices. A second fact which we cannot overlook is that the power of Great Britain to influence the course of world prices by its monetary policy is not the same as that of countries, such as the United States, which have remained on the gold standard. Any appreciable rise in prices in America must have world-wide repercussions through the gradual redistribution of the gold stock. In theory at least, a rise in sterling prices should lead to a fall in the gold value of sterling and be without any certain and direct influence on prices outside those countries which follow sterling and not gold. But in the conditions of to-day, it is clear that relative price levels are not the only determining factor in exchange rates. The present strength of sterling, for example, is due in part to large movements of capital resulting from a revival of our world prestige in recent months and from distrust of other currencies; and in such circumstances there is reason to believe that the exchange could be held even against an appreciable rise in sterling prices. As a nation we have an overwhelming interest in the revival of world trade, and that interest demands that we should exhaust every means in our power, by low money rates and a reasonable expansion of credit, to help in raising prices in the area in which the influence of sterling is dominant.

But even if our own authorities and those of the United States actively pursue a policy of cheap money, it is essential to remember—and this is our third fact—the importance of political and psychological factors in the present situation. Throughout the world there has been a breaking down of confidence. The world as a whole has lost faith in international co-operation; America has written off Europe and Europe America; many nations have come to mistrust or to despise the governments and even the political institutions under which they live, others are

suspicious, often with good reason, of their banking systems. A succession of scandals, not confined to any nation and culminating in the Kreuger affair, has so shaken confidence in the larger business undertakings of our time as to threaten, often by false analogy, the whole modern trend towards rationalisation. Monetary policy can do little to restore confidence, yet prices are not likely to rise nor trade to revive without it. It will return in any event only gradually and with faltering steps, and to assist it on its way is the most pressing political task of the moment.

Governments can exert a great psychological influence in two directions—by discarding functions for which they are unfitted and by working for a settlement of outstanding international problems. Modern economic organisation is admittedly imperfect, but it is never so imperfect as when governments attempt to direct it. Their intervention is haphazard and it is, in a business sense, irresponsible, since it is subject to no penalty for failure. Much of central Europe to-day is within hailing distance of the Soviet system, which requires all foreign trade to be in the hands of the State. There is no half-way house between that system and private enterprise, and the only result of the attempts by governments to regulate private enterprise in times of crisis by exchange control, quotas and similar restrictions is that they prevent the economic organism from exercising the power inherent in it of correcting its own excesses. Trade cannot again flow freely until currencies are allowed to find their own level, and it seems probable that others will be compelled to follow the example of Greece in abandoning the pretence of a gold parity which has lost all reality.

III.

WHEN governments turn to their legitimate function of political appeasement, they soon find that incomparably the most difficult international problem of our time is that of Franco-German relations. It penetrates into every nook and cranny of European politics, and the failure of Europe to solve it has contributed more than any other factor to the estrangement of Europe and America. The abortive French plan for a limited Danubian federation is an admirable illustration of what is meant by these statements. The succession States of the old Austro-Hungarian Empire, with the possible exception of Czecho-Slovakia, are all in varying degrees economically and financially embarrassed. Their budgets are unbalanced, they are either in default on, or find difficulty in meeting, the service of their external debts, and if they have contrived to maintain a precarious adherence to the gold standard it is only by the exploitation of every known device for the control of exchange and at the cost of the virtual abandonment of foreign trading. They are the victims not only of the fall in prices but of the disruptive provisions of the peace treaties. The history and the details of the proposed Danubian plan are in some respects obscure. It appears to have originated in a suggestion of the British Government that the Danubian States should re-establish the *Zollverein* which existed under the old Empire. The suggestion was resisted and M. Tardieu then came forward with his Danubian plan.

In outline the French proposal, which covered Czecho-Slovakia, Austria, Hungary, Jugo-Slavia and Roumania, was that those countries should establish reciprocal preferences to the extent of 10 per cent. of existing tariffs; that certain countries outside the group, notably Germany and Italy, should grant the Danubian countries preferential entry for their agricultural products, without any direct

advantage in return; and that a loan of $50,000,000 should be raised on the guarantee of the lending countries (presumably France and England) and spent, under international control, for the protection of the budgets and the exchanges of the Danubian group. These proposals foundered after two days' discussion at the London Conference, owing to the refusal of the outside Powers, and in particular Germany, to abandon their most-favoured-nation rights. Probably from every point of view it was better that they should founder. The plan was too narrowly restricted in scope to bring much lasting benefit even to the Danubian countries. It involved expensive palliatives in the form of fresh loans for dubious objects. It would have strengthened the French hold on the Little Entente and would have reinforced the political with the economic isolation of Germany.

When the Lausanne Conference meets in June, it is to consider not only reparations but also the plight of the Danubian States. The Conference can do more than any other single agency to restore confidence and thus to launch a revival of world trade; it can also postpone that revival indefinitely. In a sense the problem of reparations has solved itself, since a renewal of reparations payments is not in sight. But what the world needs is not acquiescence in a temporary default, but a lasting settlement as part of an honourable *modus vivendi* between France and Germany. It is idle to speculate on the prospects of the Conference. All but the strongest governments are the servants of their public opinion, and it seems unlikely that either France or Germany will be represented at Lausanne by a government drawn from an assured and durable majority in Parliament or the country. This is one reason the more why it is right that the British Government and, if his health permits, the Prime Minister, should continue to exert in favour of a settlement all the influence which in such situations can properly be claimed by those who have vital interests at stake and are yet essentially disinterested.

IRELAND AND THE TREATY

EDITOR'S PREFACE

AN account of what has been happening in Ireland since Mr. de Valera's accession to power will be found in the article from the Irish Free State that follows. In this preface we give our own view of his action with regard to the Anglo-Irish Treaty of 1921, and the Irish Land Annuities, and of the course to be followed by the British Government.

First to deal with the oath, the form for members of the Oireachtas* was set out in Article 4 of the Treaty.† From the British standpoint, the essence of the Treaty was that Ireland should remain in the British Commonwealth of Nations, and the oath was the earnest of her intention to do so. Her status was to be that of the Dominions, and her position in relation to the Imperial Parliament and Government, and otherwise, that of Canada. Due effect was given to the provisions of the Treaty in the Irish Free State constitution. Article 17 reproduced verbatim the oath clause (Article 4 of the Treaty) and prescribed the time and manner of taking the oath for every member of the Oireachtas. Article 55 imposed the same duty on Ministers who happen not to be members of the Oireachtas, and therefore are not covered by Article 17. Up till now the oath has been taken by both Ministers and members alike, including Mr. de Valera himself and the members of his party. The Treaty has been loyally kept by both sides for the last ten years.

At the instance of Mr. de Valera, however, the Dail has now passed a Bill to delete both Articles 17 and 55 from the constitution and thus abolish the oath. It

* The Irish Parliament.

† For the actual words see page 503 of the article that follows.

has done more. Section 2 of the constitution gave the Anglo-Irish Treaty the force of law and provided that, in the event of any conflict between its provisions and those of the constitution, or of any amendment or law passed under the constitution, the Treaty should prevail. The Bill would also delete this section, and the words in another Article (50) limiting amendments to those which do not infringe the Treaty.

These are vital alterations, and they have been deliberately introduced—Mr. de Valera has himself told us so—without any previous consultation with the British Government, the other party to the Treaty. In our opinion, Mr. Thomas is right—"the Bill is nothing less than a repudiation of the settlement of 1921 as a whole." It cannot be justified by the Statute of Westminster, or anything else that has happened since the Treaty was signed. When that Statute was before the House of Commons last November, the British law officers gave it as their considered opinion that the binding character of the Treaty would not be altered one jot or tittle by passing it. It is Professor Berriedale Keith's view* that, notwithstanding the Statute of Westminster, as the Constituent Assembly of the Free State definitely enacted that the Treaty is superior to any provision of the constitution, and of any amendment thereof, the Oireachtas cannot legally pass any enactment which runs counter to the Treaty, and that any such measure would have to be held invalid by the Irish Courts as a mere matter of law. But, even if the Statute of Westminster had removed the obstacles in the municipal law of Ireland to her breaking her word by deleting the provisions in her constitution which gave effect to the Treaty, it would still have left that Treaty absolutely intact between England and Ireland. Obligations of good faith would still have stood in the way of the course taken by Mr. de Valera. As Mr. Cosgrave, then President of the Executive Council of the Irish Free State, reminded Mr. MacDonald in a letter

* See the *Manchester Guardian* of May 2, 1932.

which was read to the House of Commons in November, "we have reiterated time and again that the Treaty is an agreement which can only be altered by consent."

What then should Great Britain do in this dilemma, which has been thrust upon her? Our people have the friendliest feeling towards the inhabitants of the sister island, and there is nothing we desire more than good relations with them. At the same time, our Government could hardly shut its eyes to so deliberate a breach of agreement, and go on as if nothing had happened. It is, moreover, Mr. de Valera's intention that more shall happen, and his action with regard to the oath is merely a first step. He announced in the Dail, at the second reading of the Bill to alter the constitution, the readiness of his party to lead the Irish people on to complete independence, as soon as they are ready, and his acceptance of the invitation to Ottawa would merely seem to indicate a desire to get the best of both worlds until the final step is taken. A suggestion was made in the House of Commons that we should consult with the Dominions, and a question which involves a risk of the Commonwealth losing a valued member must obviously be brought to the notice of the Imperial Conference. But that is a very different thing from asking the Conference to decide what we ourselves ought to do in a case which primarily concerns Ireland and ourselves alone. The responsibility of making up our minds could not fairly or effectively be put upon others. As the Secretary for the Dominions replied when the suggestion that we should consult the Dominions was put to him, "it is a difference between two parties to an agreement. One of the parties has repudiated it. There is no more to be said."

In our opinion, we should take our stand upon the Treaty and wait, confident that the Irish nation, in whose good faith we shall continue to believe, will return to it. Meanwhile our Government has, we consider, adopted the only course that was open to it. If Mr. de Valera's Bill should pass through its remaining stages into law, it

would obviously be impossible for the British Government to enter into any new agreement with a Government in Ireland which has so deliberately broken an existing one. Thus, as Mr. Thomas has indicated, no further agreements can be made at Ottawa, nor can there be an agreement for the renewal of the preference given to the Free State under the Import Duties Act when that preference expires in November, while an agreement so fundamental as the Treaty is deliberately repudiated.

The retention by Mr. de Valera of the Land Annuities is a different matter. It too arises out of the Anglo-Irish settlement, but it raises no vital constitutional question, and although Mr. de Valera's attitude was unbending at first, he appears to have adopted a more reasonable one since Mr. Thomas's letter of April 9. From his statements indeed one gathers that he had never seen the 1923 and 1926 agreements, signed by members of the British and Free State Governments; these make it clear that the annuities are to be collected by the Free State and handed over to the British Government, which has to pay the interest on the stock representing the original loans by means of which the tenants were enabled to purchase their farms. Mr. de Valera has now told a representative of the Associated Press that "the whole question is to be re-examined in view of the agreement between the British Government and the Irish Free State Government dated 1923, and brought to light by Mr. Thomas."* In the event of reconsideration failing to convince Mr. de Valera, although we consider that the British case is beyond dispute, our Government should, we think, be prepared to submit this particular question to arbitration under the scheme adopted by the last Imperial Conference for settling differences between members of the British Commonwealth.†

* See *The Irish Press* of May 2, 1932.

† See the official summary of the proceedings of the Imperial Conference, 1930.

IRELAND AND THE TREATY

I. The Result of the Election

ALTHOUGH the result of the Free State election undoubtedly surprised the outside world, it was not unexpected by close observers of Irish politics.* The fact that Mr. Cosgrave's Government was the oldest in Europe was perhaps its greatest handicap. Few administrations can hope to survive the accumulation of dislike engendered by ten years of resolute and impartial government, particularly in a country like Ireland, where envy and hatred of those in office or authority are peculiarly prevalent. Moreover, the Government itself did not act with much tact, and justified the humorous comment of a friendly cynic, that it contained several statesmen but only one politician, namely, Mr. Cosgrave himself. Just before the election it announced its intention of making substantial reductions in the salaries of the primary school teachers and the Civic Guards, which these influential bodies, with representatives scattered all over the country, naturally resented. It committed another and more serious blunder by launching at the same time a State prosecution for seditious libel before the Military Tribunal, set up under the Public Safety Act, against Mr. de Valera's newly established paper, *The Irish Press*, and its editor, Mr. Frank Gallagher. The charge arose out of the publication of articles and statements alleging ill-treatment of political prisoners by the Civic Guards in western Ireland. The hearing occupied eleven days, and over fifty witnesses were examined. Such a case naturally presented a splendid opportunity for pleading justification of the statements

* See The Round Table, No. 86, March 1932, p. 374.

published, and gave Mr. de Valera's party a fine opening for political propaganda, of which it fully availed itself. In the result, although the defendants were fined £100 each, the evidence justified the editor's action and discredited the C.I.D. department and its head. In any event ordinary common sense ought to have indicated to the Ministry that the eve of a general election was not the time to embark on what might certainly be described as an attempt to stifle public criticism of their police activities.

But, quite apart from these blunders, the election results clearly indicate that the people as a whole desired a change of Government, and would, in any event, have ensured it by their votes. The first preference votes were as follows: Fianna Fail, 566,325; Cumann na nGaedheal, 449,779; Independents, 124,513; Labour, 98,263; Farmers, 34,989. The result of an election under universal suffrage may justly be described as a verdict based on the collective wisdom of the ignorant, and this election is no exception to this definition. In effect, the people desired to get rid of the Cosgrave Government and to give Mr. de Valera a chance of governing, but under severe limitations as regards power and policy. Remembering that the Labour party is essentially pro-Treaty, though anti-Cosgrave, the first preference votes seem to show a majority of 55,307 votes against the Cosgrave party, and a majority of 41,219 votes against a policy designed to break the Treaty. The following table shows the results of the five general elections which have taken place since the establishment of the Free State, and the steady increase of Mr. de Valera's party vote:

	Fianna Fail	Cumann Na nGaedheal	Labour	Farmers	Independents
1922 ..	36	58	17	7	10
1923 ..	44	63	14	15	14
1927 (June)	51	46	22	11	22
1927 (Sept.)	57	61	13	6	15
1932 ..	72	56	7	4	13

It will be seen from the above that the present Fianna Fail party is the biggest single party ever elected to the Dail. It also shows that both Labour and the Farmers' parties have lost seats progressively to the larger parties, and even the Independents are now much diminished in numbers. As Labour now supports Fianna Fail, and the Farmers and Independents in effect support Cumann na nGaedheal, the effective state of the parties is roughly as follows: Fianna Fail, or de Valera bloc, 79; Cumann na nGaedheal, or Cosgrave bloc, 73. These figures are not quite exact, because a couple of the Independents have at the moment given conditional support to Mr. de Valera, and two of Mr. Cosgrave's party have died since the election. The total number of votes polled in the election was 1,274,156, being 104,000 more than the previous highest poll in 1927. This increase was characteristic of every constituency except Clare, Mr. de Valera's own seat, and proves that a genuine public interest was taken in the result. The Fianna Fail party headed the poll in twenty-one out of the twenty-nine constituencies into which the country is divided, and there can be little doubt that but for the proportional representation system of voting its gains would have been far greater. One fancies that the members of the late Government, who advocated the abolition of P.R., have now changed their minds. Apart from Dublin University (Trinity College) there were no uncontested seats. The percentage of spoiled votes was negligible. Fianna Fail secured a member for every 7,900 votes polled, and Cumann na nGaedheal one for every 8,040 votes polled, proving that P.R. gives a result in which there is a close approximation in the values of the votes cast for the two main parties. With the exception of Mr. T. J. O'Connell, the leader of the Labour party, all the party leaders were elected, including every member of Mr. Cosgrave's Cabinet. But no party secured a clear majority of votes or seats.

The election was conducted throughout in a serious and

orderly manner, and there was an entire absence of disturbance or intimidation on February 16, when the polling took place. The only tragic incident, which had no political significance, was the shooting of Mr. Patrick Reynolds, a member of the last Dail and a Cumann na nGaedheal candidate in the election, and the detective officer who accompanied him, by a police pensioner with whom Mr. Reynolds had had a private altercation at the latter's house. This event, which took place on February 14, after the nominations were complete, necessitated the postponement of the election in the Sligo-Leitrim constituency, where Reynolds was a candidate, and the meeting of the new Dail had to be altered from March 2 to March 9, in order to permit this election to take place.

During the election Mr. Cosgrave and Mr. de Valera made whirlwind tours of the country, assisted by the motor car and loud speaker. The publicity campaign of the Cosgrave party was better managed than that of their opponents, and was concentrated principally on large advertisements in the Irish papers which gave in graphic and condensed form the record of the Cosgrave Government and their rivals. The most effective and pithy poster was that entitled " His Master's Voice," which represented Mr. de Valera walking forward with an armed gunman holding a revolver to his back, and the most amusing a circus playbill headed " Devvy's Circus : Absolutely the greatest road show in Ireland to-day," and featuring Mr. de Valera as " The world-famous Illusionist. Oath-Swallower and Escapologist. See his renowned act escaping from the strait jacket of the Republic."

One of the planks in Mr. de Valera's programme is a pledge to revise all army pensions that have not been granted for disability. There are about 3,000 of these pensioners, whose pensions total about £150,000 per annum, and on February 26 Mr. de Valera's paper, *The Irish Press*, referred to a rumour that two members of Mr. Cosgrave's Cabinet were plotting with these pen-

sioners to bring about a *coup d'état*. This suggestion was immediately described by Mr. Cosgrave as " grotesquely untrue " and only to be explained " by a disordered imagination or a guilty political conscience." In a further statement issued on the eve of his leaving office Mr. Cosgrave admitted that the verdict of the electors meant that Fianna Fail should get an opportunity of trying out their policy, and accordingly the machinery of State, adequate in every part, would be handed over to them. He added that the difficulties which would confront the new administration were mainly of their own making, a fact which would become increasingly manifest even to them. While, however, the new Opposition would not deny them any reasonable facilities, it would not shirk its duty as a parliamentary Opposition by being a consenting party in discrediting the national honour, nor look silently on while the country's economic problems, in a period of world-wide depression, were being made the sport of politics, and its resources frittered away upon unsound and fantastic schemes. Their efforts in Opposition would be directed to the ends they had steadily pursued during the last ten years—the establishment and the maintenance of national dignity, national prosperity, and national good faith.

II. The New Government and Its Policy

As a prelude to the discussion of the present political situation in the Free State, it is desirable to state briefly the aims and policies of the various parties. Fianna Fail, or the moderate republican party, led by Mr. de Valera, aims eventually at complete separation from Great Britain and the establishment of an independent republic, but it is content to achieve this object by easy stages and by democratic methods. For the moment it claims only a limited mandate within the scope of its election programme, namely, to abolish the oath of allegiance and retain the

land annuities.* Its economic programme aims at effective protection for all Irish goods manufactured in Ireland, the decrease of unemployment, and the decentralisation of industry.† Cumann na nGaedheal, or the constructive nationalist party, led by Mr. Cosgrave, stands for the maintenance of friendly relations with England, the observance of the Treaty of 1921, the co-equality of all States in the British Commonwealth, and, above all, for the enforcement of the people's democratic decisions. Its economic policy may be described as one of scientific protection for suitable industries and the full development of our agricultural industry by improving its standards and output. The Labour party is principally interested in schemes for the provision of employment, the increase of old age pensions, and other measures of social reform, and is only remotely concerned with such questions as the oath of allegiance, which it does not regard as of vital importance. The small Farmers' party, hitherto attached to Cumann na nGaedheal, is purely interested in agricultural matters, and is likely to vote as the interests of its followers dictate. The Independents are a heterogeneous group without any definite leadership or policy, but chiefly representative of the business interests, the Protestant minority, and the old Unionist party. They include the members representing Trinity College, and their general tendency is to support a conservative policy, and to uphold the Treaty. Outside the Dail, and refusing to take part in its proceedings, is the extreme republican party, which may be divided into two parts, political and military. The political wing is represented by Sinn Fein, an organisation largely controlled by Miss Mary MacSwiney, which believes that the government of the country is still vested in the members of the Second Dail; and the military wing by the Irish Republican Army, or I.R.A., composed of the younger men who do not neces-

* See THE ROUND TABLE, No. 74, March, 1929, p. 379 *et seq.*, and No. 80, September, 1930, p. 820.

† See the Appendix.

sarily follow or obey the political wing. The I.R.A. has, in the eastern portion of the country, a distinctly Communist tinge, and Saor Eire, one of its satellite bodies, is definitely of that colour. All these extreme republican parties stand for the immediate establishment—if necessary by force of arms—of an All-Ireland republic, embracing not only the Free State but Northern Ireland, and the complete denunciation of the Treaty and abolition of the Free State Constitution. It is somewhat ironical to reflect that their policy is derived, through the abstract principles of the French Revolution, from the writings of the English political philosopher Locke, who was the English champion of the Orange cause, rather than from Irishmen like Swift or Burke. But the fact that the ghosts of Emmet and Wolfe Tone, who first advocated these theories, still confront one at every political corner in Ireland cannot be denied and must not be overlooked by anyone who wishes to understand the mentality of our political extremists.

The first step of the new Dail, when it met on March 9, was to elect as Speaker Mr. Frank Fahy, a Fianna Fail deputy from Galway, in place of Mr. Michael Hayes, the Speaker in the last Dail. Mr. Hayes was beaten by only two votes, as many members apparently felt that it would have been better to preserve continuity in such an office. Mr. de Valera was then elected President of the Executive Council by a majority of 13 votes, and, after obtaining the formal sanction of the Governor-General, who attended at Leinster House for this purpose, he announced that the new Executive Council would be composed as follows:

President, and Minister for External Affairs, Mr. Eamon de Valera; Vice-President, and Minister for Local Government, Mr. Sean T. O'Kelly; Minister for Lands and Fisheries, Mr. P. J. Ruttledge; Minister for Industry and Commerce, Mr. Sean Lemass; Minister for Finance, Mr. Sean McEntee; Minister for Agriculture, Dr. James Ryan; Minister for Defence, Mr. Frank Aiken; Minister for Justice, Mr. James Geoghegan, K.C.; Minister for Education, Mr. T. Derrig; Minister for Posts and Telegraphs, Senator Connolly.

The names of the new Ministry were approved by the Dail without a division. Like Mr. Cosgrave's Government, the new Executive Council is on the whole composed of young men. Its leader, Mr. de Valera, is just fifty, having been born in New York of a foreign father and an Irish mother in the year 1882. He spent his childhood in County Limerick, and was educated in Dublin, where he took his university degrees, and became a teacher of mathematics. He took part in the Rebellion of 1916 and was sentenced to death, but this was commuted to penal servitude for life, and he was subsequently released in June 1917, whereupon he was at once elected M.P. for East Clare as a republican candidate. He helped to organise the Sinn Fein movement, and was elected its president in October 1917. When Dail Eireann was brought into being on the secession from the British Parliament after the general election of 1918, he was elected President of the Republican Government. Subsequently he went to the United States to seek recognition and funds for the Irish movement. In November 1920 he returned to Ireland, and in 1921 took part in the negotiations which led up to the Treaty. He refused to go to London for the final negotiations, and eventually repudiated the agreement arrived at there. His weak attitude at this time was generally believed to be chiefly responsible for the disunion and civil war which ensued, as without him the extreme element would not have been able to obtain any serious public support. He took part in the civil war, but as a follower rather than a leader, and subsequently emerged to found the Fianna Fail party in 1926 and to enter the Dail as its leader in 1927. Mr. Sean T. O'Kelly was one of the early members of the Sinn Fein group in the Dublin Corporation, where, like Mr. Cosgrave, he served his apprenticeship to public affairs. He also represented the Sinn Fein party in Paris, and was the leader of the deputation that sought to place the Irish case before President Wilson during the Peace Conference. Mr. P. J. Ruttledge

is a solicitor from the west of Ireland who took an active part in the civil war. Mr. McEntee is an engineer and a patent agent who also took part in the rising of 1916. So did Mr. Lemass, who was then only 17, and who is regarded as the coming man of the Fianna Fail party. He is a clear speaker, and is reputed to be reasonable in his views. Dr. James Ryan is a doctor with agricultural tastes like many of his confrères in the Free State. Mr. Frank Aiken was a prominent republican leader in the Anglo-Irish struggle and the civil war; in his new post as Minister for Defence he commands some of his former opponents. Mr. Derrig was also a prominent fighter in the civil war, and is a teacher by profession. Mr. James Geoghegan, K.C., never took any part in politics until he emerged from the Law Library to contest Longford-Westmeath in 1927 as a Fianna Fail candidate.

It is not surprising that the first act of the new Government, composed as it is largely of ex-political prisoners and fighting men, was to release immediately all the militant republicans who had been sentenced by the Military Tribunal, and its second to suspend the operation of the Public Safety Act, thus automatically abolishing the Military Tribunal and removing the ban imposed on the I.R.A. and kindred organisations. The release of the prisoners was celebrated by immediate demonstrations in Dublin and by parades of the I.R.A. throughout the country on Easter Sunday in celebration of the 1916 Rebellion. At these gatherings the speakers were careful to emphasise the fact that in spite of such concessions the I.R.A. must continue its work and would not rest until it had achieved its final object, the restoration of an All-Ireland republic. At the military parades on Easter Sunday it was noticeable that the demonstrators did not carry arms, and that no volleys were fired over the graves of the dead republicans where the demonstrations ended. No member of Mr. de Valera's Government took part in these processions, and the Free State army was confined to barracks in order to avoid any

chance of friction. It is well to remember that the I.R.A. was definitely condemned last October by the Catholic Hierarchy as "a sinful and irreligious organisation" of which no Catholic can lawfully be a member, and several of the I.R.A. speakers attacked the bishops in their public addresses. It is believed that Mr. de Valera has privately endeavoured to persuade the I.R.A. to moderate their irreconcilable attitude, but they are not likely to be satisfied with any concessions he can offer. He believes that once the oath of allegiance is removed from the constitution the extreme elements will recognise the Government and enter the Dail; but the Sinn Fein party, in a public statement issued immediately after the election, informed him that he "and the other prospective Ministers of His Majesty, George V, may remove as many oaths and tests as they wish, but they will never induce republican Ireland to accept the shameful position of surrender and subservience represented by membership of the Free State Parliament, which is not Dail Eireann," and they go on rather cruelly to state that their attitude cannot be better given than in the words spoken by Mr. de Valera himself at Tralee as recently as August 16, 1925, when he said:

> If we were to take the advice which some people have offered us, to admit defeat and consent to take our places in the twenty-six-county Parliament, what would happen is that we would have added our strength to the strength of those who accepted the Treaty in pulling away the people from their national ideals. Our business is to stand fast and firm, and fast and firm we will stand, even if we are reduced to the last man.

It is the recollection of statements such as this that explains Mr. de Valera's fervent anxiety to abolish the oath, which is in effect the permanent evidence of his own degradation in republican eyes. But if it is impossible for Mr. de Valera to satisfy the extreme republicans, it is equally impossible for him to satisfy the Labour party, on whose support his parliamentary position rests, because they have already announced that they will only support

him as long as his Government carries out a Labour programme, involving the expenditure of large sums on unemployment grants, old age pensions, housing, and social legislation, and does not subordinate these to political aims.* The Labour party state that they will continue their opposition to the oath of allegiance, but as they have taken it without protest for ten years, and as it was not even mentioned in their political programme, it is difficult to understand what this statement means. One of their members, Mr. P. Hogan, T.D., has been elected Deputy Speaker of the Dail.

Immediately the election results indicated the certainty of Mr. de Valera's election, he began to make statements and give interviews to the press on the subject of his policy. He stated that to get rid of the oath of allegiance they had only to eliminate it from the constitution, as it was not made obligatory by the Treaty, and that England had no right to interfere. They also intended to retain the land annuities, to which, he said, England had no legal claim. These statements were accompanied by protestations of friendly feelings towards England, and willingness to negotiate trade agreements with her. The words of the Treaty concerning the oath are contained in Article 4, and are as follows:

> The oath to be taken by members of the Parliament of the Irish Free State shall be in the following form: I . . . do solemnly swear true faith and allegiance to the Constitution of the Irish Free State as by law established and that I will be faithful to His Majesty King George V, his heirs and successors by law, in virtue of the common citizenship of Ireland with Great Britain and her adherence to and membership of the group of nations forming the British Commonwealth of Nations.

Having regard to these definite words it is difficult to understand how an intelligent person like Senator W. B. Yeats, who must be presumed to have read the Treaty, could make the statement that it omits to state that any person

* See the Appendix.

must take the oath. The three preceding Articles provide that the law and constitutional usage of the Dominion of Canada governing the relationship of the Crown shall apply to the Irish Free State. Article 17 of the Free State Constitution, after stating that the oath in the above form shall be taken by every member of the Oireachtas (*i.e.*, the King, the Dail, and the Senate), goes on to provide that "such oath shall be taken and subscribed by every member of the Oireachtas before taking his seat therein before the Representative of the Crown or some person authorised by him," and it is this article which Mr. de Valera proposes to remove from the constitution, which removal he apparently maintains does not occasion a breach of the Treaty. It is strange that he should discover that the oath on account of which he helped to plunge the country into civil war, and which he afterwards stated was an "empty formula," is not mandatory having regard to the Articles above cited. His contention would seem to be that the Treaty should have provided that the oath must be taken by members of the Dail and Senate and that the existing words give them the option of taking no oath at all.

When the Dail resumed its sittings on March 15 Mr. de Valera stated that the Government intended to remove the oath from the constitution, and the moment that that was done he believed there would be no excuse for any citizen to refuse to give willing obedience to the law instead of coercion, but he went on to say that they stood for "one Government and one army." The frightful things that were supposed to happen the moment a Fianna Fail Government came into power had not taken place and the peaceful change of Government had been a wonderful thing for the country. He might have added with truth that this peaceful change would have been impossible but for Mr. Cosgrave's work during the last ten years. The contention of Mr. de Valera's Government as regards the land annuities is in effect that they are not legally due to Great Britain, since under the Government of Ireland Act 1920 they were

to be retained by Southern Ireland, and are in fact now retained by Northern Ireland under the same Act. They refuse to recognise the financial settlement of 1926 between the Free State and Great Britain on the ground that this arrangement was arrived at only between the respective Governments and was never ratified by the Free State or English Parliaments. In this opinion they are supported by a number of learned lawyers to whom they submitted the matter, although a number of equally learned lawyers advised Mr. Cosgrave's Government to the opposite effect. These land annuities are annual payments made by the Irish farmers in order to repay the sums lent to them for the purchase of their land. The money is collected from the farmers by the Free State Government, and, as regards the land purchased before the Treaty, is paid over to the British National Debt Commissioners to meet the service of the loans raised for that purpose. The figure involved is about £3,000,000 a year and the sum still to be met about £76,000,000. This sum Mr. de Valera proposes to apply to finance a scheme of derating designed to assist the small and productive farmers. It may be asked why he does not propose to remit these payments altogether, as indeed the extreme republicans have already promised to do. The reason why he cannot take this far more attractive course is because he must continue to collect the annuities on the large amount of land purchased compulsorily since the Treaty under the Act of 1923, since the Free State exchequer itself must finance this transaction, which has been carried through by the issue of land stock instead of the payment of cash to the landlords. It is obvious that the Land Commission could not remit the annuities of the tenants who purchased before the Treaty of 1921 and collect those of the tenants who purchased since the Treaty without creating an impossible situation. It is difficult, however, to see what legal claim the Free State Government has to collect and retain the annuities on the land purchased before 1921 if they are not applied in

discharge of the original debt, and this view is evidently shared by the farmers themselves, because the number of defaulters has increased materially during the last few months, and is likely to increase further in the near future. If the annuities are not paid, the central government deducts the arrears from the grants in aid of local taxation, and so the ordinary ratepayer has to bear the loss, a process which cannot be continued indefinitely, and which may easily lead to a general strike against local taxation.

III. The British Government's Intervention

NATURALLY the British Government could not continue to maintain silence whilst Mr. de Valera imparted his proposals to every foreign press correspondent and broadcast them to America, and little surprise was felt when Mr. Neville Chamberlain, in a speech on March 18, stated that any suggestion that obligations or agreements, solemnly entered into by the two countries, could be repudiated or varied by either side as though it concerned that side alone would cause the British Government the gravest concern, and, if seriously pursued, would undoubtedly revive bitterness and differences which it was hoped had been removed for ever. Subsequently on March 22, owing to an inquiry received from Mr. J. H. Thomas, the Secretary of the Dominions, a statement of the intention of the Irish Free State Government with regard to the oath was issued by Mr. J. W. Dulanty, the High Commissioner for the Irish Free State, in London.

> The Irish Free State Government (this statement declared) held that the oath was not mandatory in the Treaty, and that they had an absolute right to modify the constitution as the people desired. Furthermore, it was their view that, the constitution being the people's constitution, anything affecting it belonged to internal sovereignty, and was a purely domestic matter. But, besides these legal and constitutional considerations, there was another and paramount consideration more than sufficient in itself to make the Government's decision final and irrevocable. The people have

> declared their will without ambiguity. The abolition of the oath was the principal and paramount issue before the electors. The oath had been the cause of all the strife and dissension in the Irish Free State since the signing of the Treaty. The people, and not merely those who supported the present Government, regarded it as an intolerable burden, a relic of medievalism, a test imposed from outside under threat of immediate and terrible war. The new Government had no desire whatever to be on unfriendly relations with Great Britain—quite the contrary. But the British Government must realise that real peace in Ireland was impossible so long as the full and free representation of the people in their Parliament was rendered impossible by a test of this character.

On the same day, speaking in the Free State Senate, Mr. de Valera reiterated his intention to remove the oath and retain the land annuities, but laid stress on the fact that his Government desired to remain on the friendliest possible terms with Great Britain. His claim to have a mandate to do these things was strongly disputed by Senator Milroy, one of Mr. Cosgrave's party, and the figures already quoted in this article show that no real decision on these questions was given at the election. In fact, the new Dail contains a clear majority, and the Senate a majority of at least two-thirds, for the Treaty, although the Labour party is supporting Mr. de Valera in his proposal to abolish the oath, believing that it can be done with impunity.

On March 23 Mr. Thomas, on behalf of the British Government, addressed a note to Mr. de Valera in which he stated that in the opinion of his Government it was manifest that the oath was an integral part of the Treaty made ten years ago between the two countries, and hitherto honourably observed on both sides. As regards the land annuities the view of his Government was that the Free State Government were bound by the most formal and explicit undertaking to continue to pay these annuities to the National Debt Commissioners and the failure to do so would be a manifest violation of an engagement which was binding in law and in honour on the Irish Free State, whatever administration might be in power, in exactly the same way as the Treaty itself was binding on both countries.

On April 5 Mr. de Valera, replying on behalf of the Free State Government, stated that whether the oath was or was not "an integral part of the Treaty made ten years ago" was not now the issue. The real issue was that the oath was an intolerable burden to the people of the Free State and that they had declared in the most formal manner that they desired its instant removal. The agreement of 1921 gave effect to what was the will of the British Government. It was directly opposed to the will of the Irish people, and was submitted to by them only under the threat of immediate and terrible war. For Ireland it has meant the consummation of the outrage of partition, and the alienation of the most sacred part of our national territory with all the cultural and material loss that this unnatural separation entailed. British maintenance parties were still in occupation of some of our principal ports, our coastal defence was still retained in British hands, and Britain claimed the right, in times of war or strained relations with a foreign Power, to make demands upon Ireland which, if granted, would make our right to neutrality a mockery. After further references to the results of the Treaty, Mr. de Valera proceeded to state that his Government must maintain that the elimination of the oath was a purely domestic concern and necessary for the peace, order and good government of the State. The competence of the Free State legislature to pass such a measure was not open to question, and had been expressly recognised by the British legislature itself. With regard to the land annuities his Government desired to know what was the formal and explicit undertaking to continue to pay the sums mentioned in the British note. In conclusion, Mr. de Valera expressed the opinion that friendly relations between the peoples of their respective countries could not be established on pretence but only on the solid foundation of mutual respect and common interests, and would long ago have been thus established had the forces that tended to bring us together not been interfered with

by the attempts of one country to dominate the other. In a further note, dated April 9, Mr. Thomas, on behalf of the British Government, pointed out that the views expressed in Mr. de Valera's despatch went far beyond the issue originally raised and made it clear that the repudiation of the whole settlement of 1921 was involved. The British Government had entered into that settlement with the single desire that it should end the long period of bitterness between the two countries, and it was their belief that it had brought a measure of peace and contentment that would not have been reached by any other means. Further, as the direct result of that settlement, the Irish Free State had participated in, and contributed to, the notable constitutional developments of the last few years, whereby the position of the Dominions as equal members with the United Kingdom of the British Commonwealth of Nations, under the Crown, had been defined and made clear to the world. It was true that the 1921 settlement did not result in the establishment of a united Ireland, but the Treaty itself made the necessary provision for the union at that time of the two parts of Ireland, if both had been ready to accept it. As to the future, there could be no conceivable hope for the establishment of a united Ireland except on the basis that its allegiance to the Crown and its membership of the British Commonwealth continued unimpaired. The British Government stood absolutely by the Treaty. With regard to the land annuities, whose origin and nature he described, he stated that the formal and explicit undertakings referred to by the British Government were contained in the Financial Agreement of February 12, 1923 and the Ultimate Financial Settlement of March 19, 1926, under which the Free State Government undertook to pay to the British Government at agreed intervals the full amount of the annuities accruing due from time to time under the Irish Land Acts 1891–1909. In conclusion, Mr. Thomas pointed out that, whilst it is the sincere hope and desire of the British Government that

friendly relations should continue between the peoples of the United Kingdom and the Free State, those relations cannot but be impaired by any failure in the complete fulfilment of obligations deliberately undertaken.

Speaking at Ennis on April 10, Mr. de Valera said that the people had emphatically declared their will to abolish the oath of allegiance to the British Crown as the first step in the new march to independence and unity. It was a purely domestic matter in which they could not tolerate interference. They were eager to establish relations of real friendship with the British people, but they must be relations of complete equality. Great Britain had formally abjured the claim that she so long unjustly made to have any voice whatever in their domestic concerns. The fault would be theirs if they submitted to anything that would mean the revival of that claim. Their national honour was at stake in this matter. Ireland was not a British colony. It was one of the oldest nations in the world with all the rights of nationhood. Unlike the British Dominions, they could not admit, and had never freely admitted, that their right to sovereign independence was derived from a British Statute. The frank and final acknowledgment of that right was the one basis upon which real and permanent agreement between the two countries could be secured.

It is obvious from these statements that Mr. de Valera's mind has, for all practical purposes, not advanced beyond the year 1921, and that he is still thinking in terms of the Treaty discussions and the atmosphere which then existed. The position of equality which he demands has been already achieved, as the British Government points out. The oath in itself is now really only the symbol of Commonwealth unity, and as such can of course be abolished, but its abolition seems undoubtedly to involve a denunciation of the entire Anglo-Irish Treaty, of which it is an integral part. Mr. de Valera also seems to be ignorant of the fact that no British Government will ever again raise a finger to coerce Ireland, and that when he seeks to abolish the

oath he is only engaged in a sham fight. But it seems also certain that the Free State cannot leave the British Commonwealth politically, and remain in it economically. It might be more honest for Mr. de Valera definitely to proclaim his Government's intention to secede from the British Commonwealth, instead of waiting to be pushed into that decision by the I.R.A. or the force of events. If his Government feel that they have no mandate for taking that course, as in truth they have not, let them definitely consult the people of the Free State, by referendum or otherwise, on the issue of secession. Such a decision, which, at least if carried out without extremist intimidation, could not be said to be taken under the threat of "immediate and terrible war," might perhaps be treated as decisive for this generation, and we could then hope to escape at last from the anti-English complex which still apparently dominates our national mentality. The present situation is bad for us and bad for England too, but it cannot be cured by the abolition of the oath or the non-payment of the land annuities. That the questions at issue have caused anxiety not only to England and Ireland but also to the other States of the Commonwealth was made clear by the messages sent to Mr. de Valera early in April by the Prime Ministers of South Africa, Australia and New Zealand respectively, expressing grave concern at the developments that have taken place in Anglo-Irish relations, and hoping that a satisfactory solution may be found. Mr. de Valera's replies record appreciation of these friendly communications and reiterate the points made in his communications to the British Government. In considering Commonwealth relations it must not, however, be forgotten that the position of Ireland, as a parent nation, is fundamentally different from that of the other Dominions, and that we have a long and unbroken national existence which they cannot claim. On the other hand, we should not forget that the Irish people have played a great and important part in their development. The attitude of

Mr. Cosgrave and his party was made clear at a meeting in Dublin on April 5, when a resolution was passed unanimously pointing out the achievement of the Cosgrave Government, and adding that the only limitation or qualification on Irish independence now existing was the political division of the country. The party recorded its vigorous opposition to any policy, which, by depriving the Free State of the advantages it possessed as a member of the British Commonwealth of Nations, would not only endanger it economically, but would destroy the hope of national reunion, and also to any policy which would endanger the Treaty, since such a policy would lessen the security afforded to the people by that settlement, would lower the repute of the State, and would greatly reduce the power to negotiate international agreements satisfactorily in the future with Great Britain or any other State.

Mr. Cosgrave's party have suffered a serious loss through the tragic death of Captain William Redmond, D.S.O., the only son of the late John Redmond, who threw in his lot with them during the election. Although, like the sons of most great men, he had not his father's ability, and although he was handicapped both by bad health and by the destruction of the Irish party and its policy by the Sinn Fein movement, he nevertheless served his country unselfishly and maintained the noble traditions of his name. He was a fine speaker, and served with distinction in the great war. Had Mr. Cosgrave been returned to office, it is almost certain that Captain Redmond would have been given a place in the Government. If he had supported, instead of opposing, Mr. Cosgrave in June, 1927, when he led a party of eight members, his political career might have been very different, but unfortunately he missed the opportunity to consolidate moderate nationalist opinion which then presented itself and did not recur.

IV. The Removal of the Oath

WHEN the Dail reassembled on April 20 after a few weeks' adjournment, the Government's first step, in accordance with Mr. de Valera's oft-repeated pledges, was to introduce the Bill for the removal of the oath of allegiance from the constitution. The text of the Bill revealed the legal difficulties inherent in Mr. de Valera's programme, because not only does it amend the constitution by the deletion of Article 17 which prescribes the oath, but it also deletes the words in Article 50 which provide that amendments to the constitution must be within the terms of the Treaty, and Section 2 of the Constitution Act itself, which provides that the constitution shall be construed with reference to the Articles of Agreement for the Treaty, which are thereby given the force of law, and that any provision in the constitution or any amendment thereof, or law made thereunder, which is repugnant to the Treaty, shall be void and inoperative. The necessity for these consequential amendments would seem to prove that Mr. de Valera's view that the abolition of the oath does not infringe the Treaty agreement is not shared by his legal advisers. The formal introduction of the measure was enlivened by a candid and courageous speech from Mr. F. MacDermott, a young Independent deputy for Roscommon belonging to an old Irish family, who declared that the fundamental question was: did they or did they not regard themselves as members of the British Commonwealth of Nations? In either case the present Bill was wrong. On the assumption that the Free State did consider itself a member of the partnership, the Bill was a breach of international good manners—apart altogether from the question of good faith. If the Free State did not consider itself a member of the Commonwealth the Bill was totally inadequate to make the position

clear to the Irish people or to the world at large. It contained ambiguities which would be extremely bad for the reputation of the country abroad, and would be dangerous from the point of view of internal peace. If they did not wish to remain in the Commonwealth let them go out of it like men. "We are an ancient race with noble traditions," said Mr. MacDermott. "Do not let us behave like gutter-snipes." If the Bill was passed, he declared, he would introduce a Bill requesting the Government to take immediate steps to remove the Free State from the British Commonwealth.

The second reading debate began with an unexpected and significant prelude. Mr. de Valera's motion to take the entire time of the House for the Bill was objected to by Mr. Morrissy, an Independent deputy, whose resolution dealing with the urgency of the unemployment problem was on the order paper. He challenged a division, which resulted in a defeat for the Government by a majority of eight votes, a result which proves that the Labour members, who voted with Mr. Morrissy, consider that steps to remove unemployment are more important than the abolition of the oath. The speeches made during the debate were on familiar lines. Mr. de Valera argued that his proposal was in no way a violation of the terms of the Treaty, and that, as the Free State was admittedly one of the co-equal partners of the British Commonwealth, the Oireachtas were entitled to remove the oath without the concurrence of any other authority. He would not therefore be drawn into negotiations on the matter. The moment the people were ready to stand for an independent republic the Government would be ready to lead them. Mr. Cosgrave moved as an amendment that,

believing that the rights and liberties and the economic freedom and privileges assured to the people by the Treaty of 1921 are placed in jeopardy by the Bill, the Dail declines to give it a second reading pending negotiations between the Executive Council and the British Government on the question at issue.

He described the Bill as one of the greatest pieces of political chicanery in history, and argued that purely legal action of a unilateral character in respect of an international instrument would not commend itself to the representatives of any other nation. The Bill did affect the Treaty—an instrument alterable only by mutual agreement between the parties to it. Although many members of the Opposition had no liking for the oath, they disliked equally the manner in which it was sought to have it removed. One of the best speeches during the debate was made by Professor O'Sullivan, Minister for Education in the Cosgrave Government, who said that it was not because the Bill amended the constitution that it was opposed, but because it repudiated the Treaty. If England had attempted anything even approaching the present Bill within the last ten years they knew what the attitude of every party in the country would be. They had always denied England's right to interfere with the Treaty. Were they going to claim the right to change and repudiate it? Why, he asked, was it that the interests of the majority in the country must be always sacrificed to the determination of a small minority that was not even represented by the Government party? Mr. Dan Breen enlivened the proceedings by stating that, as one of those who went out to kill Lord French, as the King's representative, in 1919, he made no apology, and would do the same, if the occasion arose, to-morrow.

The Bill finally passed its second reading on April 30 by a majority of six votes, and will no doubt pass the remaining stages in the Dail. It must then go to the Senate, which, under the constitution, has the power to reject it, but such action would only delay its passage for eighteen months, unless Mr. de Valera went at once to the country, as he would certainly do, and was returned again to office, in which event the Bill could be passed within sixty days. There are sixty members in the Senate, of whom at least two-thirds are definitely opposed to

Mr. de Valera's policy, but it may be doubted whether they will have sufficient courage to reject the Bill, and even if they have the courage it may also be doubted whether it would be the best tactics to do so. They may legitimately take the attitude that as the Dail, directly elected by the people, has chosen to pass the Bill they can take the consequences, and so leave Mr. de Valera in his present uncomfortable position. Certainly if he was returned to power as the result of a fresh election he would immediately, as his newspaper has not obscurely hinted, take steps to abolish the Senate, which he has always denounced as an undemocratic and useless body.

If then and when the Bill finally passes what will be the position of the Irish Free State? Upon the answer to this question will depend the future of Mr. de Valera's Government. If the British Government confines itself to the polite protests already made and does not treat the abolition of the oath as implying the Free State's resignation from the rights and advantages of membership of the British Commonwealth, then Mr. de Valera's position will undoubtedly be strengthened and he will proceed to another election in which the issue will be the entire revision of the constitution. His followers boast that if he is then returned with an independent majority he will make short work of the I.R.A., if it ventures to challenge his authority. In such an event there would seem to be little doubt that Mr. de Valera could count on several years of office. He might even be able to forget the Treaty, and would undoubtedly seek to establish profitable economic relations with Great Britain.* It is quite certain that if he succeeds in abolishing the oath with impunity Mr. Cosgrave's party will suffer virtual extinction, at least for the time being. If, on the other hand, the British Government faces the issue at once and treats the abolition of the oath as a definite repudiation of the

* See the Appendix for the economic position as between Great Britain and the Irish Free State.

Treaty and a deliberate step towards secession, with all the political and economic consequences that must follow therefrom, the de Valera Government will be compelled to explain the result to the angry people of the Free State, who will, in that event, have occasion to remember the unpleasant and generally forgotten fact that history always repeats itself.

The Irish Free State.
May 1932.

APPENDIX

The Economic Position

The principal facts concerning trade relations of the Free State with Great Britain were given by Mr. William Peters, the English Trade Commissioner, in an address delivered in Dublin on March 7. He pointed out that in 1931 the total external trade turnover of the Free State amounted to about £88,000,000. Exports accounted for £37,000,000 and imports for £51,000,000. Less than £1,000,000 worth of goods were re-exported, the £36,000,000 odd remaining represented Free State goods, and of this sum exports to the United Kingdom accounted for £35,000,000, exports to all other countries little over £1,000,000. After allowing for re-exports, the actual value of United Kingdom goods sold to the Free State in 1931 was £32,000,000. In other words the sales of Free State goods in the United Kingdom exceeded by several million pounds per annum the sales of United Kingdom goods in the Free State. This was the case not only in 1931 but for all the preceding years. The trade in live stock between the Free State and the United Kingdom was the largest of its kind in the world. On the average each agricultural holding in the Free State sends every year something like two head of cattle, three head of sheep and pigs, and three head of poultry to the United Kingdom. This represents £12 per head of the population, or £60 for the average family of five persons. The Free State does 96 per cent. of its total export trade with the United Kingdom, but the slightly smaller exports of United Kingdom goods to the Free State represented under 8 per cent. of the total United Kingdom export trade. It is to be noted that Mr. de Valera's Government have already announced their intention of attending the Ottawa Conference, and that in the numerous provisional tariffs imposed since they took office—on cut

flowers, agricultural machinery, potatoes, boots and shoes, clothes, cream, motor-car bodies, and shovels—the usual imperial preference has been given. On the other hand, they count on the fact that the Free State is one of the few considerable customers with whom Great Britain maintains a favourable balance of trade, to prevent the British Government from using economic pressure against them.

Unemployment

The Government's policy for the relief of unemployment, which was one of the principal planks in their election programme, has proved to be still very vague, and the various government departments have been apparently asked to meet the deficiency by formulating schemes which are to be co-ordinated by the Government into a general plan. It seems that this plan will eventually comprehend the development of housing and roads, the creation of new industries and the extension of existing industries as the result of tariffs, and the increase of tillage by compelling the millers to use native wheat. All of these suggestions, except the last, were in process of development under the Cosgrave administration. It may also be pointed out that the statistics issued by the International Labour Office show that unemployment increased last year in the Irish Free State by only two per cent. The new Government also propose to decentralise industry by fostering rural industries. For instance, they aim at having many small flour mills scattered over the country instead of a few large port mills in convenient places, and they are believed to have taken steps already to discourage an English milling firm from developing the Irish port mills in which it is interested. Their general attitude towards foreign capital, and particularly English capital, is likely to be defensive and suspicious, but they are already beginning to discover that even Irish capital is a shy bird, which is not likely to undertake large commitments under present conditions, and that unemployment cannot be permanently decreased by State action alone.

The economic difficulties to which the political situation may give rise are best indicated by the statement issued to their employees by Messrs. Jacob, the well-known and progressive Dublin biscuit manufacturers, in which they point out that if the Free State leaves the British Commonwealth they will be compelled to reduce their employees in Dublin by 50 per cent., or over a thousand persons; and by the warning of Sir Percival Perry, the Chairman of the Ford Company, that recent political developments in the Free State had occasioned his company grave concern—a statement which would seem to indicate that the future of the Ford factory at Cork (which employs some thousands of men) is hanging in the balance. The Government have also imposed a levy of 2d. a pound

on all butter manufactured in, or imported into, the Free State, and will apply the revenue so derived to subsidise the export of butter at a rate not exceeding 4d. a pound. As more than 60 per cent. of the Free State butter is still manufactured on the farm, and as very little of this farm-made butter is exported, the result will naturally be a heavy tax on the farmers who make their own butter and on our urban population who consume it. The number of officials required to collect the tax can be left to the imagination. Apparently the inspiration for this scheme is to be found in recent Australian legislation.

The Irish Free State.
May 1932.

THE UNITED STATES: A YEAR OF DESPAIR

THE financial section of the *New York Evening Post* for Saturday, April 30, 1932, carried the following items as one day's news:—

> Further scattered liquidation of stocks in the final session of the week today resulted in an extension of the stock decline into new low ground for the bear market.
>
> Led by speculative railroad issues, bond prices today penetrated into new low ground for the bear market.
>
> Renewed selling in basic staples this week indicates that liquidation has not yet run its course in the futures markets. Although many commodities are now selling far below average production costs, prices broke through previous resistance points to establish new low levels for the year.

On May 1, the *New York Times* published its index of business activity for the week ended April 23. The combined index of freight car loadings, steel mill activity, electric power production, automobile production, and cotton cloth production reached the lowest figure of these depression years, being 58 per cent. of normal.

Lo! the dry bones of the spectre which is called deflation! But perhaps they can be made to dance a bit by the injection of a few more figures. *Similia similibus curantur.* Our stock market averages are conventionally divided into three groups, industrials, rails, and utilities. During the past two weeks, the United States Steel Corporation, giant among American industrials, has passed the dividend on its common stock after showing a loss of $13,000,000 for the first three months of 1932; the Pennsylvania Railroad, the country's largest railway system, has deferred its common dividend, marking the first inter-

ruption in payment since 1847; and three related utility companies, Insull Utilities Investments, Corporation Securities Company and Middlewest Utilities Company, all the creation of Samuel Insull, have gone into the hands of the receiver, with book assets totalling more than $1,300,000,000. Probably it is no wonder that stock prices "went into new low ground for the bear market."

But what does this mean to the investor? I do not have in mind the misguided brother who bought American and Foreign Power at $199 per share and can't get more than $3 for it to-day; nor the one who put his funds into the first-named Insull enterprise at $146 a share and will have to take 40 cents a share for it on the Exchange to-morrow. These misfortunes are fantastic. I am thinking of my friend who retired from business in 1929, at the age of 62, with $220,000 for investment. He had a fancy (those were the Belshazzar days) to have a quarter of a million safely invested in the highest type of equities—New York City bank shares. So he borrowed a mere $30,000 and bought as many shares at $25,000 would buy in each of ten leading New York banks. To be specific: he bought shares of the Chase National Bank of the City of New York, National City Bank of New York, Guaranty Trust Company, Irving Trust Company, Brooklyn Trust Company, Central Hanover Bank and Trust Company, Manufacturers Trust Company, Bankers Trust Company, Chemical Bank and Trust Company, and The Manhattan Company. He bought them because he believed that the economic progress of the United States could not be interrupted; he held them, through these nerve-wracking three years, because he believed that "prosperity was just around the corner." He kept them pledged, those beautiful engraved certificates, against his loan of $30,000. And when, on April 30—Spring in the air and the magnolia trees in bloom in Central Park—their market value declined to $30,000, down from $250,000, the bank from whom he held the loan sold him out—to protect themselves. Not

an institution on the list had failed, their published statements for the quarter ended March 31 showed their assets to be more liquid than they had ever been in banking history. They were actually paying dividends to yield 8·72 per cent. on the market price. But my friend got sold out. That night he hired a room high up in a mid-town hotel, and the next morning, early, they found his body in the street. He left a note behind, quite an intelligent note, in which he said that he was sixty-five years of age, with no job, and with no prospect of finding one; that he had a wife and an invalid daughter with no possibility of supporting them. By realizing on his insurance in this summary fashion he could provide his family with the means for living life out. He apologized for the suddenness of his action; but he suspected that the insurance companies themselves might be getting a bit rocky, and he thought that it would be best for his wife and daughter to be in a position to collect the proceeds of his policies before these companies, too, became insolvent.

What is this? Is it supposed to be an indictment of somebody for buying shares when they were too high? Or an attack on creditor banks for calling their clients' loans? Not a bit of it, not a bit of it. You asked what difference it made if the percentage of normal electric power consumption for the week ended April 23 declined from 71·8 to 70·8. And I was merely saying that I didn't know much about it myself, but that it seemed to make some difference to my friend.

II.

INDUSTRIAL activity has declined so far that there are eight million wage earners out of work in the United States to-day. Except for the meagre purchases which they can make with their savings and with the limited amount of money which is provided for their needs through charity, the country is utterly deprived of their purchasing

power. And as the "deflation" continues, the number of unemployed increases, savings deposits disappear, and charitable contributions are more difficult to obtain. During the past winter, in New York City alone, the relief agencies compiled a list of 750,000 unemployed: it is likely that the whole number of people out of work was nearer to a million. Some forty million dollars was found for relief; half represented the voluntary gifts of private individuals and corporations, half was given by the City and the State. All of that money has now been spent, and no one knows where to turn for further funds except to the taxing and borrowing power of the State and City governments.

To these eight million who have lost their buying power in the general collapse of industry, there must be added as many more, engaged in agriculture, who have roofs over their heads, to be sure, and the means of providing their families with some food, but have no cash to spend on their many other needs. Wheat, cotton, beef, milk, butter and eggs are selling in primary markets for less than the cost of production. Just as certain shares are selling at less than the value of their net quick assets, just as certain sound bonds are going at receivership prices, just as copper is being marketed today at two-thirds of its production cost, so the farmer is converting his produce into dollars at a loss. The story is told of a Canadian woman who trucked four dozen eggs twenty miles to Moose Jaw to market. Nobody really wanted to buy, so finally, for the sake of cash, she took five cents a dozen for them. Then, feeling the need of something to eat before the long trip home, she went to a lunch room and ordered two fried eggs. Her bill came to twenty cents. Having accomplished these two transactions under the auspices of our economic system, she drove back to the farm, where, no doubt, she found it difficult to explain to her husband how the law of supply and demand had worked in her case.

The United States : A Year of Despair

In the year 1929, in the United States, a vast number of people were throwing away money in order to acquire corporate securities, real estate, manufacturing plants, motor cars and radios. That we called a boom. In this year, 1932, about as large a proportion of the population are throwing away corporate securities, real estate, manufacturing plants, motor cars and radios in order to acquire money. This we call a panic. The first phase of the gigantic cycle was accelerated by greed : the second phase is accelerated by fear. It is obviously in society's interest to prevent such precipitous swings in the cycle ; but they can only be effectively prevented when society has found a sure way to set limits to the fruits of greed and to the consequences of fear. 1930 was the year of disappointment —the tide of prosperity had ceased to flow in one direction. 1931 was the year of disillusionment—the return to prosperity, though sure, would be slow. 1932 is the year of despair. The race for individual and corporate economy, for individual and corporate liquidity—though understandable in each single case—is shattering the machinery of money-getting and money-spending which we call capitalism. As Mr. J. M. Keynes says in the May number of the *Atlantic Monthly* :

> With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that for the world as a whole the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in the order of time.

" Nowhere," he adds, " is this better understood than in the United States." This much, at least, we understand : that when every individual and every corporation is in a state of " jitters," and when collapse is threatened by the cumulative effects of fear—the only possible way to avert collapse is by allaying these fears, and the only instrumentality which can possibly bring about this change in

The United States : A Year of Despair

psychology is the government. The record of the government of the United States in this respect is not a thing to be proud of. All through 1930 our " leaders " sat on the stage and beguiled the people with reassuring words which, in retrospect, sound so short-sighted and altogether so witless that it would be a cheap form of sport to repeat them here. Early in the next year the slogan became one of " patience and confidence " : whatever goes down must go up : we live in business cycles. Banks were closing their doors, here and there, all over the country : but the audience were led to regard these casualties merely as tragic incidents in the cyclorama. When the Credit Anstalt collapsed in May, the first trace of smoke drifted into the theatre where the public sat. It was keenly noticed by certain gentlemen of the banking fraternity who picked up their hats and coats, unobtrusively, and made for the door. The Hoover moratorium blew more smoke into the pit ; so that the audience began to fidget, and in September, when London went off the gold standard, they rushed for all the exits, suddenly, in a body. Gold moved out of the country at an alarming rate, security prices tumbled, over a thousand million dollars were drawn out of accounts and hoarded at home. Fear rode in the saddle, and by the end of December more than two thousand banks had shut up shop—all in the space of twelve months' time. The Secretary of the Treasury gave a vivid description of the sequence of events to the Associated Press on April 26 :

> Every bank that failed frightened depositors. They withdrew deposits. The withdrawal of deposits frightened the banks. The banks in turn sought to make themselves liquid—that is, they sold investments, called loans and stopped making new loans. As this movement proceeded the prices of bonds fell progressively to lower levels, weakening the position of all banks holding them as a secondary reserve, and carrying a threat to other great fiduciary institutions.

In January, 1932, there were 342 bank suspensions ; and it finally became evident to government that " the whole

credit structure of the nation was gradually being imperilled."

III.

BE it said that Congress, under the leadership of the President, faced the issue squarely. A Reconstruction Finance Corporation was established and empowered to employ the national credit to the extent of $1,500,000,000 in providing " emergency financing facilities to banks . . . insurance companies . . . and railroads." Banks were to be assisted, not for the sake of their shareholders, but for the sake of their depositors, and because they were " affected with the public interest," being essential parts of the credit machinery of the country. Railroads were to be protected from receivership, not only because of the dislocation of commerce, industry and employment which would ensue, but also because of the fact that railroad liens have been, and still are, the chief medium of investment for American insurance companies. There can be no doubt that the creation of this emergency corporation, and the work which it has accomplished since February 2, have been the most important weapon in the war which the Administration is now waging against the forces of fear and the processes of deflation. As compared with 342 bank suspensions in January, with deposits of $219,000,000, there were forty-five suspensions in March and seventy in April, with total deposits of less than $65,000,000. In these same two months $250,000,000 in currency crept out of hoarding and went back into the banks. On April 21, testifying before a Committee of the House of Representatives, Charles G. Dawes, President of the Corporation, stated that in the seventy-one days of its existence there had been loaned on adequate security to banks and trust companies in the United States $243,000,000, to railroads $77,500,000, and to other quasi-public financial institutions the sum of $50,000,000.

The Corporation has been functioning (he said) for a period of

only about eleven weeks. It is carrying on its work with the utmost expedition consistent with proper methods of procedure. As yet it has used in its operations only about one-fifth of its resources ; and chiefly on that account time must elapse before the full beneficial effects of its operations can be properly appraised. But already the beneficial effect of its most important work thus far—its loans to banks and trust companies—is sufficiently evident to have alone justified Congress in the creation of the Corporation.

The Glass-Steagall Bill, signed by the President at the end of February, is the second weapon in the Government's war on fear. The Bill has been called " the most important piece of banking legislation enacted since the Federal Reserve Act of 1914." After signing the Bill, Mr. Hoover issued a statement commending the non-partisan co-operation shown in both houses of Congress and describing the major purposes of the new law as follows :

First : In a sense this Bill is a national defense measure. By freeing the vast amounts of gold in our Federal Reserve System (in excess of the gold reserve required by law) it so increases the already large available resources of the Federal Reserve Banks as to enable them beyond question to meet any conceivable demands that might be made on them at home or from abroad.

Second : It liberalizes existing provisions with regard to eligibility of collateral and thereby enables the Federal Reserve Banks to furnish accommodation to many banks on sound assets hitherto unavailable for rediscount purposes.

These two important measures—the Bill creating the Reconstruction Finance Corporation and the Glass-Steagall Bill—were designed to deal with certain " situations." Any one of the situations in itself was serious enough ; while all of them together, if not corrected, were certain to carry the country into financial chaos. Thanks to the new legislation, the fear of bank failures has been greatly allayed ; the market price of railroad securities held in the portfolios of financial institutions, while still unsatisfactory, is no longer governed by panic psychology ; the central banking system is in a position to withstand the flight of foreign gold ; and those banks which are members of the

Federal Reserve System are now relieved of much of the pressure which compelled them to sell their investments and call their loans in order to be in a position to meet extraordinary demands from their depositors. If the Corporation, the Treasury and the Federal Reserve all persevere along their present lines of effort (and if Congress is able to produce a satisfactory budget before it adjourns) we may be able to look back upon these present months as marking the turn of the depression.

And the Government has gone one long step further. In addition to these two powerful protective measures, a new and bold offensive has been launched by the Federal Reserve System. On April 13 Governor Harrison, of the New York Federal Reserve Bank, disclosed the details of a vigorous " easy money " policy upon which the Reserve had recently embarked. For some weeks following the passage of the Glass-Steagall Bill the Federal Reserve had been buying government securities at the rate of $25,000,000 a week. Governor Harrison announced that the System had recently purchased and would continue to purchase " governments " at the rate of $100,000,000 a week until conditions should cause them to modify that policy. The object of this carefully planned offensive is to lift the price of " governments " to a point where they become an unprofitable medium of investment for fresh funds; and thereby to force financial institutions into the municipal and corporate bond market. All this should logically lead to freer lending and to a rise in commodity prices.

On May 3, by a vote of 289–60, the House of Representatives passed the Goldsborough Bill, charging the Federal Reserve Board, the Federal Reserve Banks and the Secretary of the Treasury with the " duty " of restoring the purchasing power of the dollar to the 1921–1929 level and maintaining it there! The Bill in some ways is absurd; but not more absurd than the consternation which it appears to have caused in Continental Europe. For the measure is hardly more than the expression of a

pious wish; it may well be defeated in the Senate; it is sure to be killed by a Presidential veto. If the Reserve Board, the Reserve Banks and the Treasury do embark upon such a mad career of uncontrolled inflation as some of our Continental friends seem to fear—that phase will be signalised, not by a Goldsborough Bill or its like, but by the resignation of Eugene Meyer from the chairmanship of the Board. Meanwhile, he has put his hand to the plough and is not likely to turn back. It is reported that the Board is prepared to buy "governments" at the present rate until September; and will coolly watch $700,000,000 in gold leave the country, if need be, before swerving from its present policy.

If this bold offensive is to succeed, it must be given time and it must be favored by circumstances. All the financial institutions which have been liquidating their investments as fast as the markets could absorb them will not change over to the buying side forthwith. Banks which have been sternly calling loans for the past two years will not readily put their money out except to prime borrowers; and prime borrowers are either already in a strong cash position themselves, or else they are waiting upon developments before expanding their operations through the use of credit. So that even if no adverse event occurs, it will be many weeks before the desired effects of the Federal Reserve's new policy are felt. It is a gigantic task—that of making the flood turn and flow up-hill.

And there is one further factor. If the Senate and the House of Representatives, who have been floundering for the past two months over the problem of balancing the budget—if they adjourn for the summer and for the Presidential campaign without solving this problem in reasonably satisfactory fashion, the water will cease to move up-hill, and the country will once again be engulfed in fear. On April 30, at the close of the first ten months of the government's fiscal year, $4,020,000,000 had been spent, while receipts had amounted to only $1,686,000,000.

The deficit for the whole year cannot possibly be less than $3,000,000,000, and may in fact be considerably higher. No one in his senses has dreamed that these figures could be brought into mathematical balance for the next fiscal year. Every scheme that has been proposed for effecting a balance has allowed for suspension of sinking fund payments of the government debt, amounting to $400,000,000. They have all been predicted upon the probably false assumption that $250,000,000 will be received by the United States Treasury from foreign governmental debtors. And the yield from proposed income tax schedules is reckoned on the questionable premise that business will be better next year than it is today. The goal to be reached by fresh taxes and reduced expenditures has been set at $2,000,000,000. If Congress provides ways and means for finding that much money, they will have done all that can reasonably be expected of them. If they fail, from shortsightedness or from a cowardly unwillingness to lay taxes and make economies in quarters where they fear resentment, the credit of the United States will be most gravely imperilled. Government securities will suffer on the exchanges, our financial institutions will resume their mad race for liquidity: and the financial structure of the country will probably collapse.

The essence of the matter (writes Walter Lippmann) is not statistical, but political. The underlying question is whether the American nation acting through its party system can convince itself that it is awake and determined. If that can be done (and it could be done by a few bold and quick decisions in Washington to pass a tax Bill, accept the President's economies and kill the prospect of a soldier's bonus Bill by June 1) the immediately necessary will have been accomplished. The budget will not really be in balance, but the government itself will be coherent and responsible. On such a demonstration depends in good part the restoration of the confidence of the people.

IV.

BY the time this article is printed we will have learned, for better or for worse, how the United States has passed through the most tense moment of a crisis in its financial history. The outcome may give the reader cause to smile at the faith, herewith asserted, that the bonus Bill will not be passed and that the budget will be "balanced" before Congress adjourns. But, even if this rash prophesy comes true, what of it? Well, since life is what it is, we can then look forward, rather wearily, to the task of wrestling with the economic consequences of Lausanne.

United States of America.
May 5, 1932.

DISARMAMENT

I. The Background of the Conference

THE governments of the world are facing at the present moment a series of problems which in complexity and difficulty have never been paralleled in history, while in urgency and importance they are hardly to be reckoned inferior to the direct issues of peace or war. Within a few months, conclusions must be reached in the financial and economic field the effect of which will probably be decisive for or against the happiness of, at least, one generation of human beings all over the world. In the Far East there has arisen a crisis which, while there is hope that it may yet be solved to the common benefit of China and Japan, is nevertheless fraught with tragedy and danger to both countries, and is seriously affecting both the political and material interests of the nations of the West. And it is at this moment that the Disarmament Conference brings our overburdened governments face to face with a fresh group of political problems of first-class importance.

That this should be the effect of the Conference was no doubt in any case inevitable. Until recent times, political and military power have been practically interchangeable terms. A growing respect for law and justice, on the one hand, and the vast increase of commercial relations and financial interdependence, on the other, have now accomplished a notable change, and the establishment

of the League of Nations has given solidity and permanence to the advance thus made, and provided a base for further progress. Nevertheless, it remains a fact that in the solution of any serious international question the comparative military resources of the disputing States constitute an element always important, often decisive; and changes in the present situation in respect of those resources will inevitably involve proportionate changes in the political situation also.

To this general rule the Treaty of Versailles created an artificial exception. Germany, while remaining necessarily a Power of first-class political importance, was reduced militarily to the third class. Such a situation is a problem in itself: and the statement in the Treaty that this reduction was imposed "in order to render possible the initiation of a general reduction of the armaments of all nations" shows clearly enough that the Allies recognised that their action involved the facing of further decisions in the near future. For years Germany has been awaiting those decisions: behind all the activities of Stresemann and his successors, behind Locarno and The Hague, behind political recovery, reduction in reparations figures, withdrawal of foreign troops, she has never ceased to feel that in the disarmament question lies the test, both in symbol and in fact, of her real restoration.

These considerations bring us, then, straight away to the two fundamental questions of the Conference:— First: Are the great military Powers prepared to forego some part of their present superiority over other nations? And second: What answer should be given to Germany's demand that the Conference should put an end at least to the moral inequalities to which she has been subjected since the Peace Treaty?

But if these two problems dominate more completely than any others the whole deliberations of the Conference, it is none the less evident that those others are numerous, important, and difficult. Italy demands the recognition,

at least in theory, of her right to parity with any other continental Power; she means, of course, France, and there is little indication that France is prepared to accept her claim. There is mutual suspicion between Soviet Russia and her western neighbours, as well as between Soviet Russia and Japan. There is the problem of restricting military aviation without interfering with the peaceful development of civil and commercial flying. Special provision must be made for the governments which have to keep order in those regions of the world where civilisation has penetrated mainly in the form of an improvement in military equipment. Some means must be found of giving due weight to the differences between States which enlist their military forces by conscription, and those whose system is based on voluntary long-time service; and again, between States whose industrial development enables them to equip themselves rapidly for war, and those which possess no such resources. Some agreement must be found, satisfactory both to members and non-members of the League, for ensuring that countries which loyally keep their new obligations will not be exposed to fresh danger from less scrupulous neighbours.

It is true that there have been long and detailed discussions on many of these questions, but this preliminary work has been of value rather in bringing to light the problems which have to be faced than in making any real progress towards their solution. They are in the last analysis political problems requiring political decisions; and in this, even more than in other fields, it is quite useless to expect that technical discussion by experts will do anything to modify the policy of governments. Agreement on such matters must be the outcome of a state of mind in which mutual concession becomes easy: it can never be brought about by argument.

The delegations to the Disarmament Conference are therefore in reality faced with the solution *de novo* of problems which would be enough to occupy the whole of

the attention which governments can in normal times devote to international affairs. There is, of course, an essential connection between the questions of disarmament and security, on the one hand, and those of reparations and war debts, on the other; between the political relations which are affected by the one, and the economic relations which are affected by the other. The complex of major international problems at the present day is a connected whole, and progress or retrogression in one sphere will soon make itself felt in the others. Nevertheless, it is clear that it is beyond the capacity of the world in its present condition to advance simultaneously along the whole line, and it is probably true that it would have been to the general advantage to have postponed the holding of the Disarmament Conference until the more pressing financial problems had been dealt with, and until some improvement in the economic situation of the world had begun to make itself felt. It has been impossible either for governments or for intelligent public opinion to concentrate on the Conference as might with advantage have been the case. Add to this that in two of the countries most vitally concerned, France and Germany, critical elections were fixed for the months of April and May, and that a third country, Japan, was engaged during the whole of the first month of the Conference in war-like operations on a considerable scale. It cannot be expected that there would be a time when all conditions were favourable for such a meeting. But it can hardly be doubted that the moment at which it has met—a moment fixed more than a year in advance, at a time when most of the present unfavourable conditions could not possibly have been foreseen—has in fact proved singularly unfortunate, and that the Conference will take a much longer time to arrive at results than would have been the case if the governments had been in a position to concentrate on it what may be called the whole of their exportable surplus of attention and energy.

Disarmament

II. The Early Phases

NEVERTHELESS, in spite of unfavourable circumstances, and whatever may be its final result, the holding of the First General Disarmament Conference is an occasion which could not fail to appeal to the imagination of the world. Great efforts have been made in many countries to impress on public opinion the historic importance of the occasion and the necessity that their governments should play an honourable part. From every continent, and almost from every country, petitions for its success have poured and are still pouring into Geneva. Practically every country is represented: from this point of view no previous event can be compared with the Disarmament Conference: it is the first meeting of all the nations of the world. The official delegations include, besides an imposing array of experts and exalted staff officers, a high proportion of the leaders of public life in the various countries, although it has been one of the consequences of the circumstances already described that Prime Ministers and Foreign Ministers have been unable to remain continuously in Geneva. The numbers of the official delegations are equalled, if not surpassed, by those of the journalists, publicists, politicians, and representatives of international organisations. It was a matter for regret that, in spite of the pressing invitation of the British Government, it was in the latter capacity, and not as a member of the British delegation, that Lord Cecil was present, and made, on one of the early days of the Conference which was set aside for the presentation of addresses from international organisations, a speech which was recognised as an admirable exposition of the results of much national and international discussion on all the aspects of disarmament. The British delegation and the Conference as a whole are much the poorer for his absence.

The Early Phases

The Conference opened on February 2, with Mr. Arthur Henderson in the President's chair. Appointed by the Council as President at the time when he was still British Foreign Secretary, he had been somewhat criticised in certain quarters for not resigning the appointment when he ceased to hold office. It may be said at once that his presidency has been a complete success, and that the severe illness from which he has not yet entirely recovered has in no way impaired the qualities which made him last year the best chairman who ever presided over the Council of the League. The fact that he is not officially connected with any delegation has probably proved an advantage rather than the reverse.

It had been anticipated that the Conference would be faced at the outset with the difficulty of deciding to what extent its work was to be based upon the Draft Convention which had been drawn up by the Preparatory Committee for the Limitation and Reduction of Armaments as a result of a long series of meetings in 1928, 1929 and 1930. The Draft Convention, as was to be expected considering the wide difference between the views of many of the governments represented on the Preparatory Committee, contains some articles which represent little more than a compromise along the line of least resistance; some which are the result of narrow majorities in the votes taken by the Committee; and some which are accompanied by more or less destructive reservations and objections. It had been made particularly obnoxious to Germany by the insertion during the last session of the Committee of an article to the effect that the new Convention would not take the place of the disarmament clauses of the Peace Treaties; and for this and other reasons Germany had always set herself against the idea of taking the Draft Convention as the basis of the work of the Conference. A large majority of other delegations, including the British and American, while they considered that the Convention was far from perfect, nevertheless regarded it as embodying the result of much

serious technical work and of an honest attempt to find the greatest common denominator of agreement, and therefore held that from a practical point of view the Conference could not do better than take it as a basis. But the expected difficulty never arose, for within a week of the opening of the Conference the spokesmen of the great Powers had made it clear that their ideas went far beyond the limits of the Draft Convention. Germany could and did accept without misgiving a resolution proposed by Sir John Simon to the effect that the Convention should be taken as a framework which could be added to, subtracted from, or changed in any way desired. It thus took its proper place as a convenient summary of the preparatory work of the last few years, a practical tool at the service of the delegations, without any limiting or compromising effect on their freedom of action.

The work of the Conference up to the beginning of May may be divided into three phases. In the first phase, the various countries, with the great Powers in the lead, declared their general policy on the disarmament question, setting forth not so much the ideal at which they aim—for there is no country which would declare that its ultimate goal is anything short of complete disarmament—as the achievements which they hope might be reached by the present Conference, the methods they would apply for the purpose, and, less explicitly, the dangers they desire to guard against.

In the second phase the Conference, a trifle bewildered at the unexpected wealth of new suggestions, sorted and classified the immensely complex material for discussion, and at the same time organised itself into a machine for dealing with this material—tasks that had to be got through, but of no interest to the public at large, and trying for the patience of the delegates. The Conference was glad, on its completion, to break up for the Easter holiday.

The third phase has a superficial resemblance to the first. We are back in the atmosphere of general, almost of

theoretical, ideas about disarmament. But as we shall see, its discussions have, in fact, been several degrees nearer to the realities of the problem. The stage of concrete results is still beyond the horizon; but we are none the less in definite and conscious relation with it.

III. Qualitative Disarmament

THE first phase of the Conference was opened by M. Tardieu, who laid before it a complete scheme which soon became known as the French plan.

The French plan proposes in the first place measures to deal with the problem of military aviation. It is suggested that all military machines should be divided by tonnage into three classes, the biggest machines to be transferred immediately to an international air force, those of medium tonnage to be retained by individual States on condition that they agree beforehand to place them at the disposal of the League in case of need,* and the lowest class to be retained at the free disposal of the individual States. These measures are put forward by the French as meeting the two points which they regard as essential, namely, to strengthen international action against aggression, and at the same time to allow each country to defend itself against sudden bombing attacks from the air.

In regard to naval and land armaments, the French plan refers only to two categories, viz., the more powerful weapons, which would be retained by the States on condition that the latter undertook to place them at the disposal of the League in case of need, and the less powerful—for instance, ships of war under 10,000 tons or carrying

* The plan provides that, if States not members of the League accede to a convention based thereon, the international authority at whose disposal these armaments would be placed could be modified accordingly. This explanation should be understood whenever the League of Nations is referred to in connection with the plan.

8-inch guns or less—which would remain at the free disposal of the individual States.

These are the only parts of the French plan which specifically relate to the reduction of armaments, or, at any rate, the reduction of armaments under the control of individual nations. The plan is completed by further proposals of a general character, which, however, form an integral part of it. First, as regards civil aviation, it is proposed that in order to meet the difficulty so often pointed out, viz., that limitation of military aircraft may be rendered ineffective by the development of commercial aircraft which can be used with little or no alteration for purposes of air bombardment, an international civilian air transport service should be created to take over and develop existing air lines. Secondly, it is proposed that every State should place a small military, naval, and air contingent at the permanent disposal of the League, to be sent to act as an international police force in any part of the world wherever there might appear to be a threat of war ; and should further guarantee in advance that if war should break out and the League should require military action to be taken against the aggressor, it would be ready to contribute a certain further force for this purpose. Thirdly, it is proposed that a strict limitation should be placed on the freedom of action of belligerents with regard to long-range artillery or aerial bombardment, and that the use of gas shells should be forbidden. Fourthly, it is declared that the whole plan necessarily depends upon the acceptance of more complete and definite rules governing the action of individual States in regard to the settlement of disputes ; in particular, that it should in every case be obligatory to refer to arbitration disputes not otherwise settled, and that the League should take measures to enable it to define in every case which State is the aggressor if war should break out.

Such is a brief summary of the French plan, which is presented to the Conference with an indication that it should be treated as a whole, and that unless it is adopted

by all other States France will be unable to make further reductions in her military strength beyond those which she claims to have made already as a result of the Covenant of the League and of the Treaties of Locarno.

The reception given to the French plan was far from cordial. It was vigorously denounced in the German and Italian press, which declared that the French were merely covering their intention to retain their full military superiority by a show of loyalty to the League, well knowing that the conditions which they proposed had no chance of being accepted by the other major Powers. Amongst the delegations more friendly to France, including the British, it was felt that the plan was too much concerned with politics and too little with disarmament, and that if the French were to insist on treating it as an indivisible whole it could not possibly lead to any positive results. No serious public debate, and little serious private discussion, have been given to the plan so far, partly because other lines of approach have appeared more likely to lead to results, partly because, with first Germany and then France engaged in election campaigns in which foreign policy has been one of the decisive elements, the Conference has almost instinctively fought shy of engaging in a public argument which would be bound to involve serious embarrassments for both. Though it may be said at once that it has no chance of acceptance in anything resembling its present form, it is likely that the plan would gain rather than lose by discussion. Politically, it is, no doubt, at least premature ; and it is hard to resist the criticism that it takes far too little account of the general desire for a prompt and extensive reduction of existing armaments. On the other hand, the charge of bad faith against its authors can hardly be sustained by anyone who has followed French policy in these questions since the war, or who knows the intense interest which liberal circles in France take in the development of international organisation. That it is

based on France's view of her national interest should be no reproach in the eyes of supporters of the League, the only solid and permanent basis of which is the conviction of its member States that their individual interests are in the long run best served by the maintenance of peace and by co-operation with other countries. Finally, it contains the first detailed suggestions for applying special treatment to armaments which are either exceptionally powerful or are specifically designed for offensive rather than defensive military action.

The idea of specially reducing, or totally abolishing, certain categories of arms, as opposed to the idea of a proportional reduction of all, is now known under the description of " qualitative " as opposed to " quantitative " reduction. It does not appear in the Draft Convention, except in the form of prohibition of chemical warfare. It was, as has been seen, foreshadowed in the French plan. It forms the essence of the proposals of Great Britain, the United States, and Italy. Its emergence as the most practical and hopeful line of approach to effective reduction is undoubtedly the most significant fact of the early stages of the Conference. Yet, though it seemed new because it had hardly appeared in the work of the Preparatory Committee, it had already been applied—side by side with the quantitative method—in the Versailles Treaty itself. Germany is prohibited by the Treaty from possessing warships of over 10,000 tons, tanks, heavy guns, military aviation of all sorts. Though none of the proposals of the three Powers go as far as Germany asks, it is clear that their general tendency must be most welcome to her; for reduction on these lines is *pro tanto* a definite advance both in practice and in theory towards the equality which she claims, and which even those who most strongly desire reconciliation with Germany would hesitate to offer in the form of encouraging her to construct new armaments on the present scale of those of her neighbours.

The simple theory of qualitative and quantitative

reduction was set out with admirable brevity and clearness by the first British spokesman, Sir John Simon.

> We must recognise (he said) that the limitation of armaments by international agreement can only be brought about by the use of one or both of two methods of treatment. One is the method of fixing maximum limits beyond which we severally bind ourselves not to go; the other is the method of excluding by international agreement from use in warfare certain defined instruments or methods, and for both these modes of treatment we require as a further safeguard some international authority which will effectively secure that these limitations are not overstepped.

The British Empire, he declared, was ready to accept both methods. We would accept the fixing of maximum establishments in every category, on the lines of the Draft Convention. We desired to abolish submarines, gas, and chemical warfare; and to co-operate in finding practicable methods of reducing the size of ships and the calibre of guns, both naval and land. These last suggestions were explained in phrases which are worth quoting because they express a point of view which has steadily grown in influence as the Conference proceeded.

> We take the view that the temptation to resort to armed conflict is obviously reduced if defence is strengthened at the expense of attack. And since our common object is not to increase but to diminish the sum total of armaments and their expense, it follows that we must direct especial attention to such prohibitions or limitations as will weaken the attack and so remove temptation for aggression.

Some may feel that the suggestions for the practical application of these principles lack something in courage and thoroughness. But their clear enunciation has already proved of high value: and the event may yet show that our Administration, in spite of a tendency to regard prudence as the highest virtue, is capable of illustrating once more the excellent British tradition of performing more than we promise.

The American delegation followed a similar line: "We believe that this Conference should and can successfully

devote itself to the abolition of those weapons which are devoted primarily to aggressive war." Their concrete suggestions aimed at proportional reductions from the figures for naval tonnage laid down in the Treaties of Washington and London, as soon as France and Italy had adhered to the London Agreement; the abolition of submarines; protection of civilians against air bombing; abolition of chemical warfare; special restrictions on tanks and heavy mobile guns. In presenting these proposals to the Conference Mr. Gibson emphasised, as Sir John Simon had done the previous day, that the delegation did not mean, in putting forward certain specific points, to imply that it was not prepared to consider other concrete suggestions.

Italy carried the application of the principle several steps further. Her delegation has come to the Conference with instructions to press in every way for the greatest possible measure of reduction. The evolution of Fascist foreign policy is certainly one of the most interesting phenomena of international relations of the present day. For long considered as the *enfant terrible* of Europe, Italy has absorbed with Latin thoroughness the doctrine of enlightened self-interest, and in the questions of disarmament and of reparations she has placed herself boldly on the side of reconstruction and reconciliation. It is true, no doubt, that the basis of this policy is in part to be found in a desire to find support against French influence in eastern Europe. We are told, too, that the inspiration of young Fascism is still directed towards military glory and national expansion. In any case, Italy's foreign policy in the present juncture is clear and brave. She has found an admirable spokesman in Signor Grandi, her Foreign Minister, who, though still under forty, is rapidly making himself a place among the leading statesmen of Europe. Signor Grandi was a combatant in the war: it is a strange and rather unhappy reflection that he is about the only leading figure in the Conference of whom this can be said.

The Italian proposals are not only openly based on the "qualitative reduction" principle, but they take as their text the disarmament clauses of the Treaty of Versailles. These clauses, said Signor Grandi, "by abolishing the most distinctively aggressive means of warfare, afford us a practical example of what disarmament should be in the spirit of the League of Nations and of the Kellogg Pact." He proposes, therefore, simultaneous abolition of submarines and of capital ships, abolition of aircraft-carriers, of all kinds of heavy artillery, of tanks, of bombing aircraft, and of chemical warfare.

A few words will complete this summary of the attitude of the great Powers in the first phase of the Conference. Japan's position was practically a reproduction of that of Great Britain. Germany repeated once more her demand for equality and put forward a scheme for general disarmament going much beyond even the Italian proposals. The Soviet delegation took the occasion once more to declare that the capitalist States have no real intention of reducing their armed forces, and to ask for the rapid adoption of the most radical measures. These are special cases, and since it is clear that there is no likelihood of proposals so far-reaching finding general acceptance at the present Conference, they need not be considered in detail.

The speeches of the representatives of the smaller States brought, as was to be expected—for the armaments problem is obviously in the main a question for the great Powers—little that was new. Many of them, not only amongst those who generally follow the lead of France, showed a liking for parts of the French plan, in particular for the suggestion to place civil aviation under international management, and for the idea of a "police force" at the disposal of the Council. The attraction of this idea undoubtedly arose in part from the view which, rightly or wrongly, is universally held among the smaller countries, that the Council ought to have been able to intervene in a more decisive way in the early stages of the Manchurian conflict,

and that the existence of certain forces earmarked beforehand to be sent at its discretion to act as police in any given area would, in fact, have enabled it to do so. But the prospect of prompt and positive reduction in the world's stock of powerful armaments was, of course, still more attractive to all the smaller States; and, above all, they welcomed the suggestions for the abolition of aerial bombardment. Some of them pointed out that countries which possessed no armaments industry of their own would be at too great a disadvantage in the case of conflict with a country which possessed such an industry, unless they were allowed to keep some stock of the more powerful weapons which their adversary could hardly be expected to refrain from making and using. This is clearly a point which must be provided for in any disarmament convention. With reasonable good-will, it presents no insurmountable difficulties. It may be mentioned in passing that Turkey and the Argentine took the opportunity of declaring, the one her wish to join the League, the other her wish to return to it.

Among the rank and file of League membership, no group is of greater interest than that of the British Dominions, who stand alone in that for all the distance, geographical and political, which separates them from Europe, they have had recent and terrible experience of modern warfare. Their interest in the problems of the Conference is more remote, but no whit less substantial, than that of their European colleagues. And they have much to teach: what European can hear without some touch of shame of South Africa united into a single people within a few years after the end of a desperate war, of Canada with her 3,000 miles of undefended land frontier? No one will blame the Dominions if they feel at the present time that it is best for them, so far as membership of the League allows, to hold aloof from the dangers of European quarrels rather than to risk further commitments in order to avert them, and if, in consequence, they are inclined to refuse

any consideration to the French plan. Such an attitude is still less surprising when we consider that it is on the whole that of the present Government in the United Kingdom, in spite of the fact that England, deeply involved by history, by treaty, by ties of commerce and of sentiment with her European coevals, can never remain a spectator of their troubles. Yet two at least of the Dominions, Canada and South Africa, have always shown a real and constructive interest in the League, and may be trusted to realise that co-operation and concession by all concerned are needed to enable it to perform its task for the common good. No speeches made recently in Geneva have shown a better understanding of its purpose than those delivered by Mr. Te Water, the South African delegate, in the Disarmament Conference and in the Assembly. Mr. Te Water is a real find: clear-headed and courageous, it may be that he is destined to embody in succession to Botha and Smuts the political genius of South Africa. There could be no prouder ambition.

The second phase calls for little comment. The delegations and the Secretariat at Geneva have learnt most that there is to know about the technical side of conference management. In spite of the immense mass and complexity of the material with which it had to deal, the Conference did not take long to arrange it into a manageable agenda list, based as far as possible on the Draft Convention, and to organise its committees—a committee for land armaments, one for naval armaments, one for air armaments; a budgetary committee (to deal with the plans for limiting armaments by limiting the budget appropriations for the purpose); a political committee (to deal with questions of supervision, etc.); and a general committee consisting of the heads of delegations, which is to assign its work to each of these committees and receive its report. In this work of organisation the Conference owes much to the indefatigable labours of M. Benes, the Foreign Minister of Czechoslovakia. He possesses a deep

knowledge of the whole question, an unequalled understanding of the views and prejudices of each delegation or group. The subject-matter of the Conference is too weighty to be manipulated even by the most exceptional diplomatic energy and skill; but by electing M. Benes to one of its chief offices it has ensured that all that is possible will be done to avoid unnecessary friction and loss of time.

During the Easter holiday which followed, it was announced that Mr. Stimson would join the American delegation soon after the Conference re-opened. It was already known that Mr. Ramsay MacDonald, M. Tardieu, and the German Chancellor, Dr. Brüning, intended to be in Geneva at the same time. Meanwhile, what we have called the third phase of the Conference began in a somewhat dramatic manner with a formal declaration by Mr. Gibson that the United States was definitely prepared to abolish what they considered aggressive land armaments, viz., all tanks and all mobile guns of over 6-inch calibre, and invited the other nations to do the same. The issue of "qualitative reduction" was thus squarely joined, and while Italy gave wholehearted, and Great Britain a somewhat hesitating and partial, support to the American proposals, M. Tardieu lost no time in taking up the challenge. Which weapons, he asked, are aggressive, and which are defensive? Tactically, a tank is no doubt a weapon of attack: but if it is used in attacking an enemy entrenched in one's own country, it is strategically and essentially a weapon of defence. War equipment, whether on land or sea, or in the air, must be treated as a whole: it was illogical to demand the abolition of all but the least powerful land weapons, while retaining the infinitely more formidable menace of battleships with their wide range and terrific attacking power. Finally, it was impossible to accept such proposals before even any serious consideration had been given to the French plan. Great wars were waged before such weapons were dreamt of: we gain nothing in security by abolishing them, whereas by main-

taining them at the exclusive disposal of an international organ pledged to prevent aggression we can make future war impossible.

The courtesy of international discussion forbade M. Tardieu to voice the real feeling of the French, viz., that the United States was proposing the abolition of weapons which were of no use to herself, since there is no possibility for her of serious warfare with her neighbours on land, while giving up nothing in the sphere of air and naval armaments which may be important to her. The same view is held by many States of Latin America, who, while seeking to use the opportunity of the Conference to make mutual limitation agreements among themselves, undoubtedly hope that it will have the effect of relieving them to some extent from fear of the naval and air forces of the United States. However, though events in the Far East have doubtless strengthened the hands of the Big Navy school, we may confidently expect that if Mr. Gibson's proposals concerning land armaments seem likely to lead to results, the United States will be ready to consider analogous proposals in regard to air and sea. This is at once their only chance of acceptance and the test of the spirit in which they are proposed.

After ten days of debate the Conference passed unanimously a resolution in general terms declaring itself in favour of qualitative reduction, but without coming down definitely on the side either of prohibition or of internationalisation; and instructed the three technical commissions on land, sea, and air armaments to report which weapons were most offensive in character or most effective against defence.

This summary brings the history of the Disarmament Conference down to the beginning of May. The technical commissions are now at work on the task of defining which weapons are aggressive and which are defensive. The results of their work have yet to be received: but they are not likely to make the path of the Conference

any easier; for how can it be expected that the representatives of the fighting services should willingly sign the death-warrant—even with a prospect of some delay in executing it—of any considerable division of the organisations with which their lives are bound up? There can be no doubt that if serious results are to be achieved the heads of delegations must be prepared to go further than their technical advisers.

IV. Interim Reflections

MEANWHILE, for several days the men on whom above all rests the responsibility of guiding the principal countries through their present difficulties have had an exceptional opportunity for discussion. It is too early to do more than guess what use they have been able to make of it. Their task is difficult indeed. In spite of the warnings which have poured out from League conferences, committees and assemblies since 1927, national egoism in the economic sphere has brought international trade to a standstill and the industrial countries to the verge of ruin. Fear of financial and economic disaster has intensified the national caution of the great Anglo-Saxon countries, and made it more difficult than ever for their governments to look beyond the empirical decisions of the moment. In Germany men are waiting to see whether the National-Socialists will carry out, now that they have a large share of power in the country, the policy of defiant nationalism which they preached in Opposition. France is in the middle of an election campaign which will show her reaction to the developments of German politics. The national feeling of Poland is not less ready to take an aggressive form, and in Danzig and along the frontier hotheads on both sides have to be continually restrained from provoking incidents which would turn them for a moment into national heroes. The war-clouds in the Far East show no sign of lifting, and are none the less dangerous

because in Europe men begin to take them for granted and to forget their existence.

There is no way out of all this trouble that does not involve sacrifices and concessions from all concerned. No advance is possible so long as each country considers in isolation the justice of its own claims, and waits for the others to recognise it. It is of the utmost importance that public opinion and the press, especially in Europe, should realise and act on this truth. The part played by the French and German press in particular, in connection with the Conference, has been a real hindrance to its progress. Every slight concession is called a victory for the other side and considered a proof of weakness. Every form of malevolence and insincerity is freely ascribed to any delegation which differs from that of the writer. A heavy responsibility rests on the shoulders of those who thus add unnecessary difficulties to the already overwhelming task of the statesmen who must agree or perish.

For the Conference itself it may be said that in spite of unfavourable circumstances its early stages have on the whole been successful, but that immediate further advance may be difficult. The German and French elections have held up its progress, which can hardly be resumed until the political life of the two countries has again settled down. The vital decisions to be taken at Lausanne in June on the problems of reparations and debts will then have to be faced, and it is doubtful whether any great development of the Disarmament Conference can now be expected before the autumn. In view of the vast complexity and vital importance of the subject, this is not surprising nor particularly regrettable. No one has the right to criticise the slowness of the Conference who is not prepared to ask his own Government to make the concessions which are needed to keep it moving on the road to success.

Geneva.

May 1932.

THE FAR EAST

SINCE September 18 of last year the Far East has been in the centre of the international stage and the main preoccupation of the League of Nations. Would that it had been so earlier and that, in this country and in Western Europe in particular, it had not become habitual to regard Europe as the chief danger-spot in the post-war world! For, to anyone who has tried to gauge the real forces in international affairs without allowing his perspective to be distorted by relative distances, it has long been clear that it is on the western shores of the Pacific, the home of nearly one-third of the population of the globe, that the world has to face the greatest threat to the new constitutional system which the statesmen and peoples have been seeking to build up so as to avert another world war. It was with the object of meeting this threat in time that a group of far-sighted men in 1925 founded the Institute of Pacific Relations, with National Councils in the various countries concerned with the problems of that area, in the hope that a clash might be prevented by frank and friendly discussion. The clash has occurred. Nevertheless the discussion has not been fruitless. The issues indeed are of such a kind that they cannot be settled by force of arms. It is a Gordian knot that not the sword but only the slow fingers of Time can untie. Whatever the momentary situation in Manchuria and around Shanghai, the fundamental facts remain substantially unchanged. The chief of these concern China: and it is with China, therefore, that these pages must primarily deal.

I. China: The Basic Factors

BY a Treaty signed in Washington on February 6, 1922, and in force since August 5, 1925, the British Empire, together with the United States, France, Italy, Japan, Belgium, Portugal and the Netherlands, has undertaken "to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government." The occasion on which this obligation was undertaken was of singular solemnity, for the Conference of which it was one of the principal results marked the achievement of the first measure of disarmament by mutual agreement of which history bears record: and the political and disarmament agreements were strictly interdependent. Neither could have been achieved without the other. From this spring political consequences of world-wide importance which must be left aside for the moment. Here we must first deal with the extent and meaning of the obligation which, since the Washington Conference, forms the basis of British policy not in China only but throughout the Far East: for, in existing circumstances, geographical, economic and political, our relations with Japan must be influenced at almost every point by our policy towards China.

China is the oldest civilised society in the world. Six thousand years before the Christian era "there was in China an Empire in certain respects more cultured than that of Rome in the age of the Antonines."* Dynasty succeeded dynasty, but the essential elements which hold Chinese life together have lasted on unimpaired, withstanding, as anyone who has really communed with the mind of even the most Western-educated of the race can certify, the impact of the republicanism, the materialism

* *The Capital Question of China*, by L. Curtis, p. 6 (Macmillan & Co., 1932, price 10s. 6d.).

in all important matters they are constantly guided by the advice of foreign Powers. In giving this advice Russia and England are constantly opposed, neutralising each other's efforts much more frequently than the real antagonism of their interests would justify; and this condition of things is not likely to diminish, but to increase. It is to remove or lessen this evil that we have thought that an understanding with Russia might benefit both nations. We contemplate no infraction of existing rights. We would not admit the violation of any existing treaties, or impair the integrity of the present empires of either China or Turkey. These two conditions are vital. We aim at no partition of territory, but only a partition of preponderance. It is evident that both in respect to Turkey and China there are large portions which interest Russia much more than England and *vice versa*. Merely as an illustration, and binding myself to nothing, I would say that the portion of Turkey which drains into the Black Sea, together with the drainage valley of the Euphrates as far as Bagdad, interest Russia much more than England: whereas Turkish Africa, Arabia, and the valley of the Euphrates below Bagdad interest England much more than Russia. A similar distinction exists in China between the valley of the Hoango with the territory north of it and the valley of the Yangtze.

Would it be possible to arrange that where, in regard to these territories, our counsels differ, the Power least interested should give way to and assist the other? I do not disguise from myself that the difficulty would be great. Is it insuperable?*

This particular negotiation fell through, but the rivalry between the Powers continued; a year later the United States Minister in China was convinced that China was breaking up. "A glance at the map," he wrote in a despatch to Secretary Hay, "will show Russia strongly entrenched in Manchuria, Germany in Shantung, Italy demanding Chekiang, Japan expecting Fukien, England at Hongkong and the French in Kwantung and Tongking, with the English claiming an extended sphere along the Yangtze . . . There is practically nothing left for the United States but the province of Chihli." Secretary Hay, however, set his face against partition and, in a unilateral declaration in 1899, followed by a circular telegram a year later, laid down the basis of a more liberal

* *British Documents on the Origins of the War*, Vol. i, p. 8 (dated January 25, 1898).

policy. Great Britain at once agreed: indeed she had repeatedly sought American co-operation in the same sense, but the United States had been reluctant to embark on any policy which might seem to savour of an alliance or to involve an obligation of joint action for its maintenance. Hay's intervention, as Mr. Stimson has justly claimed, "brought to an end the struggle among various Powers for so-called spheres of interest in China which was threatening the dismemberment of that empire." It rested on the twin principles of the open door and the preservation of the territorial and administrative integrity of China. Notwithstanding infinite difficulties and complications, this has been the broad basis of the policy of the Powers during the last thirty-two years. There have been no new alienations of Chinese territory. In Manchuria, indeed, Japan succeeded in 1905 to the rights already secured by Russia, as she succeeded after 1914 to the German rights in Shantung. But Japan did not embark on her war with Russia in a spirit of imperialist adventure, in order to secure the territorial aggrandisement on which Russia herself seemed bent. Her object was to keep the Russian power at a safe distance so as to be assured of free access to the resources, both of China as a whole and of the three eastern provinces. It is interestng to recall to-day the words used by one of the wisest of the Elder Statesmen, Marquis Ito, during the height of the Russo-Japanese war, a few weeks before the fall of Port Arthur. "It was unprofitable," he told the Second Secretary of the British Embassy in an after-dinner talk, "for any country to endeavour to go beyond those limits which appear to have been set by nature to its powers; to do so was to open a source of weakness." For that reason Japan "neither wanted Manchuria, nor was she strong enough to maintain large garrisons indefinitely on the remote borders of that province"; and, as the chief danger to Japan came from the Russian control of the railway, he suggested that "the only method by which a

lasting peace could be secured, would be by the internationalisation of the railway from the point where it enters Chinese territory." As regards Sino-Japanese relations his views were equally moderate.

> The Japanese (he said) could by themselves effect but very little. It was true that Japanese could understand Chinese better than all but a very few foreigners could ever hope to, but the character of the two nations was too dissimilar and the resources of Japan were feeble. If, however, England were to co-operate with Japan, then much might be done. England had been the first to open up China, and her influence there was older and wider than that of any other country. The two were thus well fitted to work together.*

Much has changed in the world and in the relative position of the great Powers since that confidential talk in Tokyo in November, 1904; but the permanent elements in the situation remain unchanged. These are the indestructibility of China, the economic needs of Japan and the fact that only "a very few foreigners" have been able to enter into the mind and soul of China and to penetrate to the deep-lying elements in the Chinese nature which constitute at once its apparent weakness and its unshakable strength under the strenuous conditions of the modern world. But it is equally true that only "a very few foreigners" have understood the mind and soul of Japan: and it is to Japan that we must now turn.

II. Japan and Her Lost Opportunity

THE history of Japan is one of the strangest in the world's annals. Its main lines should be familiar to all who would pass judgment on her present actions. It is, indeed, one of the great gaps in Western education, which our schoolbooks are even now not seeking adequately to repair, that the memories which enliven, and too often embitter, the consciousness of every Japanese awaken no echo, and can thus inspire no sympathy, in Western minds.

* *British Documents on the Origins of the War*, vol. iv, pp. 64-66.

Japan is ruled by a dynasty whose line goes back unbroken for over two thousand years. That is the central fact about the Japanese community. The Chinese is an ethical being: the Japanese is a political being: together the two nations make up the sum-total of the social teaching of Aristotle. The relationship of the individual Chinese to his family and to his village corresponds to the relationship between the individual Japanese and the Mikado. The *pietas* of the Chinese is within the narrow circle of home and surroundings: the authority of the village elder gains in veneration by his being described as a "father and mother official." The Japanese have been living for two thousand years, and still live, under a paternalism centred in the person of the monarch. It is not a theocracy, but it is sufficiently close to a theocracy for this to call for denial. "There is not now, nor ever has been," said Marquis Ito in the conversation already referred to, "a single Japanese who believes that the Emperor is a god; he is a man"—here he stretched out his arms—"just like myself. It is almost impossible for anyone not a Japanese to understand the feeling of a Japanese towards His Majesty: it is most like to that which you entertain towards a father."*

Japan encountered the West in the sixteenth century in the form, first, of Jesuit missionaries, and then of firearms. The Jesuits and the Franciscans who followed them, after making many converts, were expelled from the country after a few generations. By the use of gunpowder, a group of able leaders broke down the power of the feudal nobles and firmly established the authority of the central government. But the real control was exercised not by the Mikado but by the military chiefs, of whom Hideyoshi, an Oriental Bonaparte and of equally humble extraction, was the most remarkable and the most ambitious. Under his rule Japan proceeded to make the mistake of Louis XIV and his successors—to seek military glory through conti-

* *Loc. cit.*, transposed from the *oratio obliqua* of the despatch.

nental conquests rather than economic development through overseas enterprise. The conquest of China was the lure that led him on; and the road to China was through Korea. The war began in 1592, the Japanese sending across the straits what a recent historian describes as the greatest force ever sent on overseas service previous to the South African war of 1899–1902. The struggle was long and bitter: after one victory the ears and noses of 38,700 Koreans were packed in barrels and sent home to be buried in a mound which is still shown to visitors in Kyoto —and is not forgotten in Korea. But deficiency in sea power led to the abandonment of the enterprise in 1598. In the reaction that followed, the unity of the country was completed by the putting to death of native Christians and the expulsion of foreign priests. The statesman responsible for that policy, Iyeyasu, persuaded the Mikado to grant him the title of Shogun and to make that office hereditary in his family, the Tokugawas. From 1616 to 1867 the Tokugawas were the real rulers of Japan.

The Tokugawa regime was a bureaucracy, surely at once the most nervous and the most efficient that the world has ever known. In 1637 it was alarmed by a revolt of Christian peasants, which was suppressed with much bloodshed. It was then determined to close Japan to intercourse with the outside world. No Japanese subject was allowed to leave the country on pain of death, and no ship might be built larger than would carry 2,500 bushels of rice, the build and rig being prescribed so as to make an overseas voyage a crazy adventure. Contact with the world was maintained by the admission once a year of a single ship from Holland. Thus during the two centuries when Europeans were exploring the outer seas and colonizing their territories the Japanese, already skilled in the arts of Europe, were deliberately cut off from competition.

By 1608 (writes Mr. Curtis*) as many as 15,000 [Japanese] were settled in the Philippines. . . A glance at the map is sufficient to

* *The Capital Question of China*, p. 49.

show that, once established in the Philippines, the Japanese must have quickly felt their way to Borneo, the Moluccas and New Guinea. In the course of two centuries they must have discovered and annexed Australia and New Zealand. Their navies must have mastered the Pacific more thoroughly than those of England mastered the Atlantic. They would scarcely have brooked exclusion by Spain from the whole American seaboard. They might well have supplanted the Spaniards in America, and to-day the civilisations of Europe and Japan would be facing each other in regions south of the great lakes. As it is, the civilisation of Western Europe dominates the ocean which washes the shores of Japan; while she, following the path traced by her peasant dictator, has seized Korea and is driven to seek in China the means of supporting her teeming millions.

III. Japan's Problem

JAPAN is a country poor in natural resources with a rapidly growing population. That is the sum and substance of her foreign policy.

The problem which thus confronts the Japanese people is one of recent date. During the Tokugawa period the population was stationary, checks of many kinds, including infanticide, being employed in all levels of society to prevent an increase. At the first general census, that of 1721, the registered population was a little over 26,000,000. In 1846 it was 26,900,000. After the close of the Tokugawa regime the birth-rate began to mount. In 1872 it was 17 per thousand, in 1928 it was 34·4. The population of Japan proper at the last census in 1930 was 64·4 million, the total population under Japanese rule—including Korea, the leased territory of Manchuria (1·5 million) and the mandated Pacific islands—being 91·8 million. In most Western countries the birth-rate and the death-rate are both decreasing; in Japan both show an increase, though the death-rate has not risen so fast as the birth-rate. The two phenomena are, in fact, related, for between 1924 and 1927 38 per cent. of the deaths occurred among children under four years of age.

Japan has hitherto always been an agricultural nation.

But her territory is mountainous, and only 15·4 per cent. of the total area is arable. For the annual increase of 900,000 mouths it is calculated that five million bushels of rice are needed, equal to the output of 133,000 acres of land. For the past twenty years the annual increase in rice land has been from 25,000 to 35,000 acres a year.

To meet this new pressure on food supply (writes a careful Western observer*), Japan must annually bring under cultivation an area of new land four to five times greater than the area she has been able to make arable in any past year by the expenditure of the most arduous labour. Japan has no frontier of empty lands available for the taking. If production is to be increased, cultivation must climb higher up the mountain sides, steeper slopes must be terraced, farm land must be pushed farther into the sea, swamps reclaimed, new irrigation systems built, or greater crops forced from the soil—always in the face of greater and greater obstacles.

For this hungry multitude there are but two ways out—emigration or industrialisation. Emigration on a large scale is excluded, either for political or climatic reasons. Where the Japanese could live, in the warm and temperate lands of Australasia and America, they are not free to go. Where they are free to go, as to Manchuria, Sakhalin and the northern island of Hokkaido, they cannot live in comfort. There remains industrialisation.

But here, too, circumstances are inexorable. Industrialisation demands access to iron for cheap construction and to coal or oil for cheap power. Japan has practically no iron ore, little coal, and that of bad quality, whilst her annual output of oil, which has steadily declined since the peak was reached in 1916, amounts now to about seven-tenths of the output of the United States for a single day. Signor Mussolini is fond of characterising Italy as a proletarian nation. Japan is the proletarian nation *par excellence*, the foremost representative of the Have-Nots in modern civilisation. No other people has so great an interest in international justice, if by that is meant,

* *Japan's Economic Position*, by John E. Orchard, p. 6, New York, 1930.

as it has meant in the domestic sphere, not simply the enforcement of existing rights but also the development of orderly means for remedying the maldistribution of wealth. Unhappily, it is precisely in the field of international economic relations that men have been most reluctant to apply constitutional processes or even to recognise the necessity for having recourse to them. If the Japanese people have turned to-day from constitutional to revolutionary methods for satisfying their urgent needs, and if they are more inclined to see their "vital interest" in the monopolising of the resources of Manchuria and the securing of a tied market in the rest of China, than in a general policy of access to raw material and the breaking-down of economic barriers and other discriminations, no small reproach attaches to the statesmen and peoples, unhappily often belonging to the British Commonwealth, who at Geneva during the last twelve years have banged, barred and bolted the door even to the discussion of these vital international problems. "Justice," "Necessity," "Self-preservation"—call the issue by what name you will, the logic of facts is inexorable. "Things are what they are, and their consequences will be what they will be." They are working themselves out to-day before our eyes in Shanghai and Manchuria—to-morrow perhaps elsewhere. Is it too late for international statesmanship to recognise and act up to its responsibilities?

For Japan can find no relief for her economic problem by political action in China and Manchuria. Here again the facts are unanswerable.

An industrialised Japan can only live by developing her exports. Of these, two are of major importance, silk and cotton textiles. Both go predominantly to markets which are extremely sensitive to Japanese political action. Of the Japanese exports over the five year period, 1925–29, an average of 42·5 per cent. were sold to the United States: 85·5 per cent. of the goods thus sold were raw silk (83·3) and silk tissues (2·2). These figures are an eloquent commen-

tary on Mrs. Hoover's cotton dress and on the growing movement in the United States for "non-intercourse without resort to war," of which the rayon manufacturers may be trusted to take advantage. Cotton textiles are sold chiefly in China. But the Chinese have discovered that in the boycott they possess a weapon which can exert as powerful an influence on policy as military force itself. First used against Japan in 1908, then in 1915, at the time of the Twenty-one Demands, its technique has been steadily perfected with the growth of patriotic sentiment, until it has become a major factor in the political situation, not to be broken by bombs and bayonets. The 1931 figures, recently published, show that Japanese exports fell off by 22 per cent. compared with the previous year; the decrease, however, was principally in the period subsequent to September 18, the November figures, for instance, showing a decrease of 35 per cent. on November 1930. There is no way out of this dilemma by the political or economic control of Manchuria. It is true that, under the regime which was recently overthrown, Japanese imports into Manchuria had remained stationary, and even declined, since 1918, whilst European imports—a fact insufficiently noted in the West—had been steadily increasing. But the thirty million, predominantly Chinese, inhabitants of Manchuria, even if they can be compelled (contrary to the treaties and to recent assurances) to "buy Japanese" are a poor substitute for the 400 millions of China and the luxury purchasers of the United States.*

Three facts stand out clearly from this analysis. The first is that China, amorphous, unorganised, distracted by flood, invasion and internecine rivalries, is nevertheless, by the most modern measurement of political forces, more powerful than the Island Empire with its modern technique and its highly developed naval and military machine. The

* The facts regarding Manchurian trade are conveniently summarised by Dr. Herbert Feis, now Economic Adviser to the U.S. Department of State, in a pamphlet published in April, 1931, by the Carnegie Endowment (No. 269).

second is that the establishment of good relations with China on a durable basis, which must be a basis ensuring self-respect for both parties, is a vital interest for Japan. The third is that, quite apart from the immediate problem of Sino-Japanese relations, the Far Eastern situation has brought to light general issues of international economic policy which the world can no longer afford to shirk.

IV. The Collective System in the Far East

THE Sino-Japanese conflict is the most testing experiment to which the collective system, compounded of the Covenant of the League of Nations and the Kellogg Pact for the renunciation of war, has yet been subjected. Let us, in conclusion, briefly examine how matters now stand in this regard.

The object of the collective system is to establish the rule of law in the world. The States that are parties to it are pledged to refrain from taking the law into their hands for the redress of grievances, however legitimate. Thus, so far as the collective system is concerned, the foregoing analysis is irrelevant to the present issue. "It is clear beyond peradventure," in Mr. Stimson's words, that Japan, by her action on and since September 18, has violated the two general and one of the regional agreements on which the peace settlement in the Far East had been built up. That settlement is, for the moment, if not in ruins at least seriously shaken, and so is the agreement between the three chief naval Powers which was the consequence of, and interdependent with, the Far Eastern political arrangements. Unless and until confidence can be restored between the signatories to these various treaties, conditions in the Far East must remain precarious. That neither of the major parties to the dispute, though they have fought pitched battles and been engaged in trench warfare, should have declared war, and that the League of Nations should

have equally closed its eyes to patent facts and thus refrained from putting into force its sanctions against the aggressor, are two important elements in a complicated situation and may ultimately facilitate an adjustment. But the fact remains that, morally, a state of war exists. During the long-drawn closing phase of the South African war Lord Rosebery urged that the protagonists should arrange to meet for a quiet talk " at a wayside inn." The war to-day is as real, and spread over as wide an area, as that which ended in the reconciliation between Botha and Milner. The wayside inn may perhaps be conveniently found in Geneva, famed for the gastronomical resorts in its vicinity. But all the arguments of lawyers and the juggling with texts cannot alter the fact that peace has been broken and remains to be restored.

It is of little avail to dwell in retrospect on the handling of the conflict by the Council of the League of Nations between September and February, or to speculate upon the course that events might have taken, had less reliance been placed upon conciliation and persuasion, or if there had been more perfect team-work between the League of Nations and the United States. " If only China had shown something of the spirit of Belgium," remarked in January one who had been closely associated with the Council's proceedings, " it would have been easier to help her." The heroic resistance of the Chinese troops outside Shanghai supplied the Belgian touch. Chinese political leaders plucked up courage to appeal to the Assembly. That body, which had allowed itself to disperse in September in the belief that the Manchurian incident would be quickly disposed of, now showed unexpected vigour. Mr. Stimson, in his letter to Senator Borah, laid down a new doctrine of non-recognition which the Assembly adopted and thus invested with a kind of collective sanction. Finally a Commission of nineteen members of the Assembly was appointed to sit in permanent session to ensure that the resolutions for the evacuation of Shanghai and Manchuria

by the Japanese were being carried out. Meanwhile, the Lytton Commission, the one product of the Council's deliberations between September and Christmas, had arrived in the Far East and has now, after a successful diplomatic tussle, entered Manchuria together with a Chinese assessor, Dr. Wellington Koo.

Taken together, these proceedings indicate the emergence of a new technique for the working of the collective system. They may even point the way for the breaking of the deadlock in which it has been involved during the last twelve years by the conflict for priority between security on the one hand and disarmament and treaty-revision on the other. For the doctrine of collective non-recognition, coupled with voluntary economic sanctions put in force by the public opinion of the peoples most closely concerned, may be found to provide a weapon against the aggressor no less formidable, and therefore no less effective as a deterrent, than the more comprehensive military, naval and other measures from which public opinion in the English-speaking countries instinctively shrinks. On the other hand, the Lytton Commission is charged with a task which, in fact if not in name, involves a revision of existing treaties: for it is barely credible that, if it grapples with its task in a broad-minded way, its recommendations will not include some modification of the legal rights both of the two disputants and of the other Powers. The Commission indeed has a historic opportunity: it may yet do for the League of Nations what Lord Durham did for the British Empire, and Lambton and Lytton may be twin names in the pages of history.*

* The Lytton Commission, in a preliminary report, records that, as against 10,590 Japanese troops in the South Manchuria Railway zone last September, there were, on April 30, 6,600 Japanese troops in that zone and 15,800 outside it, together with 85,000 men of the " Manchukuo Army," largely directed by Japanese officers. There were besides 119,000 local police. These forces were opposed, according to the Japanese—the Chinese put the figures rather higher—by 43,000 Chinese regular troops, about 40,000 volunteers, and 52,000 bandits. The Commission purposely refrain from comment at this stage.

But all this is still in the realm of conjecture. No one at this stage can forecast the pace at which events will move. But their direction is clear from the political and economic forces that are inexorably at work. In shaping these for constructive ends, for the lasting benefit of the Chinese people and their neighbours, Great Britain has, as the Marquis Ito suggested nearly thirty years ago, a unique part to play. For we are not only the oldest of the Western Powers to have close contact with China: we have a political system which, in contrast with that of Japan, has passed through what may be described as the early modern period of efficient centralisation and taken on a new flexibility, inspired by an inner discipline comparable to, though very different in its expression from, that which constitutes the moral strength and cohesion of China. China presents the greatest political problem of our age—all the greater, and the more hopeful, because it is in essence not political but educational. To politicize Confucianism is to enrich the West without disintegrating the East. Only China herself can solve her own problem. She is engaged in searching all things in the Western world. She will assuredly end in estimating them by her own traditional values and in holding fast to that which is good. But in that task, not of a day or of a generation, we of the West, if only we will recognise that the real meaning of the Far East for us is not trade but wisdom, may well render helpful service. The first condition of helpfulness is understanding: and the first condition of understanding is that the problem of the Far East should be a living issue in the minds of our statesmen and brought home by them, with all the resources of fact and interpretation at their disposal, to the minds of their fellow-countrymen. September 18 came like a thief in the night, both for the League of Nations and for ourselves. Events, which could not have been foreseen, have afforded us a second chance. Let us not misuse it.

THE SHANGHAI STANDPOINT

IN the five weeks that have passed since the nightly glare of the fires died out of the sky over Chapei and the bombing and gunfire ceased, a bruised and battered Shanghai has had time to take stock of the damage and sort out its ideas of the future.

The immediate visible damage has fallen mostly on the Chinese—the devastation of a huge area north of the Settlement, a big loss of life and the destitution of tens of thousands of the poorer inhabitants. The even greater invisible damage in the form of stoppage of business and trade has hit Chinese and foreigner alike. Its extent is as yet not calculable, though some indication is given by a drop of about 70 per cent. in the Shanghai customs figures. At the time of writing the Chinese shops have been boarded up for over two months, while the Chinese native banks—an essential cog in the financial machine which carries the trade of the port—are still out of commission. "Confidence" has been shattered and—most serious of all—a sense of insecurity utterly crippling to trade is expected to persist after the present crisis is over.

The reason for this expectation is that, quite apart from the Japanese trouble, conditions before the crisis are considered to have contained the germs of a clash like the present. There were, people believe, a number of latent dangers in the situation. The three generally mentioned as being the most important are the inadequacy of the ordinary legal safeguards conjointly with the Chinese tendency towards organised anti-foreignism, the standing

liability of having Chinese armies of uncertain allegiance stationed about the borders of Shanghai, and the absence of satisfactory working arrangements between the international government of the Settlement and the Chinese government of Greater Shanghai. (Readers of the Feetham Report on Shanghai * will remember a similar series of points in the Judge's discussion of the question of "security.")

The general feeling about the risks of returning to the old footing is leading to various proposals. These fall into two classes. The first is based on the idea of protecting Shanghai by ringing it off from the rest of China. This idea takes form in schemes for a "Free City" or an internationalised zone under the League of Nations. It is fairly obvious that schemes so radical as this would become practical politics only if the political disintegration of China were to reach the stage of chaos. The other class of proposals aims rather at removing specific dangers. The idea is mooted of a Sino-foreign "super-authority" over the whole Shanghai area to deal with defence and law and order. But more moderate opinion argues in this wise: "We share the feeling about the present need for comprehensive reforms, especially those along the lines of the Feetham Report, but Japan's violent action has made it extremely difficult to put forward demands without the appearance of exploiting the military situation for our own advantage. This we are bound to avoid. We must therefore limit ourselves to the bare essentials necessary for giving Shanghai a reasonable measure of security against future armed clashes." The difficulty is to define "essentials." Opinions vary, but the following principal suggestions are commonly brought up: the reform of the Chinese court, demilitarisation in the Shanghai area, an arrange-

* Report of the Hon. Mr. Justice Feetham, C.M.G., to the Shanghai Municipal Council. (Messrs. John Pook & Co., 68, Fenchurch Street, E.C.2. —price 8s. 6d.) See also THE ROUND TABLE, No. 84, September 1931, p. 738.

ment with the Chinese about the "extra-settlement area" (the subject dealt with in Vol. III of the Feetham Report). The first arises partly from the behaviour of the court during the period of tension before the landing of the troops, when members of the boycott societies which had forcibly seized Japanese goods were acquitted on the ground of patriotic motive; partly also from a general feeling that the court has from the start been under political control and failed to dispense justice. The suggestion of demilitarisation needs no comment beyond saying that it raises formidable problems of military and financial responsibilities. The third suggestion regarding the "outside" areas is justified by its authors as a step towards the removal of a dangerous source of friction; in some people's opinion, however, it comes rather too perilously near to asking for chestnuts picked from the fire by Japan.

These are briefly the safeguards which Shanghai believes to be necessary for safety and the restoration of confidence. Can they, and how can they, be obtained? So long as there is a Government of China the changes involved in these safeguards can only be brought about by voluntary agreement between that Government and foreign Powers, since arrangements under duress are *ipso facto* rejected by members of the League. They must therefore come, if at all, as part of a mutual settlement between China and Japan, or else because the League (or some other grouping of Powers) raises the Shanghai issue as a distinct question brought up on its own merits in the interests of world peace and on account of its economic importance to all parties concerned. The League Commission, when recently here, had its attention drawn to the Shanghai question, and the suggestion has been made that it might be raised at, or immediately after, the proposed Round Table Conference, if the latter eventuates.

About the Chinese response one cannot be very optimistic. China at present is in no mood for concessions. On the other side is the undoubted fact that thousands of

Chinese, including many men of position, are keenly anxious to see Shanghai put in a better position of safety in so far as this can be done without loss of national face. Agreements with China for the better security of Shanghai need not, however, be entirely one-sided, and China's self-respect might well allow her acceptance of proposals issuing from the League which, coming from another quarter, she would unhesitatingly reject.

For any solution of Shanghai's problem the *sine qua non* is, of course, a peaceable settlement of the Sino-Japanese conflict. Concerning this Shanghai is not at the moment of writing feeling hopeful.* A mutual settlement implies on Japan's part a certain degree of withdrawal and on China's a certain degree of recognition of Japan's gains in Manchuria. Japan's national pride has become so implicated through her initial military check that it seems impossible for her to take the first step, while China, flushed by the success of the XIXth Army, is equally unready to make any concession. The League Commission is working to build a bridge, but its bricks are the strawless bricks of unbacked persuasion and there is little confidence in its success. The position is made worse by China's domestic differences, which are at present barely concealed. Nanking and Canton are still unreconciled, while the Kuomintang and its whole system of government are becoming the object of a concerted attack.

Looking back to the causes of the crisis, there is still much variance of opinion concerning the blame for the outbreak of fighting on January 28. A major part of the blame is ascribed to the Japanese admiral, but a tendency also exists to credit the Chinese XIXth Route Army (which had

* As regards the military operations in Shanghai itself, an armistice agreement was signed on May 5, whereby, while the Chinese troops remain in their actual positions, the Japanese forces undertake to withdraw, beginning within a week, to the International Settlement or to a limited area outside. Japan has since announced the withdrawal from Shanghai, within a month, of all troops except 2,000 bluejackets. (See *The Times*, May 13.)

lately come north in the rôle of a "bodyguard" for the Cantonese leaders) with hostile intentions against the International Settlement, though the supporting evidence for such a suspicion is slight. On the subject of "war guilt" in general, opinion is likewise not fixed. The resident in Shanghai is inclined to look past the events of the last six months to the years behind when the trouble was gradually brewing and when not a little of the provocation of which Japan complains was suffered by all foreigners alike. This does not, however, mean that Japan is absolved for her acts of aggression, and the "League" aspect of the case has been kept well and ably to the fore in the *North China Daily News*, the leading journal of Shanghai.

Shanghai.
April 1932.

INDIA : ORDINANCES AND REFORMS

OUR March article described the events leading up to the *dénouement* of last December and showed how the Government were determined to put down the subversive activities of the Congress and, simultaneously, to proceed with the inauguration of the new constitution. We propose in this article to review the more important events of the succeeding period, and to indicate briefly the reactions throughout the country and the progress achieved in the constitutional field. An accurate appreciation, however, in correct perspective, of the constantly changing factors and the many conflicting interests, at such a short range, is no light task. "Delhi," says the proverb, "is a far cry." In many districts in many provinces life once more seems to proceed, with an occasional rude interruption to its serenity, but for the most part little changed, on its immemorial way. To the local officer and the villager—and most of the people of India live in villages —the Government of India appears remote, unreal and of little practical significance in the day-to-day administration of the country. Delhi, on the other hand, during the winter months is the mainspring of the Indian political world, for, just as all roads led to Rome, so all politicians go to Delhi, and perhaps on that account create the illusion that the country is generally on the verge of crisis. Thus the close observer of events may easily, according as he sees things from the view point of the provinces or

the centre, reach conclusions too optimistic or too gloomy. In the second place, no sharp line of demarcation can be drawn between the political and the constitutional positions : the one reacts upon the other, and no real improvement can take place in the former until the latter shows visible and tangible results. The longer the delay the more difficult becomes the prospect of a peaceful and honourable solution, and the situation is further complicated by the economic depression from which India, in common with most countries in the world, is now suffering.

I. The Government and Congress

CONGRESS threw down a challenge last December which no government could ignore and attempted to impose conditions which no government could accept. Their avowed object, since the Government's prompt repudiation of their pretensions, has been the paralysis of the administration regardless of the consequences of their action, either upon the well-being of the State or the personal freedom of its subjects. In taking vigorous measures against them the Government of India has been fighting the battle of constitutionalism against anarchy; and no government could adopt a different policy consistently with a due sense of its responsibility. In spite, however, of having been worsted in the preliminary and succeeding rounds, the Congress persist in their familiar wrecking tactics. Their general scheme is to maintain excitement at all costs, to keep a ceaseless supply of volunteers for the "martyrdom" of imprisonment, to defy all lawful orders prohibiting meetings and processions, and to exploit the conduct of the executive authorities, by fair means or foul, to their own advantage, whether as a means of inflaming feeling against the Government or for the purpose of propaganda abroad. Since our last article they have concentrated mainly on the celebration of anni-

versaries—Gandhi Day, North West Frontier Province Day, Independence Day, Martyrs' Day, and National Week—on flying Congress flags on public buildings and on an economic boycott and picketing, in which considerable success, especially in the city of Bombay, has been achieved. Their trump card has been to provoke, if possible, clashes with the magistracy and the police in the hope that some untoward incident—an unfortunate death by firing or the possible injury of women or children—may bring about a violent revulsion of feeling in their favour. On the whole, the celebration of anniversaries has met with little response and has disclosed the inability of the Congress to maintain agitation on a large scale throughout the country generally. Here and there, local embarrassment has been caused—a bonfire of foreign cloth on Independence Day in Bombay attracted excited crowds and led to the burning of a police station; on Gandhi Day bands of hooligans in Delhi lighted bonfires of foreign cloth in the city, stopped tramcars and assaulted constables. The Frontier Day celebrations passed off without any serious incident. National Week was celebrated from April 6 to 13, and vigorous attempts were made to revive agitation. Apart, however, from organised and violent rowdyism at Allahabad, and, in a lesser degree, at Cawnpore, and some intensification of activity in the direction of picketing and *hartals* in Bombay and Delhi, it aroused little general excitement. The events at Allahabad are noteworthy for the deliberate attempt to win public support by exaggerated accounts of the ill-treatment of Indian ladies, especially Mrs. Motilal Nehru. These statements were shown to be false.

The Government have been vigorous but not vindictive. Their policy has hitherto been successful and, consequently, many parts of India show a return to comparative normality. There has been a welcome response from various quarters and loyalist organisations have been established in the provinces. Governors, commissioners and district

magistrates have done much by holding *durbars* and public meetings to rally the more stable elements to their side. An influential group of members of the Legislative Assembly and the Council of State has organised an Indian Dominion League on a non-communal and non-sectarian basis, with branches in each province, with the object of attaining Dominion status for India by constitutional means, and by the mobilisation of public opinion against lawlessness and terrorism. The ruling chiefs with one accord have approved of the measures taken by the Government of India, and in loyal communications to the Viceroy have made it plain that they will tolerate in their own States no interference on the part of Congress emissaries. The Government, by seizing the initiative from the start, now have the civil disobedience movement well under control, though any relaxation of effort would bring about a rapid deterioration of the situation. Prosecutions are declining in number, government revenue is coming in satisfactorily, even in Gujerat, the stronghold of Mahatma Gandhi, and resignations of office are almost unknown. The deliberate policy of Congress in fomenting trouble and disaffection in rural areas has met with comparatively little success. In the cities, demonstrations and processions have, for the most part, failed to keep excitement at the desired fever heat, and the numbers attending them are steadily decreasing. The sequestration of Congress funds, the more adequate control of the press, the arrest of the leaders and offenders generally, and the policy of release on tendering apology—a concession of which many are not slow to take advantage—are factors which have, to a large extent, weakened the power of Congress.

Attempts, however, to make capital out of the methods of the police and the alleged ill-treatment of women are frequent. In this way incidents, trivial in themselves, often obtain undue importance from the prominence given to them in the nationalist press, and from the temporary excitement exhibited in the legislatures—

central and provincial—where baseless charges are not infrequently made against executive officers. The action taken by the police in India is actually less severe than that of the police of Western countries in dealing with riotous mobs. Casualties are comparatively few and the so-called *lathi* charges—*i.e.*, the dispersal of turbulent crowds with cudgels and sometimes with sticks—are only ordered in the last resort and after the police have been stoned, abused and insulted by defiant mobs. The attitude of Congress is indeed hypocritical: for both they and the revolutionary party have been quick to take advantage of the position of their women supporters. The terrorists have deliberately appealed to women to join the movement and to commit murders, while the Congress leaders advise the placing of women and children in the forefront of their demonstrations in order that they may gain a tactical advantage if, in the unavoidable resort to force, injury is caused to such defenceless persons. The real truth is that officers of government have used the special powers conferred on them by the ordinances sparingly and with strict regard to the necessities of the case. The police, when they have been compelled to use force or to fire, have, for the most part, behaved with exemplary moderation, and when dispersing mobs, as far as practicable, detach the women and children and keep them in safety.

In one direction only has the Congress policy obtained any substantial success—and even there it is difficult to estimate its exact measure, owing to the general trade depression. The silent boycott of British goods is one of the main features of their programme, and the slogan "Buy Indian" proves attractive. Secret persuasion and fear of social boycott are too strong for many, and others, though out of sympathy with the methods of Congress, gladly confine their purchases as far as possible, to *Swadeshi* goods. On the other hand, there is growing resentment at the interference with ordinary daily life caused by picketing; and its spectacular extension to railway stations,

post offices, banks, chemists, shops and petrol stores has not advanced their cause. In the eyes of the Congress a general economic boycott is a very powerful weapon and the "surest means of bringing the British Empire to its knees" in a comparatively short time. The Viceroy in a recent letter to the Western India Liberal Association wrote:

> The Government have abundant evidence that those responsible for the present civil disobedience movement are pursuing the same policy as in 1930 and, further, the boycott of British goods is being used not as a political weapon but as part of a general policy to cripple financially the Government of India and Great Britain. It, in fact, is an outstanding feature of the movement, which is designed to subvert the Government and which is prejudicial in the highest degree to the maintenance of law and order. As such it is essentially different in purpose and principle both from the campaign in England in favour of British goods and from a genuine economic industrial movement in India in favour of Indian industries pursued by constitutional means.

In Bombay the effects of this policy are particularly apparent. In addressing the Legislative Council the Governor severely criticised the policy of a section of the mercantile community in supporting the Congress movement. "There are signs," he declared, "that Congress activities are driving business from Bombay to other commercial centres, and when the tide turns, as it must turn, there is danger that we should find Bombay, which has so often claimed to be the first city in India, passed by the returning flood of prosperity." The Congress claim to control and regulate business. The stock exchange was closed altogether for a time. The cloth business has been seriously affected. The Cotton Brokers' Association decided that dealings in cotton should be allowed for the months of July and August in the interests of the agriculturists and producers, and that business should be resumed for three days a week. Congress thereupon issued leaflets to the effect that "Congress permitted" these transactions, and *inter alia* laid down as conditions "that commercial and

insurance firms and banks which were against the interests of the nation should be boycotted, and that cotton merchants should not take part in the export of gold." They have also tried to enforce restrictions upon the import of foreign watches and clocks and, in view of the commitments of business houses, have graciously been pleased to give them until the end of April to clear. After that date picketing will be imposed. It is indeed deplorable that the mercantile community of Bombay has mixed up politics and business and has tamely submitted to this coercion, which is at least a contributory cause of the diminution of Bombay's trade.

We may now supplement this general account with a brief reference to affairs in the provinces. Conditions are fairly normal in Madras, the Central Provinces, Assam, Bihar and Orissa, and most of the districts of Bombay. There has now been a great improvement in the United Provinces, where the no-rent campaign appears to have been scotched. Attempts may be made to revive it in the slack agricultural months of May and June, but there is little prospect of success.

In the Punjab the civil disobedience movement is well under control, but there has been considerable communal tension due to the Mahomedan's uncertainty about the North West Frontier Province and Kashmir, and their special claims as regards the new constitution. The more extreme Sikhs also—the Akalis—are inclined to throw in their lot with the Congress. The grievances, however, of the Mahomedan subjects of Kashmir are being redressed. Action is being taken on the report of the committee appointed by the Maharajah to enquire into them, and the Kashmir Reform Conference is likely to recommend substantial representation of Mahomedans in a State Assembly.

The outstanding event in the North West Frontier Province has been the inauguration of the province as a governor's province instead of, as hitherto, a local administration directly under the Foreign Department of the Government

of India. The first elections held in the province were keenly contested. Nowhere in India is the political barometer more liable to rapid change than on the Frontier, and a sudden drop from set fair to stormy, or equally a sudden rise in the opposite direction is not an uncommon feature. There is thus need for constant vigilance, and prophecy is idle, but there is a widespread expectation that the people of the province will be gratified and Moslem feeling in India as a whole considerably relieved by this prompt carrying into practice of the recommendations of the Round Table Conference—the more so as the new constitution is only a brief novitiate. This province will also participate in any measures of reform which may be extended to other governors' provinces. The situation has had its dangers. The elections and the release from prison of a number of Red Shirts led to some recrudescence of Red Shirt activity. At Charsadda and Mardan voters were intimidated, loyal people were assaulted, attempts at obstruction took place and bands of Red Shirts had on several occasions to be dispersed by force. The tribal area too has given ground for some uneasiness and there is no doubt that Congress and Red Shirt emissaries have been inciting the tribesmen to open rebellion: at one time Mohmand intervention seemed likely, but wiser counsels prevailed following upon aerial demonstrations. At present this particular danger has passed and the omens are favourable. The operation of the Frontier Crimes Regulation has now been suspended as an experimental measure for one year.

In Bengal the civil disobedience movement proper is making no headway—and, indeed, is on the down grade. But it is impossible to speak with such hopefulness about terrorism—the special feature of this province. The dastardly attempt on the life of Sir Stanley Jackson at the Convocation of the Calcutta University aroused widespread indignation, and the terrorist movement has been condemned in unequivocal terms both in the Legislative Assembly and the Bengal Council. But acts of terrorism

continue. The poison is extending to the schools, and the outrages planned by the revolutionary party are not confined to Bengal. Among recent crimes which appear to be attributable to revolutionary inspiration may be mentioned the murder of a sub-inspector of police in Bihar and Orissa, a post office robbery in Calcutta, attempts at train robberies, and the murder of a mail sorter on a passenger train near Allahabad carrying two lakhs of rupees of railway money.* The Government of India, with a view to strengthening the hands of the Bengal Government, have passed an Act supplementing the Bengal Criminal Law Amendment Act which permits the arrest and detention without trial in Bengal of persons suspected of participation in revolutionary crime. The supplementary Act provides that such persons may be detained in prisons outside the limits of Bengal, and it is hoped that their removal will have a salutary effect. But terrorism remains the most difficult and the most important problem confronting the new Governor, Sir John Anderson, and on its successful solution in large measure depends the future prosperity of the province.

It is, then, apparent that, with the exception of the boycott, which may, perhaps, defeat itself through the natural operation of economic laws, the wrecking tactics of Congress have been unsuccessful. Yet there is no sign of any readiness on their part to admit defeat or to resume co-operation with the constitutionalists. The reason for this intransigence would appear to be the belief that their movement is merely being driven underground by the policy of Government and that their real strength is not seriously impaired. Admittedly the Hindu community as a whole are not hostile to their political programme, as distinct from the methods they have now adopted. Indeed, his dislike of emergency legislation and ordinances, and his failure to see any outward sign of progress in the reforms, predisposes the Hindu

* On April 30 Mr. Douglas, the collector at Midnapore, was shot by two Bengali youths; it will be remembered that his predecessor, Mr. Peddie, was also murdered.

to sympathise tacitly with the Congress, even when he does not go as far as open support. The Congress organisation is by no means broken and some of the wealthiest members of the Hindu community supply generous contributions. Moreover, the Congress know that the ordinances will soon expire and hope that this will give them a fresh lease of life, for when they expire a certain amount of political tension is inevitable—and this will supply an atmosphere favourable to the prosecution of their plans. They have accordingly determined to hold their next session at the end of this month at Delhi as a demonstration of strength, despite the prohibition of Government and the proclamation of the reception committee as an illegal association. There is no intention of considering the possibility of resuming co-operation, for the acting president of the day has declared the object to be once more to proclaim complete independence as the goal of Congress, to endorse the resolution relating to civil disobedience passed at the last meeting of the Working Committee, and to reaffirm that Mahatma Gandhi is their sole representative and spokesman. Mrs. Naidu, the acting president, has been served with a notice not to leave Bombay and has been sentenced to a year's imprisonment for disobeying that order. Pandit Madan Mohan Malaviya, who has been active in urging Congress to hold this session in spite of the Government's prohibition, and who is the acting president elect, has been arrested for defiance of orders served upon him, and so have *jathas* of Congress supporters from the Punjab and many local Congress leaders in Delhi.* In so far as this advertised defiance of Government orders is aimed at kindling the dying spark of enthusiasm for the active prosecution of civil disobedience, it seems unlikely to have much success; but if Government were to declare the Congress as a whole an illegal association (a quite impracticable course) the result would be an

* An attempt was made to hold the Congress in Delhi, but proved futile, as many would-be participants were arrested on their arrival, and all demonstrations were broken up by the police.

immediate swing over to the side of Congress of many persons who are now opposed to its present methods or are neutral.

The extent to which political sympathy is given to Congress is well illustrated by the line taken in the Legislative Assembly during the spring session by a number of members of the Nationalist and Independent parties. Though the proceedings of the Assembly were dull, protracted and devoid of incident, they afford a fairly accurate index of important phases of Indian public opinion. Party differences and intrigues and the bad parliamentary tactics of the Opposition enabled the Government, with the help of their nominated members, to secure a majority on practically all important issues, but this should not obscure the importance of the views expressed by many Hindu and a few Moslem members about the treatment of the Congress. Four definite points were made—and they have also been made by individuals and associations outside the legislature—namely, (1) that government by ordinance is most undesirable and at best a temporary expedient, (2) that while terrorism deserves the severest condemnation, the present policy of repression is inconsistent with the avowed policy of progress, (3) that the ordinances being limited in duration, the real question is what action will Government take on their expiry, and (4) that no discussion on constitutional reforms can be satisfactory without the participation of the best organised and most united political party in India—the Congress—or, in other words, as long as Mahatma Gandhi is in jail. The short answer to these points is that everyone dislikes ordinances, but when Congress deliberately interferes with the freedom of the people, menaces their lives and property, and substitutes direct action for constitutional political activities, Government must adopt whatever measures are necessary to suppress it. The history of last year, declared the Leader of the House, was in the main a record of patience and forbearance on the part of the Government, who did all in their power to secure the

representation of Congress at the Round Table Conference, and their co-operation in framing the new constitution of India. Though Congress preferred the barren way of non-co-operation, the Government have maintained their determination to carry out the policy laid down by His Majesty's Government for India's constitutional development. The ending of the present deadlock is thus in the hands of Congress.

II. The Reforms

An acceptable and early solution of the constitutional issue will mark a definite turning point in the political struggle. It might detach the right wing of Congress and should win over the neutrals and consolidate liberal opinion. But there is bound to be an irreconcilable remnant, as in Ireland, which will, no doubt, take heart from the recent utterances of Mr. de Valera. In the past three months, suspicion and distrust have been general owing to the delay in the translation of abstract principles into concrete realities. The opinion was widely held that these interminable discussions are merely a dodge to postpone reforms. After the first flush of enthusiasm for federation, the Princes seemed to be repenting of their earlier acquiescence. A strong body of opinion amongst them was definitely opposed to it—and this fact in itself aroused speculation as to future constitutional development should the principle of federation be abandoned. Many politicians in British India are not enamoured of it, for they apprehend that through the constitution of the Federal Assembly it will operate injuriously to the interests of the provinces. In the Assembly there were two schools of thought ; one group believed that the immediate introduction of provincial autonomy with responsibility at the centre should be conceded, since federation was an extremely complicated business, and since there was danger

of the indefinite postponement of provincial autonomy and central responsibility if they were to be contingent on the prior determination of the details of federation. On the other hand, the demand was made that the Government should indicate what line they would take if the principle of federation were shelved—would they go back to the Simon Report, with the modifications suggested by the Government of India in their despatch on that report ? The position was further complicated by the attitude of the Moslems, who have been in sullen mood. An analysis of their feeling seems to show that a very small section supports Congress ; that a second and more powerful section, equally distrustful of the Congress and of the British, is in favour of direct action, and that the third section, also powerful, with whom Maulana Shaukat Ali has definitely thrown in his lot since his return to India, desires an Anglo-Moslem alliance.

The executive committee of the Bihar and Orissa Moslem Conference passed a resolution that as the Government had not yet accepted the Moslem demands and as the communal problem is still unsolved, the All-India Moslem Conference about to meet at Lahore should declare a complete boycott of the Round Table Conference Committees and draw up a programme of direct action for the achievement of Moslem demands. Though the better Moslem opinion was opposed to this policy, it had considerable support, and the Lahore Conference might have precipitated a crisis. Fortunately, a decision was postponed, because the British Government had just undertaken to decide the communal issue. Resolutions were, however, passed declaring that if the Government's decision on the communal question was not announced before the end of June, a meeting of the executive board should then be held with a view to launching a programme of direct action, and that, as the scheme of federation propounded by the Round Table Conference was likely to involve considerable delay, the immediate and simultaneous introduction in all the provinces of British India

of provincial autonomy should take place while the details of the federation scheme were being explored and worked out. Though the announcement of His Majesty's Government, to which we shall refer shortly, was responsible for the more moderate tone of the resolutions, there was no disposition to compromise with other communities. Indeed, the Moslem demands put forward at this conference go beyond the fourteen points which previously embodied their requirements, and the proceedings of the conference evoked a vigorous protest from the Hindu members of the central legislature, who stand firm for joint electorates. They hold the Prime Minister to his declaration in the House of Commons in January, 1931, when he condemned a communal electorate and all its implications, and they recall the fact that the British Government and the Government of India are already bound by minorities guarantees and treaties as members of the League of Nations.

Amongst the depressed classes a split has now occurred on this question of joint or separate electorates. The Working Committee of the Depressed Classes Association passed resolutions against the group system of voting and election, and in favour of joint electorates with reservation of seats on a population basis. This resolution appears to be due to a pact between Mr. Rajah and the Hindu Mahasabha, and it has been approved by the Hindu and Sikh members of the central legislature and other Hindu leaders. Amongst the depressed classes themselves, feeling is strongly divided, many contesting the claim of Mr. Rajah to represent them and offering allegiance to Dr. Ambedkar, whose insistence on separate electorates is as strong as ever. This pact with the Mahasabha means in reality an accession of strength to the Hindus, and may have repercussions on other communities also.

Thus, what with general suspicion and distrust, communal bickerings, electoral controversy, Moslem sullenness, division amongst the depressed classes, Congress steadfastly non-co-operating and the Princes uncertain about

federation, the constitutional sky was overcast and the outlook gloomy. But the clouds are slowly rolling away, and there are welcome signs of better weather. In the first place, the decision of His Majesty's Government to settle the communal question has had an excellent effect. The Consultative Committee have before them for examination, in addition to this question, a number of problems ranging over a very wide field, such as fundamental rights, the allocation of functions as federal, central or provincial, the division of legislative powers between the centre and the provinces, the composition, strength and procedure of the federal legislature, defence, financial safeguards, provincial constitutions. On the communal question, which was discussed informally, the members reported that they could reach no agreement and recommended that His Majesty's Government should be asked to decide it as early as possible. His Majesty's Government have since declared that they realise the responsibilities involved in this undertaking and will not fail to discharge them. They are engaged in a careful examination of the difficult and controversial issues involved, and it is their firm intention that there shall be no avoidable delay. This announcement has been well received. The Hindu, Moslem and Sikh protagonists are now engaged in mutual recriminations, each determined on no compromise, and it is too much to expect that the British Government's decision will be acceptable to all parties concerned. But until that announcement is made—and it will be the occasion for another outburst—matters must remain in suspense. The creation of a governor's province in the North West Frontier Province and the developments in Kashmir have undoubtedly had a steadying influence on the Moslem community.

The situation has been further clarified by the unanimous decision of the Chamber of Princes to join an all-India federation provided that the Crown will accept responsibility for securing guarantees on the following points: (1) that necessary safeguards will be embodied in the con-

stitution; (2) that under the constitution their rights under treaties, sanads, or engagements will remain inviolate and inviolable; and (3) that the sovereignty and internal independence of the States will remain intact and be preserved and fully respected, and that the obligations of the Crown to the States will remain unaltered. No agreement has yet been reached on the numerical representation of the States in the upper chamber, or even as to the expediency of establishing a bicameral federal legislature. These, however, are minor points compared with the bigger question of the unanimity that the Chamber has secured. Lord Willingdon in his recent address to the Princes made it clear that there would be no tampering with their treaty rights, that the Crown would continue to discharge its obligations to the States; in short, that paramountcy would remain paramount. The Princes' fears, therefore, are largely discounted, provided they in their turn as zealously discharge their obligations to the Crown and to their own subjects. As a result of this decision, the constitutional outlook is distinctly brighter.

Thirdly, much of the spade work of the Committees—States, Federal Finance and Franchise, has been completed and most of the material necessary for constructing the constitutional edifice has been collected. The reports of these Committees will, in due course, be submitted to the Consultative Committee. That Committee will then reassemble in May, and complete its work. The Franchise Committee has been faced with an exceptionally difficult task in elaborating the frame-work of future electorates. As Lord Lothian has pointed out, if the democratic system is to be successful, it must produce a legislature representative of all classes and sections of the people, able to maintain a stable executive in office and containing sufficient men and women of experience and ability not only to man efficiently the various Departments of State but to provide an Opposition supplying a competent alternative to the Government policy. In a recent speech he foreshadowed

a unanimous report on the more fundamental issues. In India, as a rule, less importance is attached to inconspicuous spade work of this character than to spectacular and often platitudinous generalisations. But the fact that concrete problems are being tackled in a practical spirit, and that they must be solved before the constitution can be cast into final shape, is now more generally appreciated, and public men are abandoning their earlier suspicions of dilatory tactics. Thus steady progress is being made, and the position is more encouraging than seemed possible only a few weeks ago. But it cannot be too strongly emphasised that the need of the moment is prompt decision on outstanding problems and the speedy translation into practice of the undertakings that have been given.

III. The Budget, Ottawa and Other Matters

NO account of Indian affairs during the period of our review would be complete without some brief reference to the more important proceedings of the legislature. In his budget speech the Finance Member reviewed the financial and economic position of the country. Trade depression and internal political troubles, of course, had seriously affected his calculations, and the deficit was greater and the receipts lower than he had anticipated. But the budget will be balanced by April, 1933, and the present financial year, 1932–33, is estimated to produce a surplus of about two crores. The financial situation is, in many respects, encouraging. As the Finance Member put it :—

> We have in the past year ridden a storm which might well have ruined us, but we have emerged from it stronger than before. We have overhauled our expenditure and reduced it to a level which should leave us a margin of revenue when any economic recovery begins, and at least substantially ease the financial problems at the start of the new constitution. Difficulties there are which still

> remain to be overcome and tasks to be accomplished. If the Indian public would co-operate in a common effort with Government, this could be done more surely and more easily, but we are determined that it shall be done.

Drastic reductions both in military and civil expenditure have been effected largely with the assistance of retrenchment committees of the Assembly, but taxation, especially income-tax and customs duty, is now, in the opinion of many, at so high a level as to bring in diminishing returns. The pay of the public services has been reduced by 10 per cent. and the high officers of State have voluntarily surrendered a substantial proportion of their emoluments.

The railway budget is, of course, distinct from the general budget, and lack of space makes it possible only to mention the deficit of 947 lakhs, which is anticipated for 1931–32, instead of the usual contribution of 5 crores to the government revenue. In the course of the budget debates the whole field of the administration was reviewed. One of the most interesting demands voted was the subvention of one crore to the North West Frontier Province on its elevation to the status of a governor's province, as it has never been—and cannot be—self-supporting. Provincial patriotism always looms large in India, and it is not, therefore, surprising that much interest was shown in the proposals for the creation of an Orissa province and the separation of Sind from Bombay. The spirit seems infectious, and demands have now been put forward for the establishment of a separate province of Oudh. On the question of the separation of Burma the feeling in the Assembly was that the wishes of the people of Burma were the main consideration, but difficult financial questions are involved. The Finance Member advised, and the House accepted his advice, that both sides should approach them in a spirit of give-and-take with the object of getting a fair deal for the Indian taxpayer. An impartial tribunal would adjudge the question and members of the Stand-

ing Finance Committee would be associated with the inquiry.

The very important announcement that the Government of India would be represented at the Ottawa Conference gave rise to some suspicion in the Assembly that this was a device to commit the Government of India to acceptance of the principle of imperial preference, a policy to which many Indian politicians are opposed. The main item on the agenda of the Conference is, of course, the discussion of the policy of trade agreements between the different countries of the Empire, and the Government of India have been invited in particular to consider whether, having regard to the new tariff policy of His Majesty's Government in the United Kingdom, Great Britain and India should enter into a tariff agreement embodying a reciprocal preferential regime so designed as to benefit the trade of both countries. The Assembly was satisfied with an assurance that, if the conclusion of a trade agreement is recommended, any changes in the tariff which it may involve will be duly placed before the legislature for its approval, the Government having no desire to effect any such change unless the legislature is satisfied that it is in the interests of India.

Another important announcement related to the position of Indians in South Africa, and the results of the recent mission from India led by Sir Fazl-i-Husain and Sir Geoffrey Corbett. Want of space prohibits any mention of details, but the statement has been well received in the Indian press and by Mr. C. F. Andrews. The programme of legislation was heavy and some contentious measures were brought forward, but two only, other than the Bengal Supplementary Bill to which we have already alluded, need be mentioned—the Sugar Industries Protection Bill and the Indian Air Force Bill. The former is important as showing the strong feeling of Indian public men in favour of the policy of protection. The passage of this Bill drew from all quarters of the Assembly well merited tributes to Sir George Rainy, the Leader of the House, who sponsored the

measure on behalf of Government. The significance of the Indian Air Force Bill was not fully realised by the majority of the non-official members, for it seemed to be no more than a collection of technical and disciplinary sections. The importance of the measure is, of course, that it creates an air force for India. Indians are not eligible for admission to the Royal Air Force and the establishment of their own air force marks a big step forward in the problem of Indian defence and the Indianisation of the Indian military machine.

India.
April 15, 1932.

GREAT BRITAIN: THE PROGRESS OF PROTECTION

I. Tariff and Quota

THE tariff continues to be the outstanding issue of British politics. On February 29 the Import Duties Bill became law, in substantially the same form as when it was first introduced. One or two changes were made in the "free list," and it was this part of the Bill which gave rise to the most interesting discussions at the committee stage. A group of Conservative Members of Parliament moved to add lead and zinc to the list, on the ground that advantage was likely to be taken of the duty by the combine that virtually controls the Empire supply of those metals to raise the price against the British consumer; they were pacified, however, by the Chancellor's assurance that the matter would be brought before the tariff advisory committee at the earliest possible date. On the other hand, 44 Conservatives voted against the Government on an unofficial and unsuccessful amendment to remove meat and bacon from the list. The question of taxes on food is one which unites perhaps more firmly than any other the Liberal and Labour parties in the present House. Two of the largest votes yet recorded against the Government—though only 71 and 72 at that—were mustered first on an amendment in committee to exempt from the 10 per cent. duty all foodstuffs for human consumption, and second on a motion to omit wheat and meat from the operation of an amendment, introduced later as part of the Finance Bill, authorising the removal of articles from the free list on the recommendation of the Advisory Committee. On this issue a number even of the Simon Liberals, who have accepted the necessity of protection in some form, voted against the Government.

The authorisation to differ has been fully exercised by Liberals pledged to general support of the present Government. In the third reading debate, Mr. Isaac Foot, Secretary for Mines, made a furious onslaught on the Bill, protesting that it would "raise the cost of living to the poorest of our people," add to the costs of production and increase unemployment, and that it looked in the wrong direction, that of self-sufficiency instead of international co-operation. By contrast, Mr. Chamberlain, in his final speech, declared his belief that the historian of this period "will applaud and admire the courage and the foresight of this country in shaking herself free from her past troubles, and in taking up a new career hand in hand with the sister countries of the Empire." In the House of Lords, Viscount Snowden uttered a vigorous and comprehensive attack on the measure.

> Is protection (he asked) serving the interests of protected countries better than free trade is serving the commercial interests of this country? There can be only one answer given to that question by hard and irrefutable facts. . . . This Bill will pass. As Mr. Chamberlain said, arguments will then pass into facts, and that, my Lords, is our satisfaction in this our temporary defeat. Facts and experience will finally settle this question. Free trade is not dead. There are far more free traders in the country than there were three months ago.

Whether that is so or not, free traders who voted "National" in the general election doubt Lord Snowden's powers of political prophecy, for in a broadcast address during the election campaign he assured "anxious Liberals" that there was no danger of general protection.

The Liberal and Labour press is making a good deal of play with the pre-election pledges of members of the Government, especially those relating to food duties. Partly through the historical tradition of the radical parties, partly on more rational grounds, a tax on wheat goes specially against the grain for them. Surprise was felt, therefore, at the support given by Liberal Ministers, who had differed from their colleagues over the Tariff Bill, to the Bill

establishing a quota for home-grown wheat, which was introduced immediately afterwards; Sir Herbert Samuel has revealed, however, that their consent had been obtained before the "agreement to differ" on the broader issue was concluded. It is true that the Wheat Act does not subject the grain to an ordinary import duty, but it provides for a levy on all wheaten flour in order to grant a guaranteed price of 45s. a quarter to British growers of wheat; hence it is bound to operate in some sense like a protective tariff. The subsidy is only to be given on a limited standard home production, and receipts and expenses are to balance, the whole scheme being administered by an independent wheat commission appointed by the Minister of Agriculture to represent the interests concerned. It has been criticised on the ground that, while protests are constantly heard about the usurpation of judicial and legislative functions by irresponsible officials, the fixation and collection of a tax has been entrusted to a body which is only remotely and indirectly responsible to the electorate. On the basis of present prices, the sum which will have to be raised annually by the levy is reckoned at roughly £6,000,000. This is considered by opponents of the measure, among whom Lord Astor has been one of the most prominent, as an extravagant amount to spend upon a bare 4 per cent. (by value of output) of our agricultural industry—a section of it, moreover, which is indifferently suited to our climate. Supporters of the quota, on the other hand, declare that wheat cannot be considered by itself, but should be treated as a "key" crop in a vital rotation. As, however, the sugar beet subsidy is to be continued—at least while a commission is investigating the case for and against it—at an estimated direct cost in 1932–33 of £2,400,000, which together with a difference between customs and excise duties will probably make the total assistance over £5,000,000, there can be little doubt that so far the arable farmer, especially in the eastern counties, has been particularly favoured.

The Advisory Committee set up under the Import

Duties Act was forced to hurry by the prospective expiry of the Abnormal Importations duties,* which were imposed for six months only. The Committee's first report was published on April 20, the recommendations being brought into force by Treasury order on the following day. Their statutory terms of reference authorised them to propose additional duties on goods of any class or description not on the free list, which, in their opinion, were "either articles of luxury or articles of a kind which are being produced, or are likely within a reasonable time to be produced, in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption"; they were further directed to "have regard to the advisability in the national interest of restricting imports into the United Kingdom and the interests generally of trade and industry in the United Kingdom." The Committee have accepted the principle of protection implied in those instructions, in recommending a series of additional duties—in most cases 10 per cent., making 20 per cent. in all—on a wide range of articles. Their report contains no explanation of the objects of the duties or the reasons why the Committee held them to be necessary; presumably their view was that those matters had already been determined in the passage of the Act under which they were appointed. "Parliament," they write, "has by the Import Duties Act decided to make use of the instrument of a tariff for the assistance of British trade and industry, and the recommendations we submit will enable effective use to be made of it forthwith." The list of articles subject to the additional duties includes certain luxury foods; pottery and glass; furniture and hollow-ware; iron and steel products such as tubes, springs, wire, screws, bolts and nuts; cutlery, electrical goods; machinery (with the qualification that licences may be issued for the importation, free of additional duty, of items of machinery which cannot yet be produced economically in Great Britain); manufactures of timber, of rubber and of non-ferrous metals; textile manufactures

* See THE ROUND TABLE, No. 86, March, 1932, p. 347.

and clothing (including boots); soap, dressed leather, paper; cycles, arms and ammunition; cosmetics and jewellery; toys and games. The iron and steel industry, as was expected, has received special consideration.

> We are satisfied (wrote the Committee) that the maintenance of a prosperous iron and steel industry in the highest degree of efficiency is essential to the economic progress of this country, while from the point of view of national security it must still be regarded as vital. We accept therefore the preliminary proposition that this industry shall be adequately protected, and protected at once.

As an interim measure, therefore, pending further investigation, they recommended the imposition of a total import duty of 33⅓ per cent. on spiegeleisen and ferro-manganese and on a wide range of iron and steel semi-manufactures, including ingots, blooms and billets, sheets, bars, angles, forgings, castings, girders, hoops, plates and sheets.

How far the proportions of our foreign trade may be altered by the protective character of the new duties cannot, of course, be foreseen. *The Economist*,* however, has analysed the imports of 1930 according to the duties to which they would have been subject under the new dispensation, as follows:

	Imports in 1930		
Subject to :—	From Foreign Countries	From British Countries	Total
	£'000	£'000	£'000
Free list	198,328	136,719	335,047
Old revenue duties† ..	116,099	55,663	171,762
Old protective duties ..	12,040	1,036	13,076
New duties	409,303	107,485‡	516,788
Total	735,770	300,903	1,036,673

†Including tea. ‡Exempt from duty.

It will be seen that £594,141,000 of the imports, or 57 per cent., would have been subject to some duty or other. If, among the new duties, rates of 20 per cent. or over are

* April 30, 1932.

termed protective, then £140,535,000 would have come within the protective tariff, including nearly 70 per cent. of imported manufactures. The depreciation of the pound adds a further, though probably a diminishing, measure of protection on all imports from gold standard countries.

In recommending the new duties to the House of Commons on May 4, Mr. Chamberlain paid particular attention to the question of industrial efficiency.

> We have to bear in mind (he said), in trying to use our duties as a means of enabling and encouraging British industry to make itself more efficient, that if we are going to try to lay down the conditions of efficiency without which we will not grant a tariff, we may be withholding from the industry the very condition which is essential to give it the chance of reorganising itself. . . . We do not intend that a tariff shall be allowed to shelter inefficiency. . . . The Committee, no less than the Government, fully realise the danger that an industry might, if given sufficient protection, be willing to sit down under the shelter of that protection and fail to take the steps for reorganisation and re-equipment which perhaps were recognised to be necessary.

The Chancellor went on to say that after the Ottawa Conference the Government would be free to discuss commercial treaties with foreign countries which might involve the lowering of the duties in this country in return for corresponding concessions.

The imposition of the additional duties naturally met with a far from unanimous reception. Free trade Members of Parliament denounced them as "a violation of all the promises made at the general election." The Director of the National Union of Manufacturers welcomed the duties, declaring that "on the whole they look like a very sound, cautious beginning, which will not please everyone but which lay the foundation for an all-British national tariff." There were, of course, numbers of complaints, both from parliamentary and from industrial quarters, that the duties were not high enough. The wool textile manufacturers especially lamented that after having a 50 per cent. tariff

under the Abnormal Importations Act, they were being fobbed off with a mere 20 per cent.; but a delegation from the trade got no satisfaction out of the Committee, who explicitly refused to regard the rate of duty imposed under the Abnormal Importations Act as a precedent. The Advisory Committee is now engaged in considering applications from industries and from interested individuals for the revision of the duties. It will be instructive to watch this method of tariff-making in practice. So far, it appears to have caused a certain amount of disappointment.

Tariff adjustment (said Mr. Baldwin in a speech on July 17, 1931) must be taken away from ordinary politics. By this I mean that government action must be founded on full and impartial information—information available not only to the Government but to every citizen of the country who cares to study it, so that it is not being done in secret.

It is true, indeed, that the Advisory Committee has withdrawn the tariff from the sphere of parliamentary lobbying (as a group of M.P.'s from the wool textile areas found when they were politely referred by the President of the Board of Trade to the Committee, and then told in effect that they had no *locus standi*); but the "full and impartial information available to every citizen" has not been so much in evidence. The Committee were so much pressed for time that they had "to proceed on the basis of the information which has been collected by the Board of Trade in recent years, supplemented by such enquiries of a general character" as they had been able to make in the time available." Conservative Members of Parliament have been heard to complain that this was a process which Parliament could very well perform by itself without delivering one of its most important functions, that of tax-raising, into the hands of an irresponsible triumvirate.

A further important issue was raised in connection with the silk industry. The Advisory Committee was debarred from recommending a duty on silk or artificial silk because these commodities were already subject to the revenue

duties imposed by Mr. Churchill. The Chancellor of the Exchequer, therefore, realising that the lapse of the Abnormal Importations duties, by which the industry had benefited, gave it a real grievance, proposed to invite the Advisory Committee to submit recommendations for its protection, although their conclusions would have to be implemented by a Finance Bill and not merely by Treasury order; and meanwhile to impose "rough-and-ready" provisional duties, equivalent in most cases to an additional 10 per cent. The voluntary use of the Advisory Committee outside its statutory scope, and the imposition of duties pending its recommendations, form a highly interesting development.

II. The Liberal Reaction

THE new tariff has, of course, roused bitter opposition among the Liberals. In the last three months there has been an obvious movement of the official Liberal party away from the National Government, although the party whips still work in with the government organisation. The executive committee of the National Liberal Federation was particularly vehement.

Since the election (runs a passage in the committee's annual report) it has become apparent that all the understandings and pledges which led millions of Liberals to vote Conservative have gone for nothing, in face of the pressure from an overwhelming Conservative majority; and thus, without any definite appeal to the electorate on this subject, free trade has been destroyed by a Government which the Liberal party helped to establish, and which includes Liberal leaders.

The position of the free trade Ministers in the Cabinet has, in fact, been very strongly criticised by their supporters in the country. The Liberal press has been almost unanimous in demanding their resignation. The executive of the London Liberal Federation, representing about 80 constituencies, decided as long ago as the middle of March that support for the National Government was no

longer possible. Similar expressions of opinion came from various other parts of the country, and at the annual conference of the National Liberal Federation several delegations demanded the withdrawal of Liberal Ministers from the Government; a more cautious resolution, however, was accepted; the Federation, it ran,

> hopes that it will soon be possible for a re-united Liberal party to fight independently for free trade and other Liberal causes without entanglement. Meanwhile it declares emphatically the independence of the Liberal party as a whole and its freedom from any obligation to support the policy of the present Government.

The Ministers concerned have naturally been at pains to defend their position.

> It may be (said Sir Herbert Samuel on April 26) that events may occur which would compel us to dissociate ourselves from this Administration, but so long as we are substantially of one mind on matters relating to India, Ireland, disarmament, reparations, currency, and so long as we have freedom to express our opposition by speech and vote to the fiscal policy with which we disagree, in our view there is no present justification for that course.

These circumstances powerfully favoured Mr. Lloyd George's "come-back" after his illness. On March 16 he made a speech at the Junior Liberal Club, full of racy quips and vigorously denouncing the National Government, which he called "a naked sham—or if not a naked sham a sham with the meanest of loin-cloths." This speech was enthusiastically greeted by the Liberal press, and, with his other utterances, won for Mr. Lloyd George more popularity among the ranks of the Liberals than he has enjoyed, probably, since the war, but thenceforward he has kept very much in the background and has scarcely ever appeared at Westminster.

III. Labour and the Means Test

THE attitude of the Labour party on free trade and protection has not been quite so unequivocal. The Labour members of the Government are now, of course,

completely estranged from their former colleagues in Opposition, but it is significant that Mr. MacDonald wrote recently that "on this matter (protection) the Labour movement has been divided for a long time." It is open knowledge that the late Labour Government toyed for a while with the plan of a 10 per cent. "revenue" tariff. The Independent Labour party and the left wing generally are inclined to regard the whole fiscal issue as a minor incident of the decline and fall of capitalism. Less revolutionary leaders, like Mr. Lansbury and Mr. Ernest Bevin, have expressed themselves in a similar sense.

> I am not sorry (declared the latter) that the country is trying tariffs, because this generation has seen unemployment grow under free trade, and it will find that tariffs cannot cure unemployment, with the result that the country will be driven to the alternative of socialism at the next election.

Nevertheless there is a strong tradition of free trade behind the Labour movement, especially in its co-operative affiliations, and its organ, the *Daily Herald* (which now has a circulation of over a million and a half) has consistently opposed recent protectionist measures.

Hence a working alliance on the basis of free trade between the Liberals and the more moderate sections of the Labour party is not out of the question, but the possibility of its electoral success is, of course, a matter only for the most distant speculation. It is, however, at least clear that there are important elements which have not accepted the tariff as a *fait accompli* which it is futile to seek to undo. This political uncertainty may be unfortunate for industry, but it can hardly be avoided in a country with the history and with the economic structure of our own.

> Much of the debate (said Mr. Baldwin in the House of Commons on February 9) has run on the difference between the permanent and the temporary nature of a tariff. There is no such thing as permanence in politics. Whatever one Parliament does it is in the power of another Parliament to confirm, to increase, to diminish, or to abolish.

But it is far too early to forecast the future of the fiscal controversy in Great Britain. The experience of the Dominions suggests that the trade unions may come to support tariffs as a cherished vested interest, and the Labour party will certainly continue to rely on the trade unions for a large part of its support.

At present the party and the unions are largely preoccupied with the question of the unemployment benefit "means test." This was applied, it will be remembered, by the first National Government in connection with applications for "transitional" benefit (*i.e.*, the dole proper, granted for a limited period after the applicant's insurance rights have expired). The administration of the test was entrusted to the local Public Assistance Committees, and it is the variation between one area and another that has given rise to the greater part of the complaint. Some of the more glaring discrepancies are shown in the following list, which relates to the period November 12 to January 23.

	Cases determined.	Full rates allowed. Per cent.	Partial rates allowed. Per cent.	No benefit allowed. Per cent.
Great Britain ..	1,884,074	50	35	15
London	99,683	55	19	26
Lancashire (to February 3)	89,239	23	33	44
Yorkshire, West Riding	66,893	64	24	12
Glamorgan (to February 3)	43,109	93	4	3

These figures must be treated with some caution. The fact that in Lancashire 44 per cent. of claimants received no benefit, whereas in County Glamorgan the ratio was 3 per cent., does not necessarily imply that the administration in Lancashire has been harsh and in Glamorgan lavish; it may mean—and to some extent it certainly does mean—that in the textile areas, where short-time has to a large

extent taken the place of continuous unemployment and where it is customary for wives and daughters to go to work, the family income is enough to go round far more often than in the Welsh coal villages, where there are neither jobs for women nor chances of alternative employment for the men, numbers of whom have not had more than a few weeks' work in the past five or six years. Nevertheless there is undoubtedly a great deal of variation between one locality and another in the way in which the law is administered, and the Ministry of Labour persuaded the Glamorgan Public Assistance Committee to withdraw their over-indulgent rules. There seems to be a case—as even the *Morning Post* writes — for the Ministry of Labour (rather than the Ministry of Health, which supervises the poor law) to be given charge of the administration and to draw up a plan of allowances, settling what means shall be taken into consideration and what shall be ignored. It has also been suggested that the problem should be attacked from the other end, to wit, that the administration of the poor law, which was transferred five years ago from local boards of guardians to county councils, should be still further centralised.

There remains the question of what resources should be taken into account in assessing a man's qualification for benefit. There are three groups of beneficiaries who could protest undue hardship; namely, those who, having contributed higher trade union fees than their fellows, find that their unemployment pay from the union is taken into account in considering their claim to benefit; those who are forced to dispose of capital, such as savings bank balances or their own houses, while their thriftless neighbours receive the full allowance; and those whose benefit is reduced on account of disability pensions. On all these points, it appears from the debate in the House recently, a more generous policy would probably be supported by members of all parties. There will, however, always be anomalies in one direction or another. A family means test, while it

certainly cuts down the cost of a very expensive service and confines to the needy the grant of public moneys, is bound in some measure to penalise the thrifty and to make unemployed Lears profit rather by the Gonerils who forsake them than by the Cordelias who assist in their support.

The operation of the means test and of the anomalies regulations has naturally affected the live register of unemployment, since some of those deprived of benefit have ceased to register. The Ministry of Labour reckons that on this account 157,000 persons (over half of them married women) fell off the register, without obtaining employment, between October and March. Including 14,000 who fell off for other reasons, the unemployment figure of 2,567,000 on March 21 would thus be raised to 2,738,000 in order to make it comparable with the figure of 2,580,000 recorded a year beforehand.* Some attempt has been made by Labour spokesmen to associate the number of those deprived of unemployment pay with the increase of 154,000 that took place, during the year ended March 31 last, in the number of persons in receipt of poor law relief. But unless the means test were being very ineptly administered there could not be any substantial connection between the two. Labour policy appears to have hardened somewhat on the means test. For a while the party leaders were inclined to accept a test as necessary in principle, while denouncing its present administration, but in the debate in the House of Commons on the Bill to extend the power to make "transitional" payments for another year, Mr. Lawson, who was one of the protagonists on the Labour side, openly declared that

> As far as we are concerned, we are for ending the means test, root and branch, without equivocation or qualification,

and he has not since been repudiated by the leaders of his

* The crude unemployment figure on April 25 was 2,652,000; if we add 171,000 for those who had ceased to register though not in employment, the total becomes 2,823,000, which is 303,000 more than the number registered on April 27, 1931. Most of the increase in the month of April was incurred in the coal-mining industry.

party. Moreover, the Trades Union Congress General Council, which has always been opposed to any means test, has submitted to the Royal Commission on Unemployment Insurance a plan for abolishing the test and for raising the necessary funds by a levy on all incomes.

IV. The Budget

HOW men of public standing can contemplate a further increase of the tax on incomes at this time it is very difficult to understand. Last year the income tax payer was first made to pay five quarters' tax in twelve months; then he had the standard rate of tax raised from 4s. 6d. to 5s. in the £, and finally he was asked, as a matter of patriotism, to pay with exceptional punctuality and readiness the three-sixteenths of his income which thus became payable to the Treasury on January 1. That he responded magnificently is largely responsible for the balancing of the 1931-32 budget, which closed with a small surplus in spite of the fact that £10¾ millions of the old exchange reserve account, which had been allowed for in the estimates, were not used. Optimistic forecasts had been made as to the margin which the Chancellor would have in hand for the current year, and while it was apparent that a reduction of the standard rate of income tax was out of the question, most prophets expected some small relief from taxation. The Chancellor's speech on April 19 was therefore highly disappointing, since the only proposal involving a reduction of taxation was an adjustment of the sugar duties designed to increase the colonial preference and to continue as a difference between customs and excise the expiring portions of the present subsidy on home-grown sugar. The one major change in taxation—apart from the general tariff—was in an upward direction, namely, the resurrection of the tea duty, which after a life of three centuries had been killed

by Mr. Churchill, at the rate of 4d. per pound on foreign and 2d. per pound on Empire tea.

Mr. Chamberlain's budget for 1932-33 balances, with a small surplus, at £766·8 millions, omitting self-balancing revenue and expenditure. This total includes £32·5 millions for the reduction of debt—barely enough to cover the specific sinking funds. The budget has been cast up without including either receipts or payments in respect of war debts and reparations, which means that, if America insists on her legal rights while Germany remains unable to pay, we shall be faced with a further budgetary liability before the end of the year. The Chancellor has had to allow for a reduction of £38 millions in the yield of income tax and surtax, compared with receipts last year, and it is obvious that no source of revenue and no substantial economy could have been safely discarded. He legitimately challenged opponents of the 10 per cent. tariff to show him where else he could have found the £27 millions that he expected the duties to yield; he added, besides, another million for the Abnormal Importations and Horticultural Products duties, and five millions for the additional duties recommended by the Advisory Committee. It was not a cheerful budget. The British people, grumbling but not grudging, had tightened their belts by a rather painful hole last September, and now they realised that their vitals must remain so contracted for another year at least. The denial of a penny a pint off beer, which had been generally expected, added particularly to the universal gloom.

The most remarkable chapter of Mr. Chamberlain's financial statement did not concern the budget proper at all, but related to the setting up of an "exchange equalisation fund" for the purpose of strengthening the currency and checking undue fluctuations in the exchange value of sterling. The Treasury is to have power to borrow (probably, said Mr. Runciman, by way of Treasury bills), a maximum of £150 millions for the fund, which will also start with a legacy of £25 millions from the old exchange

reserve. The fund will be used for three ends: to make good any loss, up to £8 millions, incurred by the Bank of England in connection with its foreign credits of last summer; to enable the accounts of the Bank's issue department to balance despite the valuation of the foreign exchange held against notes at market prices while the gold is still entered at the old par; and to prevent what the Financial Secretary to the Treasury described as "sudden and unmanageable lurches from one side to the other" in the exchange value of sterling, by means of the purchase or sale of gold or foreign exchange—"the international book-making business," Mr. Maxton called it. The account will be managed by the Bank of England under the authority of the Treasury.

The Government steadfastly refused to be drawn as to their ultimate monetary policy.

> When you consider (said Mr. Chamberlain) the economic disturbances which are still occurring in the world, and of which we have probably not even now felt the worst, it is perfectly useless to pretend that we can hold our exchange position exactly as we please, independent of anything which is going on around us . . . We do not know what is going to be the future of gold prices. We do not know what settlement will be reached as regards reparations and war debts, and other matters, which are now disturbing the world. These uncertainties rule out any possibility of our being able to return to gold immediately. We do not know when or in what circumstances we may return to gold, or at what level.

Now and again in the debate on the proposal to create the exchange equalisation fund the voice of financial orthodoxy was heard, but the plan found support in all quarters of the House chiefly on the ground that it would enable the Bank of England to pursue an easy credit policy for the benefit of home industry without having to subordinate its actions to exchange influences. Criticism was directed mainly against the secrecy in which the management of the fund is apparently to be wrapped.

> To come to this House (said Mr. Boothby) and ask for a loan of £150,000,000 and to refuse to give any information whatsoever

about the state of the account of which this loan is to be the basis is asking us to bite off rather more than we can be expected to chew.

Nevertheless, pleading that publicity would be a boon to the speculators whom they sought to confound, the Government insisted on asking, and their majority obediently chewed.

Partly on account of the more than punctual payment of the Bank of England and Treasury credits that were raised in defence of the pound last August, confidence in the British financial position (or at any rate speculative bullishness) so far increased that sterling rose from $3.40 at the beginning of the year to $3.82 on March 29. This appreciation, which was due rather to the inflow of short-term funds than to any fundamental change in our balance of overseas trade, caused some perturbation among industrialists and traders, who naturally favour a low rate of exchange. The announcement that an exchange equalisation fund was to be set up was taken by speculators as indicating that the Government had bowed to those influences, and the immediate reaction was a fall in the exchange rate to $3.62½ on April 26. The future progress of sterling cannot be foreseen. It depends, of course, on the Government's monetary policy and on the effect of import restrictions on the balance of trade, but still more on the development of world economic and political conditions.

V. Bye-Elections

THERE have been a number of bye-elections recently, all save one of which have left the numerical constitution of the House unchanged, although the enormous Government majorities at the general election have not been repeated. The exception was at Wakefield, where Mr. Greenwood, formerly Minister of Health, changed a Conservative majority of 4,000 into a small majority for

Labour. The result, which was not surprising in view of the fact that polling took place a couple of days after Mr. Chamberlain's unattractive budget was opened, considerably strengthens the Opposition front bench, on which Mr. Lansbury, Sir Stafford Cripps and Major Attlee have had to shoulder an excessive burden of work. At an earlier bye-election in Dumbartonshire, Mr. Tom Johnston, the former Lord Privy Seal, failed by 3,000 votes to reverse the majority of over 12,000 obtained by a Conservative at the general election. During this bye-election campaign considerable heat was engendered by the impromptu statement of Sir Archibald Sinclair, one of the free-trade Liberal members of the Cabinet, that he would rather vote for the Conservative candidate, who was a protectionist, than for Mr. Johnston, who stood on a free trade platform, because the former was the only candidate pledged to support the Government. In this, according to the *Manchester Guardian*, "he showed a quite inadequate appreciation of the feeling of Liberals, not only in Dumbartonshire but all over the country."

CANADA

I. The Session

THE second session of the seventeenth Federal Parliament, which opened on February 6, has now been in progress more than two months, and it has a comparatively meagre record of accomplishment to show for its labours. There had been no material change in the standing of parties since the end of the previous session, as the Government had found compensation for the loss of a seat at East Hamilton in Ontario to Labour by the capture of the Three Rivers–St. Maurice division in Quebec from the Liberals. Moreover, in March they secured another gain at the expense of the Liberals by winning the Athabasca division of Alberta, but the glory of this unexpected triumph was qualified by the fact that it was won in a four-cornered contest in which the victorious Conservative candidate polled only 35 per cent. of the total votes cast; indeed the most notable feature of this by-election was the exploit of the nominee of an organisation called The Farmers' Equity League, who ran on a frankly communist platform, in polling over 2,500 votes in a purely rural constituency. The Bennett Ministry, therefore, was still in possession of a commanding majority in the House of Commons when the session opened, and thanks to the operations of mortality it had acquired a slight numerical superiority in the Senate. There had also been during the recess a modified reorganisation of the Cabinet, by which the Prime Minister gave up the Department of Finance to Mr. E. N. Rhodes, formerly

Minister of Fisheries; Mr. Duranleau, Minister of Marine, assumed charge of the Fisheries Department; and Mr. Gordon, the Minister of Immigration, took over the Department of Labour from Senator Robertson after the latter's resignation on account of ill-health.

The Speech from the Throne forecast a very modest programme of legislation, consisting chiefly of Bills designed to improve existing Statutes, and few of these measures were of a controversial character. Consequently, during the first week of the session, a great deal of time was quite unprofitably occupied in academic debates on resolutions sponsored by private members, in which pet panaceas for the country's troubles were unfolded, or special grievances made the theme of protest and lamentation. The Liberals did not develop any sign of the militant and aggressive spirit which their press propagandists had predicted until the Government, early in March, introduced a Bill seeking an extension for two months of its powers under the Unemployment and Farm Relief Act, which had had February 1 fixed as its time limit. To this proposal Mr. Mackenzie King and his followers embarked upon a campaign of resolute opposition; they contended that it was superfluous for the Government, when Parliament was in session, to seek an extension of the arbitrary powers conferred by this Act; that last year the Government, in order to overcome Liberal hostility to its demand for a blank cheque, had deliberately agreed to limit the operation of the Act to February 1, 1932; and that the proper course for the Ministry was to estimate the sums required for unemployment relief and include them in a special vote the passage of which would be immediately facilitated. Liberal orators waxed vehement upon the outrage which was being perpetrated upon the principle of parliamentary control of finance, they discerned in the measure convincing evidence of the Mussolinian proclivities of Mr. Bennett, and they professed to be battling against a sinister scheme for the virtual establishment of a dictatorship. They

also sought to adduce proof that the administration of the Government's relief programme of public works had been seriously mismanaged and not untainted by graft and scandals. The defence of the Government was that it had used its arbitrary powers with discretion and to the profit of the country, that the charges about mismanagement and scandals were unfounded, and that an emergency situation still existed, demanding a wide latitude of authority for the Cabinet to meet special contingencies. However, the Liberals remained unconvinced by ministerial arguments and adopted tactics of deliberate obstruction, with the result that the Government was compelled to resort twice to the closure, which is very rarely applied at Ottawa, in order to secure the passage of its Bill. But when it became law it had only a month to operate, and since there is no prospect of the unemployment situation undergoing any substantial improvement during the summer, Parliament, as Mr. Bennett has intimated, will have to consider further plans for coping with it before the session ends. Already such plans have been the subject of a conference at Ottawa in which Federal Ministers and representatives of all the nine provincial administrations participated. At this meeting no final decision about future policy was reached, but the Federal Ministers, after making a frank statement about the position of the federal finances, definitely intimated that they could not continue co-operation with the provinces and municipalities in a further programme of special public works for unemployment relief, but had decided to reserve their resources for a direct dole. Experience of the past two years has revealed that special public works are a very expensive method of coping with unemployment; the *Financial Post* of Toronto was responsible for the estimate that for every day's labour thus provided $10 had been added to the debt of some public authority, and it is notorious that the financial burden entailed by these special public works has strained the credit of several provinces and numerous municipalities

almost to breaking point. Commenting on the results of this conference the *Manitoba Free Press* wrote: "According to its decision Canada will definitely fall back on the dole in spite of all that has been said against it," and declared that its adoption was a confession of a complete abandonment of all hope of carrying out the programme which Mr. Bennett had advanced at the last general election.

It is highly doubtful whether the Liberal declarations about the rights of Parliament excited much sympathetic response from the public, which is more interested in the efficacy of the Government's measures than the constitutionality of its methods; but what the Liberals did accomplish by consuming three weeks of Parliament's time was to upset the schedule of the Government's plans and prevent the production of the budget until after the brief Easter recess. For his maiden budget speech Mr. Rhodes had a very cheerless task, but he courageously followed his predecessor's example in giving a frank and comprehensive outline of the national balance sheet. Shrinking revenues and heavy extraordinary expenditures had left all the forecasted estimates of the previous budget far astray, and with revenues placed at 334¾ million dollars, and the aggregate of ordinary, capital and special expenditures at 454¾ millions, he had to admit for the fiscal year 1931–32 a deficit of 119¾ million dollars. To this the special expenditures had made a large contribution, as the Federal Government's share of the cost of unemployment relief had absorbed 38¾ million dollars, and the wheat bonus had taken 11 millions. Moreover Mr. Rhodes had to accentuate the sadness of his budget tale by an admission that the drain of the Canadian National Railway system upon the Federal Treasury during the last fiscal year had reached the grim total of 109 million dollars, of which the operating deficit alone was responsible for some 60 millions, and capital expenditures and other items for the balance. So the sum of the matter was that the aggregate revenues of

the Federal Government fell short of expenditure by roughly 180 million dollars, and since the gap had had to be bridged by borrowing, there had been an addition of roughly this amount to the national debt. Mr. Rhodes also disclosed in his speech that the Federal Treasury had found it necessary to advance some 22 million dollars to different provincial governments, partly to avert default on obligations maturing in New York and partly to finance their share of the unemployment relief programme. However, he claimed that the Government was entitled to credit for a satisfactory handling of the national finances under very difficult conditions, and that the measures taken to deal with the embarrassing situation created by the depreciation of the Canadian dollar in New York had succeeded in their dual object of enabling Canada to meet her foreign obligations according to the terms of the contracts and of maintaining an ample reservoir of credit for the needs of Canadian business.

For the fiscal year 1932–33, Mr. Rhodes showed that a rigorous application of the pruning hook of economy still left ordinary expenditure at an estimated figure of 369 million dollars, and that, unless there was marked revival in trade, the existing basis of taxation would not yield more than 319 million dollars. So he submitted proposals for new taxation which is estimated to produce an additional 55 million dollars. The main additional imposts take the form of an increase in the personal and corporation income taxes, and a sharp increase of the sales tax from 4 to 6 per cent., while the special excise duty on imports is also raised from 1 to 3 per cent. In addition, a variety of what are styled "nuisance taxes," on cheques, telegrams, cables, sleeping and parlour car tickets, etc., are either imposed or increased. So, if the taxation estimates are realised, the Government will have a surplus of some $4,300,000 over the needs of ordinary expenditure, but as this surplus will be more than wiped out by capital expenditure, and as the sums required for unemployment relief and the Canadian

National Railways are just as likely to be larger as smaller than they were in 1931–32, obviously there looms ahead another substantial deficit which will have to be made good by borrowing. In the budget, however, only one minor tariff change was included, and Mr. Rhodes explained that the Government had decided, in view of the approaching Conference, to leave the British preference untouched and that this decision precluded any adjustment of the general tariff.

When the budget debate opened, the Liberal line of attack was immediately developed by Colonel Ralston, who has now become the Opposition's chief financial critic, in a very able and effective speech. His criticism of the financial proposals of the budget was mainly directed against the leniency shown to the richer classes in the readjustment of income tax rates, and against the protectionist aspect of the increase in the excise tax on imports; but he also accused the Government of general mismanagement of the national finances, charging them with lack of courage to impose the heavy taxation required to make good the deficit created by their follies and errors, and to secure a true balance for the budget of 1932–33. He reserved, however, his chief fire for the fiscal policy of the Government, whose excesses in high protectionism were, in his view, largely responsible for the country's financial and other difficulties. Quoting freely from statistics, he argued that not only had the policy of higher tariffs, sponsored by the Bennett Ministry, depressed the position of the great natural industries by producing reprisals from other countries which had found their markets impaired, and maintained an unjust disparity between the prices of manufactured goods and farm products, but it had also signally failed in its avowed main objective, the increase of industrial employment; he pointed out that even in industries like textile manufactures, which had been the chief beneficiaries of tariff largess, employment was substantially less than it was two years ago. With regard

to imperial trade co-operation, he contrasted the practical zeal of the Liberal party in this sphere, as evidenced by Mr. Dunning's budget of 1930, with the attitude adopted by Mr. Bennett at the last Imperial Conference, and, depicting the Government as obsessed by the doctrines of a selfish economic nationalism, and as disposed to obstruct measures for the stimulation of inter-imperial trade, he alleged that they had missed a great opportunity in their budget when they had failed to include in it substantial concessions for British imports by way of reciprocity for Great Britain's exemption of Canadian goods from the operation of her tariff. He also criticised severely the system of tariff administration now followed at Ottawa, and declared that the practice of changing duties by Orders-in-Council and by arbitrary valuations had made the customs schedules a mere formality and ruined Canada's import trade. At the close of his speech, Colonel Ralston moved an amendment which was in effect a denunciation of the Government's fiscal policy and a demand for its immediate reversal.

The Government's reply to this indictment was entrusted to Mr. Stevens, the Minister of Trade and Commerce, who argued with some justice that Colonel Ralston had made no allowance for the extraordinary difficulties imposed on the Government by general world conditions, and that there was no satisfactory alternative to many of the policies which it had adopted. In a reasoned defence of the budget and the Government's tariff policy, he claimed that the enaction of higher tariffs, so far from decreasing employment, had saved the country from an industrial *débâcle*, and he particularly sought to defend the Government's action in levying special duties to counterbalance the effects of the depreciation of sterling. In a brief reference to the Imperial Conference he asserted that the Government and its officials were working at a variety of problems connected with it, and protested that it was grossly unfair of the Opposition to disseminate the

idea that the Ministry was obstructive or even indifferent to projects of imperial trade co-operation. For some time past Mr. Stevens has been a zealous protagonist of monetary reform and has even lent his advocacy to the cause of the remonetisation of silver. In his speech he discussed at considerable length the problems involved in the currency question and the debt situation, foreign and domestic; indeed he indicated that he regarded the evolution of some international or imperial plan for raising the price level by monetary organisation as the paramount need of the day, and since earlier in the session he had fortified himself with the authority of a resolution of Parliament that this problem should be raised at the Conference, it is obvious that if he can have his way it will be an important theme in the Conference's deliberations.

During the subsequent debate, the spokesmen of the Progressive party showed that they shared Mr. Stevens's views about the importance of the debt and currency problems, and were disposed to regard the tariff as a minor issue. Mr. Woodsworth, the leader of the Labour group, after a general arraignment of the whole capitalist system, exhorted the Government to mobilise the unemployed as an army of reconstruction which would devote its energies to building roads, clearing slum areas, preparing land for settlement and kindred tasks. The budget debate is not expected to be a prolonged affair, and as the legislative programme is well advanced the way should be open for prorogation by the middle of May, which will leave the Government two clear months for preparation for the Conference. Legislation, split into three Bills, which the Government introduced in the Senate, designed to cure certain vital defects in the existing federal insurance law exposed by a recent decision of the Privy Council, has produced a sharp controversy with the provincial governments of Ontario and Quebec, which contend that the Bennett Ministry is precluded from exercising any jurisdiction over insurance by reason of this decision and by

the terms of the constitution. The session has also witnessed a veritable epidemic of special committees which have been charged with the investigation of such varied subjects as radio-broadcasting policy, the activities of the Civil Service Commission, gasoline prices and, *infandum renovare dolorem*, the position of the three Liberal Senators who were involved in the Beauharnois affair.

At the end of the long parliamentary squabble on the unemployment Bill, the Conservative Ottawa *Journal* was moved to violent protest about the performances of Parliament, and an editorial entitled "The Holy Show of Parliament" began with these words:

> Parliament's capacity for folly and futility amounts to a national scandal. In two months it has done little but make a holy show of itself, has exhibited such a pathetic sterility of common sense as to make the average Canadian or any believer in representative government blush in humiliation.

This sweeping condemnation may be too severe, but the general verdict of impartial observers is that the present session has so far been one of the dullest on record. Yet if its proceedings have been characterised by an atmosphere of unreality and futility, there is an underlying cause. The truth is that there are now in process of maturing three greater issues in the country's future: one is the country's trade policy which is involved in the results of the Imperial Economic Conference, a second is the St. Lawrence deep waterway, and a third is the railway problem, and between them they promise to shape the course of Canadian politics in the coming years and to determine the fortunes and fate of parties. Meanwhile the politicians of all parties are simply marking time until these issues emerge in concrete form and plans and policies have been formulated in connection with them.

II. The Prairie Provinces

THE West is girding itself for the crop year of 1932 with mixed feelings. The relief from the stress of winter and the advent of spring tend almost automatically to induce a spirit of optimism. The West is so much in the hands of nature that at each seed-time it seems as if anything is possible if only nature will be kind. Moreover, after three years of severe drought affecting large sections of the most productive of the wheat lands, it seems as if the law of averages is all in favour of a wet year, and a study of the history of the climatic cycle, carried back nearly two centuries through studies of tree growth, encourages this hope.

Those who are less optimistic point out that actual conditions at the moment are not uniformly good. In the northern part of the provinces there was a heavy rainfall in the autumn and snow during the winter, with the result that there is not only abundant surface moisture but also the much desired subsoil moisture. In the dry areas of last year, which roughly cover the south-east corner of Alberta, the southern half of Saskatchewan and the south-west corner of Manitoba, there has been sufficient rain and snow to make a good seed bed and to germinate the seed, and conditions in this respect are much better than a year ago, when the ground was so dry that even during the winter there were severe dust storms, but there has not been sufficient moisture to penetrate the soil very deeply or to act as a reserve for the crop in the event of inadequate rains later on. Hence in this large and important region the "June rains" will be awaited with even more than the usual anxiety.

While then the tendency to spring optimism is general, there are inevitably local differences of feeling in so large an area. It is, for instance, natural that the feeling should,

broadly speaking, be better in the north. In the first place, the drought has been largely confined to the south. Then in the north there is far more mixed farming, less dependence on wheat and more capacity on the part of the farmers to live off their own land. Even within this more favoured area, however, there are differences. In Manitoba years of careless farming have allowed a devastating influx of weeds to grow up in many districts. This has reduced agriculture in districts which were formerly prosperous to a very low state. Definite efforts are now being made to combat this decline by public and private agencies but, notwithstanding this, the situation is at present far from satisfactory. Manitoba has also, to a greater extent than either of the other provinces, an unemployment problem in and around Winnipeg, which now contains a substantial manufacturing population, and Mr. Dafoe, the editor of the *Manitoba Free Press*, is demanding that plans should be made to deal with the situation, which up to the present has been handled in rather a haphazard way. But although Saskatchewan has no problem of urban unemployment to compare with that of Manitoba, her own relief problem, taken as a whole, is much more serious. The fact that the immensely fertile Regina plain, the most thickly settled part of the whole province, has been affected by drought for three years in succession has created a most serious state of things. This particular district, with its fine farmhouses and buildings quite like those of the flourishing farming communities in eastern Canada, is ordinarily, perhaps, the most prosperous in the whole West; but three years of bad crops, culminating in the total failure of last year, have produced an unprecedented situation. One is told that in Saskatchewan last winter, out of a total population of 900,000 there were 300,000 people receiving relief. This doubtless includes everyone who has received anything of any kind, food, clothes, fuel, seed grain, fodder, etc., but it indicates what a problem the people of Saskatchewan

have to deal with. They comfort themselves with the reflection that this southern area, which has suffered most acutely, is so extremely fertile that in one good year, as it has often demonstrated in the past, it can make up for several bad seasons, and meanwhile they are making heroic efforts to cut their coat according to their cloth in the matter of expenditure. Recently, in order to market an issue of bonds, they had to satisfy the bond-houses that they would balance, or substantially balance, their budget during the current year. Considering that the value of their 1931 crop was one-fifth of the value of the 1928 one, this shows the courageous way in which they are grappling with their difficulties. Incidentally they have introduced an income tax with the exemption reduced to $750, which is lower than the exemption from the Dominion income tax, and they have fixed a minimum amount to be paid by anyone whose income exceeds the exempted amount, even if the tax rate when applied to the taxable part of the income would not yield the prescribed minimum.

In Alberta conditions are better than in either of the other provinces, though here too the southern part of the province has suffered greatly from drought. Northern Alberta, having largely escaped, and being the finest wheat raising area in the province, is perhaps the best place in which to study the effect of low prices by itself, as distinct from that of low prices and drought combined. In spite of the devastating drop in price, farmers who are not overburdened with debt, as a result either of spending too much on the purchase of land or of other extravagances during the good years, are still able to carry on. This is of course particularly true in cases where they have not confined themselves to wheat. Loan companies find that, even at present prices, in these favoured districts in northern Alberta borrowers can usually pay interest on their indebtedness and in exceptional cases are reducing the principal as well. There is certainly among these northern Alberta farmers a somewhat more hopeful feeling

about their ultimate ability to meet their indebtedness than there was a year ago. This is due mainly to two things: First of all, they have now survived another year of low prices and find that they are still carrying on, and, second, they have reduced the cost of growing wheat to what they would have formerly considered an inconceivably low amount. The result is that, whereas a year ago they were apt to regard their debts as a burden which was altogether unbearable, one which it was hardly worth while even to calculate, to-day they are more inclined to believe that, given patience on the part of the creditor and a reasonable improvement in conditions, they can work their way out.

As this problem of farm debts has steadily grown more important in the West, a few figures may be of interest. As a result of investigations in twenty average Saskatchewan municipalities it was ascertained that roughly 50 per cent. of the land was mortgaged and 50 per cent. of it clear of mortgages. Following a different line of inquiry, confined almost exclusively to mortgaged farms, *Farm Outlook*, a publication sponsored by the Department of Farm Management in the University of Saskatchewan, reports as follows. During the years 1930 and 1931 credit statements were secured from some 650 farmers. Summaries of the data indicate that, out of 497 farms which supplied adequate financial information, 89 per cent. were worked by owners or part owners and 11 per cent. by tenants. Of the 441 owners or part owners, 8 per cent. were reported to be free from debt and the remaining 92 per cent. as having debts averaging $4,782 per farm. The existence of debts secured by mortgages on real estate and of unpaid accounts due under agreements for the purchase of property was reported in the case of 81 per cent. of the 441 owners, and entailed a sum of $4,341 owing for each farm with this class of debt. This amount is of course included in the $4,782 average mentioned above. Estimates of the farm capital of owners visited by representatives of the department at

the time show that the average debt was equal to about 27.8 per cent. of the whole of the farm capital of the debtor. But although recent droughts and low prices have, as already mentioned, made this burden appear in many cases intolerable, the fact remains that with one or two favourable years, and with prudent administration of their resources on the part of the farmers, the whole debt situation would be amazingly improved.

Reference has been made to the reduction of the cost of growing wheat. It is dangerous to give figures, but this at least can safely be said. Although three years ago farmers would have thought that a price of a dollar a bushel for wheat meant the end of the world, and although even a year ago they felt that a dollar was probably the irreducible minimum, to-day the feeling is that 75 cent. wheat would enable them to carry on reasonably well. It will thus be seen that we are getting down to a cost of production which should enable us to reap a great advantage from any substantial improvement in the price.

It is interesting to visit these provinces at the present moment. The provincial governments are struggling manfully to solve the problem of balancing their budgets. They have made drastic cuts in expenditure and are looking in every direction for new sources of income. Corporations are naturally regarded as one great source of supply, and in particular banks, insurance, loan and trust companies are all being asked to contribute substantial additional amounts in the way of taxes. As nearly all these corporations have their head offices in the East, there has been quite a migration westward of head office officials to remind the provincial governments that any further difficulties put in the way of financial institutions and the security of investments may react to the disadvantage of their provinces by drying up the sources of money for loans, whether on land, crops, live stock, or other things. Having regard to the difficulties of the western governments and to the pressure that is being put upon them by some of the more

extreme of their own followers, their attitude has been characterised by much good sense and a real desire to be fair. They have undoubtedly been forced to impose certain taxes which contravene sound principles of taxation —notably in cases where gross income has been taxed and no allowance made for losses—but in those cases the legislation has usually been temporary and specifically stated to be only for the purpose of meeting emergencies.

It is natural that, confronted with such a striking deterioration in his position, the farmer should grasp at the various panaceas that offer quicker relief from his difficulties than he can expect to get from the working out of economic laws. Debt revision has been much in the air. It is interesting to note that, although Alberta has suffered less than either of the other provinces, the demand for relief there has been perhaps more insistent than anywhere else. One is inclined to attribute this to the fact that there is a much larger percentage of foreigners there, who are apt to be in too much of a hurry, and to seek short cuts to their ends. It is a strong point in the situation of southern Saskatchewan, the district most seriously affected by drought, that the farmers are mainly of Anglo-Saxon origin, sound and well-balanced even in their troubles. The result of this was evident at a recent sitting of the Debt Adjustment Committee of the Saskatchewan Legislature. In spite of their present troubles the farmers showed a spirit of moderation and an appreciation of the economic implications of any compulsory adjustment of debt. The following paragraphs give the view of the *Manitoba Free Press* on the subject :—

> The debt adjustment must be on a voluntary basis. Compulsory adjustment is out of the question. Apart from regard for the sanctity of contracts, the credit both of the farming population and of the province would certainly suffer if partial repudiation were adopted in the form of compulsory scaling down of debts. It would do Manitoba no good if it were known that compulsory adjustment was even seriously considered. At this particular time, with the provincial government about to float a $5,000,000 loan,

> it would be the height of folly to damage the reputation and credit of Manitoba by deciding upon such a policy, involving a measure of repudiation. Since a Conservative member of the Legislature has declared in favour of compulsory adjustment of debts, it might be well for the Conservative party to make it clear that it is not in favour of such a course.
>
> It should be possible to meet the situation by the extension of the powers of the present Debt Adjustment Board. In the first place, the principle of the Industrial Disputes Conciliation Act might be adopted and all foreclosures prevented until the cases were dealt with by the Adjustment Board. With the claims of the creditors and the whole position of the farmer placed before the Board, it should be possible to reach a voluntary agreement which would ensure the creditors as much as they could get in any case, and leave the farmer with a loan that he could carry.

Meanwhile adjustments as between individual debtors and individual creditors are, of course, constantly going on, although at the moment the cases in which there has been any actual revision of liabilities, as distinct from an extension of time, are only a small percentage of the whole number, probably substantially less than 10 per cent. The basis of such adjustments is the capacity of each individual debtor to pay, rather than any general scaling down of the debts of a class. A different line has been taken by the Massey-Harris Company, the great Canadian manufacturer of agricultural implements, which made the following announcement on April 14 :—

> For weeks past, the officers and directors of Massey-Harris Company have been giving continuous thought to working out a policy which would be of help to the farmers of Canada who will shortly be busy preparing for a new season's operations. Owing to the unprecedented fall in the prices of agricultural products, the purchasing power of the farmer has been lessened to such a degree as to reduce farm implement purchases to the lowest point in years.
>
> Our factories are practically idle and workmen who have been faithful and loyal employés for years have but little immediate prospect for employment and livelihood.
>
> The information we have received in the last few days indicates that over practically the whole of Canada the prospects for favourable seeding conditions are more promising than for several years. On the other hand, there are many farmers who are finding the

greatest difficulty in providing themselves with the very machinery necessary for carrying on their operations on an economic basis.

With a view to helping this situation for the farmer, with a view to increasing employment for our men, and with a hope that the increased operations that may result will afford some compensation to the company for the loss it will sustain, we have decided to announce important changes with regard to prices and collection of accounts, effective forthwith. These changes are as follows :—

On all new purchases of implements, whether bought for cash or on time, a 10 per cent. discount will be allowed, to the extent to which payments are made prior to November 30, 1932.

On all existing obligations of the farmer to the company, whether past due, current, or future, a discount of 10 per cent. will be allowed, both on principal and interest, to the extent of the payments made on such indebtedness prior to November 30, 1932.

This discount of 10 per cent. is special for the present year and applies only to Canada. It is not based upon reductions in cost of production, because as yet there has been no reduction. It reflects a desire in the present emergency to be of service to our customer, the farmer, with whose success our own is so closely linked.

It is hoped that coming at this time, the offer may enable many farmers to secure equipment which they much need, and to assist and encourage them in the liquidation of their present indebtedness. If it accomplishes this, even in a small measure, we shall all feel that it has been well worth while.

Formal announcement by the company, giving the particulars in more detail, will be issued to-morrow.

This offer of the Massey-Harris Company follows upon the offer of the Canadian Pacific Railway some time ago to reduce payments on land contracts.

The prairie provinces are naturally intensely interested in the approaching Ottawa Conference. Having regard to the action of the present Government up to date, they are fearful lest the interests of the primary producer in Canada should be sacrificed to the interests of the manufacturer. The record of their own members in the House of Commons at Ottawa, though their numbers in the Conservative party should be sufficient to make their voice tell, is not such as to make their constituents in the West feel that they can be relied upon to make a definite

stand for what would ordinarily be regarded west of the Great Lakes as the interests of the West. Thoughtful people feel that it is almost too much to expect the Eastern manufacturer to accept the view that an increase in the prices of basic commodities produced in Canada, which would improve his position more quickly and more effectively than anything else, would tend to follow the sale in Canada of larger quantities of British and foreign manufactures through the increased purchasing power that such sales would bring to the countries making them. The Canadian manufacturer may admit the theoretical force of this argument, but, with much of the foreign trade that he had three years ago gone, the instinct of self-preservation prompts him to cling closer than ever to the home market. The Western farmer has, of course, argued for many years that the prosperity of Canada depends on a more liberal admission of foreign manufactures, and he naturally feels that his argument, which in good times was not conclusive inasmuch as the producer of raw materials was getting along fairly well in spite of tariffs, has now been proved to be sound beyond all dispute. It will make a considerable difference if the farmers are able to make their views effective at Ottawa in July.

Meanwhile spring is here and, as already stated, the possibilities of spring in the West seem almost illimitable. There is already in anticipation a certain incipient quickening in the air of the Western cities. At Winnipeg the makers of harness and workmen's overalls are working as they have not done for a long time past. The great department stores note some improvement. Here and there a business is picking up. The owner of a number of lumber yards in different parts of Alberta reports that things are better. A country hardware shop shows improved results due to trading now on a cash basis only. If this proves to be nature's generous year and the three provinces have a large crop, the result would be felt right through the East as well as the West. The railways

would at once become busy—they would benefit from the wheat haulage whatever the price of wheat. Manufacturers in the East would immediately feel the effect of the increased consuming power of the West. Even if there should be no improvement in prices, a good crop should practically sweep away unemployment in the West and to a considerable extent in the East also. But if there were, in addition, to be a moderate improvement in the price, say, from 65 to 75 cents or even more, the consequences throughout all Canada might be electric.

Canada.
April, 1932.

AUSTRALIA

MINISTERS who return to office after a period spent in opposition are very much in the position of a family coming back, after having had tenants in the house for a year or two, to find that the furniture has been put in impossible places, that the garden has been stocked with quite unwanted species, and perhaps that (as with the "United Australia" family) the hedges, left uncut, have grown rank and uneven. The time is ripe for quick decisions and important changes; everything clamours for immediate attention, and all is bustle and excitement. The whole family is impatient to have the house in order and to be "settled in." It is in this kind of strenuous activity that the Lyons Ministry at Canberra has spent its first three months. The Government has "got into its stride" very quickly, much more quickly than has been customary of late years. It met the new Parliament in the middle of February, with the main lines of ministerial policy already laid down, and at once brought in two measures which are likely to prove historic—the first downward revision of the tariff in the history of the Commonwealth and a Bill to coerce the defaulting State of New South Wales, which is quite without precedent in British countries.

I. New South Wales versus the Commonwealth

FROM the very start, Mr. Lang has been an unwilling participant in the system of unified loan arrangements which was established by the financial agreement of 1927.* There was full co-operation during Mr. Bavin's Premiership (1927–1930), but when Mr. Lang again became Premier it was not long before he found himself completely at variance with the other members of the Loan Council on matters of financial policy. He propounded in Feb-

* See The Round Table, No. 69, December 1927, pp. 181–190, especially pp. 183–4.

ruary, 1931, his own scheme for meeting the financial embarrassments of the country.

> The first proposal (he said) was that Australia should pay no more interest overseas until the British financial interests fund the Australian debt on the same terms as America funded the British debt . . . The second proposal was a reduction of the whole (internal) interest burden being borne by Australia, both in governmental and private finance.

These proposals were rejected by all the other Australian Governments; in Mr. Lang's own words, "they were rejected unanimously and emphatically, without argument and with horror." The New South Wales Legislative Council refused to pass a reduction of interest Bill, designed to give effect to the second of these proposals by fixing a maximum rate of interest in New South Wales of 3 per cent. In the same month (March, 1931) Mr. Lang failed to provide the Commonwealth with the moneys required to meet the interest on certain loans in London and New York. By thus defaulting on his obligations under the financial agreement, he put the former of his proposals into actual operation. The Commonwealth Government resolved that it could not allow the financial credit of the whole country to suffer for the policy of one State, and itself provided funds abroad to make the interest payments. This action was cordially endorsed throughout Australia, and was clearly in accord with the spirit of the financial agreement. The great advantage claimed for that agreement was that the overseas lender would be able to look to the honour and credit of the whole Australian people, and need not be apprehensive of a weak State or an irresponsible Government. So far, therefore, as New South Wales was concerned, a definite attempt had been made to put the "Lang Plan" into operation. Thanks, however, to the Scullin Government and the courts (which saved the Legislative Council from destruction), the only material result of the attempt was to transfer the burden of certain interest payments to the Commonwealth as a whole; which meant that, unless New South Wales could be made to pay, the whole of the rest of the Commonwealth would

be subsidising the defaulter. The Commonwealth instituted proceedings in the High Court to recover the moneys it had paid. The issue between Commonwealth and State appeared to be squarely joined.

In June, 1931, however, the situation was altered by the adoption of the Premiers' Plan.* Reluctantly, in order to get money for current expenses, Mr. Lang agreed, along with the others, to reduce the adjustable expenditure of his government by 20 per cent. and to restrict his budget deficit to an agreed figure, in consideration of the conversion of internal governmental debts at a reduction of 22½ per cent. in the interest payable. The interest reduction was not as great as he himself wished, nor did it cover as wide a range, but it was at least in the right direction, and he claimed it as an instalment of the "Lang Plan." Shortly afterwards, he admitted liability for the four and a half millions which the Commonwealth had paid overseas in interest on behalf of New South Wales, and undertook to meet all future liabilities of the State as they fell due. If not harmony, at least co-operation, seemed to be restored. Co-operation, however, proved to be both uneasy and shortlived.

At the end of January, 1932, the Australian Loan Council and a Premiers' Conference met, now, of course, under the chairmanship of the new Prime Minister and Treasurer, Mr. Lyons. The primary business was to review the extent to which the several governments were keeping within the financial limits agreed upon in June last. The figures submitted were disquieting, for they showed that the estimated deficit for the seven governments as a whole, for the year ending June 30, 1932, was almost 50 per cent. greater than had been contemplated under the Premiers' Plan, in spite of the fact that everywhere, except in New South Wales, adjustable expenditure had been reduced by at least the covenanted 20 per cent. Only Victoria was able to show an estimate that was actually within the limit allowed; the Commonwealth and South Australia expected

* See The Round Table, No. 84, September 1931, p. 888 *et seq.*

to keep their deficits down to their respective limits; the other four States all showed increases of varying magnitudes —increases of 60 per cent. in New South Wales and in Western Australia, of 200 per cent. in Queensland, and of 180 per cent. in Tasmania. The position may, perhaps, be seen best in tabular form.

(A.) Deficits as Compared with Premiers' Plan.

Government.	Plan Deficit.	January Estimate.	Percentage Variation.
	£	£	
Commonwealth	1,150,000	1,150,000	—
New South Wales ..	5,910,000	9,370,000	plus 60
Victoria	1,610,000	1,550,000	minus 4
Queensland	760,000	2,320,000	plus 200
South Australia	1,500,000	1,500,000	—
Western Australia ..	1,200,000	1,920,000	plus 60
Tasmania	90,000	250,000	plus 180
Totals	12,220,000	18,060,000	plus 50

(B.) Percentage Reductions in Expenditure.

Commonwealth	21	South Australia	29
New South Wales ..	15	Western Australia ..	27
Victoria	28	Tasmania	20
Queensland	21		

In the face of figures like these the talk of reductions in taxation with which the meetings of the Loan Council had been heralded came abruptly to an end. The budget figures showed that even the work of checking the drift has not yet been fully accomplished, and illustrated the value of the periodical review provided for by the Loan Council. There had been a certain, and very natural, tendency to regard the Premiers' Plan as having placed the budgets of the Australian governments in a sound and satisfactory position. The review of the first half of the year showed that they still needed further care and effort. It was clear that some States would have to call on the Commonwealth Bank for further accommodation irrespective of their loan requirements for the remainder of the year. Queensland was in the fortunate position of having a cash

reserve upon which to draw. In the case of Western Australia and Tasmania it was agreed that, inasmuch as they had complied with the Premiers' Plan so far as concerned reduction of expenditure, the Loan Council should request the Commonwealth Bank to make additional advances representing half the amounts by which their deficits would exceed the deficits provided for in the Plan. The governments had in return to undertake to find—either by increased taxation or by additional economies—the other half of the estimated increase. The whole position showed clearly the difficulty of obtaining budgetary equilibrium in Australia under present world conditions. Taxation had been increased on all sides but revenue was falling, and any possibility there may have been of securing a reduction of the overseas interest bill had been rendered far more remote by the filibustering policy of Mr. Lang.

Our primary concern, however, is with the relations of New South Wales to the rest of Australia. Mr. Lang's budgetary position has already been referred to. The figures prepared for the Loan Council showed that New South Wales alone had failed to reduce expenditure by the amount agreed upon last June and that the estimated deficit was 60 per cent. greater than even the huge amount provided for in the Premiers' Plan. Mr. Lang had already had additional advances, and the disgruntled treasurers learned with apprehension on January 29 that he would be unable to meet in full overseas interest payments falling due in London and New York between February 1 and February 4, amounting to some £958,000. He had, he explained, £458,000 in hand, and he asked the Loan Council's sanction for a request to the Commonwealth Bank for an additional advance to cover the remaining £500,000.

The answer was a unanimous, and not unnatural, "No." Mr. Lang, it was explained, "had made no serious attempt to honour his obligations under the Premiers' Plan." The Commonwealth Government announced that it would,

therefore, refuse to support the giving of any further advances to New South Wales. This refusal was on a Friday. The next question then was what should be done if, on the Monday, Mr. Lang did actually default again. After anxious consultation, the Commonwealth Government resolved not to follow the course taken by Mr. Scullin under similar circumstances in 1931, but to stand on its strict legal position under the financial agreement and to throw upon Mr. Lang, in the face of Australia and the world, the responsibility for a definite act of default in meeting overseas obligations. On the Saturday, Mr. Lyons accordingly announced (with the rather hesitant approval of the Loan Council) that :—

> In the event of a default by New South Wales on Monday, bondholders will have to wait for interest payments until legal action is taken or money is made available by New South Wales. No payment to cover liability will be made on Monday by the Commonwealth.

The Commonwealth, he said, regarded itself as a trustee for the bondholders and would take immediate steps to recover the moneys due from New South Wales.

This announcement was regarded in some quarters as a repudiation of all responsibility by the Commonwealth, and the Government's action was subjected to a good deal of criticism. It has since been explained, however, that the Government at no time intended to postpone the payment for any considerable period, but appeared to think that it would be in a better position to take action against New South Wales if default by that State had actually occurred. On the day following the actual default, the Government explained its position more fully, expressly intimating that in the ultimate resort the Commonwealth would be responsible for the payment of the interest in respect of which New South Wales had defaulted, and announcing that immediate steps would be taken to recover the amount involved. A week later the Commonwealth announced that it had been able to make arrangements to pay the amount due at once.

New South Wales versus the Commonwealth

The Commonwealth Government took, and appears to have been justified in taking, the view that the financial agreement did not make it directly liable to the bondholders in respect of pre-agreement loans; for, although the Commonwealth had assumed liability *as between the Commonwealth and the States*, this did not amount to a substitution of the Commonwealth as the actual debtor. The bondholders' only action lay against the defaulting State. The financial agreement was not in fact drawn up in contemplation of default by any of the parties. Legally unassailable though this position was, it was certainly out of accord with the whole spirit and purpose of the financial agreement. The great advantage of the agreement was, as has already been said, that the overseas lender would be able to look to the credit of the Commonwealth rather than to that of any particular State. The danger of the course proposed by the Commonwealth was obviously that the credit of the whole country might sink to the level of that of the weakest and most irresponsible State. The Commonwealth fully recognised this, and when Parliament met a fortnight later, Mr. Lyons brought in a measure "to resolve doubts which have arisen as to the liability of the Commonwealth to bondholders in certain debts of the States taken over by the Commonwealth." Under the terms of this Act the Commonwealth has now assumed direct liability to the bondholders. But the Government had felt that the interests of Australian credit itself required it to take some drastic step such as the one it had taken. To begin with, New South Wales has other and heavier interest payments to make in the next few months, and the Commonwealth felt that so long as it was prepared to shoulder automatically the responsibilities of the Government of New South Wales, Mr. Lang would simply go on defaulting. That would produce a serious enough financial position for the Commonwealth Government. It also threatened the stability of the whole federal structure. The other States would soon find intolerable a relation

which bound them all to suffer for the refusal of New South Wales to honour its obligations.

The problem remained of dealing with the defaulter. Hopes began again to centre upon the possibility that the Governor of New South Wales would regard this fresh default as warranting him in dismissing Mr. Lang and dissolving the Parliament. Sir Harrison Moore suggested that the Governor's reserve power of dismissal might properly be exercised when it became clear that the policy of a Ministry was contrary to the will of the electorate; that the federal elections in December had demonstrated conclusively that the electorate of New South Wales disapproved of Mr. Lang's policy; and that the interdependence of the units in a federal community afforded an additional reason for exercising this power, since the unwisdom of one government might (as in this case) impose hardship, and even ruin, upon all the rest as well. Sir Philip Game, however, made no move. The risks involved in intervention by the Governor in a self-governing colony are necessarily both great and incalculable, as more than one of His Majesty's representatives has found in recent years. If the fallen Premier, by denouncing the "imported" Governor as unconstitutional and undemocratic (and in this particular case by raising the cry of "bondholders or babies") could rally sufficient popular support to obtain a majority, the situation would be worse than ever.

The next step, therefore, was to devise some effective means of making New South Wales pay. There seemed to be no certainty that Mr. Lang would satisfy even a judgment of the High Court for the amount due, and recourse was, therefore, had to the powers of the Commonwealth Parliament under Section 105A of the constitution, to "make laws for the carrying out (of the financial agreement) by the parties thereto." The result was the Financial Agreement Enforcement Act, 1932—a unique piece of legislation. Ordinary judicial methods of enforcement being regarded as inadequate, the object of the Act is to

enable the Commonwealth to intercept any specified revenues of the defaulting State. The procedure is simple. In case of default the Commonwealth Auditor-General may be required to give a certificate showing what moneys are due from the defaulting State, and thereupon the Attorney-General is authorised to apply to the High Court for a declaration that the amounts set out in the Auditor-General's certificate are due and payable and unpaid by the State to the Commonwealth. The Act goes on to vest remarkable powers in the Commonwealth Parliament. Since there is, in the present state of the law, no adequate means of enforcing a judgment against a State, it is enacted that the two Houses of Parliament may resolve to apply to the defaulting State, in respect of revenues specified in the resolutions, the special procedure for enforcement provided by the Act. Thereupon the specified revenue of the State is to become payable not to the State authorities, but to the Commonwealth Treasurer as from a date to be fixed by Commonwealth proclamation, and during the currency of such proclamation. It is further provided that the Commonwealth may sue for and recover amounts which would normally have been paid to the State by taxpayers—thus protecting the Commonwealth against refusal to pay taxes; that payment to the State shall not operate as a discharge, whereas payment to the Commonwealth shall so operate; and that it shall be a criminal offence, punishable by fine or imprisonment or both, for the taxpayer to make, or for any State Minister or officer to receive or permit, payments in contravention of the Act. But even this is not all; the application to the High Court for a declaration may be postponed if the Houses are of opinion that by reason of urgency the special procedure should be applied at once. Under such circumstances the Houses may resolve to apply the Act immediately upon receipt of the Auditor-General's certificate. In addition to these powers, the Act authorises the Commonwealth to retain moneys payable to the defaulting State under the financial

agreement, and to demand payment to the Commonwealth of any moneys held by banks on behalf of the defaulting State.

The Commonwealth acted by way of the emergency procedure, and immediately on receipt of the Auditor-General's certificate the Houses passed a resolution applying the Act to New South Wales, in respect of revenue not only from what might be called luxury taxes (as on racing and betting and entertainments) but from motor and income taxation as well. The advantage of adopting this procedure is, of course, that if it should become necessary to protect the interests of the Commonwealth before a decision of the High Court could be given, the Commonwealth could issue the proclamation without delay. Otherwise it would be politic to wait for a determination by the Court. Mr. Lang applied to the High Court for a declaration that the Act is invalid, and pending the judgment the Commonwealth did not issue the proclamation to put the "garnishee" procedure into operation. The High Court has now, by a majority of four justices to two, upheld the validity of the Act. Meantime Mr. Lang has repeatedly declared that his Government will take any and every step to defeat the Commonwealth. He has taken the precaution of withdrawing in cash from the Sydney banks the balances standing to the credit of his Government. He has threatened also that if the commercial classes in New South Wales, the supporters of Mr. Lyons' Government, insist that these moneys shall be paid to bondholders overseas, he will impose special taxes by means of which it may be done; but that he will not allow the burden to fall upon "the people" of New South Wales.

It is clear that not only federalism, but constitutional government itself is come now to a decisive test in Australia, and there are many misgivings as to the outcome. The issues between the Commonwealth and New South Wales are not merely legal and financial, but political and social as well, and it is by no means certain that action which will

resolve one issue will resolve the others too. The issues involved have not in fact been kept at all clear in the public discussions so far. It is perhaps inevitable that, under a federal constitution, political thought should take a legal, and almost a forensic, direction. But unless care is exercised, this necessity for considering always the legal basis of political action tends to concentrate undue attention on the constitutional power to take a course of action contemplated, and to relegate to second place consideration of its substantial merits and its political wisdom. The discussion of the Financial Agreement Enforcement Act has been a clear case in point. Much doubt was expressed whether the measure was really within the legislative power of the Commonwealth Parliament, but, once convinced that the measure was constitutionally valid, supporters of the Government were very commonly disposed to assume it to be desirable, whatever its consequences, unless some other effective "short cut" could be suggested.

A great deal of the discussion of the Act proceeded on the assumption that it is an Act to make "Mr. Lang" pay; that it is an act of protection against "a political outlaw." This kind of personification is a very common thing in politics, both domestic and external, but it is very dangerous. The Act is in fact an Act to ensure that the service of overseas loans will be a first charge upon the revenues drawn from the taxpayers of New South Wales. This is, of course, contrary to the policy of the Government of the State, and much of the support of the Act has been based on the view that the New South Wales Government has ceased to command the support of a majority in the electorate, and that eventually it will be decisively rejected at the polls. Obviously, however, this expectation would be considerably weakened if from any cause Mr. Lang is able to rally fresh support during the life of the present Parliament. This is what makes so hazardous a venture the policy represented by the Financial Agreement Enforcement Act. Default indeed must be restrained, and the federal bond would

scarcely withstand very long the kind of attacks that Mr. Lang has lately made upon it. Nevertheless, State feeling is still very strong in Australia, and even assuming that the State taxpayer, conscious of his Commonwealth citizenship, obeys without question or resentment the law of the Commonwealth, the very nature of the enforcement proceedings can scarcely fail to strengthen the position of the State Government. The Tasmanian Parliament and Government have, indeed, already protested against the position in which the Act places a State, and Tasmania and Victoria intervened along with New South Wales in challenging the validity of the Act. Yet it is not to be supposed that either Government has the slightest sympathy with the methods of Mr. Lang.

It is therefore possible that a State Government determined to resist, as the New South Wales Government now seems to be, may not only gain a good deal of popular sympathy on the constitutional issue but may actually make the enforcement of the Act difficult. In the long run, it is upon State taxation officers that the Commonwealth must rely, and it is upon State police that the enforcement of all Commonwealth law depends. The Commonwealth has now, by proclamation, put the Act into operation with respect to income tax, and the whole country awaits the result, not without anxiety.

II. Imperial Preference

AT the Ottawa Conference in July, Australia is to be represented by the Assistant-Treasurer, Mr. Bruce, and the Minister for Trade and Customs, Mr. Gullett. Considerable public interest is being shown in the Conference, and hopes are being expressed that it will inaugurate a new era of prosperity by placing imperial trade relations on a new footing. Hitherto, trade preference between Australia and Great Britain has been one-sided because a consistent free trade policy does not easily admit of preference. But this one-sided character has been more apparent

than real, for Great Britain was able to make some concessions despite her traditional policy, and Australia stood firmly for protection first and preference afterwards. Now, however, that Great Britain has abandoned free trade for protection it seems that a policy of mutual concessions may be further developed. In Australia, ever since preferences were granted, we have been accustomed to take up the attitude that our generous gifts have been spurned by Great Britain, and the door "banged, bolted and barred" against us. But the fact is that our gifts were chosen with an eye primarily to our own welfare and only secondarily to that of the Empire. It cannot be too strongly emphasised that protectionist sentiment in Australia demands and secures that Australian industries shall be protected against all rivals, and the greatest rival of the Australian manufacturer is the British manufacturer. Our trade policy of protection and preference has been designed, first to protect Australian industries, and then to give preference to the British producer over the foreign producer. These facts serve to explain the indifference or hostility in Australia to the policy of Empire Free Trade. Before the Australian public could welcome Empire Free Trade in the literal meaning of the term it would need to suffer a change of heart similar to the nineteenth century conversion of British manufacturers to free trade, and this it is idle to expect.

Frequent attempts, none of them satisfactory, have been made to calculate the value of the preference granted by Australia to Great Britain by estimating the amount of duty which, but for the preference, would have been paid on British goods imported into Australia. The real advantage, however, afforded to the British manufacturer by preference occurs when his goods have to compete with similar goods of foreign manufacturers subject to a higher duty. The reduced duty obviously offers an inducement to the Australian consumer to purchase British goods in preference to foreign goods. Where the market is largely in the hands

of the British manufacturer, so that the Australian consumer in any case would use British goods, the preference is not of much advantage to the British manufacturer, although it is to the Australian consumer. Tariff changes since 1929 have materially reduced the advantage which preference gives. The increased duties and the prohibitions placed upon certain imports by the late Scullin Government, whatever may have been their effect upon the trade balance, have made it impossible for many British goods to enter Australia. In these circumstances it is cold comfort to the British manufacturer that foreign goods also have been excluded.

It seems clear that, if genuine concessions are to be made by Australia at Ottawa in return for equally genuine concessions from Great Britain, the present Australian tariff will have to be revised. Great Britain has retreated from free trade and, if Australia retreats from high protection, they may meet on the common ground of a reciprocal trade policy.

Recent political events in Australia furnish an excellent example of the difficulty of tariff reduction. Even before the present depression was in full swing not a few doubts were expressed in responsible quarters as to the dangers of extreme protection. As the depression deepened so the dissatisfaction grew. So much has been said of the necessity of reducing costs of production that it is easy to understand that tariff costs did not escape criticism. It cannot be said that there is any considerable free trade movement, but public opinion, hitherto complacent, is much more critical of the tariff, especially since the changes made by the Scullin Government. The familiar argument that tariffs reduce unemployment wears, in the light of hard economic fact, rather a jaded look, and even the public is recognising that infant industries rarely grow up.

Both the Country party and the United Australia party went to the recent elections pledged to the downward revision of the tariff. Neither party supports free trade,

but tariff reform is coming to mean, for the first time in this generation, tariff reduction. The Country party made it a condition of joining a composite Ministry that the customs portfolio should be allotted to their leader. This was refused, but the request shows how important they considered the subject of tariff revision. Their attitude is noteworthy in view of the present position of the parties in the House of Representatives, where the Lyons Government commands the direct support of only 37 members (including the Speaker) in a house of 75. But, since the 14 members of the Federal Labour party are pledged to the maintenance of high protection, an alliance to force tariff reduction upon the Government is out of the question.

In the Governor-General's speech the Ministry indicated that changes in the tariff would be made with caution, that recommendations from the Tariff Board—practically ignored by the Scullin Government—would receive close attention, and that the surcharges and prohibitions would be reviewed at once. A week later, in accordance with this promise, Mr. Gullett introduced into the House of Representatives a new tariff schedule, and further expounded the policy of the Government. Under this schedule 69 items were reduced, 11 increased, 43 out of 78 prohibitions were revoked and 19 special duties repealed. The aim of the Government, according to its spokesman, was to reduce costs of production, and particularly to bridge over the difference between the price of what the Australian farmer buys in a protected market and what he sells at world prices. The Government believes that costs could be reduced by removing excessive duties either on manufactures or on primary products, and in carrying out this policy proposes to be guided by the recommendations of the Tariff Board.

The reception given to these proposals illustrates the extraordinary difficulties of tariff adjustment. A storm has arisen over amendments to the tobacco schedule,

following mainly the advice of the Tariff Board. Truly enormous duties had encouraged growers in several States so that the production of Australian tobacco was trebled. The reduction still gave the local grower a duty of 400 per cent. over imported leaf, but farmers' representatives regard duties on primary products as some compensation for the subsidy to manufactures involved in other duties, and the Leader of the Country party led the opposition to these reductions, while the all-round protectionists looked on with some satisfaction. The amended schedule will probably be carried, especially as the Government have arranged with the tobacco companies to purchase the leaf at a payable price of 2s. 3d., but this unusual action is a reaction to a pressure which it felt to be irresistible, and it will no doubt approach the consideration of the Ottawa policy with the utmost caution.

The difficulties of Empire tariff adjustment are indeed formidable. If an infant vested interest like tobacco growing can exercise such intense pressure for protection of almost astronomical proportions against Australian consumers, is any well entrenched secondary industry going to suffer any sacrifice at all in favour of industry overseas ? The question is not one of economics or even business, it is one of politics ; and the extraordinary power of organised interests over modern Parliaments suggests that the area of possible action is small. At the present time the Government is engaged in studying the question and in collecting the necessary data. It is bound to be protectionist—it realises that the Scullin tariff was extravagant and absurd ; it wants to give preference without sacrificing the protective character of its policy. It sees, however, much capital invested and many men employed in industries which are entirely dependent on the tariff.

The policy adopted will have to define what we are prepared to give and what we feel is reasonable to ask. What we are prepared to give must be found at the expense either of foreign industries or of Australian. An increase

of the margin between the British tariff and that on goods from other countries will not be easy in all cases. Generally speaking it must mean sacrificing revenue by lowering the British rates or increasing prices by raising the foreign rates upon articles in which British industry is apparently not able to give equal service at equal cost. Nevertheless there will be little difficulty from political quarters in this type of concession, and quite a respectable gift of trade can be made though at some sacrifice. But if Ottawa is to be of real benefit, to Australia from the point of view of cost, and to Great Britain from the point of view of trade, it must be by a reduction of the excessive duties and prohibitions with which the Scullin schedules flattered and encumbered Australian production. The reasoned recommendations of the Tariff Board have revealed a very large number of items upon which the haphazard tariff has only a negligible protective value, though a great restrictive effect. The whole schedule could be combed out for such items and their elimination would be a valuable contribution to Empire trade. Even such a process would encounter opposition from fanatical protectionists who consider any reduction at all a blow to protection, and are quite unable to see that the success of protection in a limited area like Australia depends on its selective character. They will probably fight to save the totally exotic and extravagantly parasitic industries, the existence of which depends entirely on the tariff. In those cases it is really " more blessed to give than to receive," for the Australian conditions are not suitable and the market too small to carry an economic producing unit. Finally, there are many items on which the duties could be lowered so that they remain protective but cease to be prohibitive. Such duties even when reduced would secure for efficient Australian manufacturers the whole of the Australian market for the big standard lines for which there is enough local demand to run producing units economic in size. At the same time, they would not prevent the import of special types or qualities.

Sheer lack of buying power in times of depression places a limit to the value of all concessions, but such a contribution to the rationalisation of the Empire is all that can be hoped for in exchange for substantial help from the British tariff for Australian export industries.

How can the British contribution, then, help the latter industries? The chief exports of Australia, wool and wheat, are both in difficulties, but a preferential tariff would help neither, for there is a large Empire surplus of both which must find its market in foreign countries. Politicians and pedants have combined to propose a system of Empire wheat quotas, but, as Professor Wadham, professor of agriculture at Melbourne, has pointed out, quota systems are not likely to suit countries which hope to extend their wheat areas. Proposals have been carefully examined by experts and students in Australia and they have come to the definite conclusion that no system yet devised will be of the smallest benefit to the Australian wheat grower, while it is difficult to over-estimate the degree to which such a system would endanger hardly-won business connections and dislocate the established channels of trade. The two great primary industries can best be helped through their side-lines, the most important of which is meat. A preferential duty on lamb and mutton would encourage that diversification of agriculture which is so much to be desired. The pioneering section of the industry however, beef production, is in greater difficulty and might be salvaged by preference. Here, of course, the interests of British industry as well as British interests in Argentina are involved. Australia has not yet landed chilled beef in Great Britain and as frozen beef is not favoured there it seems unwise to press for any concessions.

Primary industries, in which the labour cost is high, such as dairy produce, butter, cheese, eggs, pig products, fruit, wine, brandy and malting barley, sugar, rice, hops, peas, etc., form a most important section of Australian production and would as a class benefit most from British preference.

Some of them, notably apples and barley, are holding their own in the world markets without assistance. Others, such as dried and canned fruits and wine, enjoy certain preferences already, and great benefit might be obtained from the extension of the preference to types hitherto missed. Another group—sugar, rice, hops, peas—will probably benefit from preferences granted primarily for other parts of the Empire. But they are either so highly subsidised in Australia or their production is so small at present that they could scarcely be made the subject of a special request. Lastly there is the class of "semi-manufactures"—flour, soap, sole leather and timber sleepers. These represent practically the only manufactured exports; they would benefit from a continuance of the 10 per cent. emergency preference, and the same applies to base metals, in which the cost of labour is a big factor. Australians must, of course, admit that costs and high standards of living are factors which affect the need for preferences from Great Britain—a country with lower standards—and that a system is being established which is artificial and cannot be permanent. However, the indebtedness of Australia to the British people might make such assistance a measure of prudence.

At Ottawa, Australian delegates would be wise to concentrate upon the preferences which would be most fruitful and cause most expansion, namely, on mutton and lamb and dairy produce. If these industries were made profitable Australia's buying power for British goods would be increased. No list of minor concessions would be of much use if there were a failure in these major items.

Australia, April 7, 1932.

POSTSCRIPT.—On May 13 the Governor of New South Wales dismissed Mr. Lang, from whose department a circular had been sent to departmental heads forbidding them to pay money to the Commonwealth Bank under the Financial Agreements Enforcement Act. The Leader of the Opposition has formed a Government, and a general election is to be held on June 11. The proclamations putting the Enforcement Act into operation were thereupon suspended.—EDITOR.

SOUTH AFRICA

I. The Parliamentary Session and Other Matters

THE main pre-occupation of the session, so far as it has gone, has been finance. The controversy over the gold standard still dominates the field of politics and has become the principal issue between the Government and the Opposition parties. Officially the matter is still *sub judice*, as the Select Committee of the House of Assembly, which was appointed early in the session to consider whether the maintenance of the gold standard was in the best interests of the Union, is still sitting and taking evidence. But the open mind, which such an inquiry would seem to presuppose, has vanished in the stress of the political battle. The dissident voices which were raised within the Nationalist party in the early days of the controversy have been effectually silenced by the demands of party discipline. On the Opposition side there has also been a closing of the ranks, though one or two dissenters still stand apart from their colleagues.

In moving for the appointment of the Select Committee the Prime Minister informed the House that, whatever the report of the Committee might be, the Government would adhere to their policy of maintaining the gold standard. That indeed could not be left in doubt, as the only hope of their being able to maintain the gold standard lay in convincing the public of their determination and ability to do so. The Opposition, with perhaps equal reason, objected to the appointment of a committee whose

report would be a foregone conclusion, and would in any case have no influence on the policy of the Government. Many, therefore, refused to take part in the enquiry. The report will probably appear towards the end of the session, but, while the evidence heard may compel some on either side to abandon familiar arguments, it has little chance of changing any convictions. The complaint which is mostly heard now against the maintenance of the gold standard is the scarcity of capital and credit in the country. Mortgage bonds are being called in, money on deposit with banks and other financial institutions is being withdrawn, advances on the best security are almost unobtainable. The opponents of the gold standard attribute this to the rush to buy sterling which followed the abandonment of gold by Great Britain. Capital, they say, has left South Africa to such an extent that business is being strangled. The Finance Minister in his budget speech estimated that since September last the transfer of money from South Africa in excess of the normal exchange transactions amounted to £9 million, but competent observers outside the Treasury put the figure much higher.

The policy of the Government is to maintain the currency on the gold parity of the British sovereign and to subsidise, at the expense of the taxpayer, the exporter of primary products, who is being most severely hit by the fall in world prices and the adverse exchange upon his dealings with countries whose currency is depreciated in relation to the old gold parity. The producer whose products find a market inside the country is protected as regards the internal price by tariffs, and by other devices, which are more or less effective in proportion to the extent to which the internal market can absorb his product. The consumer, therefore, gets little if any benefit from the fall in world prices, while the advantage with regard to imported articles, which he might have expected to gain from the higher gold value of his currency, is largely nullified by the increase in the general customs tariff imposed in order to

find the revenue which is required to meet the cost of the subsidies on exports.

The budget statement of the Finance Minister was looked for this year with more than the usual interest. The position which it disclosed is certainly serious. If it leaves us with the consoling thought that it is better than that of most countries in a similar state of development to our own, that is a consolation which we owe entirely to the continued high rate of output of the gold mines of the Witwatersrand. The Minister had to face a drop in his revenue estimates for the year ended on March 31 of £2,773,000, which brought the expected revenue for the year to £26,900,000, against which, after all the reductions in expenditure which he had been able to effect, he had to face an expenditure of £28,100,000—a deficit of £1,200,000. This, added to the deficit carried forward from the previous year, left a shortage on the revenue account of £2,100,000. The prospects for the year now current were worse than those in which the last budget had been framed, and he accordingly estimated for a revenue this year of £25,845,000, that is a reduction of £3,828,000 on the previous year's estimate and of £1,055,000 on the actual collections. The expenditure he put at £27,479,000. He was, therefore, left with a contemplated deficit on the current year of £1,634,000, which, added to the accumulated deficits of previous years, leaves the revenue account short by £3,734,000. This it is proposed to provide for by new taxation estimated to raise £3,535,000, the balance of £200,000 to be carried forward. Of the new taxation £730,000 is to be raised by an additional income tax of 1s. in the pound on the dividends of gold mining companies, and a graduated surtax on interest derived from investments carrying a fixed rate of interest—the tax rising according to the rate of interest. The rest is to come from increased custom duties, chiefly from a general *ad valorem* rate of 7½ per cent. in addition to existing duties on all imports, with certain special exemptions. This, however, does not

represent the whole extent of the new burdens which the taxpayer will have to carry in this year of depression. A special customs duty of 5 per cent. is laid on all imports (subject again to certain special exemptions), the proceeds whereof are to go to a special fund from which is to be provided that portion of the subsidies on exports of primary produce which is not included in the ordinary estimates of expenditure. These subsidies are provided for, up to the end of October next, to the amount of £1,300,000 from the general revenue account, and £1,000,000 from the special levy of 5 per cent. Whether by the end of October the exporter of primary products will be able to dispense with the aid of subsidies may be open to doubt, and to that extent the balance of the budget is not assured. A further element of doubt arises with regard to the revenue estimated to be derived from the new customs duties. It is difficult to share the opinion of the Finance Minister that they will not affect the consumer but will be borne by the importing merchant out of the profits that he has derived from the exchange advantage accruing to him on imports from Great Britain and other countries whose currency has depreciated in terms of gold—profits which he has not yet passed on to the public. The general opinion is that they will increase the cost of living and act as an additional drag on our already languishing trade and industry, and will thus tend to defeat their own object as revenue producers.

The budget is balanced, at any rate on paper, but this is achieved not so much by reduction in the expenditure as by an additional load of taxation, on a community already labouring in the trough of unprecedented financial troubles.

The estimates of expenditure for the year amount to £27,479,000, in which, as has been said, is included an amount of £1,300,000 to provide for subsidies on exports. If for purposes of comparison this is deducted, these estimates show a reduction of £3,210,000 as compared with the original estimates for the previous year. Of this reduction, however, £1,590,000 is accounted for by the

estimated saving in respect of interest on government loans due in London owing to its being paid in sterling instead of gold. The estimated reduction, therefore, in the cost of the administrative machine—apart from the fortuitous profit on exchange—as compared with the estimates for the previous year amounts to £1,620,000. Apart from reductions in educational and other grants, the only serious curtailment of administrative expenditure is an all-round reduction in the salaries of public servants, rising from 3½ per cent. on the lowest grades to 10 per cent. on the highest. The salaries of Members of Parliament are reduced by 10 per cent. and those of Ministers by 15 per cent. The general scheme of government activities, which many believe has now attained a magnitude in excess of what the country in normal times can afford, remains almost intact.

The Minister of Railways, in presenting his budget for the Department of Railways and Harbours, had an equally dolorous tale to tell. The railways and harbours are suffering from the drop in traffic due to depressed business conditions, and in addition the railways, like railways elsewhere, have to contend with road motor transport competition. The Administration commenced its operations for the financial year which closed on March 31 with a deficit carried over from the previous year of £679,000. The results for the year just ended are expected to show a deficit of £1,800,000. The current year, therefore, begins with an accumulated deficit on revenue account of roughly £2,500,000. No provision is made in the estimates for the current year to liquidate this deficit. It is simply being financed and carried forward in the hope of better times. For the current year the revenue is estimated at £25,997,000 and expenditure at £26,066,000, which would leave a deficit of £69,000. The expenditure estimates show a considerable reduction over the two previous years—reduced personnel, reductions in salaries and wages—but the estimate of revenue is generally regarded as reflecting an

optimistic outlook scarcely warranted by existing conditions. It should be added that the expenditure figure quoted above includes working expenditure, depreciation and betterment, and interest on capital. In the railway budget, therefore, the position disclosed, though serious enough, will bear favourable comparison with that of State railways or even private railways in many other countries.

The results of the conference between representatives of the Union Government and the Government of India, which was mentioned in the last number of THE ROUND TABLE,* have now been made public, but it cannot be said that they bring us nearer to a permanent settlement of the relations between the Indian community here and the European population. Beyond the renewed expression of friendly sentiments, the only practical step that has been agreed upon is the joint consideration of schemes of land settlement in countries where the Indian would not be subject to the social and political disabilities which are imposed upon him here—schemes in which the wider experience of the South African Indian might be turned to good account by the Indian Government in its attempt to find new outlets for its surplus population. A joint enquiry by the two Governments is to be instituted, and it is to be hoped that out of it may come something which will enable Indians here, without loss of self-respect, to exchange their South African domicile for one where they will attain automatically a status which is being definitely denied to them here.

The financial depression through which the country has been passing is having its reactions in a general feeling of dissatisfaction with the existing political parties. Criticism of the Government at such a time is inevitable, but it is combined with a distrust of the party system as it exists here. The idea is very generally, if somewhat vaguely, held that our politics have come to be a mere battle of

* See THE ROUND TABLE, No. 86, March 1932, p. 427.

personalities, in which the pressing needs of the people are neglected or relegated to the background. There is in some parts a more or less active propaganda for the formation of a "centre" party, led by persons who are not too deeply committed on either side to the old party controversies, which would give us a Government and a Parliament able to devote themselves to the actual problems of the day. So far this movement has failed to take visible form because no leader has emerged strong enough to break the existing bonds of party allegiance. But it is a symptom of a political malaise which might at any time take a serious development.

In Natal the spirit of political discontent has taken the form of a movement for secession from the Union. So far responsible public men have kept aloof from the movement, but there is undoubtedly behind it a strong popular sentiment, which, without any very tangible basis, is deeply perturbed by what it regards as the anti-British outlook and policy of the present Government. Natal has never been wholly assimilated by the Union. Its representatives came to the National Convention in 1909 strongly committed to the principle of federation, and only accepted the unitary constitution which was there decided upon with considerable misgiving. In Natal alone, of the four colonies which came into the Union, was the question submitted to a referendum, and although the vote went by a two to one majority in favour of Union, the opposing minority has never altogether come over. Natal in population and sentiment is predominantly British. It has never wholeheartedly put aside the outlook and affinities of a British Colony for those of a South African Dominion. Consequently the rapid advances towards an independent status culminating in the Statute of Westminster have been regarded by a considerable section of opinion in Natal with something like dismay. The adoption of a South African flag, the agitation in some quarters for the appointment of a South African citizen as Governor-General, the

conclusion of a trade treaty with Germany which gives her the advantage of any extension of tariff preferences granted to Great Britain, the activities of a republican section within the Nationalist party, even the proposal of the Government to change our currency to a decimal system, have all had their effect in irritating the sensitive nerve.

But perhaps the most serious cause of trouble has been the dual language. Before Union, outside the districts which were added to Natal from the Transvaal after the Anglo-Boer War, the Afrikaans language was to all intents and purposes a foreign language in Natal. The Act of Union laid down the principle of equality as between the English and Dutch languages, but that principle was not at first applied as requiring public officials to be competent in both languages. In consequence, in those parts of the Union where the English-speaking element was predominant the use of the other language spread slowly, and in Natal, where it was seldom heard, not at all. With the advent to power of a Nationalist Government the regulations requiring a knowledge of both languages from public officials were more rigidly enforced, and the impression was created in certain quarters in Natal that the language qualification was being purposely used to exclude from the public services anyone who was not of Afrikander sympathies and descent. In Parliament the members from Natal with one or two exceptions do not speak or understand Afrikaans, and therefore cannot follow the speeches of members who use that language in debate. Parliament thereby loses in great measure that influence which it ought to exert in bringing opposing sections into direct contact with each other's point of view.

The threatened breakdown of the Provincial Council system has intensified and brought to a head all the apprehensions and suspicions which have beset this section of the Natal people since Union—that they are losing their identity as a British Colony in a larger body which is hostile to their traditions and disloyal to their allegiance, and that

an alien language and culture is being thrust upon them. Out of this has come the movement, sometimes calling itself a secession movement, sometimes a devolution movement—demanding sometimes complete secession from the Union, sometimes membership on a federal basis. It is doubtful if more than a small proportion of the responsible citizens of Natal—even of those who applaud the movement at its public meetings—would commit themselves to either of these two objectives if it came to an actual test. The movement so far is largely inarticulate—a protest against economic distress and wounded national sentiment. But a wise Government would not on that account treat it with contempt, nor fail to take note of it as the symptom of a real trouble in the body politic, which, if not treated with sympathy and understanding, may go deeper and strike at the foundations of Union.

II. The Native Policy of the Union 1910–1932

CERTAIN legislative proposals which call for more than passing comment are at present under discussion. There is the Native Servants Contract Bill now before Parliament, and a draft proclamation issued by the Minister for Native Affairs under the Native Administration Act of 1927, amending and extending to Zululand the Natal Native Code. Between them they cover native land, labour, domicile, movement, and liability to arbitrary imprisonment. To grasp their full meaning, however, they must be put up against the background of South Africa's achievement in the sphere of native policy since the Union of 1910.

The debates on these measures have brought out sharply the antagonism between two rival points of view which are traceable very far back in the history of South Africa. One is the claim of the man on the spot that only those who are in daily contact with natives can understand them,

or ought to be heard when their governance is in question. It is a view which leads too often to the conclusion that the black man is there for the benefit of the white. The other is the view of the man with the wider angle of vision which comes of standing back somewhat, who asserts that those whose sensibilities are blunted by daily contact, and whose apparent and immediate interests conflict with those of the tribesman, are the very last people to have the final word, and that in any event the native is an end in himself and, as such, entitled to a free and honourable place in a mixed society.

Once upon a time it was imperial officials, imported missionaries, and a fairly widespread body of opinion in the western Cape districts that upheld the latter view and imposed it with a fair measure of success on the Cape Colony. To-day the imperial power counts for little, the missionaries for hardly more, while western Cape members are told, in both official languages, by men from the old republics and Natal, that they do not know what they are talking about. In short, the old liberal Cape policy has been beaten back step by step, ever since Union twenty-two years ago; it is now fighting a desperate battle in the last ditch against the illiberal policy of the newer north.

At the time of Union in 1910, the many, white, black, and coloured, who feared this very thing, were assured that the native policy of the Cape Colony would doubtless, by its inherent virtues, wean the rest of the Union from its frontier ways. Besides, what could go wrong under a Parliament modelled on those at Westminster and Cape Town? This comfortable prophecy has been belied under both heads. Since Union the decay of parliamentary rule has gone on side by side with a definite retrogression in native policy.

The decline of constitutionalism can be dismissed shortly. It is sufficient to say that to-day the Union is virtually a unitary State under increasingly strict bureaucratic control; the federal elements in its constitution,

the bulwarks of local liberties, have been undermined, and the civil service, with its high traditions, especially in the Cape, has become more and more merely an instrument in the hands of the political party in power. The Senate has been weakened gravely as a chamber of review; the House of Assembly, which began badly when the allocation of seats was arranged to favour the inexperienced north against the south, and everywhere the countryside against the towns, has not improved with age. Parliament, during the last six years particularly, has given away its powers wholesale to the Executive. Thanks largely to the contagion of arbitrary native legislation, the rule of law is waxing feebler and more fitful.

This sickness of elective assemblies is a widespread phenomenon in the present-day world; but in South Africa it has peculiar dangers because of the pressing nature of the native problem. The change for the worse in the relations of Europeans generally with non-Europeans in the Union nowadays is the outcome not so much of unchecked economic and social forces as of more or less deliberate political action. Not that this action was consciously directed towards that end, though there has been plenty of talk in responsible, and still more in irresponsible quarters, which suggests that the talkers could not help it and did not care overmuch if bad relations were the outcome of their policy. The evil has arisen from taking the short view.

Much of the post-Union native policy was foreshadowed by the majority report of the Native Affairs Commission of 1903–1905. In the main that report was the natural product of well-to-do land and mine owners, representatives of an acquisitive society hardened by pioneering experience, united for the moment with officials anxious for the labour that would carry their Five Year Plan to success by so developing mines, roads, railways and farms that South Africa would be raised rapidly to a higher economic plane than ever before. It pointed straight to

communal parliamentary representation (if any) for the Bantu, a check on the purchase of land by natives, and the stimulation of the native labour supply by making an end of squatting on European farms.

Little or no action was taken on this report at the time; the National Convention avoided as far as might be any discussion of the disruptive native question. Nor was anything notable done during the first few years of Union beyond the enactment in 1911 of the Mines and Works Act, which sought to regularise, in the Transvaal and Free State only, the practice whereby non-Europeans were shut out from skilled and semi-skilled employment by the Colour Bar. In 1913, however, mainly in response to pressure by the Free State, where the Bantu's right to acquire land was already more restricted than elsewhere, a Native Lands Act was hurriedly passed at the tail-end of the session.

The fundamental ideas behind that law were the territorial segregation of white and black, and, incongruously enough, the even sharing out of the native labour supply among European farmers. Outside the reserves and the urban areas, many thousands of Bantu lived upon European farms. They lived either as squatters, farming what had often been their ancestral acres on shares with the owner, or making him a money payment; or else they lived as labour tenants rendering, themselves and often their families too, so many days' service each year, usually three months in the aggregate, the days being chosen at their lord's discretion. The Lands Act aimed first at eliminating the squatter, who was virtually given the choice of becoming a tied labour tenant or of going elsewhere. Secondly, it forbade the acquisition of land by natives outside the reserves, but, as some compensation for this lost liberty, it promised that sorely needed additional native areas should be marked out.

A judicial decision saved the right of natives to acquire land in the Cape Province, and in other parts the harshness

of the law was modified slightly by administrative action. But the fact remains that the promise of 1913 is still unfulfilled in 1932; the additional reserves have not been granted, and each year that has gone by, as Europeans have spread over the land, has added to the impossibility of any general territorial segregation of the two races. Each year, moreover, as the existing reserves have become more congested, has added to the Bantu's economic distress and distrust of his European rulers. Responsibility for this failure must be shared by all Union Ministries; but whereas the Botha-Smuts Ministries could plead that from 1914 till 1919 they were harassed by war and rebellion, and again from 1922 till 1924 by armed revolt, falling revenues and a dwindling parliamentary majority, the Hertzog Ministries can plead little of the kind. From 1924 till 1929 at least they enjoyed comparative prosperity and, throughout, profound peace and a secure majority. Their difficulties have arisen from complications due to the lapse of time and the uncompromising attitude of most of their own supporters and many of their political opponents.

In its later stages, the war wrought a revolution in South Africa as in other parts of the world. Manufactures sprang up, and natives, loosened from the soil by the operation of the Lands Act, drifted into the humbler ranks of the new industries side by side with Europeans, Afrikanders for the most part, similarly uprooted. The rank and file of the trade unions, on the Rand particularly, thus became more and more northern Afrikander, and therefore more resolutely opposed than ever to any recognition of native claims to equality of opportunity, and also naturally nervous of low-paid native competition. Meanwhile prices soared and European wages rose also; but native wages even in the towns remained well-nigh stationary. In 1918 the white miners on the gold mines of the Rand were strong enough to extract a *status quo* agreement which checked their employers' attempt to admit non-Europeans to semi-skilled occupations, while the men at the Johannes-

burg power station successfully held the community to ransom. Thereupon the poorly paid Johannesburg sanitary "boys" struck, but, being natives, found themselves subject to the penal clauses of the Masters and Servants law. That law, of old standing in all the provinces, indeed provided safeguards for the native employee, but in actual practice provided many more for his employer. In any case the infliction of criminal penalties for breach of civil contract reminded natives everywhere that they had not the same freedom to higgle in the market as their European competitors.

Something was done to improve native wage rates on the Rand, with encouraging repercussions on rates in other parts. Then, in 1920, during a lucid interval between two periods of turmoil, General Smuts endeavoured to put the administrative side of the native question upon a sounder basis. The Native Commission of three experienced Europeans then set up to advise the Premier, and the conferences of chiefs and representatives of native associations since summoned from time to time, have done excellent work. But the local councils of magistrates and Bantu on the Transkeian (Cape) model, then prescribed for general application, could not benefit the natives scattered up and down upon the European farms. And according to the Lands Act it was they who constituted the real problem. For the rest, the promise of 1913 was not implemented. Additional reserves were to be allocated only after the economic and administrative relations of white and black should have been put upon a better footing. And when would that be?

Signs of unrest were not wanting: passive resistance by native labourers on one or two of the Rand mines, a riot by students at the native school at Lovedale in the eastern Cape Province, a serious native strike at Port Elizabeth during which unauthorised Europeans fired upon the strikers indiscriminately, and finally, in May, 1921, the tragedy at Bulhoek, also in the eastern Cape, where the

police had to fire in the last resort. The effect was deadly upon a swarm of Bantu enthusiasts inflamed by the more heady portions of the Old Testament.

The Bulhoek calamity was, humanly speaking, unavoidable. The same cannot be said of much that followed. Early in 1922, a serious European revolt took place along the Rand. In some of its developments it was a revolutionary, in others a republican movement, but its primary cause was the determination of European workers to maintain the Colour Bar, in spite of the fact that the courts had recently declared regulations framed under the Act of 1911 *ultra vires*. The rising was marked by wanton attacks on mine natives, but in the end it was quelled with much bloodshed. The Colour Bar was relaxed somewhat; the mines were reorganised, and the Labour party was driven over to an alliance with the Nationalist party. This apparently incongruous alliance of urban Socialists with rural Tories was held together primarily by a determination to make South Africa safe for the white man, a determination strengthened by alarmist conclusions erroneously drawn from the 1921 census that the blacks were increasing so fast that in a comparatively short time they would swamp the whites.

So matters drifted on. In May, 1922, sinister tidings came from South West Africa of a whole-hearted exercise of military force by the civilian administrator against a petty tribe of Bondelswarts, and a subsequent prolonged passage of arms with the Mandates Commission of the League of Nations. Then, in 1923, the Smuts Government tried to regulate the flow of uprooted natives into the towns. The Urban Areas Bill as presented embodied the views of many of the natives who had been consulted; the Act as it emerged reflected the pressure which South African Ministries find it so hard to withstand. Wide powers were given to municipalities to segregate natives in separate townships, even in areas which had hitherto known no such practice, and instead of the expected freehold in such townships,

natives were offered only leasehold. In other words, European opinion in the mass would not hear of any extension of native land ownership. The towns were to be European, the presence of Bantu there a merely temporary encumbrance.

In the middle of 1924, the Nationalist-Labour Pact Government took office and immediately introduced a Colour Bar Bill, restoring in a more explicit form the restrictions on non-Europeans in the north that had been declared *ultra vires*. It also readjusted the incidence of native taxation in such a way as to relieve the urban native in the north, but to increase the burden on all in the south, and to leave natives everywhere, in practice, dependent in large degree for funds for their own advancement on such portion of the proceeds of native taxation as had not been devoted to the general governance of the Union.

For the rest, responsible Ministers showed caution and moderation. After the session of 1925, General Hertzog toured the Cape Native Territories and, on his return in November, published a programme of native and coloured legislation. This programme was, and is, embodied in four Bills, none of which has yet become law. These Bills have been altered in detail more than once, but their general tenour has not been changed. The Representation of Natives Bill seeks to abolish the Cape native franchise of 1853–92, and to give the natives of the Union a meagre and wholly European representation in exchange. The Native Council Bill proposes to set up a carefully controlled deliberative native sub-parliament as a coping-stone to the Smuts Act of 1920. The Native Lands Amendment Bill fulfils in a measure the promises of 1913, but instead of new reserves for the exclusive use of natives, it merely provides " released areas " in which natives and Europeans may scramble with one another for the land. Finally, the Coloured Persons Rights Bill proposes, in the very long run, to put the mixed coloured folk (by definition all who are not Bantu) in a position of political equality with Europeans.

It was already apparent in 1925 that the programme would be fiercely challenged, by political opponents on the one side, and by some from within the Nationalist camp on the other. For to offer the Bantu even the smallest representation, or to propose to treat the coloured men for political and economic purposes as the civilised folk they undoubtedly were, was to fly in the face of northern opinion, and much that was not northern. Already, in September, Mr. Tielman Roos, Minister of Justice and the Premier's chief lieutenant in the Transvaal, had inveighed publicly during a Pretoria bye-election against non-European voters, and had noted that many people thought the Bantu had too much land as it was.

No action was taken in 1926. In the session of 1927, the opposition was so strong, perhaps also the picture of the condition of the great black majority of the population drawn in the belated report of the Economic and Wage Commission of 1925 was so disturbing, that all four Bills were referred to a Select Committee. There they remained till the beginning of 1929. Meanwhile, in 1927, by the Native Administration Act, the Ministry conferred upon the Governor-General, that is, upon itself, the widest discretionary powers over every Bantu in the Union outside the Cape Province, even to the extent of power to cancel, without cause shown, exemption from these restrictions granted to any individual.

The Administration Act was the application of Natal-Zululand methods to other parts of the Union. But whereas, in times past, the Governor of Natal had exercised these powers over tribal natives, now in many parts the Bantu had developed so far that many of them were trying to form trade unions in imitation of the Europeans. The most notable of these bodies was the Industrial and Commercial Workers' Union, an amorphous body but sufficiently alarming to many Europeans by its novelty and its implications. Meanwhile, in 1928, the Labour party had split, one half cleaving to the Ministerialists, the other drifting off

into opposition. At the end of the year, Mr. Madeley, one of the Labour Ministers, received a deputation of the I.C.U., and for that error was obliged to resign and make way for another Labour man.

Such was the prelude to the joint sitting of both Houses which took place in February 1929 to vote upon the revised Native and Coloured Franchise Bills, that is, on the fate of the Cape franchise. The voting on the former failed to give the two-thirds majority demanded by the South Africa Act. The latter Bill was therefore withdrawn, and the Premier fell in with the already expressed desire of Mr. Roos, and announced that the general election due in the middle of the year would be fought to ensure "the preservation of the white race." It was, and it gave the Nationalists for the first time a clear majority over all parties.

Earlier in the session of 1930, General Hertzog had taken the wise but unprecedented step of referring his Native Franchise Bill to a joint Select Committee of both Houses with power to take evidence. The measure still remains in the hands of that Committee. Meanwhile, the zealots of the Nationalist party have succeeded in getting something of what they wanted along another route. As far back as 1926 some of them were demanding European women's suffrage, frankly to counterbalance the Cape non-European male voter. Two years later, General Hertzog touched upon the same subject indirectly by promising that coloured women should share in any franchise given to coloured men. Two years later still, in 1930, he had been obliged to give the franchise to European women only throughout the Union. A year later the inevitable sequel followed, and the republican privilege of one vote to every white man was extended to those who could not attain to the very moderate pecuniary and educational qualifications hitherto demanded in the Cape and Natal. Thus the Cape coloured women were disappointed, a wedge was driven deeply into the Cape fran-

chise and incidentally into the South Africa Act, and those best qualified to know were given every ground to expect a marked accession in Nationalist voting power, certainly in response to any such cry as the Black Peril.

So much for the coloured woman. The fate of the coloured man is still in the hands of the joint Select Committee, but it is also being canvassed elsewhere.

It was in keeping with the franchise policy of 1930–31 that the census of 1931, which by law should have been one of the decennial numberings of the whole population, was at the last moment and on the grounds of economy confined to Europeans only. A census of this latter kind takes place every five years to provide the data for the re-allocation of seats in the Assembly, and to that extent the census of 1931 will prove useful. But, for the rest, by omitting three-fourths of the population, it condemns us all to work in the dark, with the Premier's native and coloured programme (inspired largely by the census returns of 1921) still in the balance, an Urban Natives Commission still sitting, the arguments of the Economic Commission of 1925 still unanswered and its conclusions unfaced, and a very grave economic situation developing which, world causes apart, is due to the notorious maladjustment of our economic life.

Since 1918 the Union has adopted a number of measures to regulate its new manufacturing activities—factory and wage Acts, apprentice, juvenile advisory, industrial conciliation, and wages boards and so on. Hence considerable numbers of European employers and workmen are organised and protected. Not so in many cases non-Europeans as a body, still less the Bantu in particular. Except in the Cape non-Europeans are excluded from trade unions and so cannot share in the benefits of some of these laws. From some again the Bantu are cut off because they do not apply to agriculture and domestic service, their two great outlets other than the mines, which are specially provided for. In practice also the conciliation, wage board and apprentice-

ship Acts tell against them. Further, the white labour policy pursued by the Pact Administration, more particularly on the widespread State railways, displaces them in favour of Europeans who are subsidised by the general taxpayer to undertake low-paid tasks. Finally, the Bantu are hit twice over by the protective tariff, which was begun tentatively by the South African party Government in 1921, and pushed outward and upward by the Pact since 1925 in the cause of economic self-sufficiency. The enjoyment of a protective duty by an industry depends in some cases on its employment of civilised, that is, non-Bantu labour, while any tariff must press hard on a class lowest in the economic scale, whose freedom of movement and choice of occupation are as restricted as those of the Union's natives.

A protective policy which demands above all a good home market sorts ill with a system which keeps the mass of its people at a terribly low standard of life. The native legislation before Parliament this session is hardly calculated to raise the standard.

The Native Service Contract Bill gives way to long-expressed demands. As far back as 1919, Nationalists were demanding that no native be permitted to move from home without a permit from his master; in 1925 again, to the unconcealed annoyance of General Hertzog, others, supported this time by South African party men of British stock from Natal and the eastern Transvaal, urged that labour tenants be brought under the criminal sanctions of the Masters and Servants Act. That proposal was talked out by Labour. But now, in 1932, General Hertzog has given way and sanctioned nearly all these things in a measure on which neither the Native Affairs Commission nor the Native Conference have been consulted, and which, in advance of the expected report of the joint Select Committee, touches his own native programme all along the line.

This Service Contract Bill deals with natives living out-

side the reserves and urban areas in the Transvaal and Natal. Its effect, wherever it is put into force by the Governor-General, will be to oblige landlords, whether individuals or companies, to transform their comparatively free native squatters into tied labour tenants. This will be done by imposing on the landlord a swingeing licence duty of £5 per annum for every male able-bodied native living on his farm who has not been in his service for so many months in the aggregate during the year. As an alternative, he must get rid of his squatters, presumably to other farms, or to the reserves which are already overcrowded, or to the towns which are busy shutting them out or otherwise limiting their freedom of action. Even Cape Town, where the battle for civil liberty was fought and won four generations ago, is contemplating seriously the adoption of the pass system for native men and women, which has proved to be such a burden and such a recruiting agency for the gaols in the north.

The second aim of the Bill is to tighten up the law governing labour tenancy, in minor matters in favour of the native tenants whose bargaining powers will have been reduced to a minimum by what has gone before, but in all major matters in favour of the landlord. The usual period of service envisaged is one of six months spread over the year instead of the hitherto customary three, though lesser periods as short as three may be prescribed by authority. No native is to move away from his home in search of agricultural or domestic employment without an identification card. Native guardians (and the term covers a multitude of relationships) may bind their dependants, male and female, without their consent, to work anywhere in the Union till they are eighteen years of age. Families are to be held responsible for breach of contract by any one of their members. Breach of this—a civil contract—is at last made subject to the penal sanctions of the Masters and Servants Law, which is now to include, as a novelty, limited whipping by order of the magistrate for lads under eighteen

years of age in addition to or in lieu of fines and other penalties.

It may be conceded cheerfully that many clauses in this Bill will appear less startling to South African natives and Europeans than to readers overseas accustomed to a homogeneous society and a twentieth century social structure. For instance, the idea of collective family responsibility is deeply rooted in native custom; native heads of families desire to keep stricter control over their children, over the girls particularly; further, as the Economic (the so-called Clay) Commission of 1925 abundantly proved, South Africa's rural economy belongs in many parts, not to the seventeenth century as Mr. Bernard Shaw suggested after his recent visit, but to the late fourteenth, the period of feudalism in decay. It may also be conceded that the squatter system has its attendant evils, especially on the farms of absentee landlords. But when all is said and done, this law will give thousands of Bantu the choice between becoming vagrants dogged by all the pains and penalties that attend the masterless man with a swarthy skin in this Dominion, or of becoming serfs-at-will denied the customary security of tenure enjoyed by serfs in most other times and places. And the law sees to it that even the unwilling landlord shall be obliged to put this hard choice before his clients.

The Contract Bill has been attacked vigorously in a manifesto signed by Sir James Rose-Innes and Sir Clarkson Tredgold, ex-Chief Justices respectively of the Union and of Southern Rhodesia, and by the heads of nearly every Christian denomination in the country. It has been opposed by General Smuts, who observed that it would not even help the farmers, by enlightened Transvaal members like Mr. Duncan and Mr. Hofmeyr, and by the compact little group of Cape Peninsula members which has been strengthened recently by the accession of the ex-Independent, Mr. Alexander, probably the sole out-and-out Liberal the Assembly can boast. On the other hand, the solid phalanx

of Afrikander Nationalists takes it all for granted, and it has the support of many South African party men of British and other stocks, notably of the Natal members, though the whipping clause stuck in the throats of some of these last, and drew forth a protest from the Missionary Conference of the Dutch Reformed Church.

There remains the proclamation which the Government proposes to issue providing a revised code of native law for Natal and Zululand. Without going into details it is sufficient to note that any native commissioner may arrest a native for non-compliance with an order and punish him summarily with no appeal to the courts, but merely a report to the commissioner's superior. Similarly, the Governor-General, as Supreme Chief, may imprison any native " dangerous to the public peace " and keep him in prison for three months. Only at the end of that period may the prisoner appeal to the Supreme Court, and as far as can be seen there is nothing to prevent the authorities from re-arresting him for another term just before the three months is over. Finally, " neither the Supreme Court nor any other court of law, shall have any jurisdiction to question or pronounce upon the validity or illegality of any act done by the Supreme Chief in the exercise of his power." . . . *Ave Cæsar !*

South Africa.
April, 1932.

NEW ZEALAND

I. The Export Credit Pool

THE publication on December 24 of the Export Licences Order, 1931, under the Board of Trade Act, 1919, occasioned much surprise and speculation and not a little uneasiness, in spite of a reassuring statement by Mr. Forbes, the Prime Minister, which accompanied it. The object of this order was to compel exporters to take out licences for all goods which are to be sent overseas, and to have all exchange credits obtained by the sale of such goods pooled under the control of the Associated Banks. The measure was, as Mr. Forbes explained, the direct outcome of the financial difficulties which had compelled Great Britain to abandon the gold standard. The huge withdrawals of foreign balances, which had left the London market bare, dictated, he said, "an abrupt change in our financial plans." Our overseas obligations (amounting to about £8,000,000 a year, with the addition of £4,000,000 of Treasury Bills shortly due) must be met, as they fell due, from New Zealand funds.

The exchange requirements of the Government (the Prime Minister pointed out) will be large, and in order to ensure that sufficient London credits will be available for the purpose, the Government, after a careful review of the whole position, has reached the conclusion that it is necessary to introduce a scheme for conserving the exchange resources of the Dominion. In the national interests the banks have agreed to pool their exchange resources so as to be in a position to meet the Government's requirements, and the scheme embodied in the regulations just issued was drawn up for the purpose of bringing all exchange credits arising from the sale of exports into the pool.

It was found that the best way of doing this with a minimum of inconvenience to the commercial community was by licensing exports. Exporters, however, will continue to receive, as heretofore,

the current rate of exchange on remittances from abroad and otherwise will be put to very little trouble. . . .

The measure is an extraordinary one, but we are passing through extraordinary times when prompt action is necessary to cope with the rapidly changing circumstances. I am sure that the people of the Dominion will agree that New Zealand must honour her bond, and this control of the exchange resources is merely for the purpose of ensuring that the Government is in a position to meet all commitments on the due date.

No alteration in the exchange rate was made by the arrangement concluded between the Government and the banks, nor did the Government itself assume control, but the competition of outside agencies was excluded. The rate had been fixed by the banks at 10 per cent. early in 1931, and the very slight extent to which the outside rate had diverged from this figure suggests that, on the basis of supply and demand, it was a fair rate. The grounds for the policy of the banks were explained by Mr. Grose, the General Manager of the National Bank of New Zealand, and Chairman of the Associated Banks.

Practically all last year (he said in a statement published on February 20) the bank telegraphic transfer rate on London was 10 per cent. premium. If this rate had been too high or too low the outside rate would have shown a marked divergence, for there was a considerable outside market then. But when London funds were much in demand the outside rate was only slightly above the bank rate, and towards the end of the year, when London funds were not in such demand, the outside rate was slightly below the bank rate. Taking this into consideration, and also that a steady rate is more equitable for contracts than a too sensitively fluctuating rate, it is clear that on the basis of supply and demand the bank rate was correct.

The trade figures for 1930 showed an excess of exports of a little under £2,000,000, which was altogether insufficient to cover interest and debt service. Early in 1931 the rate was increased from £5 to £7 10s., and a little later to £10 premium, which rate has continued. The increase in the rate was mainly to restrict imports, and the calendar year 1931 showed an excess of exports of over £10,000,000, which, though still insufficient, was a strong move in the right direction.

The cruel plight of our primary producing industries and the peril in which it involves the whole country

have certainly not been overlooked by the Government. Its two leading figures—Mr. Forbes and Mr. Coates—are both farmers, and the following statement expresses the view of the Minister of Finance, who ranks next to them in authority.

Over and above the budget problem (said Mr. Downie Stewart in his Supplementary Financial Statement on October 6) there is imperative need for rendering some assistance to the farmers if they are to stay on the land and if production is not to decline rapidly, and, indeed, if we are to avoid a national disaster in a general breakdown of the farming industry. While prices of primary products remain at their present level it is, of course, impossible to restore the farming industry to a condition of prosperity. But in so far as it is possible to assist the farmer, it is in the interests of the whole community that funds be found from some source for this purpose.

The three great problems with which the country is faced are, therefore, the precarious position of the farmer, the position of the public finances, and the great and chronic problem of unemployment. These problems are inextricably interwoven, and they constitute a menace to the whole stability of our social organisation.

But for the present the other measures that the Government have in hand for the relief of the farmer, and indeed all other political issues, have been dwarfed by the powerful agitation against the Export Licences Order, which has seriously embarrassed, and was even considered likely to divide, the Cabinet. On January 13, a deputation representing the Meat Producers Board, the Dairy Board, the Sheepowners Federation, the Fruitgrowers Federation and the Farmers Union waited upon the Prime Minister, after a conference at Wellington, to protest against the restrictions upon exchange and to demand that the producer should be given free access to the world's market. Mr. David Jones, a member of the Meat Producers Board, who had to resign his position as Minister of Agriculture after losing his seat at the general election, was the chief spokesman of the deputation.

When the Government went to the country (said Mr. Jones) it asserted that it was essential that the cost of production should be reduced to enable the produce of New Zealand to compete in the

markets of the world. The Government Statistician's figure of the producing cost was 1,500, whereas the selling figure was 787. Until those figures were brought fairly close together it was quite impossible for the farmers of New Zealand to produce and live in competition with the world. . . .

The position of the farmers was more serious to-day than it was last year, because last year a large number of the farmers had a certain reserve of capital which they could trade upon, but that reserve had now gone. The conference was unanimously of opinion that unless something is done to relieve or improve the position of the farmers by some means we are not very far away in New Zealand from a very serious collapse as far as the financial position of the farming community is concerned.

The conference felt that the farmer on really first-class land, whose liability was not too great, would probably get through all right; that the farmer on second-class land, if he was thoroughly expert, would be able to pay his way, but that was questionable in some cases. As far as the farmer on third-class land was concerned—and this point was of special interest to the Government in connection with its own land—it was felt that he had not a chance of getting through. When they spoke of third-class land, they were of opinion that over 10,000,000 sheep in New Zealand to-day were being farmed at a loss to the owner. That was a statement that the Government could prove from their own figures in connection with the high country. The rents were not coming in to-day from that high-country sheep land.

In this critical state of affairs, when a marked increase in production was essential, Mr. Jones argued that anything tending to aggravate the situation would be against the interests not only of the farmer but of the whole country, and the conference considered that the Export Licences Order would have this effect, as it would stop competition for the export exchange and thus hinder the exchange from finding its own level. The New Zealand farmers were in competition with farmers of other countries who had a free exchange and were obtaining the full benefit from it to-day.

The conference held the opinion (Mr. Jones continued) that if the farmer were given the full value of the exchange by means of a free market, it would mean setting free a large amount of money, which would mean increased employment and more production. It would also mean increased revenue to the Government. The

conference maintained unanimously that in their recommendation they were taking the long view—really the only view—that it was impossible to carry on farming in New Zealand successfully unless the farmers got the bonus which they would receive from the higher exchange rate. It would also be an advantage to the country. Our opinion is that the embargo should be lifted and we should be free, as Australia is, and as Great Britain and other countries are.

The example of Australia was naturally made much of by those who spoke after Mr. Jones, and the opinion was expressed that if the exchange rate were to be made free it would rise to the highest Australian level, viz., 30 per cent. In the controversy that followed this interview, indeed, both sides were far more concerned with raising the rate to 25 or 30 per cent. than with freeing it.

In reply to the deputation the Prime Minister contented himself with saying, in rather more precise language than before, that the banks had found themselves unable to guarantee the amount required by the Government unless the whole of the export trade passed through their hands; that the control of the rate, which was still left to them by the Order-in-Council, would not be interfered with by the Government; and that a 30 per cent. rate would increase the cost of transmitting the £12,000,000 payable by the Government in London this year from £1,200,000 to £3,600,000, but that the matter would receive its very serious consideration.

II. The Economic Committee's Report

THE silence of Ministers on a question which after this interview became the subject of a very keen controversy suggested a division of opinion, and this view was strengthened by the Prime Minister's announcement on February 12 that the Cabinet had appointed a committee "to examine the economic and budgetary position of the Dominion." The personnel of the committee is as follows:

Dr. James Hight, formerly Professor of History and Economics

and now Professor of History, Canterbury College (Chairman); Dr. D. B. Copland, Professor of Commerce, Melbourne University; Mr. A. H. Tocker, Professor of Economics, Canterbury College; Dr. H. Belshaw, Professor of Economics, Auckland University College; Mr. A. D. Park, Secretary to the Treasury.

The chief objections to the composition of the committee were that it did not include a banker, and that when Dr. Copland visited New Zealand last year he was in the employ of the Bank of New South Wales, the strongest advocate of high exchange in Australia; further that he himself had been publicly advocating that policy in the Dominion.

With the exception of certain sections dealing with the budget, which are being held back until the Minister of Finance is ready to produce his Financial Statement, the report of the committee was laid upon the table of the House of Representatives on March 4. It is an able, lucid and comprehensive document which, in 36 pages and an appendix of 18 tables and several graphs, sets out the economic troubles of the country and discusses possible remedies. Although differences of opinion permitted "no specific recommendations," the balance of its argument, from which Mr. Park alone dissented, was strongly in favour of a high exchange. The principal basis of New Zealand's prosperity has always been her external trade. "Nearly 40 per cent. of her income," says the committee, "comes from exports, and of these 94 per cent. are pastoral and dairy products. The course of prosperity in New Zealand has been determined largely by the movement of export prices and overseas borrowing." These two causes gave the Dominion almost unbroken prosperity from 1895 to 1921, and during the next eight years export prices were still good; but in 1930 they fell heavily and the mischief was aggravated by the failure of other prices to fall in sympathy. The value of farm production, which was £82,100,000 for the year ended June 1929, was only £54,000,000 for the year ended December 1931. "The main problem in New Zealand," continues the report,

"is to remove the disparity between export prices and internal prices and to adjust her economy to a lower level of overseas borrowing."

The national income, which was estimated at £150,000,000 in 1928–29, is now about £110,000,000 and is still falling fast. Of this loss of £40,000,000, about £28,000,000 is estimated to have fallen upon the farmers, but urban industry has also been severely hit. The public revenue has suffered to much the same extent as the national income, the decrease being about 27 per cent., and the burden of interest charges has been increased by the fall in export prices. "About 1,600 units of exports," says the report, "are now required to pay the same interest bill as was paid by the sale of 1,000 units in 1928–29. In 1928–29 about 16 per cent. of the national income was required to pay taxes and rates as against 26 per cent. of a much smaller income in 1931–32."

Approaching the general problem of readjustment, the committee declares that the fundamental issue is "to restore the spending power of farmers by causing profits to emerge"; and that the crux of the problem is "to remove the disparity between farm costs and farm selling prices." The removal of this disparity would restore the farmers' spending power, enable them to purchase with their reduced income the same quantity of goods and services as before, and thus bring industrial output back to its former level. But this result cannot be attained while the loss is borne mainly, as it is at present, by the primary producers and the unemployed. An equality of all-round sacrifice is required in place of the piecemeal methods of economies and taxation hitherto employed, and the more rapid the readjustment the quicker will be the recovery and the smaller the loss.

The committee then proceeds to examine the exchange mechanism of New Zealand and its working, the effect upon the budget and export prices of the present exchange rate (10 per cent. above parity with sterling) and the probable consequences of restoring the gold standard or raising the exchange rate to 40 per cent. The arguments

with regard to the relations of the low and the high rates of exchange to economic readjustment are summarised in the following paragraph.

The present 10 per cent. exchange rate (says the committee) discourages imports and helps to sustain export production by adding to the gross income of exporters. In general, an exchange rate above parity will benefit exporters, because the addition to gross income more than offsets any increase in local costs through the higher exchange rate. Such a rate also sustains the money value of national income above its level at parity with sterling or at parity with gold. Thus at 40 per cent. exchange national income is estimated to settle at £112,000,000 compared with £80,000,000 at parity with sterling and £90,000,000 at the present 10 per cent. rate. The additional national income sustains revenue at a higher level and more than compensates for the increased exchange charge on the overseas debt service, both State and local body. By sustaining a higher price level than would be possible at parity of exchange, a rate above sterling sustains security values and strengthens the position of financial institutions whose liabilities are in fixed money claims and whose assets vary with the price level. By raising the level of export prices in local currency the rate above parity with sterling lessens the adjustment in fixed charges, wages, and salaries that have to be made to restore the equilibrium between costs and prices in export production. . . . At parity of exchange the reduction in costs which would restore profit in export production and leave exporters with the same loss of real income as the rest of the community would be 35 per cent. It would be more than 25 per cent. at the present 10 per cent. exchange, 15 per cent. at a 40 per cent. exchange rate, and 50 per cent. at parity with gold. It is thus easier to make an adjustment at a rate above sterling than at parity with sterling or with gold.

As regards the £9,000,000 that the 40 per cent. exchange would add to the costs of imports in New Zealand currency, the committee argues that there would be no additional cost to the community as a whole. Income is transferred from some sections of the community to exporters. This transfer is a matter of adjustment within the community itself. Nor will there be any injustice to importers, since they can pass on the additional cost to the community, and the high rate will not reduce imports below the quantity that the community can afford to buy.

The report next considers the effect of a high exchange rate upon the Dominion's credit overseas :

This (it says) is a question upon which opinion varies. In the immediate future the Dominion's credit abroad would be adversely affected, because the rise in the rate would draw attention to the gravity of the economic situation in New Zealand. This is a point for consideration in connection with necessary loan operations overseas. If, however, the situation was being met with courage and determination, and the country demonstrated its capacity to restore sound trading conditions and meet its external obligations, national credit would recover even if the higher rate be maintained and if the currency be devalued.

A warning is, however, given that the mere raising of the exchange rate would not be enough, and that " a very high rate might lead to lack of confidence in the currency and cause considerable financial disturbance." The 40 per cent. rate, which is the basis of most of the committee's calculations and is 10 per cent. higher than the maximum demand of the farmers, it evidently considers a high, though not a very high, rate. But, whatever the rate, it insists that adjustments in fixed charges, rent, wages and public finance will also be needed.

The rigidity of fixed charges at a time of falling prices is considered by the committee both to hamper industry and to prevent the equitable distribution of the loss over the whole community. It points out that, except in cases where there have been voluntary concessions, the recipients of fixed incomes are actually better off than they were before owing to the fall in the cost of living.

An adjustment of fixed incomes (they say), whether by means of a special levy or reduction in such incomes, would not impose undue hardship upon the recipients. This adjustment might be facilitated by a special duty on fixed income elements, the extension of the Mortgagors Relief Act or, in the case of public debt, by further income-tax or by conversion operations. Any reduction in private interest should be all-inclusive, covering interest upon goods sold under the time-payment system, as well as on interest under mortgages, urban or rural. Similar conclusions apply in respect of rents. A reduction of 20 per cent. in fixed money claims would make a sub-

stantial and equitable contribution towards bridging the gap between costs and selling prices.

Having undergone a 10 per cent. cut last year, wages are treated in a different manner in order to arrive at the same result. The decline of 11·5 per cent. in the award rate of money wages between 1929 and September 1931 is almost exactly balanced by the decline of 11 per cent. in the cost of living.

During the same period (says the report) the community has incurred a loss of real income of from 10 per cent. to 15 per cent., and a further reduction of 10 per cent. in wages and salaries* would be necessary to bring wages down to conform with the real loss in national income . . . In view of the changed economic situation undue restrictions on working conditions, which may have been appropriate in the past, should be relaxed.

In what is in effect a dissenting judgment, Mr. Park, the Treasury representative on the committee, expresses his general concurrence with the parts of the report that describe the existing economic position and prove the need for an all-round adjustment of costs to restore the economic balance ; but he qualifies it by some important reservations which may be summarised as follows.

As regards the effect of changes in the exchange rates, he points out that the hypothetical comparison of the effects of different rates takes account of the ultimate effects only, and that before stabilisation was reached at any of the assumed levels it was very likely that the factors on which the hypothesis was based would have undergone a considerable change. He particularly disputes the contention that there would be a net gain from an increase of the exchange rates ; he is, on the contrary, convinced that the immediate effect would be far greater budgetary difficulties. An exchange rate of 25 per cent. would mean an increase in the Government's expenditure for the

* In the official summary of Section XI from which this quotation is taken the words "and salaries" appear to have slipped in by mistake. Salaries are not mentioned in the section itself nor elsewhere in the summary.

next financial year of £1,500,000, a loss in customs revenue of another £1,500,000, and an indirect loss in income tax and other items of revenue of perhaps £500,000, making an adverse total of £3,500,000.

Referring to the future of the currency, Mr. Park reminds us that other countries have devalued their currencies, but only apparently by way of recognition of an existing depreciation. To fix intentionally and in advance the point to which depreciation is to go is a very different matter, even if it could be assumed that it is possible to control depreciation and check it at such a point, an assumption which is not borne out by the experience of other countries. Moreover, to raise the exchange rate artificially above the level required to balance external receipts and payments amounts to an intentional depreciation of the currency, and the proposal to use funds accumulated in London, for the purpose of maintaining such an artificial balance, would, Mr. Park contends, certainly prove costly and perhaps impossible. There might, moreover, be repercussions that cannot be foreseen. Besides, the country, he considers, badly needs the reduced volume of imports that is at present obtainable in exchange for our exports, but this proposal would still further reduce it by raising the prices of imports. To raise the exchange rate for the benefit of one section of the community at the expense of the rest would establish a precedent which might later lead to similar demands from other sections, with disastrous results in so far as confidence in the currency is concerned. The depreciation of our securities in London, too, which naturally follows a normal rise in the exchange rate, would be greatly increased by an intentional depreciation of the currency, and this would prevent fresh borrowing abroad and embarrass us in dealing with maturing obligations. Finally, says Mr. Park,

whatever the exchange rate may be for the time being, any change in the currency laws should be considered only when sterling is again on a permanent basis and general economic stabilisation at

some level has actually been reached in the Dominion. New Zealand is linked with Great Britain by strong ties of sentiment, trade and debt, and it would be inadvisable to make any permanent change in the basis of New Zealand currency without full discussion of the matter with the British authorities.

It was generally expected that the Government, which had hesitated for so long, would, in view of the report of the Economic Committee, finally come down in favour of a high exchange rate. It came to the opposite decision on March 11. In reply to a question in the House, Mr. Downie Stewart pointed out that, in any event, quite apart from the failure of interested parties in the Dominion to agree, it would be necessary to obtain the concurrence of London interests which had incurred obligations on the Dominion's behalf on the faith of the arrangements made in New Zealand to meet the overseas emergency.

In recent times (continued the Minister of Finance) many Governments have found it necessary to take control of the exchanges in much the same way as the New Zealand Government found it necessary to create the exchange pool owing to a sudden emergency arising in the London money market. The pool was created not for the purpose of keeping down the exchange rate, but as a precautionary measure to see that adequate funds could be purchased for government requirements, and that all exchange credits were conserved and used in the best interests of the Dominion of New Zealand. In a national emergency of this nature, national requirements must take precedence over private or sectional interests, and some measures of restriction on individual freedom must inevitably be accepted in the public welfare.

Conditions in the London money market are improving rapidly, and if the present favourable tendency continues the Government may in due course find it possible to get some relief from the stringent conditions which rendered necessary the formation of the exchange pool. In this event, a reconsideration of the present conditions imposed in New Zealand will be possible, and I can assure the hon. member that the regulations will not be maintained any longer than is necessary to ensure government requirements being met.

In conclusion, I may say that the Government does not propose to interfere with the rate of exchange, and in the meantime does not consider it advisable to make any alterations in the regulations for effecting a pooling of the exchange resources.

This decision came as a great relief both to the nervous trader whose enterprise has been checked for two long months of suspense, and to the taxpayer who, though unable to answer the expert's academic arguments, knows that inflation is easier to start than to stop or to limit, and that this kind of appetite has been accustomed to "grow by what it feeds on." There is even some small comfort for the farmer in the Finance Minister's sanguine view of the London money market, and his assurance that the restrictions will not be retained any longer than the necessities of the Government require. Special congratulations are due to the Minister, who is himself an economist of high standing, though he has not learnt, as some of our economists have—apparently under Australian inspiration—to talk lightly of budget deficits, under such abnormal conditions, as not necessarily being a sign of unsound finance, and of the possibility of dealing with them by means of Treasury bills. A contrary decision might have compelled him, according to Mr. Park's estimate, to raise an extra £1,500,000 in the first year of a high exchange, and an extra £3,500,000 in the second.

III. The Ottawa Conference

BUT there is another capacity in which Mr. Downie Stewart has equally good cause to be pleased with the decision to which he has guided his colleagues. The Ottawa Conference is approaching, and it is improbable that the heavy responsibilities of his two senior colleagues, Mr. Forbes and Mr. Coates, will allow either of them to leave New Zealand. But Mr. Stewart holds the two portfolios, Finance and Customs, which are most intimately related to the work of an economic conference, and it is therefore likely that he will represent New Zealand. For so staunch an imperialist, it would have been a bitter blow if he had had to go to Ottawa, on behalf of a Dominion

which has hitherto prided itself on its imperial spirit, to negotiate imperial preference with his hands tied by an exchange rate, representing an undiscriminating and irreducible addition of 25 per cent. to our tariff on all imports, British and foreign alike. Such an addition would have hit Great Britain, our best friend and customer, the hardest of all.

Even without the crushing handicap of a high exchange rate, New Zealand's position at Ottawa will not be an easy one. We all see that the substantial preference which Great Britain now offers under her new tariff calls for substantial reciprocity instead of a mere raising of duties against the foreigner, a step which costs nothing. When we were prosperous and Great Britain had no tariff favours to offer, nobody gave the matter a serious thought; but to-day, with every industry here depressed and our leaders anxious and distraught, it is almost impossible to overrate the importance of the offer which Great Britain has made. A time when everybody, willy-nilly, has sacrificed so much is a bad time to ask for more sacrifices. The problem is, however, not quite so simple as that. In this case, one particular class or industry will be asked to make a sacrifice for the benefit of another class or industry, and, unfortunately, this antagonism of interests will follow substantially the line of cleavage that divided town and country on the exchange issue.

So far, however, there cannot be said to have been any cleavage at all, for no leader or organisation of any kind has started an agitation or propounded a policy, and, on the principle that it is better to receive than to give, such spasmodic references as have been made to the matter welcome England's offer without, however, the faintest suggestion of the form, if any, that our own proposals in return should take. The only important ministerial reference to the subject was the Prime Minister's announcement on February 25 that a special committee of the Cabinet, consisting of himself, Mr. Coates, Mr. Downie

Stewart and Mr. Masters, had been appointed to prepare for the Cabinet's approval a policy which could be put forward on behalf of New Zealand at Ottawa.

The Chambers of Commerce, the Manufacturers Association, the Farmers Union, the various control boards and many other bodies, as well as members of the public, will (he promised) be invited to make any representations or suggestions that may occur to them, and the fullest possible consideration will be given to every aspect of the problems to be solved.

It is obviously a wise course to consult the bodies representing the interests specially concerned in the most comprehensive manner, but as few, if any, of these interests have given any precise attention to the matter, a fairly definite lead will be needed if definite results are to be obtained. Publicly, at any rate, no such lead has yet been given by the Government.

IV. The Special Session

THE first session of the twenty-fourth Parliament of New Zealand was opened by the Governor-General on February 23. In the ordinary course Parliament, which was elected in December, would not have met till the last week in June, but, as Lord Bledisloe pointed out in his speech from the throne, "the abnormal financial and economic position of the Dominion" had made it desirable to summon this special session. Like the National Government of Great Britain, our Coalition Government had asked the electors for a free hand and got it.

At the general election (said His Excellency) my Government, in inviting an expression of the country's confidence, appealed for unfettered authority in the existing emergency to adopt such measures for meeting it as circumstances might from time to time appear to justify.

It was known that a National Expenditure Commission and the Economic Committee were still helping to shape

some of the most important of these measures, but all that the speech from the throne had to say on the subject was that the Mortgagors Relief Act required amendment, and that Bills would be introduced to improve the method of unemployment relief and to amend the system of industrial conciliation and arbitration.

The general attitude of the Government towards the system of industrial conciliation and arbitration had been announced by the Minister of Finance to the late Parliament in the Supplementary Financial Statement, to which reference has already been made.

> The bearing (he said) of the operations of the Arbitration Court on the farmers' costs, unemployment and the industrial situation in general has received the careful consideration of the Government. It is considered that many conditions and restrictions now in operation in many of the Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference,* the chief feature of which is known as compulsory conciliation and voluntary arbitration.

Although the text of the Bill† had not been circulated, the Labour party blocked the motion for its introduction by a prolonged "stonewall" stand on February 26 and 27, which compelled the House to sit on Saturday, and to renew the closure resolution which had been tried last year and allowed to lapse. Unreasoning obstruction of this kind was bound to lessen the force of arguments against the Bill when it made its appearance, but when it did appear it was found to provide plenty of material for criticism.

When the measure was first brought before Parliament it contained a clause authorising the Minister to exempt

* *See* THE ROUND TABLE, No. 72, September 1928, pp. 887–900.
† The Industrial Conciliation and Arbitration Amendment Bill.

classes of persons from the operation of the Act by Order-in-Council. It is true that certain industries, especially farming, have a reasonable claim to be exempt, but the relief should come from Parliament without the intervention of ministerial discretion, which might obviously destroy the whole system, and it is a matter for satisfaction that the clause was withdrawn when the Bill went into committee. Another provision which is regarded as too sweeping is that which permits either side to prevent an appeal to the Arbitration Court from a finding of the Conciliation Council. The second reading of the Bill was moved on March 10 by the Minister of Labour (Mr. A. Hamilton), in a speech which, in spite of persistent interruptions from Labour members, made a good impression. But more serious, from the Government point of view, than the inevitable hostility of Labour were the strong objections taken to some of the provisions of the Bill by several Government supporters, one of whom, Mr. J. Connelly, had told the electors that he would not stand for the abolition of the Arbitration Court or stand by and see it made an empty shell. When the second reading of the Bill was carried with the aid of the closure on March 15 by 41 votes to 29, the minority included five Government supporters, of whom two were ex-Ministers.

The most startling evidence up to date of the economies forced upon the Government by the closing of the loan market was the statement of Mr. Coates, the Minister of Public Works, on March 1.

Apart from the separate funds for the construction of main highways, the amount of borrowed money available for the Public Works Department in 1931–32 was five and a half million pounds. The first estimates of the department for the coming year were being framed, the Minister explained, on the assumption that £2,800,000 would be available, but the basis had been reduced by the closing of the loan market to £1,234,000. A reduction at a single

stroke of £4,308,000, representing 75 per cent. of last year's expenditure, came rather like an avalanche, but there was no choice. "The country," said Mr. Coates, "must face the facts"—which Labour, not for the first time, showed itself unwilling to do.

It had long been a complaint against the Public Works Department that it was overstaffed, but Mr. Coates informed the House that in the first two months of the year no fewer than 340 officers had been dismissed, reducing the cost of supervision by £81,000, or about 20 per cent. If the 12,000 workers in the department's employ had been reduced by 75 per cent., like its capital expenditure, it would have meant 9,000 dismissals.

> Rather than adopt the method of wholesale reduction by dispensing with so many (said Mr. Coates) it is felt that, in all the circumstances, and to prevent undue distress, the better course would be to employ as many men as possible, and in order that this policy may be followed it is proposed to turn the whole of the public works undertaking on to a purely relief labour basis until such time as conditions improve.

Thus Mr. Coates's two onerous responsibilities—public works and unemployment—may be said to have almost merged into one another. They might both be combined in a single relief works department until the loan market opens again.

The first report of the National Expenditure Commission was laid on the table of the House of Representatives on March 11, and, whatever else may be said about it, it must be admitted that it is a prompt, courageous and drastic piece of work. The Commission was appointed on January 27 to investigate the administration of the public service with a view to effecting economies, and it has now presented an interim report which recommends immediate economies amounting to £2,916,000. As the appropriations for the year came to £24,628,000, the economies recommended represent about 12 per cent. of that total. Some of

the economies are to be increased in subsequent years, and the investigations are not yet complete.*

The broad grounds on which they arrived at the conclusion that severe retrenchment was the only alternative to default are stated by the Commission in the following passage:

> It seems necessary (they say) to refer to the very serious decline in the national income and to the far-reaching effect of this reduction. The economic problems of New Zealand to-day are but a reflex of world-wide conditions, although in the case of New Zealand the effect is particularly severe, in that prices of primary products have fallen to a greater extent than prices of manufactured goods. The latest statistics available indicate that national production has fallen by approximately 30 per cent. as compared with the value in 1928-29, which may be regarded as the "peak year." In that year the value of production is given as £125,300,000; in 1929-30 a reduction of £7,000,000 occurred; while for 1930-31 production fell to approximately £98,000,000, or a decrease of approximately £27,000,000. It is estimated that for 1931-32 a further fall of £8,000,000 will be disclosed, bringing the value down to approximately £90,000,000. In other words, the Dominion has to accommodate itself to a fall in a period of four years of £35,000,000 in the value of production.

Among the more important of the Commission's recommendations are the following:—A 10 per cent. cut in public service salaries and wages, which suffered a similar cut last April; a reduction in interest and rent proportionate to the reductions in salaries and wages; a reduction in the number of members of Parliament; a reduction in the cost of pensions, excluding war pensions; the abolition of the main highways revenue fund and capital account; the abolition of education boards, the control of the existing system to be vested in a central advisory board, and other severe economies; a suggested conversion loan, together with additional stamp duties, in order to reduce

* Speaking in the House of Representatives on April 29, Mr. Stewart said that national expenditure had been reduced by £5,940,000 in three years, and that a further reduction of £4,390,000 was in sight for the current year. Nevertheless, the year was expected to close with a deficit of £2,000,000.

internal debt charges; and closer scrutiny of permanent appropriations by Parliament. The National Provident Fund should also, the Commission considered, be put on a self-supporting basis. Family allowances should be abolished, and widespread cuts made in general administration.

The recommendations in the list relating to education and pensions are, of course, highly controversial. Last year Mr. Forbes in his budget speech referred to the £3,355,000 spent on education in 1930–31 as excessive and warned the House that the time had come to economise. But the Commission's economies amount to £370,000—rather more than 10 per cent.—and many of them will be strongly resisted. The proposal to reduce pensions is also unpopular, but an expenditure of £3,000,000 on pensions out of a revenue of less than £25,000,000 could not be justified even if there were no slump. The Commission's figures show how rapid the growth of expenditure has been, though the change in the value of money robs the first item of its value for the purpose of comparison. The figures are as follows:

> 1914-15, £584,849; 1920-21 (which included war pensions), £3,039,233; 1926-27, £2,672,111; 1928-29, £2,866,584; 1930-31, £3,068,213; 1931-32, £3,220,260. Statistics (the Commission point out) show that over the last two or three years there has been a marked fall in the cost of living, and on this ground alone some reduction in the rate of all classes of pensions is justified. . . . The alterations recommended should effect a saving of £599,925, and this will reduce the total expenditure on pensions for 1932-33 to approximately £2,700,000. From the evidence submitted it is clear that pension claims must increase, and that it will probably not be long before the total expenditure will again reach the huge sum of £3,000,000.

New Zealand.
March 20, 1932.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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TOWARDS THE WORLD CONFERENCE

THE last three months were by general consent destined to be a decisive stage in the history of the crisis. They would decide whether its future course was to be for better or for worse. They would show whether there was any hope of European agreement in the political field by the application of a double test, the discussion of reparations and of disarmament. They would probably reveal the fate of central Europe. They would indicate whether the reflationary measures undertaken by the United States Government were to bear fruit or not. They would bring more conclusive evidence as to the stability and efficacy of Great Britain's new financial and fiscal régime. Progress in all these matters was clearly indispensable to the beginnings of a recovery.

As usually happens in human affairs, nothing quite turned out as pure reason might have anticipated. On none of the four vital points have events given the definite verdict that either the optimists hoped or the pessimists feared. We are not yet basking in the sunshine of renewed confidence, nor, however, are we plunged in the cold shades of despair. We are still forging ahead under a grey sky, which shows some signs of breaking and lifting here and there, but which still forebodes stormy possibilities.

At any rate, Lausanne was not a failure. That in itself is an enormous gain. If there had been no agreement, the outlook would indeed have been black. But there was an agreement, accepted by all the plenipotentiaries present. Of course, there were moments when a breakdown seemed inevitable, as there always are at every conference, national or international, at which fateful issues have to be debated; but everyone really knew that agreement must be found.

As a Frenchman put it, the problem was how to conceal the fundamental accord with which the delegates met behind the veil of superficial discord which their public opinions demanded. It says a great deal for the conciliatory spirit both of M. Herriot and of Herr von Papen that they succeeded on the whole in this delicate exercise, for neither of them had an easy task. It also says much for the mediatory skill of the Prime Minister that he helped them so successfully to reach the desired goal. In the end a convention was signed, in fact abolishing reparations payments, but maintaining a conditional obligation on Germany to contribute to a fund for the reconstruction of Europe at some future time. Neither France nor Germany is completely satisfied by this solution, which may be a proof of its substantial soundness; but at first sight it is curious that the French are better pleased with the shadow, which has been conceded to their thesis, than the Germans with obtaining the solid substance of their claim. Perhaps M. Herriot's reception at home would not have been so warm, and Herr von Papen's would have been less cool, but for the publication of the new Pact of Confidence in a way which gave it the appearance of a renewal of the Anglo-French entente. But even without this element the French position was greatly strengthened by the achievement of a common front with Great Britain in any negotiations with the United States, while the absence of any expurgation of the war-guilt clause left Germany without the kind of moral satisfaction to which in her present mood she attaches more importance than to material benefits, however paradoxical this may seem in the light of her economic situation.

It remains, however, for the Lausanne Convention to be ratified, and ratification is unfortunately not dependent on Europe alone, but on the result of negotiations with the United States for the remission or reduction of the war debts. Unless a "satisfactory settlement" of this difficult question is reached, "the agreement with Germany will not be ratified," the Young Plan will come into force once

more and a new conference will have to seek a new way out. The peace of Europe is, therefore, made directly contingent on the good-will of America, for there can be no peace, and certainly no prosperity, in Europe until the whole reparations question is finally and completely buried. It is idle to prophesy what attitude will be taken by the United States, until the presidential election has determined the general line of American policy for the next four years. The declaration of Senator Borah, a particularly good diagnostician of the workings of the popular mind, is, however, significant. It seems to mean that American opinion is moving towards debt revision as a necessary measure for meeting the crisis, but is not disposed to accord it unless some satisfaction is given to the American demand for disarmament as embodied in the "Hoover Plan." That is not an unreasonable attitude. It is not sufficiently realised in Europe that if the United States Government cancels or scales down the war debts, the American taxpayer will have to shoulder them. This may have seemed a bagatelle for the richest country in the world at the height of its prosperity. It is a different affair since the national income has sunk by some 20 billion dollars in the last two years. No doubt a moderate rise in the price level would very quickly bring into the American Treasury far more than the war debts are worth, and even to cancel them would be a very paying proposition, if it were to promote the revival of trade, as most people expect. But this is an economic speculation, which may look doubtful to the man in the subway, whereas it seems to him eminently fair that other countries should agree with Mr. Hoover's proposals to lighten the general burden of taxation by substantially reducing armaments. In this way the American taxpayer might obtain some relief which would counterbalance the additional burden he would be called upon to assume. That is an idea which he can readily understand, and to which it is not easy to find a convincing answer.

In these circumstances it is particularly unfortunate that the Disarmament Conference has adjourned in very unsatisfactory conditions. The resolution which was finally adopted provides no certainty that any effective measure of disarmament will be secured, and the negative attitude towards it adopted both by Germany and Italy is intelligible enough, whether it be thought helpful and wise or not. If this country had given a stronger and more definite lead at any time in the proceedings, a different result might almost certainly have been achieved. It was left to Mr. Hoover to do that, and when his proposals stimulated the Conference into fresh activity, it seemed that the British effort was mainly directed towards blurring its outlines and dissolving its substance in streams of tepid water. If some real advance had been made towards accepting the American scheme, not only would the solution of the debt problem and, therefore, the ratification of the Lausanne Convention, be much nearer than they are at present, but the state of Europe would be far less disquieting. General von Schleicher would not have had the opportunity or felt the necessity of demanding the re-armament of Germany had some solid progress been made at Geneva, and no one acquainted with the present German *mentality* can doubt that, failing the real disarmament of others, on land and on sea, the re-armament of Germany will be begun. The demand for *Gleichberechtigung* (equality of status) is now overwhelming. Its justice was recognised by the Prime Minister during the Lausanne debate. It can only be met in two ways, of which only the way of disarmament points unequivocally away from war.*

The moral effects of Lausanne, therefore, which the Foreign Secretary very properly emphasised, were seriously prejudiced by the failure at Geneva. The renascence of a

* A speech by Mr. Stimson to the Council on Foreign Relations in America on August 8 should reassure nations afraid of aggression. In view of its great importance we set it out in the appendix.

better spirit between France and Germany has apparently been nipped in the bud once more. It is easy to blame the oratorical excesses which the German elections, like all other elections, have provoked; but whether there had been an election or not, the same stand on armaments must have been taken by whatever German Government was in power. As a consequence the return of confidence, which was generally expected to flow from the settlement of the reparations question, has not been noticeable on the scale that most people hopefully anticipated. Until the Lausanne Treaty is ratified that can hardly be expected, and it is doubtful whether its ratification can be secured unless the Disarmament Conference achieves tangible results in the meanwhile. The ex-Allied Powers will not ratify, unless they get a satisfactory arrangement with the United States, which American opinion is more and more likely to link with the reduction of armaments. It is even possible that Germany will not ratify, unless some recognition of her claim to equality is given. The outcome of Lausanne is, therefore, not quite so encouraging as appeared at the first blush of agreement after the breakdown of so many international negotiations. But when all this has been said, there is no doubt that it constitutes an invaluable and indispensable starting-point. Without it nothing could have been done. With it, debts, disarmament and all the thorny problems to be set before the World Economic Conference in the autumn become tractable and, therefore, ultimately soluble. We may be truly thankful even if the mercy was smaller than we expected.

With this one important point gained, what of the other essential ingredients to recovery? Central Europe is the subject of full treatment in another article. It is not a reassuring picture. Distress and disorganisation are making rapid headway. The channels of economic life are being slowly silted up. Austria in the slough of her despond revolts against a loan, which has been offered, because it is felt to be a palliative, subject to humiliating

conditions. This, too, is a sign of the times. In England and France it is much too readily assumed that in central Europe the great mass of the population is still as comparatively comfortable and contented as are the British and French working people in spite of widespread unemployment. Such an assumption is quite unsound. Misery has cut so deep both in town and country that the ordinary canons of reasoning are always liable to be overthrown by desperation, which may produce incalculable consequences. A few weeks ago the sober mining population of Belgium broke into spontaneous revolt, led by their women, because the constant reductions of wages and the growing insecurity of employment had made life intolerable. In forty-eight hours the country was on the verge of a general strike, which was only averted by the capitulation of the employers and the Government. The Belgian outburst is a symptom not to be ignored. The process of deflation may be economically sound, but socially it is quite impracticable. Hardships which have been borne for two winters may not be borne for three. There is a breaking point somewhere, and it appears to have been nearly reached, not only in parts of Europe but also in parts of America. The veterans and the Belgian miners may find many imitators in the next few months, unless some hope of improvement can be confidently held out.

Fortunately the prospects are not altogether devoid of hope. Recovery must in any case largely depend on the internal situation of Great Britain and the United States. There are some signs that the action of the American Government in balancing the budget, re-establishing confidence in the banking system through the Finance Corporation, and restoring a part of their purchasing power to a proportion of the millions out of work through federal grants for relief and public works is already beginning to produce its effects. It is too early yet to be sure, but the improvement of the stock-market, the tentative rise in commodity prices and the commencement of a return of

hoarded money to the banks are all symptoms which may herald the onset of convalescence. If the advance is maintained in the United States, it is bound to influence the rest of the world and make the solution of all its problems easier. Similarly the restoration of British financial equilibrium and the success of the Conversion Loan have made a great contribution to laying the foundations of new confidence, even though the fruits of protection have been much less abundant than the advocates of tariff reform foretold.

It may be, therefore, that the World Economic Conference will meet towards the end of the year under far more promising conditions than seemed likely when it was planned in July. In any case, however, it will be faced by formidable problems, which must be solved, if the world is to regain anything like its old prosperity. First of all, monetary stability must be restored, for without it commerce can never move forward with freedom and assurance. The restrictions on the purchase of foreign currencies, which are now strangling international trade in so many countries, must be removed. There must be a concerted effort to lower tariffs everywhere, in order that the circulation of wealth may once more irrigate the world, which is now sinking into a condition of stagnation and poverty. All these aims can only be achieved by international action. As the Economic Committee of the League said in its last report, " no one is still under the illusion that it is possible for a country to improve its economic situation simply by means of the unilateral measures which it considers indispensable." That remedy has been tried by every nation, great and small, without affording it the faintest sensation of real recovery. " The figures are there to show that even the defence of the balance of payments, which is the legitimate concern of each country, is only achieved in a small measure, and at the cost of economic depression and a lowering of the standard of living." The only solution is co-ordinated and co-operative action between nations

on a large scale in both the financial and economic fields. But there is also a further point. There can be no new prosperity unless the numbers of the unemployed are reduced to reasonable proportions. Of this there is no certainty, even if the world's productive and distributive machinery regains something of its old rhythm. The capacity of production has been so rapidly multiplied since the war that far fewer men can produce far more goods than was the case ten years ago. For proof one has only to look at the Census of Production returns for this country. The statistics of France, Germany and the United States are still more striking. Thanks to the machine, which has invaded the sphere of almost every industrial, commercial and agricultural operation, from banking to milking, from road-making to washing, all the goods and services that society has hitherto been able to consume can now be supplied with enormously less human labour. The alternative seems to be either to employ fewer people on active work and maintain the remainder in involuntary leisure at the expense of the State, or to restore to productivity those who are now eating out their hearts in enforced idleness by enabling everybody to consume more. That is perhaps the greatest problem of all. It is not purely economic. It touches very nearly the lives and fortunes of millions of individuals. If no solution for it is found, if when everything has been tried there are still large numbers of idle men loitering in the streets of every industrial city, there will be no real social stability and no real return to prosperity. It will be the last and the most difficult task of the World Conference, upon which so many of our hopes are now pinned.

APPENDIX

SPEECH BY MR. STIMSON TO THE COUNCIL ON FOREIGN RELATIONS IN NEW YORK ON AUGUST 8.

Mr. Stimson, the United States Secretary of State, described the implications of the Kellogg Pact, as understood by the United States Government.

The pact, he said, had changed the whole doctrine of neutrality. War was no longer the concern only of the nations engaged in it, but of every nation in the world. The pact had provided a means for mobilising the opinion of the world against war, and although there was no provision in it for consultation between neutrals, consultation was implicit both in the pact itself and in the use which had been made of it in the disputes between Soviet Russia and China in 1929 and between Japan and China in 1931.

The pact, Mr. Stimson said, had set jurists a new problem.* During the centuries which had elapsed since the beginning of international law, a large part of that law had developed from principles based upon the existence of war. War between nations was a legal situation out of which rights and duties had grown, and from which there had developed a doctrine of neutrality, according to which a neutral must maintain impartiality between two belligerents. It was contrary to this aspect of international law for the neutral to take sides between belligerents or to pass a moral judgment upon the rightfulness or wrongfulness of the cause of either —at least to the extent of translating such a judgment into action.

Humanitarianism had brought some modifications of the doctrine of neutrality, but their chief purpose was to produce oases of safety for life and property in a world which still recognised and legalised the destruction of human life and property as one of the regular methods for the settlement of international controversies and the maintenance of international policy.

Owing to mechanical inventions and the revolutionary changes in industrial and social organisation by which they were accompanied, however, communities and nations became less self-contained and more interdependent. The populations of industrialised States became much larger and more dependent for their food supplies upon far distant sources. The civilised world thus became very much more vulnerable to war, modern armies more easily transportable, and their weapons more destructive. The laws of neutrality became increasingly ineffective to prevent even strangers to the original quarrel from being drawn into the general conflict, and in the Great War tangible proof was given of the impossibility of confining modern war within any narrow limits. "It became evident to the most casual observer that if this was permitted to continue, war, perhaps the next war, would drag down and utterly destroy our civilisation."

At the Peace Conference at Versailles the victorious nations therefore entered into a covenant which sought to reduce the possibility of war to its lowest terms. Nine years later, in 1928, came the still more progressive step of the Pact of Paris, the Briand-Kellogg Pact, also known as the Peace

* In connection with the views expressed in the speech, *see* THE ROUND TABLE No. 71, p. 461; No. 74, pp. 241-2; No. 75, p. 4[illegible]; No. 77, pp. 18-19.

Appendix

Pact]. In this treaty substantially all the nations of the world united in a covenant in which they renounced war altogether as an instrument of national policy in their relations with one another, and agreed that the settlement of all disputes or conflicts, of whatever nature, among them should never be sought except by pacific means.

"The change of attitude on the part of world public opinion toward former customs and doctrines which is evidenced by these two treaties is so revolutionary that it is not surprising that the progress has outstripped the landmarks and orientation of many observers. The treaties signalise a revolution in human thought, but they are not the result of impulse or thoughtless sentiment. At bottom they are the growth of necessity, the product of a consciousness that unless some such steps are taken modern civilisation would be doomed."

Since war between nations was renounced by the signatories of the Briand-Kellogg Treaty, it has become illegal throughout practically the entire world. "It is no longer to be the source and subject of rights. It is no longer to be the principle around which the duties, the conduct, and the rights of nations revolve. It is an illegal thing. Hereafter, when two nations engage in armed conflict either one or both of them must be wrongdoers—violators of this general treaty law. We no longer drawn a circle about them and treat them with the punctiliousness of the duellists' code. Instead we denounce them as law-breakers.

"By that very act we have made obsolete many legal precedents and have given the legal profession the task of re-examining many of its codes and treaties."

The language of the Briand-Kellogg Treaty and the enthusiastic statements of its founders, Mr. Stimson continued, had made its purpose clear. "Some of its critics have asserted that the pact was really not a treaty at all; that it was not intended to confer rights and liabilities; that it was a mere group of unilateral statements made by the signatories, declaring a pious purpose on the part of each, of which purpose the signatory was to be the sole judge and executor, and for a violation of which the other signatory could not call him to account.

"If such an interpretation were correct, it would reduce the pact to a mere gesture. If its promises conferred no rights as between the members of the communities of signatories, it would be a sham. It would be worse than a nullity, for its failure would carry down the faith of the world in other efforts for peace.

"But such critics are wrong. There is nothing in the language of the pact nor in its contemporaneous history to justify such an interpretation. On its face, it is a treaty containing definite promises. In its preamble, it expressly refers to the 'benefits furnished by this treaty,' and states that any signatory Power violating its promise shall be denied those benefits. The correspondence of the framers of the treaty shows that they intended it to be a treaty which would confer benefits, which might be lost by a violation thereof."

The only limitation to the broad covenant against war contained in it was the right of self-defence. "This right is so inherent and universal that it was deemed unnecessary even to insert it expressly in the treaty. It is also so well understood that it does not weaken the treaty. It exists in the case of the individual under domestic law, as well as in the case of

Speech by Mr. Stimson

the nation and its citizens under the law of nations. Its limits have been clearly defined by countless precedents. A nation which sought to mask imperialistic policy under the guise of the defence of its nationals would soon be unmasked. "It could not long hope to confuse or mislead public opinion on a subject so well understood or in a world in which facts can be so easily ascertained and appraised as they can be under the journalistic conditions of to-day."

No sanctions of force were provided in the pact. It rested upon the sanction of public opinion. "Any other course, through the possibility of entangling the signatories in international politics, would have confused the broad simple aim of the treaty and prevented the development of that public opinion on which it most surely relies," and "which lies behind all international intercourse in time of peace."

Since the ratification of the pact on July 24, 1929, the United States Government had been determined that the new order represented by it should not fail. In October, 1929, President Hoover had joined with Mr. MacDonald in a joint statement at the Rapidan in which they declared that both their Governments resolved to accept the Peace Pact "not only as a declaration of good intentions, but as a positive obligation to direct national policy in accordance with its pledge."

In the summer of 1929 hostilities threatened between two signatories of the pact, Soviet Russia and China, in Northern Manchuria. The United States Government at once communicated with the Governments of Great Britain, Japan, France, Italy, and Germany, and the attention of the Governments of Soviet Russia and China was formally called to their obligations under the pact. Later, when Soviet forces had crossed the Manchurian boundary and attacked the forces of China, 27 nations associated themselves with the United States in urging upon Soviet Russia and China a peaceful solution of the controversy between them. "The restoration of the *status quo ante* was accepted by both parties and the invading forces were promptly withdrawn."

In September, 1931, hostilities broke out between the armed forces of Japan and China in the same quarter of the world, Manchuria, and the situation was brought to the attention of the Council of the League of Nations. "We were invited to confer as to the bearing of the Pact of Paris upon the controversy. We promptly accepted the invitation, designating a representative to meet with the Council for that purpose; and the attention of the two disputants was called to their obligations under the pact by France, Great Britain, Germany, Italy, Spain, Norway, and the United States."

The United States Government maintained its attitude of sympathetic co-operation with the efforts of the Council, and finally, when, in spite of these efforts, Japan had occupied all of Manchuria, it formally notified both that country and China, on January 7, 1932, that it would not recognise "any situation, treaty, or agreement which might be brought about by means contrary to the covenant and obligations of the Pact of Paris." This action was endorsed by the assent of the League of Nations, at a meeting in which 50 nations were represented.

These successive steps could not be adequately appraised unless they were measured in the light of the vital changes of point of view brought about by the covenant and the pact. "They were the acts of nations which were bound together by a new viewpoint towards war, as well as by a covenant

which made that viewpoint a reality. . . . Under the former concepts of international law when such a conflict occurred, it was usually deemed the concern only of the injured party. The others could only exercise and express a strict neutrality alike towards the injured and the aggressor. . . . Now, under the covenant and the Briand-Kellogg Pact, such a conflict becomes of concern to everybody concerned with the pact. All of the steps taken to enforce the treaty must be judged by this new situation."

"The power of the Briand-Kellogg Treaty cannot be appraised unless it is assumed that behind it rests the combined weight of the opinion of the entire world, united by a deliberate covenant which gives to each nation the right to express its moral judgment." But when moral disapproval becomes the disapproval of the whole world, it takes on a significance hitherto unknown in international law. For never before has international opinion been so organised and mobilised.

Another phase which followed this development of the Briand-Kellogg Treaty was that "consultation between the signatories of the pact, when faced with the threat of its violation, becomes inevitable. Any effective invocation of the power of world opinion postulates discussion and consultation. As long as the signatories of the pact support the policy which the American Government has endeavoured to establish during the past three years of arousing a united and living spirit of public opinion as a sanction of the pact; as long as the course is adopted and endorsed by the great nations of the world who are signatories of the treaty, consultation will take place as an incident to the unification of that opinion.

"The course which was followed in the Sino-Japanese consultation last winter shows how naturally and inevitably consultation was resorted to in this effort to mobilise the public opinion of the world. The moment a situation arose which threatened the effectiveness of this treaty, which the peoples of the world have come to regard as so vital to their interest, practically all the nations consulted in an effort to make effective the great peaceful purposes of the treaty.

"That the pact thus necessarily carries with it the implication of consultation has perhaps not been fully appreciated by its well-wishers who have been so anxious that it be implemented by a formal provision for consultation. But with the clarification which has been given to its significance by the developments of the last three years, and the vitality with which it has been imbued by positive construction put upon it, the misgivings of those well-wishers should be put at rest. That the American people subscribe to this view is made clear by the fact that each of the platforms recently adopted by the two great party conventions at Chicago contains plans endorsing the principle of consultation."

"I believe," Mr. Stimson concluded, "that this view of the Briand-Kellogg Pact which I have discussed will become one of the great permanent policies of our nation. . . . It is a policy which combines the readiness to co-operate for peace and justice in the world, which Americans have always manifested, while at the same time it preserves the independence of judgment and the flexibility of action upon which our people have always insisted. . . . It is only by continued vigilance that the treaty can be built into an effective living reality. The American people are serious in their support and valuation of the treaty. They will not fail to do their share in this endeavour."—(*The Times*, August 9, 1932.)

THE FUTURE OF INDIA

I. Forward or Backward

AMID the dark clouds of communal rivalry, political faction and civil disobedience, the caravan of Indian constitutional advancement has pushed steadily forward. Now it is crossing a frontier, the border-line between examination and action. The demarcation is not sharp, for whereas investigation must continue even while its results are being put into practice, the period of action has already begun with the establishment of the North West Frontier Province as a governor's province and with the steps taken towards the separation of Burma. With those exceptions, however, we are still in the stage of exploration and of the enunciation of general principles; and, provided haste is not confused with speed, the faster we can press forward the less time will there be for the development of rancour and faction. The path has not come to the cross-roads; we have only two choices: to go forward or to go back. The time has passed when it was possible to envisage a mere retention of the present limping diarchical constitution. The alternative to constitutional advance is the reinforcement of military autocracy, a perpetuation of the regime of ordinances on the one hand, and on the other of civil disobedience and terrorism. Such a course would cost us lives and treasure, would call our good faith in question, and would augment the antagonism of political India—a growing portion of the population—whose demands must sooner or later be satisfied. For India herself

the choice lies, as we have often repeated, between constitution and chaos. If she heeds the voice of the Congress extremists, she has nothing before her but disorder and civil strife; repression itself could not be continued for ever.

We must, therefore, continue to move forward with as rapid steps as we can, steps which may be either careful and orderly or uneven and unintended. Sir Samuel Hoare's statement on June 27 made it quite clear that the British Government have decided upon a deliberate and not a haphazard progress. The programme that he then laid down may be summarised as follows. After the decision of the Government on the communal problem, the Consultative Committee would reassemble in India and continue to advise on the numerous and important questions entrusted to it. One gathered from the reference to its "final session" that the work of the Consultative Committee would terminate at that stage. Next, the British Government would put forward a definite but not an irrevocable scheme of constitutional reforms, which would be submitted to a joint parliamentary select committee. Provision would be made not only for Indians to give evidence before the committee, but actually to assist in its deliberations. On the basis of the committee's work, a single Bill would then be introduced covering the whole constitutional scheme, that is to say, both provincial autonomy and the institution of responsibility with safeguards at the centre of an all-India federation. Presumably consideration of the Bill would be entrusted to virtually the same select committee as had sat before its introduction. Sir Samuel Hoare gave no dates, but it is clear that the formulation of the Government's draft proposals could not take place before December, nor the introduction of a Bill until, let us say, April, 1933.

To the diehard, of course, this is only to map out a descent of the Gadarene slope, but the really dangerous criticism of the scheme comes from other quarters. The

official Labour party's complaint—and it unfortunately appears that they are joined by a number of Indian politicians who co-operated with the Round Table Conference—is that the method of free and equal consultation with India has been abandoned in favour of the objectionable "Simon Commission" method of external deliberation and decision. This criticism appears to be based, in the first place, on a misunderstanding of the British Government's intentions, which include the continuation in being of the Consultative Committee so long as it appears to have a useful function to perform, and direct conference with Indian opinion by the parliamentary select committee. Indeed it is obvious that the repetition of full Round Table Conferences has nothing to offer but delay; they were invaluable so far as they went, but they can go no further unless the goal is inaction. Continuous direct consultation with Indian opinion by Parliament—which has ultimately to decide—is, moreover, barred by geography if by nothing else. The second line of criticism is directed against the inclusion in a single measure of constitutional changes in the provinces and at the centre. From the one side comes the plea that this prevents the plan of advancement at the centre from being tested by the experience of provincial autonomy, which would train up India in the ways of self-government. And the opposite faction complain that the proposal delays any constitutional advance until all the obstacles to federation—and they are many—have been overcome. But this is, in fact, a matter on which we have no choice. Not only are we pledged to endeavour to proceed by "one all-embracing Statute covering the whole field," * but it is quite clear that even the moderate political parties in India would be prepared to boycott provincial autonomy alone. Moreover, the Government have stated that the single measure is to contain provisions enabling

* See the Prime Minister's statement at the conclusion of the second Round Table Conference. (Cmd. 3972, p. 5.) Also Sir S. Hoare's speech on June 27 (House of Commons Debates, vol. 267, No. 120, p. 1499).

the provincial constitutions to be introduced without necessarily awaiting the completion of all the steps required for the actual inauguration of federation.

There is, however, one vital question to which the Secretary of State did not offer an answer—What is to be done with the political prisoners? He legitimately congratulated himself on the reduction of their number that was taking place, but even if they were only three thousand instead of thirty thousand the problem of their existence would not be solved. At some time their return to the normal civil and political life of India must be accomplished; on the other hand, political turbulence and attempts to destroy government altogether cannot be allowed to hinder constitutional progress. The best course for the Government to adopt seems to be as follows: As soon as definite constitutional suggestions are published—before, that is, the actual introduction of the requisite Bill—the ordinances should be lifted, except those necessary for defence against terrorism, and a general political amnesty granted. The resumption or continuance of civil disobedience, it would have to be made clear, would be the signal for a return to the present régime.

Such a measure should be taken by the Government of India as an act of grace, not, under any circumtances, as the result of a compromise or bargain with the Congress party, which cannot be treated as if it represented India. On the other hand, in formulating the draft constitution, it will be essential for the Government to remember that it must somehow secure the co-operation —at worst the passive non-acquiescence—of some part of the greatest, indeed the only popularly organised, political party in India.

II. Practical Problems

IN more than one way, from the point of view of Great Britain, this is clearly the most difficult stage of all in India's constitutional transition. Her responsibility for the actual government of India remains unimpaired, while at the same time constitutional changes must be put in hand which weaken her authority in India and are bound to cause civil controversy and even violence. Her responsibility for the constitutional changes themselves can no longer be delayed or shared by the expedient—necessary in the earlier stages—of round table discussion. Moreover, the vital problems which that discussion exposed, but did not solve, have got to be dealt with.

The first of those problems is that of communal rivalry, which has inevitably grown worse as the moment for the assumption of self-government by India has drawn nearer, and which may become still more desperate before the new constitution is inaugurated. The communities themselves utterly failed to reach an agreement—and indeed their several " minimum demands " were mutually inconsistent. In consequence, the British Prime Minister had to take upon himself the responsibility of deciding upon a provisional scheme, so as to prevent the progress of the constitutional reforms being impeded.*

The second of the great problems that have now to be faced is not one to engender murder and riot, but its solution is no less important and may prove no less difficult than that of Hindu-Moslem rivalry. The whole scheme of India's constitutional development is based on the idea of an all-India federation, including British India and the native States; if that idea fails, we are back at the stage at which the first Round Table Conference opened, that is to say, back to a promise of evolution towards dominion status

* See the summary of the Government's decision at the end of the issue.

but with no means of carrying it out. The attitude of the Indian Princes, on which thus the future of British India depends, has since fluctuated with circumstances and with the power of personalities among them like the Maharajah of Bikaner or the Nawab of Bhopal. Somehow they have to be persuaded, quickly so that constitutional changes may not be delayed a month longer than is necessary, to make federation a reality. It is a condition, said Sir Samuel Hoare in the House of Commons on June 27, of the inauguration of the federal constitution that the units concerned must be prepared actually to federate. As there is not in contemplation a dual system of federated plus dissenting members, the Secretary of State's pronouncement might be interpreted as meaning that any single third-class ruler could have a *liberum veto* on federation, but, in fact, if the leading States were co-operating none of the smaller ones would choose to stand out. It is ten or a dozen of the chief potentates who must be satisfied. Now the Indian States are not being coerced into federation against their will. They want federation for two main reasons: first, because they see as inevitable the evolution of British India towards a greater and greater measure of self-government, which they want to have a hand in shaping, so that it does not become a menace to themselves; and second because they are aware of the gradual growth in importance, as part of the machinery of government, of matters like public economic services and customs tariffs, which are already under the control of the Government of India and which they would like to influence themselves. These are powerful motives on which one can rely for a general willingness of the Princes to come into the new scheme. All they ask is a guarantee of their independence in non-federated matters, and of the maintenance unimpaired of their direct relations, by treaties and sanads, with the Crown. There is no reason why these requests should not be granted, provided that on our side certain general conditions were fulfilled. The guarantee must not make of the British Government a

barricade against normal constitutional progress in the States or a prop for effete or misgoverning dynasties. Second, if the direct relations of the Princes with the Crown are to be preserved, there must be some constitutional machinery for conducting them and for carrying out the guarantee of State rights. It is plain that neither a government department in Whitehall, even further cut off from the current affairs of India under a régime of semi-autonomous federation than it is to-day, nor the Viceroy in Federal Council, would be competent here. The King, it seems, would have to be represented by the Viceroy in non-Federal Council, advised jointly by the Princes themselves, by representatives of British India, and by the Imperial Government—a division of responsibility which would only be possible if in the last resort the British Government's word were supreme.

That, indeed, is a general constitutional problem not confined to the question of the Princes' relations with the new Indian State. Certain guarantees will have to be given—to minorities, to civil servants and others entitled to pensions—and during a transitional period of indefinite duration further reservations and safeguards will have to be provided. In the general conclusions of the Round Table Conference, the Viceroy and Governor-General appears as the instrument of these functions, but it is clear that he cannot perform them in his individual capacity as representative of the King, and thus constitutional head of the All-India Federation. The Governor-General, in respect of all his duties, must have constitutional advisers. At present he is advised by the Secretary of State (through whom he is finally responsible to His Majesty) and by his Executive Council in India; but under the new circumstances he plainly cannot be advised by his Federal Council on matters reserved from the autonomous federation, nor by the India Office at home, whose control is even now more distasteful to Indian opinion than that of the Government of India itself. A third alternative, that he should be

advised in his exercise of these important residuary powers by a group of British civil servants and non-official Europeans is obviously equally out of the question. Thus one of the critical problems with which the British Government and the Select Committee will be faced in the next few months is to provide means whereby such part of the present functions of the Government of India and the Secretary of State as are not to be transferred fully to an Indian responsible government can be performed without, on the one hand alienating Indian public opinion, or on the other virtually abandoning the safeguards and reservations.

III. The Difficulties of Finance

THIS problem is raised in a very acute form in connection with public finance. For the time being there must be some form of financial safeguards, if only those inalienably associated with the political reservations. Two vital questions have thus to be answered: how are these financial safeguards to operate, and how in the light of them is financial responsibility for the residue to be made a reality and a concession of value? The latter is perhaps the most important question of all, since no mere constitutional device will solve it, and the whole constitutional system will break down if it is not solved; yet it has been curiously neglected. Diarchy cannot be said to have failed, since no one has propounded any alternative form of constitution which could have brought India through a dozen such years as those since 1919 with equal success, but it has creaked uneasily, above all because the transferred subjects were necessarily stinted of money, and the legislatures were not in a position to raise more. Political and administrative autonomy tended to be dwarfed by financial subservience. Yet those, compared with the present, were prosperous years; how much worse, then, is the position at a time of deep economic depression, which

has struck India, a primary producing country with a vast load of agricultural debt, as hardly as any other land. Unless there is a big rise in prices and a general betterment of trade conditions, we run the risk of handing over with the government of India the choice between a sequence of budget deficits and the bitter process of economies—plus tax-raising—than which there could be no surer guarantee of political turbulence and constitutional breakdown.

The magnitude of the problem must be realised. India is a land of teeming millions, all but an insignificant minority of them living at a standard of life which we should regard with horror among our own people; large incomes are few, and her taxable capacity is very low. The ancient system of land revenue, for centuries the foundation of India's fisc, has become quite inadequate to support the modern machinery of government and the social services that she demands with increasing determination. Even on the assumption that the present depression will end and that there will follow a period of reviving trade accompanied by a gradual increase of prices, the Federal Finance Committee (which reported last March) calculated that the combined prospective deficits of the provinces would total nearly 4 crores (£3 million). Even their scheme for the distribution of 5 crores of income tax proceeds among the provinces would leave three of them (Bengal, Assam, and Bihar and Orissa) with prospective deficits. In these circumstances the kind of strict financial safeguards that was in question at the first Round Table Conference—the reversion, for instance, into the hands of provincial Governors of certain administrative and fiscal powers in the event of the continuance of budget deficits—seems rather out of the picture. It must be remembered, too, that the provinces are responsible for the "nation-building" heads of public expenditure to which political attention is bound to be more and more devoted. Of Bengal, one of the centres of agitation for Indian self-government and social advance, the Federal Finance Committee write that its

prospective deficit, after allowing for possible economies, "can only be wiped out at the expense of other provinces, and even so the presidency would be left with no margin for financing new policies."

When we turn to the centre the position is no more hopeful. On the basis of existing taxation the Federal Finance Committee forecasted a future surplus (on the assumptions as to economic recovery mentioned above) of 4½ crores, but this would be more than wiped out by the contributions to provincial revenues from the yield of income tax. The imposition of an excise tax on matches would leave the centre with an estimated surplus of 2 crores (£1,500,000), a margin which the Committee deemed barely sufficient to cover contingencies such as the inevitable cost of installing the new constitution. The problem of federal finance is not, however, primarily the same as that of provincial finance—expanding outlay coupled with inadequate and inelastic revenues—but rather the problem of the vast first charge on the central public income. Of the 80·1 crores (£60,075,000) of expenditure provided for in the Percy Committee's forecast of the federal budget, as much as 47 crores (£35,250,000) would go to the military budget, 17·75 crores (£13,312,500) to debt services (mostly sterling debt), and 2·65 crores (£1,987,500) to pensions (also payable for the most part in sterling).* These items total 84 per cent. of the whole estimated expenditure of the federal government, excluding grants to self-governing provinces. That is, of course, a misleading way of stating the position, since in all federal systems, in the United States for instance, those are the principal charges on the central revenues, the greater part

* The Indian States Enquiry Committee (Financial) estimate that their recommendations would impose on federal revenues an ultimate gross burden of approximately Rs. 1 crore per annum, additional to that borne by the central revenues of the Government of India to-day, though this figure would be liable to a substantial reduction if certain proposals of the Committee with regard to set-off and immunities are adopted. (Cmd. 4103, p. 179.)

of general administrative expenditure falling on the units, and since the self-balancing revenue and expenditure of State enterprises (posts and telegraphs and railways) have been excluded from the total budget; but the point is that from the standpoint of the Indian legislatures these items, are, for one reason or another, unalterable. Moreover, in political affairs it is often what things seem rather than what they are that counts, and to the Indian politician these first charges on the revenue of the country seem an enormous, and to many an intolerable, burden with which to load a new political venture.

It is the great proportion borne by the expenditure upon it to the total federal outlay that renders the problem of the army so difficult. Indian politicians, always excepting the extreme type, realise and openly admit that India must have an army on something like the present scale, and that so long as the personnel is largely British (as it must be for one reason, because of its part in connection with communal riots), control of the army must remain vested in some way or other in the British Government. There can be no doubt in anybody's mind where the final responsibility for the Indian army must stay, for the present at any rate. But when it comes to providing the money, and when the 47 crores of the Committee's estimate turns out to be nearly 60 per cent. of the federal budget, then the trouble begins. How can these essential supplies be assured? In general, and without any attempt to formulate precise schemes, there are two possible answers. The first is the assignment of particular revenues for an independent army budget, the surplus, of course, to go into the general funds of the federation; the second is to impose a fixed guaranteed charge on the general budget, which could in some way be certified by the Viceroy if it were not otherwise forthcoming. In either of those possibilities there are serious disadvantages. The first implies a dual system of tax-collection and fiscal administration, with the attendant wastage of governmental effort; on the face of

it, indeed, it is quite impracticable under the existing circumstances of India, since the whole of the customs (the principal source of federal revenue) are estimated to yield only 3 crores more than the cost of the army, which means that in a bad trading year the yield might very well fall far in defect of what was necessary. Nor is Indian opinion likely to accept as a reasonable measure of self-government a constitution which left in British hands the responsibility, let us say, for the customs—including the vexed question of protective tariffs—and the salt tax. As for the second choice, certification is a real power when the whole administrative and financial machinery of government is ultimately under the authority of the Viceroy, and when majorities can be manufactured in the assemblies by means of official blocs; but under a system even of restricted self-government it is meaningless unless it implies the possibility of a virtual resumption of the reins of government by Great Britain.

Expressed in those terms, the problem is utterly baffling. But it is well to remember, in attempting its solution, that if those responsible for the government of India under the new régime were to wish to boycott the army and to oppose by any means the interference of the British Government in their country's affairs, then the most careful constitutional safeguards would be powerless to prevent them. Not merely could they find ways of withholding supply, but by refusing the co-operation of the transferred services (railways and the post office, for instance), they could gravely handicap the ordinary administration of the army in time of peace, and bring it to a standstill in time of war. Thus, if we are talking in terms of reservations at all, and not in terms of complete independence for India, we must assume that the general constitutional system—including the extent of the franchise and the proportion of power given to minorities and to the Princes—will be such that the new Government will be prepared willingly to accept the reservations and will be animated by a spirit of

general goodwill towards Great Britain and her works. In order to secure that goodwill as regards the army, it is necessary that expenditure be kept within strictly the lowest limits, that indianisation of the personnel be carried on as fast and as far as possible, and that Indian representatives be associated in the closest practicable way with the control of the army. On that assumption, then, there seems little alternative to charging upon the federal budget, by way of a financial settlement collateral with the constitutional reforms, a fixed charge for the army, say 45 crores, which would be reviewed after a period of years and which would have to be regarded as a maximum compatible with continuous efforts at economy.

The problem of the national debt is in some ways simpler than that of the army but it may prove more difficult to solve for a reason unconnected with India's particular constitutional crisis. Owing to the fall of commodity prices in the past four years, almost every government in the world, local and national, is overloaded with debt. If prices are somehow caused to rise again to a level more nearly approaching that at which the debts were contracted, then the problem will doubtless solve itself, and in that case the question of India's debt will not present greater difficulties to the constitution-makers than many another issue. Indeed in some lights India appears much more favourably situated, as concerns national debt, than most other countries. At March 31, 1931, the total debt of the Government of India, after deducting liquid assets, was rather less than 1,183 crores (£887 million), including, *inter alia*, the railway debt and the balance of the war contribution. This is a nominal figure, on which the over-all rate of interest was 4·29 per cent. Against this the Government held assets valued at 1,063 crores (£797 million), chiefly the capital, as debited in the accounts, of the commercial departments of government, but including also interest-earning debts due from the provincial governments, and State and military property generally; and,

besides, certain assets that defy valuation. The Federal Finance Committee, therefore, was able to report that if the federal government assumed responsibility for the whole of the pre-federation debt its obligations would be covered by the assets also taken over. It must be noted, however, that the valuation of the assets is far from being a commercial one based on yield, and that practically the only identifiable income obtained directly from them is the sum of 5 crores (£3¾ million) appearing in the "standard" budget as the net contribution of the State railways, compared with a total net federal interest burden of 17¾ crores (£13¼ million).

But suppose that prices should continue to fall and that payment in full of the services on the Indian debt becomes impossible, what would then be the position?

There has been more than one official statement with regard to India's credit. Mr. Ramsay MacDonald (in the House of Commons on June 26, 1931) made one about the transition period. It will not, he said, be possible to introduce the proposed constitutional changes if financial stability is not assured, and "His Majesty's Government is determined not to allow a state of things to arise which might jeopardise the financial stability and the good government of India, for which the Secretary of State is at present responsible." He undertook—

> if the need arose, to apply to Parliament for the authority necessary to enable them (the British Government) to give financial support under suitable conditions to the Government of India for the purpose of maintaining the credit of the country pending the settlement of the constitutional problem and the formulation of provisions which will ensure the maintenance of India's credit in the future.

As regards the future then, after the new Indian Government has assumed control, our duty would seem to be fulfilled when we have embodied in the constitution provisions of the kind contemplated. But the question still remains, what is to be the nature of these provisions, and must they include safeguards? Mr. MacDonald was

referring to Indian credit generally, but on the specific question of Indian sterling loans we have the view of the former Secretary of State for India, Mr. Wedgwood Benn, in a letter* to a correspondent, at the time when uneasiness was caused by the wild talk at the Congress meeting at Lahore. This letter pointed out that "Indian sterling securities, while issued under the authority of Act of Parliament and charged on the revenues of India, are not guaranteed by the British Government." They are trustee stock, but that is a separate question. The letter refused to deal with hypothetical contingencies, but, it continued:—

> I am directed by him (the Secretary of State) to say that His Majesty's present Government have no intention of allowing a state of things to arise in India in which repudiation of debt could become a practical possibility, and that it is inconceivable to him that, in dealing with any scheme of constitutional change in India, Parliament could fail to provide safeguards, should they be needed, against a breach of the conditions under which these loans were issued.

Safeguards then were contemplated, but of what kind? Those who at the Round Table Conference urged the introduction into the constitution of safeguards in respect of Indian debt services presumably intended to obviate such a contingency as, say, an uncontractual reduction of interest. If India should ever be driven to such special expedients, what would the position be? During the transition stage responsibility and control will still rest with the Secretary of State and Parliament, but the position under the new dispensation is more obscure. In general the Indian federal legislature will then have charge of the budget and the national finances. What form could safeguards take in these circumstances? Would the British Government make good the loss to the bondholders, or will power be retained for it to interfere directly with India's finances in some way, and would the retention of such a power be compatible with the exercise

* See *The Times*, January 28, 1930.

of the responsible government that we are bound to endeavour to set up in India? Lastly, would we in a similar case be prepared to apply to India measures of recovery such as those already used against the Free State?'

These questions have got to be faced, but a more general issue has first to be settled. The political destiny of India is bound up with her economic destiny, and her economic destiny will be determined in part by world forces and in part by her own efforts. As these lines are read the outcome of the Ottawa Conference in concerting measures for the economic improvement of the British Empire, not only through tariff preferences but also through monetary co-operation, will be known. India's part in those measures, however, is bound to remain equivocal until her new constitution is decided upon, for the degree of her freedom in future to choose whatever economic course she pleases has still to be determined. She might wish to cut loose the rupee from the pound, to fix a different sterling ratio, or to remonetise silver. Are her new rulers to be restricted on these vital issues, and if so by what means and with what justification? These are urgent questions to which some answer must be found within the next few months.

OTTAWA: INTERIM REFLECTIONS

BEFORE this is read the outcome of the Imperial Economic Conference will long have been known.* Even with difficulties and divisions as sharply in the foreground, as they are after ten days in Ottawa, failure remains as unthinkable as it was when the opening speeches expressed the high hopes of every part of the Commonwealth, though the measure and the kind of success remain in doubt. The issues, at any rate, are clear—the willingness of Great Britain to compromise her foreign trading connections, and perhaps to increase the cost of the necessaries of life for her people, by imposing, increasing or maintaining tariffs on foreign imports of primary products, among which meat presents the greatest difficulties; the willingness, on the other hand, of the Dominions to weaken the established position of some of their industries by substantially liberating the trade in manufactures within the Commonwealth; the clash of interests, on the monetary side, between those countries whose advantage lies in the maintenance of a high or at least a stable relation of exchange with gold standard currencies, and those for whom the raising of prices, accompanied if possible by stability within the "sterling area," must be accomplished somehow even at the cost of greater instability in its outer relations. Whether on the issue of money or on that of tariffs, the British delegation has always one great *arrière-pensée*, namely, the danger of injuring the great and vital intercourse that Great Britain has with foreign countries, in the fields of finance, capital investment, shipping and other services as well as in commodity trade. From the very start Mr. Baldwin made it plain

* This article contains some reflections by a correspondent on the tendencies revealed during the first part of the Conference. We propose to deal with the final results in our December issue.

that a condition of the enhancement of our tariffs on foreign goods must be a genuine move towards freer trade within the Empire. Mr. Runciman, no doubt, is the pillar of this policy of freer trade through Empire agreements, but he could hardly have expressed it more emphatically than did the Lord President in his declaration on behalf of the United Kingdom Government on July 21, nor is there any reason to believe (*pace* the journals of Lord Beaverbrook, whose outrageous attempts to interfere in the Conference have shocked the assembled representatives of the Empire) that the British delegation has ever been divided on the subject.

It is upon that sandbank that the Conference has, for the moment, grounded, as this is being written. After the first expressions of national policies had been pronounced, the early days of the Conference have been occupied with the emergence of the Dominions' requests for help from the Mother Country, sometimes singly, sometimes in concert, upon wheat and meat and timber and tobacco and fish and fruit and base metals and many other of their products, by way of tariffs or quotas or a ban on imports from specially damaging competitors like Russia. This procedure, though doubtless inevitable, has been unfortunate in that it has put the United Kingdom representatives in the position of saying nothing or no, in the apparent absence of any complete policy of their own or any firm offer to the Dominions. But Great Britain's plan at this stage could not have been certain or complete, since her ability to grant the Dominions their requests must depend on their willingness to accord her manufactures more liberal entry to their markets, and since the Dominions themselves have been reluctant to propose concrete suggestions on that point. The improvement of trading conditions that Great Britain asks in respect of manufactures cannot be contained in a simple formula comparable, for instance, with a 20 per cent. preference on butter. Many hundreds of groups have to be considered,

and naturally the conditions of their import and internal manufacture vary enormously between the different Dominions. Four or five months ago schedules of commodities which the British Government, advised by its experts and the representatives of industry, thought might be exported in greater quantity to Empire countries were circulated to the Dominions, but replies have been extremely tardy and even now are only just being presented ; hence the absence, at this stage, of any specific and detailed British plan to match the Dominions' simple requirements.

The avoidance of bargaining which many hoped would characterise this Conference could not, of course, long be maintained in its integrity. What each country can put into the pool of common advantage depends in the last resort on what contributions are to be made by the others. Thus a barter of benefits at once begins, and in making clear its own limiting terms of exchange each country inevitably touches upon the susceptibilities of others. Mr. Bruce, for instance, in arguing with some acerbity that so far Great Britain had given the Dominions no more than a reasonable return for the trade advantages that they had accorded her for many years, and that, if she really meant to assist them and to secure from them further modifications of their tariffs in her favour, she must grant them more and larger preferences, provoked a sharp retort from the United Kingdom delegation. After showing statistically the advantages enjoyed by the Dominions in the British market, and their consequent favourable balances of trade with the United Kingdom, the statement pointed out that in assessing the value of a preference the percentage of duty charged on the value of the article is of equal importance with the preferential margin. The delegation urged upon the Dominions " that the rates of duty charged should be so graduated as to give the products of the United Kingdom a reasonable chance of competing on even terms, and that the rate of duty against United Kingdom products should be fixed for protective purposes

no higher than is necessary to give a reasonably efficient industry in the Dominion a fair chance." Unfortunately the voice of reason that is to measure efficiency and the chance of even competition is dim and confused. The extent of protection enjoyed by industry as a whole, through its effect on costs, influences the measure of protection required by any particular industry. Under her system of high protection, for instance, many of Australia's industries barely compete on level terms with British producers in spite of tariff defences which to us seem extravagant. Similarly, no doubt, Canadian manufacturers would claim that their present mead of protection was the least necessary to ensure equal competition with countries with depreciated currencies and lower wage standards. There, indeed, rather than in the food tax issue or in the Russian bogy, lies the real crux of the problem of Ottawa, on which will turn the realisation of its inspiring ideal, the progressive freeing of trade within the British Commonwealth.

Still less of positive decision has been achieved in the first ten days on the monetary side. The most striking feature, perhaps, of the opening speeches was the great importance attached by Dominion spokesmen to this part of the Conference's work. Mr. Coates in particular made it clear that unless by some means the prices of primary products were soon raised, the mere widening of New Zealand's potential markets would be of little value, and he explicitly challenged the Chancellor of the Exchequer to declare a reflationary policy, which would be adopted by the British Government and the Bank of England in an effort to secure the progressive restoration of the price level; while Sir Atul Chatterjee showed unmistakably that not for nothing had India sent out as delegates two of the most outstanding financial experts of the Conference, Sir George Schuster and Sir Henry Strakosch. These two countries would probably be the first in the British Commonwealth to find it necessary to depreciate their

exchanges relative to sterling as a means of readjusting their internal price systems, if no way were found to raise prices within the whole sterling area. On behalf of South Africa, on the other hand, Mr. Havenga uttered a reasoned and moderate defence of the gold standard, and many of his arguments would apply with equal force to Great Britain, for whom stability of international exchanges, outside as well as within the sterling area, is almost as important as a rise of world prices. At any rate, so far Mr. Chamberlain has not granted the assurance that was demanded of him, refusing to commit Great Britain to a measure of inflation which it might prove impossible to carry through without an excursion into unsound public finance. One reason for this refusal is reputed to be the fear that a rise of prices in Great Britain would be blamed on protection, but there is a sounder argument in the uncertainty at this moment as to what is to be the course of monetary events outside the Commonwealth. Money is flowing into the United States, where security prices are rising and where there are signs of a revival of public confidence and purchasing power. An inflationary development in the greatest gold standard country might change the whole face of monetary circumstances, and the possibility of it fully justifies present caution. It is at once a handicap and an advantage that the Ottawa Conference is taking place at a time of such disturbed economic conditions. Decision is rendered the harder, but the necessity of brave decisions is the more keenly brought home to every responsible statesman.

Ottawa.
July 30, 1932.

THE TRAGEDY OF JAPAN

FEW countries have been so profusely described as Japan, and few so profoundly misunderstood. A country so remote naturally invites attention, but usually it stimulates the pens of those writers who deal in the picturesque, the mysterious, or the startling. It is true that her intricate language and strange history form a barrier against easy comprehension; but her situation is clear enough to those who will take the trouble to examine it without prejudice, and to pay attention to processes rather than to isolated and often transient phenomena. It is for this reason that, in the following pages, an attempt has been made to relate present cultural conditions to past history, and to show how those conditions may react upon foreign policy.

I. The Effects of Seclusion

WE do not know very precisely the composition of the Japanese race, but we can be pretty sure that it includes Mongolian, Polynesian and (through the Ainu) Caucasian elements, a blend surely without parallel in ethnology. One would expect a people with such a racial heritage to play an important part in the world's history, a part determined by vigour and versatility; and yet, looked at with an unromantic eye, their progress through the centuries may be read as a tragedy rather than a triumph. Such an unexpected destiny cannot be simply explained, but there can be little doubt that the history of Japan has been in a large measure determined by her geography. Given such promising racial material, those temperate islands ought to have nurtured a people fit for every adventure of the body and the spirit; but, remarkable as their achievements have been, it seems that their free growth

has always been thwarted by their topographical relationship to the Asiatic mainland.

The early recorded history of the Japanese shows us at the dawn of the Christian era a fairly homogeneous people composed of loosely organised clans; if not pugnacious, certainly warlike; not barbarous, but culturally somewhat backward, and depending for their cultural advance upon knowledge gained from the Asiatic mainland, where the great Han empire was at the zenith of its power. It is to be noted that cultural influence from China could only operate at a distance. The insular position of the Japanese, though it doubtless saved them from the imperialist ambitions of the Han emperors, limited the possibilities of cultural contact. The position of England, an island on the edge of the European continent, has often been compared to that of Japan in relation to Asia. But the analogy is misleading. It is to-day eight hours' steam across the Straits of Tsushima to the nearest point (which is in Korea, and not in China) whereas it is a bare twenty miles across the straits of Dover. The difference is important. Even had the Chinese or the Japanese been better navigators than in fact they were, their intercourse was bound to be thin and discontinuous. So it was in the first few centuries of our era; and so it remained even when, from about the year 400, Japan, now a centralised State, began to send embassies to the Chinese court, and missions of scholars to acquire new learning. The dangers of shipwreck, the difficulties of language, and perhaps some instinctive fear of the strength and size of China, combined to keep their intercourse on a distant, impersonal footing. There was some going and coming of monks and traders, a certain immigration of experts from Korea, and also, though rather less, from China; yet, on the whole, there was no real contact, much less a fusion of races or cultures. Contrast this with the experience of England, subject to wave after wave of cultural invasion from different parts of the European continent, and even ruled by monarchs who claimed the throne of France.

It is not surprising then to find that, though the Japanese earnestly strove to adopt the civilisation of their neighbours, they paid a heavy price for their insulation, for they were thrown constantly upon their own resources, and were in the position of an earnest young man who has educated himself by correspondence, but has been deprived of the stimulus of direct association with other minds. From about A.D. 500 they adopted the Buddhist religion, and soon they took over, almost without change, the administrative system of China, and also applied to their own language the Chinese script. These were remarkable and praiseworthy efforts to improve themselves, for it is to be observed that they availed themselves voluntarily of what China had to offer, and were not at all in the situation of the inhabitants of the British Isles, upon whom one culture after another was imposed by conquering peoples. But, for that very reason, the cultural metamorphosis was never complete. In reading Japanese history up to about A.D. 900, one cannot escape a feeling that the borrowed culture was not assimilated, but laid upon the surface; and that, though in many respects it made for material and moral advance, it acted on the whole as a check to free development. This judgment is confirmed by later history. Most of the borrowed political principles proved unworkable and perished as atrophied forms which only clogged the growth of native institutions. In the end, the conflict between Chinese theory and Japanese sentiment resulted in disastrous civil war and the establishment of a militant feudalism. Perhaps this was an orthodox development which would have taken place in almost any circumstances, an inevitable phase of social evolution; but certainly it is directly traceable to the fact that the imported culture tended to repress the vigorous part of the native character, and that the feudal strife which, with very little intermission, followed from about A.D. 1100 to 1600 was, in essence, a revolt of the Japanese against Chinese civilisation, as it had been transplanted in Japan, its formalism, its pedantry, its general unsuitability to their lively temperament. This is not to

pass judgment upon Chinese culture, but merely to observe that what the Japanese had borrowed was only certain outward forms of Chinese civilisation, proper to Chinese soil and circumstance, but of necessity diluted and distorted in their passage across the sea. Indeed, it is doubtful whether a culture can be transmitted from a distance; or, if it can, whether it in truth confers a blessing upon its recipients. Material advantages the Japanese certainly gained from China, such as a knowledge of useful arts, of which writing was the most important, and of Indian and Chinese philosophies. But these they could have acquired without imitation of other Chinese models; and though we cannot balance imponderable values we may at least conclude that the power and prestige of China obliged the Japanese to take over, along with some profitable knowledge, some very uncomfortable doctrines and customs. The mediæval Japanese seem to have felt uneasy on this score, to have considered that they had, perhaps, swallowed more than they could assimilate. About A.D. 900 they brought diplomatic relations with China to an end, which means that they no longer regarded China as the fountain of civilisation, and thought that they could stand on their own cultural feet. The situation thus created was remarkable, since it showed that the Japanese were attempting to develop in isolation; truly a bold experiment, if, as we may suppose, a nation, like an individual, cannot grow and flower without fertilising influences from outside. It might be argued that by A.D. 900 the T'ang dynasty of China was nearing its fall and there was nothing which the Chinese could at that time teach Japan. If that is so, then it was all the more unfortunate for Japan, so situated that her only neighbour was unable to provide her with stimulus and example. In point of fact, intercourse between China and Japan did not cease with the cessation of diplomatic relations, for there was some trade, some interchange between scholars; but, on the whole, it is true to say that for several centuries after the year 900, Japan led a secluded life. During those centuries, her own

institutions underwent many changes. She modified or replaced many of her Chinese borrowings, she developed Buddhism on peculiarly national lines, and she made creditable advances in the arts; but all her activities were confined within her own borders, and it is not to be wondered at that she thus evolved, by turning in upon herself, a unique, but extremely limited, culture.

The contrast with China is striking. From Han times at latest, that self-sufficient country had been in regular intercourse with western Asia, and in indirect trade relations with Europe, while by the seventh century, Chinese traders and monks had worn ancient tracks overland to India, Chinese vessels had sailed probably as far as the Persian Gulf and Roman envoys had appeared at the Chinese court. It may be true that external influence did little to modify the powerful individuality of Chinese culture, for China seems always to have regarded herself as the centre of the universe, the sole source of wisdom, but equally it may be said that one of the essential characters of her culture was its capacity to absorb and assimilate foreign elements. In this respect her history is one of vast sweep and variety. Its scale is prodigious. The Han empire extends to the Caspian. It crumbles, and China is ruled by Turkic sovereigns in the north. Then follows an age in which Indian religion spreads all over Chinese soil; a new Chinese empire arises. But T'ang China must struggle to defend herself against Arabs in central Asia, and nomadic peoples in the north, and soon she withdraws within narrower frontiers, both physical and intellectual. There follows political chaos, leading to the Sung renaissance of the tenth century, a powerful reintegrating movement, which restores ancient Confucian tradition, but gives it a new life and a new significance. China has regained cohesion. So much so that her Mongol conquerors in the thirteenth century, speedily subdued and chastened by her institutions, serve as a medium for the spread of Chinese culture over the Mongol empire. Soon the Mongols withdraw. The Ming emperors rule China for peaceful

centuries until their misrule brings the Manchus into power, and from about A.D. 1700 the empire again stretches towards its old distant borders.

This is a history of spacious rhythms, of the ebb and flow of great races; and even if we allow that the Chinese preserved unchanged the essence of their aboriginal culture, we must admit that its shape and substance were determined in a large measure by alien influences, whether they were absorbed or whether they were merely resisted. It is effort, strife, perilous contact with new forces, that gives to a civilisation variety and strength.

To the Japanese these harassing but salutary experiences were denied. Left to themselves, they developed their own metropolitan culture, which was of Chinese parentage, to the point of exhaustion. It was local and partial, and it languished because of its own futility, while the more vigorous elements in the Japanese people spent their energies in civil war. The feudal struggle lasted with brief intermission until about A.D. 1600. During that long period Japan twice came near to entering the main stream of world affairs. In 1274 and 1281 Kubla Khan attacked her shores, and she might thus have been brought within the orbit of the Mongol empire which then stretched into Europe; but the invaders were beaten off and Japan once more withdrew behind her own cultural frontiers. In her subsequent history, it is easy to perceive a certain restlessness, a dissatisfaction with her restricted opportunities. Japanese vessels began to make long voyages, commercial intercourse with Asiatic ports grew closer, and new intellectual currents flowed from China under the Ming dynasty. By 1500, Japan was in a fair way to taking part in world movements which were impelling the ships of Portugal, Spain, the Netherlands and England over all the oceans and bringing distant continents together. By 1550, Europeans had landed in Japan, by 1600 the Japanese knew a great deal about Christianity and firearms; and even a wise prophet might then have foretold that Japan would soon partake in the new world-wide traffic of goods and

ideas. Yet the prophet would have been wrong. The Japanese had always liked foreign goods, and they had welcomed foreign ideas so long as they might ponder upon them in seclusion. But it was of the essence of this new enterprise that it could not be conducted in solitude. It needed either partners or antagonists; and such conditions were unpalatable to the rulers of Japan. They, after all, had by now reduced the feudal chaos to some sort of order; they were firmly enough seated in the saddle; they had long experience of the arts of government and they may well be excused for concluding, once they had grasped the significance of militant religion and colonial adventure, that they were best left to themselves to exercise their traditional skill. So they paid the price of isolation, and from about 1650 they cut themselves off from the world. It cannot be proved that they made here a great political blunder, though it is arguable that no harm would have come to Japan had she taken the risks of contact with foreign nations. But the effects upon her cultural development were profound, and almost certainly in the long run adverse.

II. The Grip of the Past

IT may be argued that their long period of rest and incubation prepared the Japanese for the strain of adopting Western civilisation in the nineteenth century, and it is no doubt true that in the protracted peace which began in 1615 there were stored up reserves of energy which proved of great value when the Japanese decided that they must race after Europe and America. From 1615 onwards they had settled down to ruminate over their own culture, and they had produced little but elaborations of their own refinement. Learning, the arts, government, trade, either languished or uneasily craved new outlets which were denied to them by the restrictions that Japan had placed upon her own development. In the eighteenth century she was both economically and culturally feeding upon herself,

and she might well have starved in the process had not her own vitality forced her to burst her bonds. It is not surprising, then, to find her from about 1850 ardently adopting the civilisation of the industrialised Occident, and to all appearances rapidly striding towards success. In the common estimation she has to-day so fully and competently followed the Western pattern that she ranks among the strongest of the nations. Yet even her friendliest critics find some ground for misgivings, some reason for wondering whether in truth her development has been so rapid or so sound as it at first sight appears. We need not here consider whether the occidental pattern was worth following, since it seems certain that for good or for evil the industrial society must absorb all types of culture. But it is useful to enquire how far Japan has adapted herself to her new framework. When in 1868 she restored her monarchy and entered the modern world she was heir to a civilisation which was unique but which could thrive only in seclusion. The energy with which she attacked her new problems had been stored up during a long period of quiescence, but that same period was also one of repression, of inhibition as well as of rest; and perhaps this explains why the civilisation of the industrial Occident was taken over with much vigour and little discrimination.

All the material features of this civilisation were speedily appropriated. Where industry and determination were needed they were forthcoming. Long political experience had enabled the leaders of Japan to provide a background of peace and order for their experiment, and feudal discipline ensured an obedient, laborious populace. It was not difficult to lead in the chosen direction a people so homogeneous in race and so uniform in experience. But to say that their acceptance of foreign institutions was unquestioning is to say that it was uncritical; and there are many signs to show that the burden which Japan shouldered in those days was heavier than she knew. Once before, in the seventh century, she had taken over the apparatus of a foreign social order and had found by

experience that she could not make it work. This failure did not seem disastrous because she was then able to cut loose from her teachers, digesting such lessons as she could and rejecting the remainder. But when she adopted a Western way of life, she was bound to keep it up. The choice was final, for our industrial civilisation is born of the traffic between peoples; it is a confederation, however loose and uneasy, and those who are not its members are its slaves. But, with all its flaws, our civilisation has grown logically out of our own history and each people in Europe has contributed something to its present character. There are centuries of European thought and habit behind its simplest manifestations, whether good or evil. Surely the Japanese were undertaking a perilous and difficult task when they set themselves to reproduce that civilisation without repeating the processes by which it was formed? Has not the divergence between their traditions and ours led to inevitable disharmonies in their lives as a nation and as individuals? How and when are these disharmonies to be resolved? These are questions which present themselves constantly to any thoughtful observer of Japanese life, and, though the answers lie hidden in the future, some instruction may be gained from elaborating the questions and relating them to observed facts in the present and the past.

First perhaps comes the problem of the reaction of the individual Japanese to foreign persons and foreign things. A Japanese in intercourse with a European (and here for convenience European may be used to include American) cannot help feeling a sense of racial difference. An Englishman, however insular, knows or feels that another European is of his own stock, and (to take an easy test) has no deep-seated prejudice against, let us say, an Anglo-French or an Anglo-German marriage. But a Japanese must always feel that in intercourse with Europeans it is he who must give up something of his own individuality. He must speak the Europeans' languages, accept their standards, even eat their food and wear their clothes. Usually he is

very ready to do these things, being rather proud to exhibit his adaptability; but beneath his courtesy it is not hard to detect an effort, and sometimes even a certain resentment. It is rare for acquaintanceship between a Japanese and a European to develop into intimacy. The barriers are almost insuperable. There is the prime barrier of language, for the number of Europeans with a fluent knowledge of Japanese is negligible and the Japanese themselves are poor linguists. There is the barrier of custom, for the personal life of most Japanese is governed by a habit and a morality often mystifying and sometimes repugnant to the European mind. The Japanese have not yet escaped from the feudal tradition, and the virtues they most admire are those which promote the welfare of the group rather than that of the individual. To a Japanese the European seems loud and egotistical; to a European the reserve of the Japanese seems a stupid want of frankness and their self-sacrifice on the altar of the family or some larger group often a wanton repression of personality. Their best friends have to admit that the Japanese are lacking in spontaneity, and one who has dealings with them is usually irritated by their caution and secretiveness; characters which he is tempted to ascribe to slowness of wit rather than to astuteness. Whether these mutual criticisms are valid or not, the fact remains that association between Europeans and Japanese is generally conducted at the cost of strain upon both parties. The reasons for this incompatibility seem tolerably clear. There is very little common intellectual territory. It was easy enough to replace the jinrikisha by the Ford car, but it is not possible in a few decades to substitute for the inhibitions of a sequestered feudalism the European mental habit, which is by contrast speculative, lively, individualist and cosmopolitan. Yet those who have come into contact with Japanese in Europe will probably protest that they have gained an altogether different impression of their character. The Japanese, it will be said, show themselves gay, friendly, nimble-witted, interested in everything. They appear to subscribe

freely to European standards and to be marvellously at home in their European environment. All this is true. Delightful young men proceed to Oxford or Cambridge, where they lead extremely English lives. Charming diplomats cut an elegant figure in foreign capitals, where they are admired for their social gifts. Scholars attend conferences abroad and make a good impression upon their foreign confrères. Yet when they return to Japan there can so often be observed a gradual lapse. The frankness and the gaiety disappear, to be replaced by grave and formal courtesy. Their environment gets hold of them, they are the victims of a cruel social pressure and they are in the grip of a powerful nationalism. If this is true of those small numbers of Japanese who travel abroad, how slight must be the effect of European culture upon those millions who know it only by hearsay or through its less admirable external features.

The truth is that European culture has touched only the surface of Japanese life, and though it is open to any Asiatic critic to challenge the superiority of European culture, it is extremely doubtful whether any people which chooses to base its life upon mechanised industry and foreign trade can preserve its own culture intact. It is indeed probable that its survival must depend upon the measure of its adaptation to world-wide standards. It may be that a country so vast in bulk, so self-sufficient as China can select from European culture such elements as seem to suit her, and incorporate them in her own economy; but it is very doubtful. Japan, certainly, cannot do this. Her traditional culture, as we have seen, is one which depends upon insulation. It is a delicate forced plant which must shrivel under the rude winds that blow about the modern world. Politically it is already an antiquated survival, a brave attempt to perpetuate the age of myth. The Emperor is of divine ancestry, his subjects are his children, and his statesmen still believe that the people should be obedient and virtuous. They cling to the feudal regimentation of society, they deplore the need to improve the status of

women, and they shiver at what they style "dangerous thoughts," in other words, at any speculation which may bring doubt upon their existing institutions. It is perhaps one of the gravest charges that one can level against the ruling classes in modern Japan, that they are afraid of new political ideas. There still lingers that timidity, mixed with a certain naïve self-satisfaction, which made them cut themselves off from China in the Middle Ages, and from Europe in the seventeenth century. The exclusionist school is not dead, and a cynical observer might well suppose that Japanese statesmen, when confronted with some European doctrine which is unpalatable to them, are apt to argue to themselves that it does not apply to Japan. This perhaps explains some discrepancies between their public professions and their subsequent acts in relation to such matters as the open door in China, and the Kellogg Pact. Their Foreign Ministers, enlightened men, may have international minds and speak with conviction upon peace and friendship, but behind them are serried ranks of politicians and officials, still in large measure imbued with feudal ideology. It is true that a good case can be made out in defence of Japan's hesitation to subscribe to European doctrines, which can be summarised by saying that the practice of European, and (we may specifically add) of American, statesmen does not square with their professed principles. The West has not in the past set any conspicuously noble example in international affairs, and we cannot boast of success in controlling our economic development, so that the average Japanese may be excused if he concludes that he had better conduct his affairs according to his own practical wisdom, while paying us the compliment of using our jargon. On a short view this is a plausible case. But it leaves out of account the important truth that there are in the Western world strong currents of liberal thought which, though they may not often find expression in political action, are none the less genuine and characteristic of our culture. It is here that Japan is out of touch with Western thought to her own detriment.

Nobody who knows the Japanese at all intimately will suggest that this deficiency is due to inherent weakness in their national character. It is their unfortunate environment, their position far across the salt, estranging sea, that makes it hard for them to grasp the essence of our minds; for our tradition reaches back to a Hellenistic origin from which they are as alien as can be.

III. Mistrust and Misunderstanding

CLEARLY it is of importance to the world that their mistrust and misunderstanding of us should be removed. Yet the course of events in the last few decades has tended rather to confirm the Japanese in their feeling that European civilisation has conferred upon them some very dubious blessings and struck them some very hard blows. They might be excused for thinking that they have gained from us little but trains, trousers and trouble, for in retrospect their recent history appears to them as a record of rebuff after rebuff at the hands of foreign Powers. Introduced into the nineteenth century world of struggle for territory, they followed the example of their professors and engaged in war with China, only to have the fruits of victory denied them. They were promising pupils in the science of destruction, and by defeating Russia secured from the world a respect which had hitherto been denied them, and even, ironically enough, a certain patronising approval of their arts of peace. They applied themselves with patient energy to manufacture and trade, and their success was ascribed by the West to dishonesty. Through the adoption of Western technique in industry, and through the benefits of foreign commerce, the growth of population was stimulated till it pressed upon the limits of subsistence. They endeavoured to relieve the strain upon their very restricted domestic resources by emigration and the exploitation of undeveloped lands outside their borders; and at almost

every point they were thwarted by foreign Powers. Canada, Australia, South Africa, the United States, exclude Japanese from their territories or subject them to indignities. They strive to maintain their teeming masses by earnings in foreign trade, and tariff walls rise high against them in all their chief markets. They are distracted, they do not know where to turn. East of them lies the United States, their best customer, whom they dare not offend and to whose preaching they must perpetually listen. West of them lies China, overwhelming in size and population—a potential market, it is true, but ever looming over them as a potential danger. Can it be wondered at that Japan, living near the edge of that region of ferment in eastern Asia, tries, however mistakenly, to take advantage of moments when other Powers are preoccupied, to secure what seems to her some firm foothold on shaky ground? Can it be wondered at that the Japanese in general, knowing only the surface of European life and finding it in all but its strictly material aspects not sensibly superior to their own, discount its idealism and regard such organs as the League of Nations as only further apparatus for confounding their policies?

It is for such reasons as those suggested above that we have described Japan's history as a tragedy rather than a triumph. Her situation to-day is one which an Englishman should sympathetically consider. A small island country inhabited by a vigorous race, but over-populated and possessing scanty material resources. The English, by happy fortune, have been able to spread all over the globe, and whatever may be the future of their native land, their character and tradition will continue to influence the development of mankind. Such high destinies can scarcely be reserved for Japan, for her culture is not of the proliferating kind. Nevertheless her people would have much both to gain and to contribute in a world where intercourse was freer, less tainted by suspicion than it is to-day.

A practical minded reader will exclaim, "But this is mere vague benevolence!" and he will enquire what benefit we may expect to gain from Japan by according to her different treatment. The question is legitimate, and we must attempt to answer it. Shortly, the reply is that the modern society of nations cannot afford to have the mind of one of its important members poisoned by a feeling of mistrust and misunderstanding. At greater length the question can best be answered by an attempt to appraise some aspects of the national character of the Japanese with a view to showing how they may contribute to the progress of the world at large.

Perhaps the first thing that strikes a student is that the Japanese are not, as a people, given to philosophical speculation. They are sharp observers, deeply interested in the outward shape of things, so that all the external manifestations of European civilisation filled them, in the sixteenth century, and again in the nineteenth, with a restless curiosity and a determination to master the new knowledge. It is for this reason that they have been able in so short a time to make such great material progress. But they have felt no keen desire to explore the intellectual dominions of the West. Their minds never seem to have had a metaphysical bent. When they adopted Buddhism from India by way of China, they paid great attention to its dogma and its ritual, but its philosophic flights, though reverently accepted, were reserved for academic uses; and the same thing may be said *mutatis mutandis* of their reception of every doctrine they have subsequently imported.

This interest in the immediate, this neglect of the remote, have been lately described in scientific terms by an eminent ethnologist who considers that

> the Japanese temperament is essentially "extravert"; interest goes out immediately to surrounding objects and people, rapid conclusions are formed, allowing the obvious features of a situation to be quickly understood and vigorously handled; there is little tendency to abstruse meditation or desire to transcend experience by abstract reasoning or to substitute for it ideal constructions.

From this diagnosis flows naturally an explanation of much that is characteristic of Japanese life to-day. There is little or no blending of cultures, but a confusion, even a conflict. Industrialism at almost every point is hostile to the native tradition. The result, says the authority just quoted, is "a kaleidoscopic mixture which among a less hardy people might be thought to produce an almost intolerable strain." But in truth the strain is almost intolerable, and its evil results are patent. In the home there is a struggle between the family system and the individualism which is encouraged by competitive manufacture and trade. In the school and the university there is a struggle to reconcile the claims of the native culture with Western learning, and the burden upon students has tragic consequences. In administration there is the perpetual difficulty of getting results out of a machine on the Western model run by operatives whose life has a predominatingly Eastern background, a difficulty visible, for instance, in post offices and railway booking halls, and graver though less obvious in most branches of government. Examples might be multiplied, but these will suffice to show what stresses have been set up in the social and political organism by such incompatible forces. The wonder is that the Japanese have come through the ordeal so creditably. No doubt, in some ways the strife and the effort have benefited them; and in a suitable environment they might evolve from the clash of two cultures an admirable version of their own. But the atmosphere is unfavourable for such an experiment, since their energies must be centred upon the plain problem of subsistence. They have to provide for a population which is growing faster than its means of support, and is denied outlets by the rest of the world.

It is one of the cruel ironies of the modern world that the people which has by general consent best learnt the lessons of its Western teachers is disliked and excluded by almost all the great States. The Japanese abroad are mistrusted because of their virtues, and not their vices.

They are good citizens, quiet, orderly, industrious, thrifty, and the only valid charge against them is that they tend to gather together in small communities of their own and to live below the standard of the other workers in their adopted country. Even if this charge could be generally sustained, it would not be serious. In the first place, the countries in which Japanese for preference settle, such as the United States, have owed their development in a large measure to imported labour willing to accept a lower wage than the native-born workman. Thus, in laying the first transcontinental railway track Chinese labour was important, while many heavy industries have for long depended on unskilled manual labour from backward parts of Europe. In the second place, it is notorious that where free immigration is allowed, immigrants soon become, from an employer's point of view, only too ready to claim the highest available reward. Japanese emigrants to America in recent years, before they were entirely excluded, never felt secure, and it is not unnatural that they should have remained clannish and aimed merely at saving enough money to keep them in comparative comfort in Japan. But it by no means follows that, if they were admitted freely, or even in agreed numbers, to America or Australia to-day, they would behave similarly. Life in Japan, in many of its physical aspects, tends to approximate more and more to the Western type, so that it is more and more simple for a Japanese to become habituated to existence among Western people. The pressure of population at home, combined with a certain relaxation of traditional family bonds, lessens the pull of their native country upon expatriated Japanese, and it is to-day no uncommon experience to find a Japanese returned from a long sojourn abroad quite ill at ease among his home-keeping compatriots. Altogether, it is probable that, under favourable conditions, the Japanese are among the most assimilable of peoples in the cultural sense.

But it must be admitted that they are not regarded in

most countries as racially assimilable, if we may use a term to which ethnologists would probably object. There is on both sides a prejudice against the mixture of European and Japanese stocks. Consequently they tend in most countries to segregate themselves in communities of their own, thereby arousing suspicion and dislike, although their behaviour is usually unimpeachable. But given free association and some intermarriage there is no doubt that in countries like Canada or the United States they could be comfortably absorbed in considerable numbers, though in countries with a strongly colour-conscious "white" population, such as Australia, feeling against them would be overwhelmingly strong. In European countries there is no room for them. In tropical countries they probably cannot settle permanently, since they belong themselves to the temperate zone. Altogether their situation, as we have already suggested, is a tragic one. They are not of the East, and the West rejects them. Yet to those who know them well it seems not only that they have much to offer to us, but also that the one thing which they need most of all is free and close association with the West. Their own sequestered life is full of inhibitions, vestiges of not very remote feudal times; but not far below the surface, waiting to be vitalised, are those admirable qualities of a gay, adventurous kind, to which we have already alluded, warm qualities of a Latin type, courage and æsthetic sensibility, which ought to be poured into the common stock of mankind. It is intimate touch with Western minds and temperaments that they require, some real give and take of thought and feeling instead of the mere interchange of counters and commodities which at present constitutes the intercourse between Japan and the Western world. The barriers which stand in the way of such intercourse we have already indicated—distance, language, tradition. But until they are surmounted we cannot expect Japan to subscribe intellectually to European doctrines of conduct for either the individual or the State.

The Tragedy of Japan

IV. A Desperate Policy

PERHAPS this conclusion will provide a key to some of the current and future policies of Japan. First it must be understood that, from the very fact of her long isolation, Japan has no tradition of international politics. Inbred in her ruling classes is an idea that intercourse with foreign nations spells aggression or interference, an idea which her history since the Restoration of 1868 has done nothing to remove. In matters of domestic administration Japanese statesmen have inherited feudal principles. Their fathers or their grandfathers were men of great practical experience in government, conducting affairs according to a highly developed, if limited, social ethic in which fidelity and a disciplined obedience were cardinal. Many of the leaders in public life to-day are acquainted with European social theory only by hearsay, and European social practice, as they observe it, is not so conspicuously superior as to urge them to abandon the doctrines of their ancestors. It should not be inferred from this that they are naturally antagonistic to new conceptions. On the contrary, as has already been made clear, the Japanese have always been interested in any teaching presented to them, for they are curious and eager to learn. But because their group feeling, their nationalist sentiment, is one of the strongest elements in their make-up, they examine all new things with the intention of adopting what seems likely to be useful to themselves, and they are not receptive of general ideas. It will be understood, therefore, that the seemingly occidental fabric of the State in Japan rests upon peculiarly native foundations.* It is true that certain statesmen and publicists in Japan are men whose minds are of a cosmopolitan cast, and who are in sympathy with liberal thought from whatever source it springs; but perhaps by reason of their very excellence, they are out

* See an illuminating article in the London *Times* of January 16, 1932, by its Tokyo correspondent upon party politics in contemporary Japan.

of harmony with common political life in their own country and their influence is small compared with the influence of those who preserve the narrow and somewhat truculent mentality of the former military class. Those who think on international lines seem, indeed, to have nothing to offer their compatriots, who are, on the contrary, thanks to that "extravert" character described on an earlier page, impressed by immediate and tangible objects. That is why the Manchurian policy of Japan arouses no grave misgivings in the mind of the military party which inspired it or the public who have accepted it. It offers action, results, an outlet for circumscribed national energies. If it is inconsistent with the spirit of international harmony, is Japan any worse off for that than she was before? Can the Powers which exclude Japanese subjects from their own territory be trusted when they profess international amity? Do force and money rule the Western world, or do they not? These are the questions which naturally arise in the minds of the average Japanese, and if we wish them to be answered in a manner favourable to ourselves we must instruct them by example, and not by precept.

Let us, then, briefly recapitulate our somewhat diffuse arguments. They amount to this: Japan internally is in a state of stress, both cultural and economic. The difficulty of reconciling her own cultural individuality with the conditions imposed upon her by occidental civilisation produces a strain both upon the individual and the nation as a whole, which results in a frame of mind leading easily to antagonism towards the West. The difficulty of making ends meet in a poor country forces the Japanese to look abroad for new sources of wealth. But, as we have seen, they are thwarted at every turn. Only in China is there territory which they can perhaps exploit. It is a dangerous remedy for a dangerous situation, and they are well aware of it. They know well that now, as in past centuries, their destiny must be governed by the march of events on the Asiatic mainland. Can they, they ask themselves, and with

fear rather than with hope, influence those events by their own policies ? We do not, perhaps, appreciate what terrors their situation holds for them. Let an Englishman imagine how he would feel if the greater part of Europe were inhabited by one homogeneous people vastly more numerous than his own, with a growing national consciousness, traditionally hostile. Just as the idea of a peaceful European confederation seems, alas, a dream to most European statesmen, so to the rulers of Japan the prospect of an understanding, to say nothing of a partnership, with China seems unutterably remote. It must be admitted that the Japanese have, to their credit, in the last few years tried, however clumsily, a policy of conciliation with China, and have persisted in it under great provocation. It is not only the reactionary elements which have called a halt to this experiment. There are many seriously minded Japanese who regretfully, but quite sincerely, believe that such a policy was bound to fail. They see China rapidly disintegrating before their eyes, and they ask themselves whether their best course is not to strive to save something from the ruins, and to mark out and secure at least one area which they can immunise from the surrounding contagion. It is a desperate policy, but it is intelligible to anybody who will admit that Japan's interests in China are more vital to her than the interests which the Shanghai defence force was established to protect so short a time ago were to England. It is a dangerous policy. Dangerous to Japan, because it tends to revive the prestige of the military caste, to strengthen the waning feudal ideology. Dangerous to civilisation, because it creates one more septic focus in a disordered world.

But we have largely ourselves to blame ; and unless there is a considerable change in the attitude of the Western Powers not only towards Japan, but towards one another, we may expect the Japanese to pursue the kind of policy which seems to offer immediate benefits rather than the kind which European nations have so frequently recommended to others and so rarely tried themselves.

IRELAND

I. The Oath Bill and the Land Annuities

THE development of the Irish situation during the last three months affords little justification for optimism. The issues concerning the oath and the land annuities raised by Mr. de Valera's Government remain still unsolved, and the possibility of their solution seems as remote as ever. The Oath Bill finally passed the Dail on May 19 by a majority of eight votes and was immediately sent to the Senate, where the second reading debate began on May 25. There was much speculation as to the attitude which this body would take up towards the Bill. It was known that some Senators favoured its absolute rejection, whilst others apparently believed that it could be killed by amendment, and that this course was more diplomatic. In the end the Senate passed the Bill, having first deleted sections 2 and 3, which removed the Treaty from the Constitution, and added a new section which provides that the Bill shall not come into force until an agreement has been entered into between the Government of the Irish Free State and the British Government providing that Article IV of the Treaty of 1921, which prescribes the oath, shall cease to have effect and until such agreement has been ratified and approved by resolution of the Dail. This new section was inserted in the Bill by a majority of eleven votes on June 8. The debate in the Senate was on the whole disappointing, and the voting, with one or two exceptions, was on normal party lines. Mr. de Valera's own speech introducing the Bill in the

Senate was singularly moderate and almost persuasive in tone. He argued that certain articles of the Treaty dealt with the domestic affairs of the Free State, and that owing to the alteration in status that had taken place the Free State had now the same right to deal with these domestic matters on its sole initiative as any other State in the British Commonwealth. The Treaty could not, he said, operate against us for all time when our equal status had been recognised by the British Government. The whole purpose of the Bill, apart from the removal of the oath, was to put the Treaty in its place as an international instrument. Senator James Douglas, replying for the Opposition, pointed out that the Bill raised the whole question of the Treaty obligations, and Mr. de Valera had not told them where it would lead them ; that Mr. de Valera had no mandate to take the Free State out of the Commonwealth, either directly or by back-door methods, and that the Senate would see that sufficient time elapsed to enable the people to know where they stood.

The Fianna Fail party naturally object strongly to the situation now created which will force them either to hold a general election at once on this issue, or to wait eighteen months, when the Bill can be passed in spite of the Senate. Senator Connolly, the Minister for Posts and Telegraphs, their leader in the Senate, stated during the debates that if the Senate obstructed the Bill it must be prepared to take the consequences. In other words, one of the issues at the next general election may be the abolition of the Senate, or at least the drastic limitation of its attenuated powers. It would certainly be an ironical result if the Senate perished owing to its first display of courage. One of the most interesting speeches in the debate was made by Senator O'Farrell, one of the Labour Senators, who has a clear and independent mind. Whilst he announced his intention of voting for the Bill out of party loyalty, he believed the Bill to be a breach of the spirit of the Treaty, and considered that a satisfactory settlement could have

been reached by negotiation if the matter had been dealt with in a normal manner. Failure to enter into negotiations was, he said, a sign of weakness rather than of strength. It was not bravery, but bravado. In the final debate on June 28 Senator Connolly stated that the Government would not accept the Bill, amended and lacerated as it was by the Senate, but would let it go back to the Dail as it stood.

Meantime the position as between the British Government and the Irish Free State Executive had become more clearly defined. In the House of Commons on May 11 Mr. Thomas, Secretary for the Dominions, gave a clear warning what the attitude of the British Government would be towards the matters at issue. The Bill to abolish the oath was, he declared, in direct conflict with the obligations undertaken by the Irish Free State under the Treaty of 1921. Therefore it appeared to the British Government that if it became law it would be unreasonable to expect that they should enter into negotiations with a Government which had repudiated existing agreements for further agreements with regard to tariffs after November 15, when the exemption of the Dominions from the new duties would expire. A few days later Mr. de Valera, replying to Mr. Thomas, denied the right of the British Government to dictate to the Irish people. "A measure," he said, "is being enacted here which is deemed necessary so that normal methods of government replace government by coercion. In what conceivable way can this injure the people of Britain ?" So great was the divergence of attitude indicated by these statements that considerable surprise was created by the dramatic statement of Mr. Thomas in the House of Commons on June 6 that the British Government had received an invitation from Mr. de Valera to a preliminary discussion of the difficulties between the two countries in relation to negotiations connected with the Ottawa Conference, that as a result he and Lord Hailsham, the Secretary of State for War, would cross to Dublin

that night, and that Mr. de Valera would resume the conversations in London on June 10. This announcement naturally raised great hopes on both sides of the Irish Sea, hopes which were stimulated by the friendly reception accorded in Dublin to the two English envoys, both by the people and the Government.

No Irish leader has ever had a better opportunity of decisively establishing permanent friendly relations between Ireland and England than was given to Mr. de Valera at the London conference. It was quite clear that the British Government was prepared for a reasonable accommodation, and that while the abolition, or the modification of the oath could probably be obtained by negotiation, the question of the land annuities might be left to arbitration. Some such solution appeared not only possible, but equitable, and if it had been achieved Mr. de Valera might well have taken his place in history among Ireland's greatest statesmen. But no one acquainted with his Don Quixote-like mentality expected any such result, and in the event they were unfortunately fully justified. At the first interview, in Dublin, Mr. de Valera, according to Mr. Thomas, pointed out that his ultimate aim was the union of the Irish Free State and Northern Ireland, and after that the recognition of a united Ireland as a republic with some form of association with the British Commonwealth in some circumstances and for some reasons, with the recognition of the King as head of the association. For the moment, however, he admitted that his Government had no immediate mandate for this particular course, though they intended to abolish the oath and to withhold the land annuities as well as other payments to England. After this hopeful beginning Mr. de Valera went to London, where he was politely informed that not only the present but no British Government would ever agree to such suggestions. He then proceeded to argue that the oath was forced upon the Irish people under duress, and that it was not mandatory. In reply to this argument Mr. Thomas quoted

the statements of Mr. Kevin O'Higgins, and of Mr. Duggan, one of the signatories of the Treaty, and also referred to the subsequent general elections in the Free State which had conclusively decided in favour of the acceptance of the oath and the Treaty. As regards the land annuities, Mr. de Valera claimed that they had been paid under a secret agreement behind the backs of the people, although it was pointed out to him that this agreement was discussed openly in the Dail, and that the Cosgrave Government was afterwards again returned to power at a general election. When asked to submit the question of the land annuities to the arbitration of an Empire tribunal he refused, on the grounds that the dice would be loaded against Ireland in such a tribunal. The net result of the London conference was therefore exactly nothing, save a clear intimation from the Free State Government that they absolutely refused to withdraw the abolition of the oath Bill or to admit that the oath was a Treaty obligation, that they would not agree to an Empire tribunal to arbitrate on the question of the annuities, and that they further intended to withhold other payments due to England under the Treaty and subsequent agreements. In fact, the position was worse than if no conference had taken place.

It may be asked why, in such circumstances, Mr. de Valera ever asked for a conference, and, although the question is not an easy one to answer, the correct reply is probably to be found in his fanatical belief in the justice of his claim and the reasonableness of his demands. How far he suffers from self-delusion, and how far from the domination of an *idée fixe*, it is difficult to determine; but he is one of those people, dangerous both to themselves and others, who only see what they want to see. It is certain that he entered into the negotiations with England just as if he were back in 1921 discussing the terms of the Treaty, and as if ten years of negotiation and development in the relations between England and Ireland had not intervened. What he now describes as his ultimate aim

is in reality the proposal put forward during the Treaty negotiations, probably by the late Erskine Childers, in the following words: "The proposal is that Ireland, while preserving her national independence, shall for all purposes of common concern, associate herself with the British Commonwealth of Nations, and recognise the British Crown as head of the Association." The grounds given for this demand were that England, unless Ireland were granted complete independence, would be sure, because of her contiguity, to continue her interference in Irish affairs by repression and veto. The same demand was further amplified and qualified in the famous Document Number Two, for the sake of which Mr. de Valera helped to plunge Ireland into civil war. In now reviving this demand he completely ignores the fact that the only argument advanced in its support has been blown sky high by the way in which England has for ten years scrupulously observed the Treaty of 1921, and indeed far extended its scope by friendly negotiation with the Government of the Free State. It is quite true, as Mr. McGilligan lately remarked in the Dail, that Irish independence has been won, but that there are some people who are so foolish that they cannot see it.

On June 16 Mr. de Valera addressed a further note to Mr. Thomas, in which he stated that the Free State Government would agree to arbitration on the question of the land annuities by a tribunal of a general character, provided that its personnel was not restricted to citizens of the British Commonwealth, and that the matters to be submitted for arbitration included not merely the land annuities, but the other annual payments made to the British Government by the Government of the Irish Free State in pursuance of agreements which had not been formally ratified by the Parliaments of both States. In a full year the moneys payable to the British Government by the Irish Free State amount in all to about £5,000,000, and comprise, in addition to the land annuities, sums in

respect of pensions to police, judges, and civil servants, local loan annuities, and compensation for damage to property in the Irish Free State during the years 1919–21. On June 22 Mr. Thomas made it clear in a further note to Mr. de Valera that the British Government could not agree to arbitration by a tribunal whose personnel was not confined to citizens of the British Commonwealth. To this Mr. de Valera replied on July 1 that the Government of the Irish Free State would regard it as deeply regrettable were artificial restrictions on the personnel of the tribunal to be allowed to stand in the way of the acceptance of arbitration in the present instance. Freedom of choice by the parties in the selection of their nominees was of the very essence of arbitration. He also again stated that the Free State Government disputed the claims of the British Government to all other annual or periodic payments except those made in pursuance of agreements formally ratified by the Parliaments of both States, which together with the land annuities imposed on the people of the Irish Free State a financial burden they were unable to bear. On the same date the Free State definitely defaulted in the payment of £1,500,000, being the half-yearly payment due on June 30 in respect of the land annuities.

It had now become obvious that the British Government must either take action at once or acquiesce in the default, and, on July 4, Mr. Thomas moved a financial resolution in the House of Commons (which was passed by a large majority) giving power to the Treasury to make orders imposing duties on any imports into the United Kingdom from the Irish Free State, up to 100 per cent., over and above any existing customs duties. Tracing the history of Irish land purchase, Mr. Thomas quoted statements by past leaders of the Irish people scouting any idea of the repudiation of the land purchase annuities by the Irish people. He made no charge against the Irish farmers. It was, he said, the Irish Government, not the farmers, who repudiated these payments. The motion was not

intended to start a tariff war, and when the amount due to the British Government was obtained the duties would cease. During the debate it transpired that the Irish Government was placing the amount received in respect of the annuities in a special suspense fund pending the result of arbitration proceedings. In point of fact, as the law stands at present under Section 12 of the Land Act of 1923, which has not been repealed, the land annuities must be paid into the Land Purchase Fund in any event. But in this connection it is well to remember that the Free State Government have virtually declared a moratorium as regards all arrears of the annuities due on January 1, 1932, and in many districts the farmers have stopped paying them altogether.

Meantime the news of the British Government's action had created considerable alarm in Ireland. Last year Great Britain bought food to the value of £23,500,000 from the Free State, and exports of cattle and sheep and pigs accounted for nearly three quarters of that sum. Moreover, the trade of the Free State with Great Britain is 93 per cent. of her total export trade. As Mr. R. W. Sinnott, the President of the Irish Free State Association of Chambers of Commerce, pointed out in his presidential address on June 30, the retention of our rightful share of the British market is vital to the welfare of the Free State. There is no other market for our surplus produce, and it is quite impossible for the home market to absorb that surplus. But the Free State Government counted on the fact that the British market at present relies almost solely on the Free State for its supply of cattle, sheep and pigs; they believed that the English Government would not venture seriously to interfere with this important source of food, and that a tariff war would inconvenience and injure the British consumer as much as the Irish producer.

On July 6 Mr. Thomas despatched a reply to Mr. de Valera, in which he stated that the British Government

were willing to consider any variation in the form of the arbitration tribunal which might be acceptable to the Free State, but that its members must be drawn from within the British Commonwealth. They did not know the grounds on which the Free State's liability to other payments had been challenged; but if, on explanation, these seemed suitable for arbitration, the British Government would be prepared to submit them to a similar tribunal. On the same date the second reading of the Free State (Special Duties) Bill was carried in the House of Commons by a majority of 280 votes, the Labour party's motion for its rejection being defeated. The Bill became law on July 11, and on the following day the British Treasury issued an order imposing a duty of 20 per cent. *ad valorem* on live animals intended for food, animals not intended for food, butter, eggs, cream, bacon, pork, poultry, game and other meat of all kinds imported from the Free State into the United Kingdom as from July 15. On the basis of the Board of Trade figures for the year 1931, the annual value of the British imports from the Free State affected by the new duties is about £26,000,000 out of a total of £36,000,000. On this same day the Dail rejected the Senate amendments to the Oath Bill by a majority of nine votes, and so completed the deadlock between the two Houses. Mr. de Valera's speech during the debate was more than usually dramatic and extreme. Dealing with a suggestion by Mr. MacDermot, one of the Independent deputies, that the Government should withdraw the Bill and "do the decent thing" by asking the people of the country to show whether they desired to sever their connection with the Commonwealth, he replied: "I hope to see the day when we may do the decent thing." He then proceeded to protest that no Irishman could take up the challenge with the position as it is to-day, because the British Government had never given any unequivocal declaration that they would not interfere by hostile action if the people of Ireland chose to break away completely

and have no further connection with them. On July 15, the date on which the British duties became effective, the Dail passed through all its stages an Emergency Duties Bill giving the Free State Government omnibus powers to retaliate against England. This Bill authorises the imposition of excise and stamp as well as customs duties.

Meanwhile the rapid and disastrous development of the situation had clearly alarmed the Irish Labour party, and their leader, Mr. Norton, after a long interview with Mr. de Valera, proceeded to London, where, through the intervention of Mr. Lansbury, the leader of the British Labour party in the House of Commons, he saw Mr. Ramsay MacDonald, who said that he would be happy to discuss the position between the two countries with Mr. de Valera with a view to a settlement. Mr. de Valera accordingly once more travelled to London and saw the British Prime Minister on the evening of July 15. Mr. Norton had proposed that negotiations should take place between representatives of the two Governments, but no means of coming to an agreement when these negotiations inevitably failed after, probably, months of useless talk, were suggested. Mr. de Valera asked that the new British duties on Irish agricultural produce should be removed during the proposed negotiations, but Mr. MacDonald refused to agree to such a proposal unless the Free State Government paid over the annuities then due, pending the final decision, and the negotiations accordingly broke down. The real dispute between the two Governments is, however, on the vital question of who is to act as umpire in the arbitration proceedings. Mr. de Valera will not accept a citizen of the British Commonwealth, and it is believed that he desires, as he did in 1921, that the final decision should be left to an American nominee. This attitude of mind, which is fundamental, is based on suspicion of any proposal made by English politicians—a suspicion not peculiar to Mr. de Valera—and on his desire to assert the sovereignty and complete independence of

Ireland by forcing England to accept the decision of an international court. It is precisely the same issue as is raised by the abolition of the oath. It is not necessary to go back to the days of Oliver Cromwell, as Mr. de Valera is fond of doing, in order to explain and justify Irish suspicion. One need only read Mr. Denis Gwynn's recent life of John Redmond to find an ample and tragic illustration of the treatment meted out by English politicians, and notably by Mr. Lloyd George, to an Irish national leader who endeavoured to combine Irish and Imperial patriotism. It can only be disarmed by a generous recognition of its substance, and by a concession that will disarm criticism. Were the British Government wise enough to accept or suggest, as final umpire, some person obviously not of English extraction—such, for instance, as Sir Charles Gavan Duffy, the distinguished Irish Chief Justice of Australia—their *bona fides* would be established beyond doubt. At the moment no solution seems either possible or probable. The Free State Emergency Duties Bill became law on July 22. As it was a money Bill, the Senate had no power to postpone its operation, but only to make recommendations, three of which were accepted by the Government. One of these accepted recommendations makes it possible for the Dail to be assembled at any time on a requisition of the majority of its members, and so, if Labour becomes restive, as is extremely possible, it can call the Government to account at any time. On July 25 an order was issued imposing ten import duties under this Act, seven of which are directly aimed at Great Britain, and include coal, cement, electrical appliances and equipment, sugar, molasses, glucose, saccharine, iron and steel. The importation of cheese is prohibited, the preferential rate on potatoes is withdrawn, and prohibitive duties are imposed on pig meat and pig products. The duty on British coal is 5s. per ton, and should yield about £600,000 a year if present imports are maintained. These new tariffs are clearly designed to strike at British trade where it has

to meet the severest foreign competition, and imports approximately valued at £8,000,000 are involved.

In the final debate on the Emergency Bill, Mr. Cosgrave appealed to the Government to resume negotiations with England, and said that in such an attempt they would have the support of all parties. Mr. Davin, one of the Labour deputies, said that his own party had refrained from speaking on the Bill because they were trying to bring about a friendly settlement; but these speeches had apparently no effect on Mr. de Valera, who seemed to welcome the Bill as an important step towards his object of erecting a Chinese wall around the Free State so that as little outside produce as possible may come into the country. In an appeal for peace issued on the same day, the Cumann na nGaedheal party called upon all patriotic Irishmen to use every effort to prevent the disastrous economic war with Great Britain into which the Irish people were being dragged. No conceivable victory would make up for the loss and suffering to helpless people that would inevitably be involved in such a struggle, the effects of which, if protracted, would make the difference between victory and defeat not worth the reckoning. The way to agreement lay in direct negotiation between the two Governments, and not in arbitration on legal issues. The one real requisite for success was a clear assurance by Mr. de Valera's Government of their unqualified acceptance of the constitutional position created by the Treaty. But there is little hope of Mr. de Valera listening to such good advice. He now knows that there is no chance whatever of his legal argument for the retention of the land annuities being accepted by any impartial court; but he cannot proceed to negotiate for equitable relief without a grave loss of prestige, and he has therefore decided to plunge the country into an economic war rather than to admit his real position, hoping that the resulting confusion will enable him to camouflage his mistakes and offer some avenue of escape. Unless some unforeseen intervention takes

place, the two countries must now apparently face the prospect of a barren economic war, which will finally cripple the Irish Free State. The Senate has refused to alter its attitude on the Oath Bill, which is therefore hung up until January, 1934. In the meantime much may take place, but it is clear that Mr. de Valera's followers will not permit him to risk the verdict of a general election. The sweets of office are too precious to be lightly jeopardised, and ten years in the political wilderness have made his hungry sheep clamorous for food. If he really believed in his mandate to remove the oath he should have immediately answered the challenge of the Senate by an appeal to the country before the implications of his policy were manifest. But that opportunity will never recur. Nothing but the results of his own actions can now remove him from power before his Government's normal term.

In spite of the economic war with the United Kingdom the Irish Free State Government has actually sent a delegation to the Ottawa Conference. At the last moment Mr. de Valera wisely decided that his official duties in the Free State would prevent him from attending, and the Free State delegation, which sailed from Belfast, consists of the Vice-President of the Executive Council, Mr. Sean T. O'Kelly, who is also Minister for Local Government, Dr. Ryan, the Minister for Agriculture, and Mr. Sean Lemass, the Minister for Industry and Commerce. They are accompanied by various officials, including Mr. Dulanty, the Free State High Commissioner in London, and by two external advisers, Mr. Joseph Brennan, the Chairman of the Free State Currency Commission, and Senator T. Johnson, who is the Leader of the Labour party in the Senate and a strong supporter of Mr. de Valera's policy. Under present conditions their presence at Ottawa is little more than a gesture to gull the Irish electors, because the only commercial agreements which matter to the Free State are those to be made with Great Britain, and such agreements are now ruled out in advance. As Mr. de

Valera is absent, the delegation, bearing in mind the history of the 1921 negotiations, is not likely to be foolish enough to negotiate a settlement of any vital question, and the Irish taxpayer may legitimately ask why he should pay for what is little more than a joy ride. It is of course possible that this visit to Ottawa may have an educational effect on the delegation, and it is obvious already from Mr. O'Kelly's tactful and moderate speech at the opening meeting of the Conference, and from the fact that the Irish delegation were the first to call on the Governor-General and did not attempt to make any foolish protest against the address of loyalty to the King, that environment and commonsense have had their usual result. All Ireland is, however, laughing at the fact that Mr. O'Kelly and his colleagues have appeared at Ottawa in tall hats and conventional morning dress, a garb which Mr. de Valera has decreed to be taboo for his followers in the Free State.

The Irish Republican Army and the extreme Republican element have meanwhile not been inactive. Drilling is—on the admission of the Government—taking place in many districts, and there have been numerous rumours of gun running, successful and unsuccessful, none of which have been officially authenticated. It is, however, certain that there has been a vigilant patrol of the south-west Irish coast by British destroyers, that the Free State Government was warned of what was happening, and that the Civic Guards have been instructed to keep a close look out for any attempt to land arms. On Sunday, June 19, the I.R.A. held its annual commemoration of Wolfe Tone at his grave in Bodenstown churchyard, County Kildare, where some 15,000 men paraded in military formation, but without arms. The Government took no part in this demonstration and held an official army parade at the same place on June 28, when Mr. Aiken, the Minister for Defence, delivered the usual stock oration common on such occasions, and insinuated that the Free State Army

might have to attack Ulster. The *Poblacht*, which is the official organ of the I.R.A., denounced this gathering as a mockery of Wolfe Tone. It has also recently denounced Mr. de Valera's policy of external association with England and the British Empire, stating that the national demand is for absolute sovereignty without equivocation. It also demands that the whole Free State government machine, including the army and the civil service, must be scrapped because it is anti-national and reactionary. Recently the *Irish Press*, Mr. de Valera's paper, announced a scheme to establish a new Free State territorial force, to be known as the National Guard, and the I.R.A. organ denounced this scheme, which at first sight had a sinister appearance, as an attempt to divert men of military age from the revolutionary movement. There is no doubt that the almost complete stoppage of emigration has increased the number of unemployed young men in the country and that these idle, and generally quite ignorant, boys are fertile soil for revolutionary propaganda. It is clear also that the leaders of the I.R.A. will give Mr. de Valera no quarter if he departs from the narrow path they have marked out for him. The fact that an I.R.A. officer was recently prosecuted in Dublin for possessing two revolvers and a rifle may perhaps be taken as an indication that the de Valera Government has at last realised that it cannot tolerate two armies, one of which is not under its control. Officially it still maintains its ostrich-like attitude of ignoring everything which does not conform to its statement that Ireland is for the first time at peace and that the I.R.A. have accepted the *status quo*. Although, in the case above mentioned, the facts were clearly proved, the jury were afraid to convict, and Judge Davitt (a son of the great Irish leader, Michael Davitt) promptly sentenced the potential warrior to three months' imprisonment for refusing to recognise the court. Ten days later the Government, doubtless under pressure from the I.R.A., released him unconditionally.

Mr. Cosgrave's party has maintained an active and intelligent opposition in the Dail, and has shown itself both ingenious and resourceful in debate and manœuvre. Speaking at their annual convention in Dublin on May 17, Mr. Cosgrave said that they stood for the Treaty as it stood ten years ago, not for every line nor every comma, but for such alterations as were agreed on by the high contracting parties. They wanted to continue the friendly relations of the last ten years. Whatever else has been lost by Mr. de Valera's return to power one important thing has been gained: it is now clear that one great Irish party stands decisively for a policy based on Christian relations between Ireland and England, the only policy which can in the end be of advantage, both moral and material, to both countries.

II. Mr. de Valera's Economic Policy

IF a Glasgow Communist and a die-hard tariff reformer were merged into a single personality and, having somehow managed to escape certification, became Minister of Finance in the Irish Free State, the result would probably be somewhat similar to the budget introduced in the Dail on May 11 by Mr. Sean McEntee. It reaches the high-water mark of predatory taxation and tariff imposition. Mr. McEntee's statement showed that the total amount to be provided for normal expenditure was £27,064,000, and that the total estimated revenue was £23,310,000, to which there had to be added £1,900,000 to implement the Government's proposals and promises for dealing with unemployment, relief of rates on agricultural land, and milk for children of families in receipt of home assistance, making a total deficit of £5,516,000. To meet this situation Mr. McEntee has raised the income tax from 3s. 6d. to 5s., imposed the surtax on all incomes over £1,500, increased the Corporations Profits Tax, placed a fresh

duty of 4d. per lb. on tea, a duty of 2d. per packet or bottle on packed foreign articles of food and drink, and also on cosmetics and medicinal preparations packed ready for sale, taxed all forms of entertainment except Gaelic sports and the theatre, increased the tobacco duty by 1s. 2d. per lb., taxed gramophone records at the rate of 33⅓ per cent. *ad valorem*, and complete wireless apparatus at that of 50 per cent., imposed a levy of 25 per cent. upon the hospitals' share of the sweepstake distribution, and a tax of 1½d. per copy on all newspapers and periodicals imported in bulk of which the superficial area of the front page does not exceed 320 square inches; finally they have put 43 new import duties on articles of every kind and description ranging from dressed stone to books. From these variegated tariffs Mr. McEntee estimated that he would obtain a revenue of £910,000, but in the subsequent debates many of them had to be modified and others abandoned owing to their obvious impracticability. For example, the tariff on books has now been confined to books bound in leather or artificial leather—in other words to prayer books and English novels, a strange mixture. The tariff on novels is evidently an attempt at a back door censorship. An absurd tariff on motor car bodies had also to be immediately suspended. Mr. Lemass, the Minister for Industry and Commerce, in fact admitted that in imposing these tariffs they were proceeding by the method of trial and error.

This extraordinary budget is explained by the fact that Mr. de Valera during the election committed himself to a policy of high tariffs in order to build up Irish industry, and promised large extensions of social service and unemployment relief. He was returned to power largely by the votes of men of no property and small income, and he is now doing his best to please his supporters and punish his opponents. Mr. McEntee in his budget speech accused his predecessor in office, quite unfairly, of having left a large concealed deficit, a statement which he after-

wards had to withdraw. He also said that the Cosgrave Government had left the State with a national debt of £115,000,000 and only £25,000,000 of assets. He arrived at these alarming and inaccurate figures by adding to the real debt of £22,000,000 the capital value of the land annuities, £76,000,000, which is fully covered by the value of the farms, £5,000,000 due in respect of local loans, and £12,000,000, the capital value of the Royal Irish Constabulary pensions, both of which are normal liabilities of a terminable nature payable out of current revenue, and part of the payments to the British Government which Mr. de Valera now also refuses to make. It is clear that the budget is designed to force the property owners to support Mr. de Valera's policy of withholding the land annuities, because only through his success in this project can they expect any relief from the intolerable burden now placed upon them. The civil service, which undoubtedly in the main supported Mr. de Valera at the last election, is now up in arms, because it is proposed to save £250,000 by cuts ranging from 2½ to 20 per cent. on all salaries over £200 a year.

One immediate effect of the budget was the closing down of the new factory recently erected in Dublin by the Free State branch of Gallaher, Limited, the big Belfast tobacco manufacturers, who found it impossible to carry on owing to the preferential rate of 7d. a lb. on tobacco given by the budget to firms carrying on business continuously in the Free State since 1922 and owned by Irish nationals. It might be thought that these tariffs were designed to force foreign combines to open factories in the Free State, but, lest such a result should take place, the Government have introduced a Control of Manufacturers Bill, which is intended to ensure control over the number and nature of external firms which may henceforward engage in manufacture here. No concerns established in the Free State before June 1 of this year will be affected, and no restrictions will be imposed on firms in which Free State nationals have

a controlling interest. Amusing to relate, the definition of an Irish national in the Bill would exclude Mr. de Valera himself, as he was not born in Ireland, and both his parents were not Irish. On the other hand, any external firm which now wishes to commence manufacturing in the Free State must obtain a licence from the Minister of Industry and Commerce. The purpose of the Bill is to prevent foreign competition with local industry, but, in effect, it will, of course, also prevent the introduction of any foreign capital, for harsh though its terms are, no one can say that it is the last word.

The Minister of Industry and Commerce, subject to Mr. de Valera's orders, will now be the virtual director of the country's economic life. The Irish investor is to be induced by these methods to invest his money in local industry at the cost of enhanced prices to the unfortunate consumer. Meanwhile our unemployment figures have gone up within a year from 25,413 to 31,372, and will rise much higher in the near future. The price of necessary goods is also rising in all directions. Messrs. Cadbury, the well-known English firm of chocolate manufacturers, in a letter to a Tipperary correspondent who had pointed out to them the suitability of Tipperary as a centre for the manufacture of their product, state that they have been notified by the Free State Government that a licence to manufacture will not be granted to them, and that, having regard to the economic policy of Mr. de Valera's Government and the small size of the Free State market, they could not in any event see their way to start manufacturing here. Apart from a few small factories in Dublin started to pack foreign goods imported in bulk so as to avoid the package tax, there have been virtually no serious industrial developments as a result of Mr. de Valera's economic policy, nor, as far as we can judge, are there likely to be any. On the contrary, many important projects, such as the new flour mills, which were to have been built in Cork and Limerick, have been definitely cancelled. The Govern-

ment's policy with regard to flour milling, which has been imposed upon them by certain noisy and irresponsible busybodies, is to keep out foreign flour and foreign flour millers, and to revive the small uneconomic flour mills scattered about the country. With this object, they have imposed a duty of 5s. a sack on wheat flour and wheat meal entering the Free State. Mills which are under the control of Free State nationals will be encouraged to turn out as much flour as possible, while the mills under the control of English milling firms, notably Messrs. Rank, will be subject to a quota and obliged to pay 3s. a sack for the privilege of exceeding it. The small inland mills, which cannot be worked economically, are to receive a subsidy, and flour is to be imported under licence until the local mills are able to meet the requirements of the country. At present the Free State mills only produce half the flour used here, and unless the Government exercise their power to restrict imports with great caution, the price of flour is bound to rise. To counteract this and similar results from the other tariffs, the Government have introduced a Bill which empowers the Minister of Industry and Commerce to set up a control board and to fix prices for every commodity used for the purpose of food, clothing, or as material for clothing or fuel, and any other commodity which may be scheduled by the Government. There is also to be a food prices commission and a controller of prices, with various elaborate powers and penalties to enforce their decisions. It is clear that the Government is vainly seeking a way of escape from its own folly, but one more bureaucratic experiment is hardly likely to improve the lot of the unfortunate individual, cynically described by Mr. McEntee as "Sean Citizen," upon whom this vicious circle of high tariffs and extortionate taxation is slowly but surely closing. "Sean" can, of course, rejoice in the fact that he is the raw material for the experiments in social legislation that Mr. de Valera vaguely adumbrates, and which seem to be a cross between what used to be called

Christian Socialism and the most virulent kind of economic nationalism so strongly condemned in the Pope's recent encyclical. Moreover, he can further console himself with Mr. de Valera's discovery that, when all is said and done, it is the people of this country who constitute, for the time being at any rate, the real Ireland, and who must, therefore, pay for his visions of a Gaelic Utopia.

III. The Eucharistic Congress and After

NO one visiting Dublin during the week which began on June 20 could have believed that the Free State was in the throes of a grave political crisis. A city gay with flags under the summer sun and thronged with cosmopolitan crowds for the thirty-first Eucharistic Congress and fifteenth centenary of St. Patrick's coming to Ireland, forgot, for the moment at all events, its national cares. The events of the crowded week included a great garden party given by the Irish Catholic hierarchy, a State reception by the Free State Government at Dublin Castle, and the Pontifical High Mass in the Phœnix Park, at which over a million people demonstrated the deep fervour of their faith. By universal consent this Congress, both on its religious and spectacular sides, eclipsed all its predecessors, and was a remarkable example of efficient organisation. There is probably no public place in Europe more suitable for such a ceremony than the Phœnix Park, with its thousands of acres of greensward fringed with trees and backed by the soft loom of the Wicklow hills. Here, at a beautiful altar, specially erected for the occasion, the main celebrations took place. The Papal Legate, Cardinal Lauri, was received with royal honours, and his arrival and departure took place amidst scenes of great enthusiasm. All the elements in Irish life contributed to the success of the proceedings, for it was essentially an Irish celebration, a hosting of the Gael from every country under the sun.

The leading political and public men carried the canopy over the Blessed Sacrament in the final procession, and Irish genius in art and music gave of its best to the ceremonial. Yet the observer who was conscious of the deeper spiritual realities had to ask himself the question, what marks this outpouring of religious feeling would leave on our life and national outlook? Such questions must have stirred many hearts, and indeed found expression in a remarkable address given during the proceedings by the Most Reverend John Glennon, Archbishop of St. Louis, U.S.A., who is himself of Irish descent. The Archbishop appealed to the Irish people to forget the past.

"How can we approach the altar of love," he said, "if we have hatred in our hearts, or how return therefrom if our hands are raised against our brother? It may be true, as history tells us, that a people long oppressed becomes suspicious and full of hate, and, though we know that the seeds of ill-will are not all of Ireland's planting, still may we not hope that as these days of oppression are over, so will end the hatreds they engendered, and Ireland, enjoying to-day a broader freedom, and breathing a freer air, shall cast away, as her risen Saviour did, the cerements of hatred that bind her?"

This noble appeal, as far as some of our political leaders are concerned, seems to have unfortunately fallen on deaf ears. Even the proceedings of the Congress itself were marred by the obtrusion of political prejudice. Mr. de Valera's Government issued no invitation to the Governor-General to attend the State reception at which the Papal Legate was officially welcomed. He was, however, given his proper place at the purely ecclesiastical functions. This was not the first occasion on which the Government have sought to humiliate Mr. MacNeill, for on April 24 two Ministers left a reception given at the French Minister's house because he was properly received with royal honours. For this boorish conduct the Government had subsequently to apologise to the French Minister, but when the Governor-General asked for an apology all he could obtain from Mr. de Valera was a statement that

the "whole affair was unfortunate and regrettable, and one that should not have been permitted to occur." On July 10 the Governor-General handed to the press the correspondence between himself and Mr. de Valera, which the Government first tried to suppress illegally under the Official Secrets Act, and finally released for publication when the letters had already been published in the English press. This correspondence showed that the Government, by a policy of calculated petty insults, had attempted to humiliate the Governor-General and to degrade his office. He was practically forbidden to ask distinguished foreign Catholics to be his guests during Congress week, and when it was known that he was attending the reception given to the Papal Legate by the Lord Mayor of Dublin, the Minister for Defence refused to permit the Army Band to perform. No wonder that Mr. MacNeill intimated that he should either receive an apology or be removed from his office.

Everyone knows, of course, that the insult is not intended for Mr. MacNeill himself, who is a quiet, courteous gentleman, but for the office that he holds. The issue which this correspondence raises is one, indeed, which goes to the root of the present situation. Briefly, it raises the question whether Mr. de Valera and his Ministers are prepared to observe the constitution in the spirit as well as in the letter. The King is the head of the Irish Free State, and, as such, his representative should be treated with honour and respect. The same unChristian bitterness was revealed in the attacks by organised bands of hooligans, in several parts of Northern Ireland, on the Catholic pilgrims going to and returning from the Eucharistic Congress. This disgraceful conduct was duly condemned by the Northern Government, but it illustrates only too well the bigotry that passes for religion in some parts of Ireland.

The Irish Free State.
August, 1932.

THE CRISIS IN CENTRAL EUROPE

THE title of the present article, at any rate, can make no claims to originality. It must have headed innumerable contributions to the press since the Peace Treaties set their seal on the break-up of the old order. Central Europe, a term which for the sake of convenience will be taken to include both the groups mentioned in the next paragraph, has never enjoyed a condition of normal healthy equilibrium in the post-war era, and has generally suffered from acute maladies in one or more of its constituent members. It is scarcely necessary to elaborate the reasons for this state of affairs, the majority of which fall under that convenient phrase "the Balkanisation of Europe." The purpose of this article is rather to analyse the present situation in the various countries and to examine some of the remedies which have been put forward.

Since the war the countries of central Europe have formed, both in a political and to a considerable extent also in an economic sense, two distinct groups—the victors, or rather those who benefited by the victory, and the vanquished. On the one hand Czecho-Slovakia, Roumania and Jugo-Slavia, the little Entente; on the other Germany, Austria and Hungary (Poland and Bulgaria may be included or not in their appropriate groups according to taste), one group endeavouring with the support of France at all costs to maintain the political *status quo*; the other refusing finally to acknowledge it. From an economic point of view the similarity is most marked between the defeated countries. In May, 1931, shortly after the difficulties of the Credit-Anstalt had become public, a German banking friend of the writer's pointed out how in all the critical

developments since 1914 Austria had led the way and Germany had followed. Political collapse; military collapse; revolution; inflationary crisis; stabilisation crisis; and now banking crisis. Two months afterwards his prophecy came true. Hungary, although she differs from Germany and Austria in being almost entirely agricultural, has had a very similar history. This similarity of economic development in the defeated countries was, curiously enough, partly if not mainly due to a factor which is the precise counterpart of their political attitude—refusal or inability to accept the economic limitations and the immense reduction in their standard of living that would have been the natural consequence of the political settlement. It is true that in Austria and Hungary the economic limitations were mainly the result of territorial losses and tariff barriers, while in Germany their primary cause was the pressure of reparations. But this is immaterial. Both the excessive post-war inflation—inflation is always a refusal to face facts—and the over-borrowing which characterised the period 1924-1929 in these countries were attributable to this cause. Germany hoped by borrowing so to expand her apparatus of production that reparations could be paid without sacrificing the standard of living, of course realising that she was creating a vested interest in the abolition of reparations if things went wrong. Hungary under Bethlen borrowed to maintain or improve the standard of living, to finance propaganda and to create a vested interest of foreign creditors in her situation. Austria borrowed just to carry on and support the deadweight of Vienna as before. Loans were offered in plenty to these countries because they were well known, because of old banking connections, because of their good pre-war credit record, and, last but not least, because there was an almost absurd plethora of loanable funds. Now that the fall of world prices has about doubled the real burden, it is not difficult to see why excessive debt is the principal characteristic of their economic situation.

The other group of countries have not over-borrowed—at least to nothing like the same extent. Having been poor and having grown richer if anything through the Peace Treaties, they had not the same incentive to hang on to an old standard of living. Moreover they were less well known; their banking connections were less well developed; in the case of Jugo-Slavia and Roumania their political and financial situation did not inspire confidence; so that, except for the help periodically tendered by France and for some "reconstruction" loans, money was harder to come by. Czecho-Slovakia could probably have borrowed more but was too wisely governed to do so. The specific economic difficulties of Roumania and Jugo-Slavia are thus mainly due to low agricultural prices and incidentally to financial and political misgovernment as exemplified in Professor Rist's report on Roumanian finance, which will be dealt with later; those of Czecho-Slovakia to the difficulty of disposing of her manufactured products; while all central European countries alike are suffering intensely and likely to suffer still more from the virtual throttling of trade through a new factor, which has become far more important than tariffs, namely government control of foreign exchange—an outcome of the financial crisis. The whole situation, both from the political and the economic points of view, is overshadowed by the division described above and by the conflict of interests between France and Germany, which has hitherto succeeded in preventing anything being done at all. A Franco-German understanding must inevitably be the corner-stone of any reconstruction of central Europe.

II. The Plight of the Different Countries

TURNING to the individual countries, Germany takes the first place as a matter of course. She is not only by far the most important country but she is to-day in process of making history, both political and economic.

The paramount factor in the economic situation of Germany to-day is the problem of debts, and particularly of foreign debts. The Lausanne settlement, which is dealt with in another article, is the legal acknowledgment of an undoubted fact, namely that Germany neither can nor will make any substantial payments on her political debt. Can she and will she meet her commercial obligations? This depends mainly on two connected factors: the possibility of maintaining a sufficient international trading surplus, and the possibility, under the strain caused by the efforts to maintain that surplus, of keeping the German economic machine going, with a standard of living which does not provoke uncontrollable political reaction. The most authoritative statement of the position is to be found in the Report of the Special Advisory Committee convened under the Young Plan at Basle in December, 1931. The figures presented by the German delegation to the Committee estimate the gross foreign indebtedness (including foreign shareholdings and participations) as at the end of July, 1931, to have been about 30 milliard Reichmarks, or £1,500 million at par.* Of this huge total, some £600 million was owed at short term. Taking into account the heavy repayments after the date mentioned, the Committee estimated the annual service of the debt (interest and amortisation) at from £80 to £90 million. It further estimated the German receipts on foreign investments at from £15 to £20 million. The net service (without repayment of short term debt) to be met in the balance of payments may thus be put at between £60 and £75 million. In 1931, when immense efforts were being made to repay debt by exceptional liquidation, and in fact nearly £250 million of capital were withdrawn, Germany achieved a record export surplus (including service of about £5 million) of over £150 million. The Basle Committee pointed out that the circumstances were exceptional

* All currency amounts in this article have been converted into Sterling at par.

and that this could not be kept up. The Committee was right. For the six months January-June, 1932, the export surplus totalled about £30 million, or a monthly average of £5 million as against the £12 million in 1931. Nevertheless, taking the minimum estimate of debt service requirements given by the Committee (which for a reason to be given later is more likely to be correct), *i.e.*, £60 million per annum, the present export surplus of £5 million per month will be seen to be sufficient. It must be admitted that both the May and June figures were below the average level (£4½ million in June), but if services be included Germany is still making ends meet.

This is no mean achievement in a period of intense crisis and bears comparison with that of any debtor country in the world. The efforts of other central European countries like Austria and Hungary, as will be seen later, will not bear comparison. Within the comparatively short space of five years an annual import surplus of some £200 million was turned into an annual export surplus of £150 million in 1931, and in the teeth of an unparalleled throttling of trade a surplus at the rate of £60 million per annum is still being maintained. How has this been done? By a ruthless economic contraction involving what is probably the heaviest unemployment in the world. The reductions of salaries, wages and unemployment relief enforced by governmental decrees and natural economic pressure vary approximately between 20 per cent. and 50 per cent., with a rough average of, say, 35 per cent. In estimating the practical effects of this, it should be remembered that owing to heavy agricultural protection the cost of staple articles of working-class consumption has fallen very much less than in most other countries. Even the official cost-of-living index, which has probably a certain bias in order to make wage reductions more palatable, has only fallen about 15 per cent. from the 1929 peak. At the present time, when employment is normally at its best, about 5½ millions, or over a quarter of the total working population, are out of work.

Under the German dole system, these step gradually down the scale according to the duration of their unemployment, and when they reach the lowest grade their income is about a quarter or less of their wage in employment. Large numbers of the population are thus in a state of semi-starvation. The index of production (1928 average=100) fell to 53 in January last. Nearly half the industrial life of Germany had stopped. German industry, by going in for a programme of "rationalisation" on credit, made it impossible to work at a profit unless production were maintained at a high level. This is just what has proved impossible and, as in the United States, it has resulted in a sort of creeping paralysis. The efforts, by economies, to adjust individual businesses to the situation merely accelerate the general deflation. Nor is agriculture, in spite of a protection which maintains the prices of staple products at two to three times the world market figures, in better case. Having contracted debts at high rates of interest when prices were high, it now finds it more or less impossible to earn sufficient to meet the interest, and measures of protection and financial relief, amounting almost to a moratorium, have been taken to prevent a general collapse.

Hand in hand with this unparalleled process of economic contraction has gone an increasing interference by the State in every department of economic life. The Social Democrats may perhaps find some consolation for their political defeats in the astonishing progress that Berlin has made towards Moscow. The State largely controls and owns the banks (and through them a vast proportion of German industry), the shipping trade and the heavy industries. Through the "foreign exchange regulations" it has a control over foreign trade which is not far short of that enjoyed through the Russian foreign trade monopoly. It dictates wages and hours, the level of interest rates (by arbitrary reductions), when and to what extent debts may be repaid, the level of rents, to some extent the level of prices, the flow of capital and the organisation of private

enterprise. It did not do this as a chosen policy, but mainly as the enforced result of its initial efforts to save the machinery of private enterprise from collapse under the strain.

Through all this, the "gold standard," or what has been better described as a "ghastly parody of a gold standard," has been maintained. The German foreign exchange regulations which have achieved this result are the most efficient in the world. There is very little "black market" for marks. The Germans boast of their *eiserner Vorhang* (iron curtain). All foreign exchange must be delivered to the Reichsbank, which doles it out in co-operation with a government department, the "Foreign Exchange Authority," to importers or debtors. Hitherto interest and contractual amortisation or long-term debts have been permitted to be transferred, but capital repayments have been forbidden except in special circumstances (under the Standstill Agreement, etc.). The German organisation has served as a model for those of other countries, which will be dealt with later. Rightly or wrongly, the Germans felt that the disadvantages and dangers of abandoning their gold "parity" outweighed the advantages. They feared an inflationary panic on the part of the population (which well remembers the recent inflation and knows exactly what to do). Moreover, German debts are mainly in gold currencies or on a gold basis, so that the automatic alleviation of debt which was an important result of Great Britain's abandonment of the gold standard, would not have taken place. Now that the British experiment appears to be successful, they envy Great Britain, but are unlikely to follow her example, at any rate for the present.

As a necessary part of the German effort to avoid inflation at all costs, the Reich budget has been kept more or less balanced. Disregarding the Treasury bills issued for the support of the banks, the floating debt has actually been reduced since 1930. This has been achieved partly by economies and partly as a result of the German system

which tends to throw the burden of unemployment relief more and more on the local authorities. These have almost without exception large deficits, and very few are solvent.

The financial situation remains one of intense strain, largely owing to the drain of foreign exchange abroad. The Reichsbank reserve of gold and foreign currencies has dropped from about £130 million in 1930 to less than £45 million, and it is still falling. The Bank Rate is 5 per cent. and overdrafts cost about 8 per cent., so that there is no sign of cheap money alleviating the economic situation, as elsewhere. The long-term rate, calculated on a basis of market prices, is about 10–12 per cent., but in fact, long-term money is virtually unobtainable.

In view of the situation described above, it is not surprising that there should be a growing demand for revision of private debts, which shows signs of becoming a plank in the programme of the Right parties, contrary to most of their previous declarations. Politically this is based on the argument that most of the money Germany borrowed abroad went in "tribute," the borrowing being a consequence of the pressure to pay reparations. Economically, the two main arguments are the fall in prices (and thus increased burden of debt) and the trade barriers to Germany's exports. The Reichscreditgesellschaft, a Government-owned bank, points out the impossibility of debtor countries making payments unless creditor countries are willing to take goods, and openly advocates the reduction or partial suspension, by mutual agreement, of the interest on foreign loans. Herr Hugenberg, the Nationalist leader, is said to have a plan to reduce interest on all debts, including foreign debts, to 2 per cent. As in December last the interest on all internal German securities was by decree limited to 6 per cent., such action is merely a question of degree. Had the Lausanne Conference been a failure the Germans would undoubtedly have declared a transfer moratorium. They will now probably reserve their fire

till the World Economic Conference in the autumn. Unless this Conference does something very drastic towards increasing trade and raising prices, a revision of German private debts will probably be inevitable.

In the meantime, however, as is fortunately usual in economic development, a natural correction to over-indebtedness has appeared in the shape of repurchase of obligations at absurdly low levels. A great many German securities, sound from an internal point of view, are quoted on foreign markets at a quarter to a third of their par value. They have been and still are being repurchased in large quantities by Germans. This has been done partly in defiance of the foreign exchange regulations; partly legally, and partly by evasion with the connivance of the authorities. A well-known European banker told the writer that he put the rate of such repurchase at some £25 million per annum in cash, which would represent nearly £70 million per annum par value. This, if continued, would soon make an impression even on the huge total of German foreign debt, which must already have been largely reduced by the capital repayments made last year. At a rough estimate it would repay the total debt in ten years or less. In this connection it is interesting to note that the Reichscreditgesellschaft, while advocating a reduction of interest, wished in no circumstances to interfere with amortisation, but rather to accelerate it. A vision of a Germany largely free from foreign debt both political and commercial arises. It is by no means an impossible one.

The political situation, with the tremendous swing to the Right which has characterised the last two years, is partly the product of economic distress and unemployment, but this is by no means the whole story. The parrot-cry of the Nazis, and indeed of the whole Right—"Down with the Weimar system"—expresses a deep-seated and growing reaction against the Constitution, the men who worked it, and the whole structure of society in Germany since the war. It is this reaction which gives real popular appeal to

Hitler's vague talk about the "Third Reich"; to anti-Semitism, since the influence of the Jews, as the cleverest, most adaptable and hence richest section of the population since the old order was broken up, has been enormous; to "anti-Marxism," by which is meant the fight against the trade unions and their leaders whose position and influence were established through the Revolution; and in general to most of the wild talk with which Nazi speeches and propaganda are filled. The anti-foreign and anti-Versailles talk of which so much has been made abroad really plays an auxiliary rôle; naturally the Versailles settlement and reparations were intensely unpopular, and this unpopularity was exploited by the "National Movement." But in reality practically all Germans think alike on this subject, the only differences being of method and even then in practice not amounting to very much. What then is the National Movement aiming at? What do the 14 millions of Nazi voters want? They do not really know, apart from the fact that they want a change. What do the Nazi leaders want? Mainly to get the previous holders of office out wherever possible and substitute their own men, who by now are impatient to enjoy the fruits of their propagandist labours.

Herr Hitler and his followers probably hoped to attain their ends all over Germany this year. Their electoral gains were enormous. Hitler secured 14 million votes in the Presidential elections as against 6 million in the Reichstag elections of 1930. It looked as though the movement were irresistible. Had Dr. Brüning's Government with its Socialist support and the Prussian Centre-Socialist coalition remained in power, it would very probably have been so. Even had absolute electoral success not been achieved, a Nazi-Nationalist *Putsch* might have found the Reichswehr lukewarm in its support of what many soldiers looked up on as a "Marxist" régime. Then, with nearly half the population behind him, Hitler's position might have been that of a Mussolini. But a man of whom very little has been heard

until recently went to President von Hindenburg, and Dr. Brüning's resignation resulted. General von Schleicher, sometimes known as the "Field-grey Eminence," is now said to be the real ruler of Germany. However that may be, the Papen-Schleicher Government, the personal choice of the President, may well turn out, despite the bitter attacks of Republicans, to have saved—by stretching—the incredibly elastic German Constitution. They have no parliamentary support, yet in a sense may be said to have won the elections. These have resulted in stalemate, as in Prussia. The Nazis and Nationalists, even with the support of the minor parties which sympathise with their aims, have no clear majority. The Centre has in a sense the key position, but it cannot co-operate with the Left, since the Communists and the Right could throw any such combination out. In practice, it has merely the choice between tolerating the Papen-Schleicher Government or creating a deadlock in which that Government would be the only possible way of carrying on business.

Negotiations have been in progress for a reconstruction of the Cabinet with Nazi participation. On August 9, the President, who still insists on a Government independent of party, offered Hitler important posts, including, it is understood, the vice-chancellorship. This offer the latter declined, demanding, according to an authoritative account, not merely the chancellorship but "the same position as Mussolini received after the march on Rome," a demand which the President peremptorily refused. The Nazis are apparently afraid of assuming responsibility without control. Nevertheless, if they repudiate responsibility and go into opposition, while von Papen and von Schleicher, resting securely on the Reichswehr and police, strengthen their hold on the country, they run a grave risk of losing popular support and of splitting into extremists and moderates. Whatever they do, this split is a danger, but one which certainly need not be lamented. It will be interesting to see whether the process of "turning

the national movement to practical use," a declared object of the present Government, will continue. Even if Hitler were to become Chancellor, the Nazis would not have supreme control, since the old régime, which the present Government represents, are too experienced to be easily ousted. The crisis will come to a head when the Reichstag assembles towards the end of this month.

Whatever the dangers of the assumption of power by adherents of the old régime—and there is widespread distrust of them in France—it will, at all events, be a gain if Germany, despite the most acute political strife, obtains strong government for some time to come. If real leadership is shown, the natural tendency of the German people should be to fall into line.

Austria.—Austria has presented a more or less perennial problem since the Peace Treaties confined Vienna, a city of some 2 million inhabitants, within a small territory with a population of 6 millions. She has continually been "on the verge of collapse," but in fact has continued to exist. Vienna to-day may be a mere shadow of its former self, but it is still a very pleasant capital to live in, and distress is no more evident there than in many other European capitals, Berlin for example. How has this been possible? Probably because Austria has never yet really been brought up against the facts of her situation. Certainly at no time since the war has she been really self-supporting. Her problem being essentially one of foreign trade, the trade figures give the best indication of her position. Her average annual trading deficit has been about £30 million. Invisible exports (tourist traffic, services, etc.), which in Austria are considerable, are estimated to have reduced the deficit in the balance of payments to some £12 million, which has been covered by borrowing and by the gradual realisation of assets abroad (mainly in the Succession States). This in itself might not be serious did the Austrian figures show real elasticity under the strain of the crisis. In 1931, when Germany achieved a record export surplus, the Austrian adverse

balance was still over £26 million, and the real deficit on the balance of payments, taking an optimistic estimate of invisibles, over £10 million. For the first six months of 1932 the adverse balance was about £11 million, so that, since the invisibles must have suffered a heavy reduction, the real deficit is still considerable. To this deficit, which will probably again not be far short of £10 million for 1932, should be added the service of foreign debt, roughly also £10 million. A change-over of some £20 million in the balance of payments is thus theoretically required. Since annual imports at the present rate would only total some £44 million and annual exports £23 million, the likelihood of this may be estimated. A change-over of £10 million (sufficient if there is complete default on debt) can be imagined, but, unless something very radical is done, the prospects of foreign creditors will not look rosy.

It cannot be said that Austria has made no efforts to redress this position. There has been reluctance to make the really drastic public and private economies that Germany has done. But of direct efforts to correct the trade balance there has been no lack. Foreign exchange regulations of the usual type has been in force since last autumn; clearing agreements have been made with various countries (and partly abandoned as unsatisfactory); there have been actual import prohibitions; and a tariff war with Hungary (surely a Gilbertian absurdity) has been started with the idea of correcting the trade balance with that particular country. But the result has merely been to decrease the total volume of trade, not appreciably to reduce the deficit.

In the meantime the official "gold standard" has been maintained. The National Bank and the private banks still only pay the par schilling value of foreign exchange handed to them (they virtually do not hand out foreign exchange at all). But since the schilling is quoted at a discount of about 25 per cent. on the international markets, trade is making use of other channels. These are the so-

called "black market" and the private clearing arrangements between exporters and importers. The latter allow Austrian exporters to sell their foreign exchange to Austrian importers at the world market rate, and are a fruit of the policy of Dr. Kienböck, president of the National Bank, who first realised that if transactions were confined to the official rate trade would soon stop altogether. Absurd though it may seem, there is a certain logic in this policy. As long as the official rate for the currency is at par, internal debts, which are almost invariably on a gold basis, do not rise with the depreciation of the currency. Moreover, it may act as a certain check on inflationary panic by the population. At the same time the currency is, to some extent, allowed to find its own level. This represents a compromise which may be unsatisfactory, but has not yet produced the complete paralysis of trade which promised to be the result of the original policy.

The internal position of Austria is one of incipient inflation. All other means of financing public deficits are nearing exhaustion. Taxes can hardly be increased further, and borrowing is impossible. Both the 1930 and 1931 budgets closed with a deficit of about £8 million, and for the current year a further deficit is expected. This does not take account of local government bodies whose finances are in a catastrophic state. It seems virtually impossible to attain equilibrium on the present level. *The Economist* estimates that taxes have increased since 1924 by 55 per cent., without taking into account the fall in prices. Now prices are rising—the first sign of inflation. Although controlled inflation might alleviate the situation, can it be held in check when it arises from State deficits? The industrial situation is roughly analogous to that of Germany, which has been dealt with fully. Unemployment is rather less severe in proportion. The banking situation is overshadowed by the Credit-Anstalt, which owes about £20 million to the National Bank and about £14 million to foreign creditors (guaranteed by the Government). The

standstill short-term debt of other banks is less than £4 million. Although the Bank Rate is 7 per cent. and interest rates are high, the National Bank is not really pursuing a deflationary policy for fear of the consequences to industry.

The whole situation being thus provisional and extremely precarious, and the foreign exchange reserves of the National Bank having declined to about £5½ million, the recent default on private debts is scarcely surprising. The "transfer moratorium" provides for the payment of the service of foreign debts, converted at the official rate, into a Schilling fund at the National Bank. In contrast to the situation in Hungary and Bulgaria, however, creditors will in general be free to use their schillings to purchase merchandise or to travel in Austria. The Trustees of the 1923 League loan have recently declared the Austrian default, which will certainly only be remedied if the proposed Government loan to Austria goes through.

The loan of £9 million represents the effort of the Powers to keep the Austrian problem in cold storage for the time being. It could not and does not pretend to be a permanent solution. The real question is whether Austria, in her post-war form, can ever, whatever is done for her, become a self-supporting economic entity. The old conditions of the 1922 League loan are again to be applied to the proposed loan, and these not only impose business guarantees in the shape of control, but also prohibit the *Anschluss* or, of course, since the Hague decision, even a customs union with Germany, for the currency of the loan, *i.e.*, for twenty years. There is, in consequence, naturally a strong opposition to the loan, and the Austrians are the less willing to accept it, as it is mainly intended to consolidate existing liabilities (including £3 million to the Bank of England) and to continue the service on other obligations. The Loan Bill has just been passed in committee, but only by the skin of its teeth, and it has still to be brought before the full session of the legislature. If the loan is, after all, accepted, it will undoubtedly ease

the situation for a time, but it is essential that the Austrians themselves should take more drastic steps than they have as yet done to set their house in order.

Hungary.—Hungary, although an agricultural and largely self-supporting country, is in an even worse financial position than Austria. This is due partly to her own fault, since Count Bethlen's Government was grossly extravagant and encouraged over-borrowing, and partly to the agricultural slump. The total foreign debt is practically the same as that of Austria—£140 million. The annual service of this debt is about £11 million. Yet for the first five months of 1932 the total exports only amounted to £4½ million with imports of £5 million. Even with the sale of the harvest the total exports for the year are not likely to amount to more than from £12 to £13 million with a small export surplus. The comparative figures for 1931 were £20 million, with an export surplus of £600,000, and for 1930, £32 million, with a surplus of £3 million. Thus, as elsewhere, foreign exchange regulations and trade restrictions have merely contracted trade without improving the balance. There is a trade war with Czecho-Slovakia, which has practically reduced trade with that country to a barter of pigs against timber. A trade war with Austria is just beginning.

These figures and facts give some idea of the prospects of foreign creditors. Admittedly the latter have largely themselves to thank for lending such vast sums to a small agricultural country with few or no undeveloped resources. But there was an insidious propaganda in favour of Hungarian borrowing in London and New York, fostered by agents of the Hungarian Government (some of British nationality) who were equally active in the far-flung irredentist propaganda on which the money raised was partly spent. However that may be, it is scarcely surprising that Hungary should have been one of the first countries to introduce exchange restrictions and the first European country to suspend the transfer of foreign debt service.

The Hungarian transfer suspension, declared last December, provided for the payment of the amounts due into a blocked account at the National Bank, which was to be disposed of in agreement with the creditors' representatives. It is extremely difficult to obtain permission for the utilisation of the amounts within Hungary, and as far as most creditors are concerned they might as well not be paid at all. They are theoretically creating an additional transfer problem, but in practice this is of little importance, since there is obviously no likelihood of more than a relatively small proportion of the full debt service ever being transferred at all. Hitherto the service of the 1924 League Reconstruction Loan (£14 million) has been met, but the Government has not provided the funds for the August coupon, which is being paid out of an old reserve. The Hungarian Government has issued a statement expressing its regret at the unavoidable suspension of transfers, and indicating its determination to reconstitute the reserve as soon as the exchange position improves. It hopes at any rate to be able to put the trustees in funds to meet the coupons up to and including the one due in August, 1933. This unqualified priority accorded to the League loan is causing great protest from investors in other securities.

Nevertheless, Hungary is laying even greater emphasis than Austria on the "gold standard." A rumour that Austria intended to devalue brought the most emphatic assurance from the Hungarian Government that it intended to do nothing of the sort. Yet, of course, a black market in exchange has developed, and in Budapest some business is reported at about half the nominal value of the currency. Hungarian policy does not, at least to the same extent as that of Austria, aim at taking advantage of the international discount of the pengo. The system of clearing agreements at par of exchange is working badly—as it did in Austria—owing to the rise in Hungarian prices, but private clearing arrangements are not yet encouraged. Nevertheless, a recent statement of the National Bank showed that only

about half the foreign trade of the country was done under its control through surrender and allocation.

As in Austria, there is incipient inflation from the budget end. The quarterly report of Mr. Tyler, the League representative, gives the real total deficit for 1931–1932 at about £5 million, receipts being about £28 millions. Mr. Tyler blames the drain by the State undertakings and the practice of giving special relief to various sections of the population. The wheat and rye bounties, which are likely to have a serious effect on State finances, are a case in point. As already mentioned, prices are rising.

The present Hungarian administration under Count Karolyi is making strenuous efforts to maintain financial order, and Karolyi's attitude towards foreign creditors is markedly different from that of his predecessor, Count Bethlen. He is, however, having great difficulty in inducing the country, and particularly the ruling upper classes, to accept the reductions in their standard of living which are inevitable if the country is to pay its way at all, quite apart from making payments to its foreign creditors. The Hungarian problem is fundamentally one of over-indebtedness and of adjusting the standard of living. Whatever happens, the country cannot starve.

Czecho-Slovakia.—Czecho-Slovakia is undoubtedly financially and economically the soundest State in central Europe. She had no reparations to contend with, like Germany, no relatively large city to provide for, like Austria, no large and extravagant upper and middle class refusing to adapt its standard of living to economic necessities, like Hungary. Agriculture and industry are relatively well-balanced; labour works well with low wages; and the standard of industrial management is high. The country has borrowed relatively little from abroad and has maintained an active balance of trade since 1920. This balance amounted to over £10 million in 1930 and £8 million in 1931. The State finances are in a sound condition, there has been little public extravagance and the budget still

balances. Foreign exchange regulations have had to be introduced, but these were really the result of the wealth of such regulations with which the country was surrounded. They were probably necessary in order to facilitate negotiations with the neighbouring countries. There has been no default on debt and there is no "standstill" banking arrangement. The political situation has been relatively stable since the war. Unfortunately the country can scarcely remain an island of prosperity if the present trade stagnation in central Europe continues. The bulk of her trade is done with her neighbours, particularly Germany, and all of them are endeavouring to cut imports in every way possible. Moreover, she is having the greatest difficulty in obtaining payment for such exports as she can still sell to the Danube States and she is engaged on a bitter tariff war with Hungary.

Roumania.—Mainly an agricultural country, Roumania has of course suffered considerably from the slump in agricultural prices which has produced great distress among the peasantry. There have also been serious banking difficulties, notably the failure of the famous House, Marmorosch, Blank & Co. The financial and budget situation is absolutely deplorable owing to the grossest mismanagement, not to say corruption. The report of Professor Rist, sent to investigate the situation at the request of the Roumanian Government, discloses a state of affairs which would disgrace a comic-opera Ruritania. In 1929 Roumania received an international stabilisation loan of some £22 million which she agreed to utilise according to a definite programme of stabilisation and reorganisation. She kept to practically none of the points of the programme. The promised budgetary control has been a dead letter and the uncovered deficit amounts to over £12 million, due mainly to the departments exceeding their definite monthly authorisations. Huge arrears have reappeared, many of which cannot be accounted for; State debts are left unpaid; the most indescribable financial muddle exists

between the various departments and authorities; the agreement to concentrate public funds at the National Bank has been disregarded; and in the words of Professor Rist the fact that the stabilisation programme has failed to re-establish Roumanian domestic and foreign credit is due "not to economic difficulties, but exclusively to the unsound methods of financial administration." This situation, be it noted, has arisen in spite of the efforts of the foreign technical adviser to the National Bank. Investors in "reconstruction" loans should certainly read Professor Rist.

In view of this situation, a considerable flight of domestic capital developed in the early spring, which led to the imposition of exchange restrictions in May. Hitherto there has been no default on international debt, which consists practically entirely of State obligations. The annual service of this debt amounts to about £7 million. Both in 1930 and 1931 an export surplus of some £7½ million was achieved, total exports in 1930 being £35 million and in 1931 £27 million. But, as is to be expected, the figures for the current year show a further sharp contraction. Professor Rist points out that industrial development can contribute little to the balance of payments, and emphasises that the creditor countries will have to assure markets for the agricultural surplus.

Jugo-Slavia.—The economic situation of Jugo-Slavia is naturally similar to that of her agricultural neighbours. The same distress among the peasantry prevails; there are foreign exchange restrictions and a black bourse. The budgetary position is, however, relatively satisfactory—the deficit for the current year only amounting to about £500,000. The foreign trade position shows the usual contraction. The total volume for the first five months of 1932 was only £8 million as against nearly double that amount in 1931. Until that year, when imports and exports nearly balanced at £18 million each, there has been an import surplus. However, Jugo-Slavia has com-

pensations in the form of tourist revenue and her balance of payments does not present an insuperable problem. The annual service of the State debts (excluding war debts) which are mainly owed abroad and are by far the largest item in the total foreign debt, only amounts to about £4 million, surely not an excessive burden for a country of 14 million inhabitants. Default on this debt has hitherto been avoided. According to the latest reports there appears to be some improvement of business. Clearing agreements with Czecho-Slovakia, Switzerland and Italy have helped to ease the black bourse and to make foreign currencies more obtainable than previously. There is a monarchist-military dictatorship and the underlying political situation, complicated by the eternal animosity between Serbs and Croats, is exceedingly strained.

III. Suggested Remedies

UNDER the pressure of the crisis various remedies have been put forward. The first was the ill-fated Schober-Curtius customs union—a first step towards the *Anschluss*. This would, at any rate, have solved the Austrian problem. At least an Austria merged in Germany would merely have become a small part of the German problem. The *Anschluss* would be an outlet for German energies—there is plenty to be done in clearing up the Austrian muddle; it would increase the South German Catholic influence in Germany; and the very reluctance of the Conservative Prussian elements to consider it shows that it would weaken, not strengthen, Germany as a striking force. But the customs union was scotched by France and her satellites for political reasons. The Tardieu Plan, which led to the London Conference this spring, may have been a belated recognition by the French that something had to be done for Austria, but certainly looked like an attempt to set up a central European group under French auspices,

as a bar to the *Anschluss* and to Germany's economic penetration in south-eastern Europe. Its main feature was a scheme of preference between the five Danubian States—Austria, Hungary, Czecho-Slovakia, Jugo-Slavia and Roumania—upon which the seal was to be set by the grant of international financial assistance. When the London Conference broke up, mainly on the rock of Herr von Bülow's resistance, M. Tardieu, asked what would happen, is reported to have said: "We shall watch the revivifying stream of capital flowing from Germany to Austria and Hungary!"

The Tardieu plan was, of course, based on the old idea of a Danubian customs federation, whose simplicity and apparent logic gives it a specious popular appeal. But as Mr. Gedye clearly showed,* it is not only impossible to reconstruct the Hapsburg territory out of the States existing to-day, but even if it were possible the economic development which has gone on since the war would result in anything but a balanced unit being attained. In a recent number of the *Economist*, a writer pointed out that during five years of relative prosperity the Danubian countries made not the slightest move towards sacrificing uneconomical industries and artificially fostered agriculture, and asked whether now with their enormous unemployment and catastrophic financial position they were in a position to do so? But perhaps the most weighty factor is the enormous and growing importance of German trade for the five countries concerned in the Tardieu Plan. While inter-Danubian trade has declined from about 36 per cent. of their total international trade in 1923 to about 28 per cent. in 1931, the trade of Germany with these countries has increased from about 10 per cent. to nearly 25 per cent. of the total. In view of this development it seems idle to expect Germany to acquiesce willingly in being kept out of a *bloc* in which she has gained such a foothold. Moreover the Tardieu *bloc* would have a very

* See an article in *The Contemporary Review*, May 1932.

large surplus of agricultural produce which would have to be sold outside. The obvious markets for this surplus are Germany and Italy, both of which countries would clearly refuse to absorb it if their own trade is subjected to discrimination at the same time. France, on the other hand, can do little to help. Her trade with the Danubian countries is relatively infinitesimal. It is indeed obvious that no real solution of the problem is possible without the whole-hearted co-operation of Germany. The *Anschluss* is banned for the present. But the gradual extension of German trade and influence, which would be the natural way of ensuring economic reconstruction and would provide Germany with an outlet for her energies which she badly needs, must be provided for. If France, taking the view of her financial strength implied in the words of M. Tardieu quoted above, obstructs any solution which recognises Germany's legitimate interests, there is no hope of a solution at all. In any case there is no simple wonder-working nostrum, and the progress towards recovery can only be slow.

The first and most important thing is to secure the abolition of the currency restrictions with which the central European countries are strangling what trade remains to them. The longer this state of affairs continues, the more difficult it will be to remedy it. Apart from Germany, whose deflationary measures are unique in modern economic history, and Czecho-Slovakia, they are willing neither to adjust their international position by stringent economy and deflation nor by permitting currency devaluation. The reluctance of countries which have known inflation to run the risk of going through it again is comprehensible, but economic forces are bound to prove too strong in the long run. Perhaps developments in Austria point the way out. A wide black market and private clearing arrangements between importers and exporters at the international rate for the currency are helping to save the situation, in spite of the nominal par quoted by the National

Bank. This creates a situation which can be recognised in time by official devaluation. If the authorities in other countries learn to wink as well as the Austrians, the situation may yet be saved, in spite of the influence of the Financial Committee of the League which has largely been exerted towards making exchange restrictions water-tight in order to obtain exchange for the service of League loans.

The whole trouble is that no one is really prepared to face facts. Creditors will not yet recognise that a large part of the money lent to central Europe is lost, and that the sooner this receives practical recognition in the shape of reduced interest and capital, the better will be the chance of saving the rest. A policy of throwing good money after bad—like the new League loan to Austria—will not save much and may lose more. On the other hand, central European countries will not face either the real depreciation in their currencies or the rigid deflation necessary if their currencies are to be saved. The French will not face up to the perfectly legitimate German interests in central Europe, and the Germans will not face the necessity of coming to some sort of working agreement with France. This is the key to the situation. A combination of German trade and French finance might put central Europe on its feet. And it may be that a Franco-German understanding is nearer than most people imagine. As long as there was a large and growing Right Opposition in Germany, no Government supported by the Left could make any concessions to France. But a Right Government might. It should not be forgotten that the Papen-Schleicher Government signed the Lausanne Agreement, and has hitherto behaved with studied moderation.

THE UNITED STATES BEFORE THE ELECTION

THE *Annus Irae* is half over. We are in the last days of what a sardonic writer has termed Year III of the Abolition of Poverty. The process of deflation has gone on. Deflation is the pet word of the economists—to laymen it is more like a desiccation or a blight. We seem to have stepped Alice-like through an economic looking-glass into a world where everything shrivels. Bond prices, stock prices, commodity prices, employment—they all dwindle. One recalls the skin of the wild ass in Balzac's novel diminishing with every desire of its owner. Is it any wonder that, in such a world, men should be overhung by a sense of impending calamity? What, one inquires, can revitalize a world in this uncanny decay? What can cure the Black Death of the industrial twentieth century? What a pity that we cannot send Mr. Hoover to Delphi to learn some act of atonement to placate the implacable gods. But their ways are past finding out and their pleasure past learning. Plainly economists, like Mr. Maynard Keynes and Mr. Stuart Chase, cannot sit on the same tripod with our bankers and financiers. And the senators and representatives are not looking at people on tripods but at people in polling booths.

Statistically speaking—and everybody is speaking statistically nowadays—the story of the last twelve months may be told somewhat as follows :—

	June 30, 1931	December 31, 1931	June 30, 1932
Average of industrial stocks*	151·48	77·90	42·84
Average of railroad stocks	85·02	33·63	13·43

* What we call shares are called stocks in America.

	June 30, 1931	December 31, 1931	June 30, 1932
Average of utility stocks	60·81	31·41	17·08
Average of 40 bonds	95·46	77·77	69·62
Price of copper ..	8¼ c.	7¼ c.	5⅝ c.
Wheat	56⅞ c.	55⅝ c.	47¾ c.
Cotton	9·83	6·44	5·63
Rubber (No. 1 standard)	6·65	4·80	2·59

And bear in mind that the figures for June 30, 1931, reflected already some twenty-one months of violently falling prices.

The composite index known as the "business thermometer" on June 30 stood at 53 per cent. of normal as against 58 per cent. for the week ended April 23 mentioned in THE ROUND TABLE for June.* June 30 approximates the low point of the depression to date. And yet the motto of the market place, unlike the aspiring mottoes of our youth, appeared still to be *ad inferiora*.

Well, perhaps not. Everything is obscure. Much is contradictory. There has been, for example, on the side of evil a new outburst of bank failures with its nucleus in Chicago. Set off against this that the price of hogs which means so much to the great agricultural communities has doubled in a few weeks. For instance, one can feel a sort of lyric ecstasy over the following homely news item from Chicago :—†

> Top price of $5.10 a hundred pounds was recorded on hogs in an active market, a gain of 5 cents over the early morning peak and 20 cents above Thursday's practical high. Most swine sold 10 cents to 15 cents higher with 180–240 pound weights ranging at $4.00 to $5.05. Plainer kinds and packing sows sold at steady levels to 10 cents higher. Provisions were firm to slightly higher.
>
> The big packers have been more active buyers this week than in nearly two months. Shippers on the other hand were less interested in the market with the result that pigs are going at the largest discounts. The three big packers, Armour, Swift and Wilson, have

* THE ROUND TABLE, No. 87, June 1932, p. 520.

† *Wall Street Journal*, July 23, 1932.

bought more than 18,000 hogs up to the middle of this week against only 9,000 a week earlier and but 1,000 hogs in the comparative period two weeks ago.

Commodity prices have improved recently in sugar, rubber and oil. But chain store sales are making new lows. Business is worse. Bankruptcies are increasing. Failures for the single week ending July 16 totalled 650. But "sentiment" is better. What does "sentiment" matter? Certainly the watchword of 1930 that prosperity was "right around the corner" didn't bring us to prosperity. There must be more than hope or sentiment to bring recovery. But on the other hand some mitigation of despair would help. Speaking of school mottoes, there is *Possunt quia posse videntur*. There is something to be said for that Virgilian tag.

II. Relief Legislation

CONGRESS adjourned on July 16 after scaring nearly everyone out of what wits he had left with strange projects of legislation. For eight months or so our whole legislative structure was racked and strained almost as badly as our banking and financial structure. In the last five months of the session after the creation of the Reconstruction Finance Corporation and the Glass Steagall Bill enlarging the rediscount privileges of the Federal Reserve Bank, Congress sank to almost unprecedented depths of public disesteem. It is not surprising that in such times as these political discontent rises. It is surprising on the whole that it has not yet risen higher. Actually the record of Congress in legislation has not been bad. The Goldsborough Bill to restore the lower purchasing power of the pre-depression dollar perished in the Senate. The budget has been balanced after a fashion by the enactment of a new tax Bill which increases import levies, income, and estate taxes, lowers exemptions on the

income tax payable by married persons from $3,500 to $2,500, and on the tax payable by single persons from $1,500 to $1,000, raises ordinary postage from two cents to three, taxes checks, telephone and telegraph messages and levies a manufacturers' excise tax on gasoline, lubricating oils, automobiles and trucks, tires, toilet preparations and toothpastes, cameras, matches, chewing gum, candy, electrical energy, mineral waters, grape concentrate, malt syrup and brewers' wort. Just what the increased revenue will be obviously depends on business volumes and prices. Most authorities agree that the budget balancing is theoretical, that the expenses of government are still disproportionately high and that taxes constitute an excessive burden on our debilitated economy. But the moral value of facing the issue has been indisputable. At least the budget deficiency will be cut from the stupendous figure of nearly three billion dollars reached this year which was some $762,000,000 in excess of Treasury estimates.

The "Bonus Expeditionary Force" of former veterans who marched to Washington to obtain immediate payment of the government bonus obligations maturing ten years hence are being dispersed without achieving their goal. Congress was creditably deaf to their entreaties. The Secretary of the Treasury aptly remarked that they were trying to get payment of a debt that was not due in money that was not real. Their demonstration may be prophetic of many in the months to come. Marching upon State and national capitals to call attention to this, that and the other is likely to become a favorite pastime next winter. It will be hard doubtless for legislatures and executives to take a fair course between truckling and fierce repression. This particular onslaught of the bonus army seems to have been met with commendable energy and tact. But Government generosity to ex-service men has passed the point where it can be justified on any principle save that of vote getting. Veterans' relief will constitute 26 per

cent. of all federal expenditure for the next fiscal year. Similar expenditure in Britain accounts for less than 6 per cent. of the budget and in France for less than 18 per cent., though both countries had far more men under arms, both relatively and absolutely, than the United States.

In the last hours of Congress after the passage of a relief Bill vetoed by President Hoover, a new Bill entitled the "Emergency Relief and Construction Act of 1932" was passed and signed by the President. This Act adds $2,122,000,000 to the sums made available by measures already taken to cope with the depression. $300,000,000 is made available to the Reconstruction Finance Corporation for relief work in the several States. Another $322,000,000 is tossed in for "self-liquidating" public works. And the balance of a billion and a half goes to the Reconstruction Finance Corporation for loans to States, municipalities, public agencies and public corporations to aid in financing projects authorized by federal or State law. The field of the Reconstruction Finance Corporation is broadened to provide assistance in the exportation of agricultural and other products.

Also a new Home Loan Bank Bill has passed both branches of Congress and obtained the President's approval. This Bill provides not merely for a system of financing home building through eight to twelve banks with a total capital of $125,000,000, but also for a temporary currency inflation by authorizing national banks to use government bonds bearing interest up to 3½ per cent. as security for new issues of currency. This provision is limited to three years. It is believed that currency expansion thereunder may reach a billion dollars.

President Hoover has heartily commended this Home Loan Bank Bill, which is one of the measures advocated in his programme of last November. Both this Bill and the relief Bill are frankly inflationary in character. Neither measure could have been passed a year ago. But these are not moments for petty consistency. We move on from

crisis to crisis, muddling undoubtedly and hoping that we shall somehow muddle through. That the Government has gone into business in wholly unprecedented ways and to a wholly unprecedented degree is obvious but generally ignored. Few projects of State socialism have ever been conceived upon a grander scale, but we are still doing lip-service to individualism, to competition, and to *laissez-faire*.

III. Rays of Hope

THE drain on our gold reserves has ceased and the "open market" operations of the Federal Reserve have had as their consequence the purchase of over a billion of government obligations. The result should be to force financial institutions into the bond market, where prices have in many cases already "discounted" disaster, and to set banks making loans instead of calling them. What effect, if any, the policy has so far had is obscure like everything else. But at any rate bond prices have risen notably in the last six weeks. A bond pool, the American Securities Investment Company, has been formed by the big New York banks, not to "support" the bond market but to make money. And this of course argues confidence in high quarters that capitalism will not perish or credit altogether fail. But we have had so many rays of hope blotted out by black clouds of disaster from every quarter of the heaven that we do our hoping very gingerly. Besides, we have learned that even in the highest quarters of Wall Street the capacity for foresight is imperfect.

Then there has been Lausanne. Everyone agrees that the relaxation of the impossible burdens laid upon Germany is hopeful and constructive. The progressive reductions of reparations from an original proposal in 1919 of 125 billion dollars to three-quarters of one billion sounds like the recession of stock prices from the 1929 highs. But the so-called gentleman's agreement and the Anglo-French

pact are viewed by press and politicians with varying degrees of suspicion. Senator Borah, Mr. Nicholas Murray Butler, and some of our best writers are outspoken for a corresponding reduction in the debts owed America. But it can scarcely be said that public opinion on this point has been brought to their view. Indeed, the National Democratic platform contains the following declaration :—

> We oppose cancellation of the debts owing to the United States by foreign nations.

Certainly many Republicans would assent to this. But there can be no conclusive American answer to Lausanne until after the November elections. There is probably an increasing tendency to recognize the intimate relation of this settlement to the daily affairs of men the world over. Plainly American policy should be realistic.

IV. The Party Conventions

FINALLY we have had our party conventions. The Republicans met in Chicago on June 14 and did what was expected of them in renominating President Hoover and Vice-President Curtis. Undoubtedly the substance of their strategy will be an appeal to the electorate, in the language of Lincoln, not to swap horses while crossing the turbulent stream of the depression, or, as a wit observed, to swap barrels going over Niagara Falls. There is doubtless justice in this exhortation. What cogency it will have depends much on the economic developments of the next three months. If there is any improvement the Republicans will claim it as the fruits of their policy. Just as they are sure to attempt to profit from the unpopularity of a Democratic Congress. If our troubles multiply, the Democratic plaint will be the more persuasive.

> The only hope (says their platform) for improving present conditions, restoring employment, affording permanent relief to the

> people, and bringing the nation back to its former proud position of domestic happiness and of financial, industrial, agricultural and commercial leadership in the world lies in a drastic change in economic and governmental policies.

The Democratic convention was called to order in Chicago on June 27. Franklin D. Roosevelt, Governor of New York, an office in which he immediately succeeded the preceding Democratic Presidential candidate "Al" Smith, was nominated for the Presidency on the fourth ballot after Mr. Woodrow Wilson's son-in-law, Mr. William G. McAdoo, had swung to Roosevelt the votes of the California delegation which had gone to Garner on the previous ballots. Texas, Garner's own State, was likewise released to Roosevelt, and John N. Garner, Speaker of the National House of Representatives, was nominated Vice-President. Though the famous two-thirds rule requiring nomination by two-thirds of the delegates and not by a mere majority was retained as in previous years, the contest for the nomination had none of the heat and color of the Democratic convention which perspired through 103 ballots to the nomination of John W. Davis in 1924. The outstanding political development of the pre-convention manœuvring was the newly arisen hostility between Mr. Roosevelt and Al Smith. How far this will be reflected in the November polling is uncertain. But schism has been a familiar Democratic phenomenon.

Actually the interest of the country has attached less to the respective party nominees than to the approach of each party to the harrowing question of the repeal of the eighteenth (prohibition) amendment to the federal constitution. After a long debate on the forthright repeal "plank" espoused by Mr. Nicholas Murray Butler, the Republican convention voted by a vote of 681 to 472 to adopt the following cautiously worded utterance :—

> A nation-wide controversy over the eighteenth amendment now distracts attention from the constructive solution of many pressing national problems. The principle of national prohibition as embodied

in the amendment was supported and opposed by members of both great political parties. It was submitted to the States by members of Congress of different political faith and ratified by State legislatures of different political majorities. It was not then and is not now a partisan political question.

Members of the Republican party hold different opinions with respect to it and no public official or member of the party should be pledged or forced to choose between his party affiliations and his honest convictions upon this question.

We do not favor a submission limited to the issue of retention or repeal. For the American nation never in its history has gone backward, and in this case the progress which has been thus far made must be preserved, while the evils must be eliminated.

We, therefore, believe that the people should have an opportunity to pass upon a proposed amendment the provision of which, while retaining in the Federal Government power to preserve the gains already made in dealing with the evils inherent in the liquor traffic, shall allow States to deal with the problem as their citizens may determine, but subject always to the power of the Federal Government to protect those States where prohibition may exist and safeguard our citizens everywhere from the return of the saloon and attendant abuses.

Such an amendment should be promptly submitted to the States by Congress, to be acted upon by State conventions called for that sole purpose in accordance with the provisions of Article V of the constitution, and adequately safeguarded so as to be truly representative.

The Democratic convention came out bluntly for repeal :—

We favor the repeal of the eighteenth amendment.

To effect such repeal, we demand that the Congress immediately propose a constitutional amendment to truly representative conventions in the States called to act solely on that proposal.

We urge the enactment of such measures by the several States as will actually promote temperance, effectively prevent the return of the saloon and bring the liquor traffic into the open under complete supervision and control by the States.

We demand that the Federal Government effectively exercise its power to enable the States to protect themselves against importation of intoxicating liquors in violation of their laws.

Pending repeal, we favor immediate modification of the Volstead Act to legalize the manufacture and sale of beer and other beverages of such alcoholic content as is permissible under the constitution and to provide therefrom a proper and needed revenue.

The action of the two great political parties attests the widespread recognition of the fact that national prohibition has disappointed those who had hoped better things for the celebrated "experiment noble in motive." It is logical that, like better-established institutions, it should face the challenge of the new and disastrous conditions that now confront us. In the last few months there has been a notable trend of public opinion away from the amendment and a recognition of its practical shortcomings. Republicans who four years ago would have "stood pat" on the eighteenth amendment, voted at Chicago for resubmission as the only way to defeat the movement for repeal. The Democrats have for some time been predominantly in favor of repeal. They like to remind the country that Mr. Wilson foresaw many of the evils that national prohibition has brought in its train. At the Democratic convention the only States solidly to oppose repeal were Mississippi, Oklahoma and Georgia. Scattering "dry" sentiment came from the Pacific coast States, the agricultural middle west, Virginia, West Virginia, North Carolina, Ohio and Maine. In the Republican convention only a few State delegations (Wyoming, Arizona, Mississippi, Vermont and Connecticut) stood solidly for repeal. Most of the State delegations split. A dozen were solidly opposed.

Of course the balloting for President will not decide the fate of prohibition. The "wets," to use the conventional but misleading designation, will not all be for Roosevelt nor the "drys" for Hoover. In order to have genuine resubmission as advocated even in the Republican platform two-thirds of both branches of Congress must vote for a resolution to repeal the eighteenth amendment. This means that in many States there will be sharp contests for Congressional seats on the repeal issue. Much Congressional sentiment must be changed before the repeal resolution can be passed out to the several States. Only 187 Congressmen, out of 431, voted for the Beck Linthicum repeal resolution in Congress last winter. In the Senate,

repeal sentiment has been even more backward. But Congressmen of all complexions will feel the pressure of popular sentiment this fall.

If the repeal resolution passes Congress it will have to be ratified in at least 36 States acting through their respective State legislatures or preferably through constitutional conventions created for the express purpose under Article V of the federal constitution. The advantage of the latter method is that it permits in effect a ballot on the sole issue of national prohibition uncomplicated by other questions.

Undoubtedly the result of a great and solemn referendum on prohibition would excite interest the world over. Though other nations have experimented with similar legislation, prohibition with all its anomalies has been so characteristically American that any modification of our national policy would work a real change, not only in our government and society, but in national characteristics which have been thought purely American.

Undoubtedly national unrest will help the cause of repeal. But repeal will be hampered by popular apprehension as to legislative alternatives in the several States and the difficulty of agreeing upon them.

V. Some Doubts and Queries

IT is easy enough to write about the depression statistically, and probably statisticians have never in the whole history of the world had such a wide and glorious field for their endeavors. They are legion and they are good on the job. It is less easy to outline and appraise the efforts of the Administration and of Congress to stem and turn the tide of the depression though even here the task may not be beyond the powers of common men. But to appraise now the result of all this disaster upon our future, upon the business and social and governmental units of the next

generation, is a task to challenge and baffle the highest powers of human insight. The defects of our political structure are manifest. The pusillanimity and demagogy of politicians elected under the so-called primary laws, the inefficiency and irresponsibility of a constitutional system which may, and often does, leave legislative leadership in one party and executive in another, the evils of elections artificially fixed—all these are characteristically American and must give concern to thoughtful men, whether American or alien.

In our economic organization, we are becoming increasingly conscious of the inconsistencies between our traditionally individualistic and competitive system and any orderly or stable productive or distributive organization. In our public utilities we not merely recognize but insist upon governmentally regulated monopolies, established for the most part upon certificates of convenience and necessity issued after a judicial determination. It is significant surely that the obligations of these monopolistic and publicly regulated utilities are among the few relatively safe investments in this country today. And yet if this monopolistic principle were extended throughout industry, thousands of industries would be denied existence and millions of individuals would be permanently unemployed. In our present economy the corner grocer is generally unfitted for his job as a retail distributor of food, and oftener than not he gets only financial failure for his pains. But at least he has a job. He creates employment. And if he is to be abolished, industrially speaking, along with millions of quite superfluous lawyers, bankers, truck drivers, shoemakers and middlemen of all kinds, how is he to make a living?

Whatever the basic causes of the depression, its most disturbing result is unemployment. It is unemployment that impairs purchasing power, generates further unemployment, necessitates relief. Here the circle is at its most vicious. In the ratio of the employed to the unemployed

we may find a sort of coefficient of national well being. Nine men with jobs can certainly bear the burden of one man without. Eight men with jobs could doubtless bear the burden of two without. Lower the ratio to 6 to 4 and the task is difficult. Obviously at some lower point it becomes impossible. When it is completely impossible then a new society must be constructed. The capitalist whose income has shrunk from $25,000 a year to $15,000 a year may not be himself a very pitiable object. But if he is to be regarded as a means of support for the *mutilés de la grande guerre* of over-competitive industry, then the decrease in his income becomes a public misfortune. Actually this is one of the most disturbing features of the depression. With constantly mounting needs for relief, we have a constantly diminishing capacity in the relievers, until doubt arises as to the capacity of a community to meet its minimum burdens of disease and want. Hospitals are worried—the winter of 1932–1933 will not be any fun. A good part of our country gets four months of severe cold, so that there must be fuel as well as food.

While practical men face the question of relief, the political philosopher is left to wonder about freedom in the United States of America. How curious is the contrast between our social restraints and our economic liberties. A man may not lawfully sell his neighbor a glass of beer at any price, but he may sell him other merchandise on almost any terms or at any price. In many States he may not play golf on Sunday, but on the other six days of the week he may play as wildly as he likes with such delicate mechanisms as instalment credit, with social consequences considerably more demoralizing than are likely to be caused by a golf ball on any day of the week. On the economic side, his principal handicap is that he may not monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce in a State, and may not contract or conspire in restraint of trade or

commerce among the States, or within most of the States, though just some such restraint be indispensable to save jobs or natural resources. Undoubtedly public opinion is trending away from these old anti-trust statutes. The United States Supreme Court has lately upheld the constitutionality of the Oklahoma proration statute which contains provisions intended to conserve the oil supply and prevent unlimited production. This decision may promote the enactment of similar legislation regarding other commodities. The story of the law's encroachments upon economics is long and often sad. It is not yet ended.

Of course we ought to have more planning and less chaos in our society. But how can we achieve the goal? Who can plan? Is the abolition of poverty Moscow in 1932 any better than the abolition of poverty Wall Street in 1929? These are some of the inquiries vexing the breasts of humbled men and women in the land of the possibly too free and the home of those who may be brave only from the force of circumstances. The courage and fortitude of the men who faced death in the war and destitution today are beyond all praise. But the necessity for the exercise of such courage and fortitude reproaches our society. And, as Sir Arthur Salter says, we cannot be satisfied with an answer available only to a succeeding generation. We seek a solution today or else resign ourselves to seeing the righteous forsaken and their seed begging bread.

United States of America.
July 29, 1932.

MANCHUKUO

I. The Spread of the Occupation

TO the surprise of the most astute observers of Far Eastern affairs, while yet heavily engaged in operations outside Shanghai, the Japanese still further extended their commitments in Manchuria.

Early in February, a Japanese brigade moved north along the Chinese Eastern Railway. A pitched battle was fought outside Harbin. The Chinese forces were driven north-east and north-west, though not without inflicting heavy casualties upon the victors. The Japanese occupied Harbin, and proceeded to consolidate their political and strategic position there.

A few weeks later, after feverish haste in preparation, the so-called "independent" State of Manchukuo (Manchuria) was brought publicly to birth at Chanchun. Meanwhile a savage guerilla warfare developed along the Chinese Eastern Railway. Japanese troops deployed from Harbin east and west along the line. Day after day there came news of desperate skirmishes, derailment of trains—passages of arms which were invariably indecisive.

In April Japan changed the military command in Northern Manchuria, and concentrated a full division upon Harbin, while a large aerodrome, housing numerous bombers, was constructed nearby.

To-day, nearly a year after the Japanese coup d'êtat at Mukden, Manchuria is probably in a worse state of disorder than at any time since the Russo-Japanese war. The Japanese, on their own admission, are now employing six divisions in Manchuria, and in regard to such matters

The Spread of the Occupation

Japanese officialdom is not prone to exaggeration. In a book published at the end of last year entitled *America's Siberian Adventure*,* General Graves, the commander of the American contingent of that ill-starred expeditionary force, throws much light upon Japanese methods. Under the quotas agreed upon by the Allies participating in the Siberian expedition Japan was allotted 12,000 troops. Although ostensibly adhering to the agreement, she actually threw into Siberia a force which in 1921 totalled 72,000. It is estimated by reliable observers that she now has 90,000 troops in Manchuria. Her forces are in military occupation of the whole of the Chinese Eastern Railway from Manchuli in the west to Hailun and Mulin in the east. Yet, even now, scarcely a day passes without news of an attack upon Japanese troops at some point or other along the railway. Though these attacks are invariably repulsed, they recur, and each time the Japanese report casualties.

The general condition of the country seems steadily to deteriorate. The farmers were not able to plant their crops during the spring, and a serious food shortage is predicted in many parts of the country. Trade and industry stagnate.

When the Japanese army moved into North Manchuria in February many of those who believe that a second Russo-Japanese war is inevitable feared an immediate outbreak. The military occupation of the Chinese Eastern Railway, friction with the Soviet members of the Railway Board, the arrest of Soviet citizens in Harbin, the expressed views of Japanese staff officers, were provocation enough, but there are other causes of ill-will. The railway now under construction from the Korean port of Seishin to Kirin will deprive Vladivostock of much of its trade. Japanese politico-commercial enterprises have already taken over the property of Russian transport organisations on the Sungari River. Hospitals, railway sheds and

* Published by Jonathan Cape.

buildings have been wrested from the Chinese Eastern Railway. The existence of Russian interests has nowhere been allowed to stand in the way of Japanese pushfulness.

Yet, in spite of the obvious dangers, nothing untoward has happened. It is true that Russia has taken considerable precautions. Vladivostock has been fortified and troops have been concentrated along the frontier. But Russian troops on the frontier withdraw from their positions wherever a clash seems imminent.

The forces of friction, however, remain. Among them not the least potent is the alleged supply through Russia of arms and equipment to the Chinese guerilla bodies fighting the Japanese troops.

Whether Russia is prepared to see Japan—her policy strongly militarist—create in North Manchuria the strategic position that she has so long desired, eliminate by gradual stages the vast and dynamic influence of Russia in North Manchuria, thrust outward into Mongolia, and undermine the economic value of the Chinese Eastern Railway, the port of Vladivostock and the dominant economic position which Russia holds in North Manchuria, is a question the answer to which is not yet known.

The Russo-Japanese situation in North Manchuria* must be kept prominently in mind when considering the issues in Manchuria, as they concern the relations between China and Japan, and in their broader aspect affect world peace and disarmament. The inter-relation of the political clauses of the Washington Treaty and the programmes of disarmament has already been emphasised in these pages.†

* For an interesting analysis of the Russian position in North Manchuria, and the fundamental distinction between the Chinese attitude towards Russia and towards Japan, see *Manchuria, Cradle of Conflict*, by Mr. Owen Lattimore (The Macmillan Company, New York, 1932).

† See THE ROUND TABLE, No. 87, June 1932, p. 565.

II. THE BIRTH OF MANCHUKUO

JAPAN has created a "new State." It is styled "independent," and declared to be based upon the will of the "thirty million inhabitants of Manchuria." By a trick the ex-Emperor of China, Henry Puyi, was conveyed from Tientsin to Changchun and invested with regalia as "Chief Executive" of Manchukuo. The government organisation is the conception of the Japanese military leaders in Manchuria. Comparatively junior officers are taking a hand in the framing of political plans and in their execution to an extent which can scarcely be believed by Westerners who have not been on the spot to see for themselves. Official announcements made in Tokyo serve mainly to obscure the facts, but newspaper articles written by men who are actually concerned with the direction of affairs in Manchuria sometimes lift the veil. Reference need only be made to *The Times* of May 17. Its Tokyo correspondent quotes an article written by a Major Hanaya (closely in touch with the General Staff and with the march of events in Manchuria) and published in a reputable economic journal. Major Hanaya describes in detail the structure of the "Manchukuo" government and its mainspring of action and policy—the "steel frame"—a "Board of Central Affairs," staffed by Japanese officials, which has complete control of the budget and executive, and upon which the different ministries are utterly dependent. A Japanese "inner government," carried on by officials hidden in the recesses of the executive machinery, provides an interesting constitutional experiment and a convenient alternative to annexation.

Owing to her "over-eager"* participation in the international treaties and agreements signed since the Great

* A quotation from a well-known Japanese apologist.

War, Japan is placed in a very difficult position. To get what she wants she must call it by some other name.

It might be possible to sympathise with an honest pursuit by Japan of her aims in Manchuria. She lives in fear of Russia, just as France lives in fear of Germany. With the development of aerial warfare, Vladivostock seems a dreadful menace to those who sleep in Tokyo. The strategic "necessities" of the army have been reinforced by the pressure of a tremendous economic propaganda—a propaganda which has been exaggerated* but nevertheless is supported by the fact that Japan has extremely valuable economic assets in Manchuria. Her economic and political control of Manchuria has a deep bearing upon the prosperity and happiness of her people.

She has reached a stage of economic development and organisation upon Western lines which has produced, as the inevitable concomitant of over-population, an almost uncontrollable desire for expansion. The pressure of population has indeed produced a desperate feeling of constriction; Japan is impelled by forces which seem to her almost irresistible. There is no doubt that the vast majority of her people are genuinely convinced of the truth of the "life and death" theory with regard to Japanese interests in Manchuria.

The main issue is not—as is so often maintained—a question of the validity of treaties. Carefully considered, Japan's purely "legal" grounds for taking action last September were not at all convincing, apart altogether from the fact that the course she took was inconsistent with the world obligations to which she stood committed. Treaties and agreements are intended to define and to regulate certain human relations. In Manchuria relations were neither precisely defined nor adequately regulated by administrative machinery. In the words of a well-known American publicist, "in Manchuria Chinese rights, Japanese interests and Russian aspirations clash head-on in

* See THE ROUND TABLE, No. 86, March 1932, p. 271.

a fashion that in Europe and America has always meant war."*

In so far as they are attributable to policy, the events of last September must be attributed to a Chinese policy of hostility to Japan, unhampered by any squeamish regard for the spirit of treaties, and a Japanese determination to uphold her economic rights despite the letter of her engagements.

The creation of Manchukuo marks an attempt to create the state of affairs that Japan desires, while at the same time enabling her to retain her international standing with the Powers whose good graces she has in the past done so much to cultivate.

But, in considering the whole question of the motives and good faith of Japan, it should be remembered that she is in a state of intense political convulsion. All kinds of forces are at work and even experienced observers find it impossible to assess their relative strength. There is a movement, with which the army is largely identified, against the present capitalistic régime and the whole structure of party politics—the venal alliance between party politicians and the great family-owned commercial houses. There is a very general feeling of exasperation at the way in which since 1922 her foreign policy has been conducted in accordance with the new ideas of the West—ideas which Japan, having perhaps reached a stage of development on Western lines comparable to that of England in 1900, has adopted sincerely enough through the medium of the men who until recently guided her foreign policy, but which have not penetrated the national understanding to any depth. The army (directly responsible to the Emperor, and an extraordinarily potent force under the hydra-headed Japanese constitution) does not view international concepts through the eyes of the new West. It would not be reasonable to expect it. But it must not be forgotten

* Mr. Chester H. Rowell in the April number of *Asia*.

that the trend of affairs in Manchuria is to an astounding degree in the hands, not only of the army, but of a swarm of subordinate officers, officials and secret service agents, whose power and influence is much greater than is generally understood.

One result of this situation is a feeling of despair among many educated Japanese about the outcome. They admit that Japan has no unified or controlled policy with regard to Manchuria. She knows what she wants, and the Japanese people stand with considerable solidarity behind the army as the active exponent of a policy of national expansion and prestige. But the army and immense sections of opinion in Japan are obsessed with the desire of exploiting Manchuria "for the people of Japan," and of preventing the introduction into Manchuria of the methods of the corrupt political régime at home.

This factor lies behind an impossible scheme of the General Staff for the mass colonisation of Manchuria with Koreans and Japanese. It is behind the action of those in control of the Manchukuo administration, the Japanese "advisers," discovered and appointed by the army in Manchuria, and drawn from various sources—the army itself, the consular service, the South Manchuria Railway and commercial houses.

To this extent, and to this extent alone, there exists a cleavage between the policy of Manchukuo and the policy of Tokyo. Although Manchukuo is Japanese, it is not part of Japan. The Japanese "advisers," working in close co-operation with General Honjo, fail at many points to see eye to eye with the Tokyo Foreign Office. It is true that there is quite a strong party within that Foreign Office in active sympathy with the aspirations of the Japanese in Manchukuo. But the attitude of many high-placed Japanese officials is well illustrated by a newspaper article recently published in America,* which quotes a prominent

* The United Press Tokyo correspondent recording an interview on July 6, 1932.

Foreign Office official in Tokyo as basing the case against the "immediate diplomatic recognition" of Manchukuo mainly upon the grounds that Tokyo is "by no means satisfied with the present Manchukuo government which was hurriedly formed and is the work of the Japanese army and of Japanese civilians who have long been active in Manchurian politics." The quotation concludes as follows :—

> The horde of Japanese advisers in Manchukuo is not the selection of the government in Tokyo, but of the army. These advisers, acting under the direction, and with the sympathy of the military, are working on a programme which the experienced statesmen of Japan consider highly impracticable.

The position in Manchuria from the Japanese point of view may be described as "stale-mate." Fighting continues and constructive development is the sport of conflicting ideals and half-thought-out ideas.

Recent events in connection with the Chinese Maritime Customs illustrate the methods employed by those Japanese who are directing the development of affairs in Manchuria. The Japanese "advisers" decided to take over the Chinese Maritime Customs there. Fired with excitement and patriotism, branch managers of the Yokohama Specie Bank allowed themselves to be decoyed away from well-recognised banking practice and withheld funds from the Customs Commissioners who had actually deposited them. At Dairen, in spite of Japan's definite obligation under the 1907 treaty to maintain the integrity of the Chinese Maritime Customs administration, Japanese officials encouraged the disruptive process on territory leased from China. Tokyo is forced to maintain the difficult fiction of Manchukuo "independence." As usual, it has followed haltingly behind events already consummated. The organisation of the Chinese Maritime Customs in Manchuria is now completely broken. At Harbin and elsewhere the British Commissioners of Customs have been intimidated

and forced from their offices by Manchukuo police, led and prompted by Japanese "advisers."

In Manchuria Japan had a good opportunity of establishing a new Chinese administration which would have been more amenable to her own desires. She might have capitalised the very real dissatisfaction with the Chang Hsueh-liang régime. But, thanks to her own want of discretion and the way in which the Japanese army has completely dominated the "puppet" State set up a few months ago, Manchukuo has become an empty farce and an object of hatred and contempt to the majority of educated Chinese who have been obliged to remain in Manchuria.

III. The Future

IT would be rash indeed at this stage of complexity to attempt to prophesy the outcome of such a tragic state of affairs. It may be said, however, that the quarrel between China and Japan is too frequently discussed in legal terms, in terms of treaties and protocols. It is not a legal matter. It is political and economic. In Manchuria there has developed a situation which, though clothed, and apparently legalised, by certain treaty forms, is without parallel. Japan's economic interests are also essentially political; the South Manchuria Railway is an *imperium in imperio* the exact like of which cannot be seen anywhere else in the world.

There are certain fundamental issues which must be recognised. It has been seen that at the moment the control and direction of Japanese policy in Manchuria is not in the hands of men who recognise the importance and significance of the international agreements upon which the progressive security of the world must rest. These men and the Japanese militarism which stands behind them, constitute a force which has to be reckoned with. Japan is perhaps the only country in the world to-day which is "war-minded."

Apart from the significance of this fact for the disarmament programmes of the Powers chiefly concerned, it must be realised that Japan is most unlikely to accept any solution of the Manchurian situation which is calculated to check the pressure of her economic and political penetration. The danger is that she may accept some kind of legal definition of the situation and at the same time cynically pursue the realities of her own policy.

On the other hand, China's appeal to the League of Nations was not inspired by any such ideals as those upon which the Covenant is based. The League was dragged in as a useful instrument to assist one of the parties to the quarrel. Neither China nor Japan has been moved by the concepts which inspire the maintenance and development of the League's machinery.

Recently there have been some interesting indications that China and Japan may quite soon achieve a superficial solution of their difficulties by direct negotiation. Enthusiasm for the Manchurian battleground is noticeably declining in China. The boycott is still severe in South China and among overseas Chinese along the Pacific coastline; but at Shanghai it is weakening. In North China no boycott exists. Despite the disorganisation of its government system, there is an extraordinary racial solidarity in China, and feeling is still concentrated upon the Manchurian issue. And although Manchuria is intensely regional in character, there is an essential racial unity between it and China. Support of armed opposition to Japan in Manchuria has always been unofficial rather than governmental. But racial feeling will not indefinitely take the form of practical demonstration. The Chinese show signs of becoming weary of it, though money is still being collected and remitted by Shanghai bankers to the bandit-general Ma Chan-shan.

On the other hand, the intensity and duration of the boycott and the success of the guerilla tactics in Manchuria are beginning to tell upon Japan. She would be ready to

compromise to some extent if Chinese support could be withdrawn from the harrying bands of Chinese "volunteers." To this extent legal definition serves its purpose. If a compromise can be effected in legal terms the realities of the conflict will quickly lose their hold upon the Chinese imagination. Nanking, moreover, has good reasons for desiring a speedy settlement, and the seizure of the Manchurian Customs may prove a powerful lever in this direction.

There is some ground for believing that the compromise may take the form of the abandonment by Japan of the Manchukuo experiment—an experiment having all the appearance of dismal failure—and the acknowledgment of Chinese sovereignty, in return, not only for endorsement of the 1915 treaties, but also for certain administrative safeguards. The vital conditions of the struggle, economic pressure from Japan and China's effort to hold off this pressure, will continue.

Fraught with difficulty as the situation is, there are not lacking certain elements of hope. It is in every sense an oriental situation. Many aspects of it are beyond our Western comprehension. "Self-determination" as applied to Manchuria is but an empty catch-word. It is a great country that has suffered so much from misgovernment that it should not pass the wit of man to assure for it a better future. Its future form of government and the relations of that government to China and to Japan must be determined by somebody. It may not pass the wit of Oriental man to devise formulæ and to create machinery, which will satisfy pretensions—not logically perhaps but adequately—and which will work, if not smoothly, at least without dangerous friction.

China.

July 15, 1932.

INDIA: A LESS TENSE QUARTER

IN our last article we described how Government had retained the initiative in the struggle with Congress and what measure of success had attended their policy. We concluded on a note of expectation, as to developments on the expiry of the ordinances, and as to the possibility of more speedy constitutional advance. The close connection between the political and constitutional situation was emphasised, and we explained that improvement in the former depended in large measure on the settlement of the latter. Since the conclusion of the legislative session at the beginning of April, politics have, in fact, been somewhat quieter and conditions in the provinces show considerable improvement. Here and there serious outbursts of communal disorder have occurred—a very disquieting symptom, as will be shown on a later page—and terrorist outrages have continued. As regards the new constitution, the period has been one of conscientious spade-work with some unexpected developments. We propose, therefore, to deal with the four main features of these months, namely: the increasing discomfiture of Congress, the terrorist movement, the communal situation, and constitutional progress.

I. The Discomfiture of Congress

THE general experience of the past has been that feeling works up to fever heat in the late spring and early summer, but rarely remains at a high temperature throughout the whole year. This spring, however, has been an exception to the general rule, and the excitement of January

and February, engendered by the civil disobedience movement, showed a progressive falling off in April, May and June. Men, money and enthusiasm have been lacking. The Congress leaders had decided, in defiance of authority, to hold the forty-seventh session of the All-India Congress at Delhi last April, as a demonstration of their strength and as a means of arousing popular enthusiasm already on the wane. Their efforts were frustrated by the decisive action of the Government and the precautions taken by the local administration. As a session of Congress it was a fiasco, and only served to expose the hollowness of their pretensions. The persons arrested for defiance of lawful orders were for the most part outside mercenaries, and, though excitement ran high for a couple of days or so and imposed a severe strain on the police, it as quickly subsided, and the return to normal conditions was unusually rapid, in spite of a clever attempt to embroil the Sikhs in the Congress agitation. The imprisonment of the acting president, Mrs. Naidu, withdrew a temporary stimulus.

On the failure of this mass demonstration at Delhi, the new *de facto* president, Pandit Madan Mohan Malaviya, determined to concentrate on provincial sessions of Congress and district political conferences, and plans were laid accordingly. This was a shrewd move, and, had it been permitted, might have led to some recrudescence of local enthusiasm. But meetings and processions were generally prohibited as being conducive to breaches of the peace, and, though various attempts were made to defy the orders, remarkably little success was achieved. At Guntur, in Madras, 250 delegates, including the president, were arrested in connection with the Andhra Provincial Conference. In Bengal attempts were made at Howrah and Noakhali, but at the former 19 persons were arrested and the assembly declared unlawful; at the latter, after the promulgation of a prohibitory order under section 144 Cr.P.C., six persons were arrested. At Karachi the proceedings of the Sind Provincial Conference lasted barely 15 minutes and 50

persons were arrested. At Gujerat there were more arrests, but equal want of success. At Agra and Cawnpore similarly futile attempts were made. There is no need to multiply instances. From every part of India these abortive efforts proved the increasing weakness of the Congress in keeping alive public excitement and the rapidly growing extent to which Government had not only kept the initiative but had gained the upper hand.

Again thwarted, the leaders searched for new devices, and decided to concentrate on the purchase of *Swadeshi* (Indian produced) goods—as a variant of the boycott of foreign goods, and to hold a great Swadeshi day on which, perhaps because the growing unpopularity of hartals was realised, shops were to remain open till 5 p.m. To the slogan "Buy Indian" there is, of course, no objection; the Government take no exception to it unless it is a cloak for unlawful boycott and picketing; many persons wholly out of sympathy with Congress support the underlying principle. As a rallying cry, therefore, it has been of little avail, and, as almost every day in the year has now become an anniversary of some sort, the celebration of Swadeshi day passed off harmlessly enough and attracted little public attention. "Gandhi day" and "Prisoners day," since celebrated, fell equally flat. Finally, in pursuance of the Congress policy of making capital out of the alleged harshness of the Administration, the present leaders have taken up the cause of prisoners convicted of offences in connection with the civil disobedience movement, and particularly of the women prisoners. In this respect some popular sympathy may be evoked, and a responsive chord may be struck in the legislature, where verbal overtures are not infrequently made to Congress. But obviously procedure of this kind is as powerless seriously to embarrass the Government of India or local governments as it is incapable of infusing vitality into a losing cause. Congress methods have become thoroughly unpopular, except with a small section of the city Hindus, and increasing difficulty is found in obtaining

" volunteers," in spite of the offer of higher wages, and the fact that the schools and universities are in vacation, and that agricultural labour is at a loose end during the hot months of May and June. The people are getting tired of interference with their private lives. The destruction of letters in pillar boxes by means of sulphuric acid—the main characteristic of rather an abortive Postal week, the cutting of telegraph wires, the trick of pulling the communication cord of running trains and distributing leaflets on its stopping, forced closing of shops, tyrannical picketing, defiling the Lawrence statue at Lahore, these and similar antics have done nothing to advance—and something to retard—their cause.

The contention is often put forward in nationalist circles that below the surface the whole Hindu population is seething with resentment at rule by ordinance and that this feeling is the real measure of the strength of Congress. It would be more correct to say that Government prestige stands higher than it has done for some time in a country where nothing succeeds like success. Sir A. P. Patro declared at a non-Brahmin conference in Madras that there was within the ranks of the Congress an intolerant oligarchy dominated by capitalists and adventurers, and showed how picketing had given the mill-owners an opportunity of raising their prices. Bitter sentiments have been expressed against Congress by the Depressed Classes Conference at Kamptee and the All-India Hindu Youth Conference at Karachi. Their declining strength and growing unpopularity are, however, best illustrated by concrete facts in regard to their main lines of policy—the maintenance of excitement by defiance of the law and the martyrdom of imprisonment, the no-rent campaign with the direct object of securing rural support, and the financial embarrassment of Government by means of boycott. The figures in regard to imprisonment are illuminating. Pandit Malaviya has declared that 80,000 prisoners are in jail, and the credulous Mr. Fenner Brockway has repeated this figure. Actually,

the total number of persons imprisoned, including those imprisoned for a short time and released on tendering an apology, has been little more than half—and the fall in the number of monthly convictions is eloquent to those who can read its meaning. The convictions in January were 14,809, in February 17,800, in March 6,900, in April 5,254, in May 3,818, and in June 3,534. The no-rent campaign may be said to have definitely failed. The last instalment of rent due was collected very nearly in full in the parts of Bombay and the United Provinces hitherto most disaffected. Finally, as regards economic boycott, in which direction, as was explained last quarter, Congress had achieved a greater measure of success than in other directions, the Bombay merchants have at last turned. The abnormal conditions obtaining in the Bombay cotton market, and the urgent necessity of restoring freedom of trade, are giving them much food for thought. The East India Cotton Association passed a resolution in June vigorously deprecating hartals, the president, Sir Purshottamdas Thakurdas, deploring the mixing of politics with business, and later the Indian president of the Bombay Stock Exchange expressed similar sentiments. The object of the Congress was not of course to injure Bombay, but to coerce Great Britain. In this they have failed, for India's financial position, though still very difficult, has improved as compared with last year : and though railway earnings are still disappointing, central revenues are looking up generally and there has been a welcome advance in the price of wheat. The latest rupee loan was well subscribed, though the rate of interest was 5½ per cent. as compared with 6½ per cent., which had to be offered last year, and 6 per cent. in 1930. India's external credit is unimpaired.

Such was the general position of Congress *vis-à-vis* Government at the end of June when the momentous question of the renewal of the ordinances had to be decided. As we have shown, the Congress position had greatly weakened, and the Government had fully demonstrated

their power of dealing with its lawless activities. At the same time, this result had been achieved only by the exercise of vigilance and firmness, and there was every reason to suppose that withdrawal of the special powers conferred by the ordinances would immediately give Congress a fresh lease of life, an opportunity for further organisation, propaganda and mischief. The leaders showed, in spite of failure and disappointment, no inclination to give up the struggle, and still wield extensive influence in many parts of the country. A Special Powers Ordinance was accordingly promulgated, which made it possible to arm local governments with all the main powers conferred on them by the Emergency, the Unlawful Instigation, the Unlawful Association and the Boycott Ordinances of January last. In fact, though all the provisions of the new ordinance can be brought into force throughout British India, it has been found possible in many areas, where the influence of Congress has weakened, merely to keep those powers in reserve. The powers of dealing with the press have, however, been retained in full. This action on the part of Government, not anticipated by the Congress leaders, has taken the wind out of their sails. They had hoped to gain, on the expiry of the ordinances, an opportunity of rekindling excitement by a fresh spell of intensive indulgence in their characteristic methods. As usual, they under-estimated the strength of Government. The influence of Congress will probably still further decline, though the process of attrition has by no means reached the point of final defeat, and the possibility of revival through some unexpected stimulus can never in India be ignored.

II. The Terrorist Movement

WE now pass on to the terrorist movement. Terrorism is one of the main problems of the day, and unless some solution is found, neither provincial autonomy nor responsibility at the centre, nor the complete discomfiture or triumph of the Congress, will bring peace to Bengal. The cult of the revolver and bomb seems not only firmly established, but to be extending. The main features persist—the murder of officials, in reprisal, or to inspire fear, or to satisfy the curious sentiment that such murders are acts of propitiation ; the collection of funds for revolutionary purposes by means of robbery and dacoity ; and the manufacture of bombs, and the theft of revolvers, to supply the means of assassination. Three brutal and cowardly murders have been committed during the summer. Mr. Douglas, Collector of Midnapore, Captain Cameron at Chittagong, and an Indian Magistrate, Mr. Sen, at Dacca, have been shot—and Mr. Gibson, Commissioner of Ajmer, was attacked, but escaped without injury. Mr. Ellison, Assistant Superintendent of Police, is the latest victim at Comilla. Considerable sums of money have been obtained by train robberies and dacoities to replenish the revolutionary chest. In May, for example, a daring train robbery took place near Dacca, a hold-up in the most approved American style—the communication cord pulled, the train stopped, the guard shot, and the assailants making their get-away in a car kept in readiness for them, with some Rs.32,000. Space prevents the enumeration of many other incidents of a similar nature. As regards bombs and revolvers, a noticeable feature is the number of cases in which in the course of police searches in various parts of India bombs and revolvers are discovered, the number of instances in which injury to the person or destruction of property is caused

by bombs, and the number of cases in which illicitly owned revolvers are used for the commission of crime, or in which the theft of arms is the objective. Recently, at Lahore, a bomb factory was discovered with a large quantity of bombs, materials for their manufacture, and counterfeit coins, dies and moulds. There is reason to believe that a gang of conspirators has been for a year or two manufacturing bombs for revolutionary purposes, and financing its operations from its own mint.

A curious type of sentimental pervert has sprung up in Bengal, to whom murder is a form of ethical self-realisation. These men, often youths, highly strung, neurotic, slaves of emotion, and careless of life, convinced that they are martyrs and heroes, tend to develop a monomaniacal complex. The ordinary law is quite ineffective. Suspects are, therefore, kept in detention, after judicial examination of their dossiers, but without trial, while those who have been convicted of terrorist crimes are undergoing sentences in jails in Bengal. But their presence in their own province has led to considerable undermining of general discipline in the prisons, and detention in special camps within the province facilitates communication. Power has accordingly been taken to detain *détenus* in jails outside Bengal—and in pursuance of this policy about 100 have been sent to a camp jail established for the purpose in Ajmer-Merwara, a small island, as it were, of British territory situated in Rajputana. The Secretary of State has announced that persons who have been convicted for offences connected with terrorist outrage will be removed to the Andamans. Finally, the provisions of the ordinances dealing with terrorism have been tightened up in certain particulars. It remains to be seen whether these measures of deterrence will check the movement, but the fact that Government is combating it with energy and firmness is bound to tell in time. Terrorism, however, differs in essence and degree from a temporary popular fever such as non-co-operation or civil disobedience,

and many of its votaries are irreconcilable recidivists who, for the safety of society at large, merit perpetual segregation.

III. The Communal Situation

MOSLEMS for the most part have held severely aloof from Congress, and have played practically no part in the civil disobedience movement. On the contrary, they have expressed, along with the depressed classes, their abhorrence of civil disobedience and their relief at the protection given them against Congress by the ordinances. But, nevertheless, fully appreciating, as they do, the vital importance of the constitutional issues, and suspecting the Hindus of aiming at the supremacy of their own community, for the last three years they have been equally distrustful of the present constitutional policy of Government and of the Hindus. The more extreme elements have from time to time advocated direct action in order to compel acceptance of their demands. In our last article we referred to the Lahore Conference, at which only after strenuous negotiation was agreement reached not to pass resolutions in favour of boycotting the Round Table Conference, and its committees, but to await, if not too long delayed, the award of His Majesty's Government on the communal question. The extremist section in impatience have now broken away from the All-India Moslem League to establish an independent body, denouncing "ordinance rule," and demanding complete autonomy.

But upon Mahomedan feeling generally certain recent events have perhaps had a calming influence. The new constitution is now working in the North-West Frontier Province, the first meeting of its Legislative Council has been held, and for the first time in its history its budget has been discussed and voted by its own representatives. The Mahomedan Minister has expressed great satisfaction

at the results, and a mass meeting of Khans voiced their appreciation of the new order. A welcome feature is the comparative quiescence of the Red Shirts, whose interference in the elections caused some revulsion of feeling against them. In Kashmir, again, the report of the Kashmir Constitutional Reforms Conference has recommended the redress of the main Moslem grievances, including the creation of a legislative assembly in which Moslems will have a clear majority over all other communities, and the Ahrar movement, which at one time threatened to be a source of embarrassment, has now subsided. The financial practicability of the creation of a separate province of Sind, on the recommendation of the Sind Enquiry Committee, has also had a heartening effect. Finally, a Mussulman, Captain Sikandar Hayat Khan, has been appointed as officiating Governor of the Punjab, owing to the regrettable illness of Sir Geoffrey de Montmorency.

Though, however, excitement is less visible, the Mahomedans are keyed up to maintain their solidarity, and relations between the two communities are becoming increasingly strained. In the first place, the announcement of His Majesty's Government has aroused strong sectarian feeling. The Mahomedans are anxiously looking to their own position. The Hindus, especially the Hindus of the Punjab, desperately afraid of a permanent Mahomedan majority in the Punjab Council, are doing all in their power to prevent it, and are now making a bold bid for the support of the Sikhs in opposing the Moslem claims. There is at the moment every indication that they have succeeded, for the Sikhs are protesting strongly against a Mahomedan majority in the Punjab with inadequate Sikh representation, maintaining that they would prefer no reforms at all to "Mahomedan Raj." The Hindu Sabha have sent their president, Dr. Moonje, to England, to try to influence the Prime Minister. He claims to represent the depressed classes also, on the basis of his

pact with Mr. Rajah. As the time approaches nearer to the announcement, tension is naturally increasing and feelings below the surface are now very strained. Secondly, the events in the North-West Frontier Province, Kashmir and Sind, as they have served partially to allay the previous excitement of the Mahomedans, so they have disturbed the Hindus. They might mean a considerable strengthening of Mahomedan territorial influence in the north of India, and if, as is freely rumoured, the Mahomedans are to get a permanent representation of 51 seats in the Punjab Legislative Council, Hindu disquietude is not difficult to understand. Thirdly, the main Mahomedan festivals have fallen during the hot months of this summer. Even in normal years their celebration is an occasion for, at times, elaborate precautions to avoid breaches of the peace, and demonstrates the religious fervour and unity of Islam. But when feeling is already running high, the festival season is a very potent factor in intensifying communal partisanship, and the most trivial incidents may suddenly and without warning precipitate rioting and bloodshed on a large scale which causes communal excitement to spread like a forest fire, not only in the city or district where it breaks out, but from district to district and even from province to province.

On May 14 some Moslem youths were collecting subscriptions in Bombay for the approaching Muharram festival. Some Sindhi Hindus refused to make a contribution. Thereupon the Moslem youths, it is alleged, used abusive language, and were beaten by the servants of the Hindus. Straightway a Moslem crowd gathered at the house—and in India crowds collect with astonishing rapidity—and was met by a shower of soda-water bottles. Some Moslems were slightly injured, and the police quickly arriving upon the scene soon restored order in that locality. But this tiny flame soon became a great conflagration. Shops were closed, mobs collected in many parts of the city, mosques and temples were burnt, shops looted and

houses set on fire. During the disturbances, which lasted about a week, and their subsequent renewal, nearly 3,000 casualties occurred—213 killed and 2,682 injured. Events such as these leave an aftermath of bitterness, and inflame feeling throughout the whole country. The Council of the All-India Moslem League, meeting at Delhi in June, found in the Bombay riots "a fresh instance of Hindu intolerance and high-handedness," but appealed to leaders of both communities "to adopt such measures as would restore peace and good understanding between the communities." They declared that delay in the announcement of the communal decision had already occasioned grave discontent and acute tension between the communities, and was impeding progress in the framing of the constitution. Moslem activity during the period has been mainly devoted to impressing upon England the justice and urgency of their claims and their refusal to accept anything short of the "fourteen points,"* and the Agha Khan had to edit the somewhat intemperately worded document which had been sent to England for publication by a number of prominent Mahomedans from India. The Hindus, on their part, through Pandit Madan Mohan Malaviya, have implored the Moslems to abate their demands, and to have some thought for the nation. While certain leaders, such as Sir Chiman Lal Sitalvad and Sir Cowasji Jehangir, have deplored the inability of Indians to find a solution themselves, and urge acceptance of His Majesty's Government's award, if it is clearly based on justice and equity. There is no gainsaying the fact that amongst the rank and file a dangerous state of tension exists, which might lead to serious communal disturbances, or to a Hindu swing over to Congress, which would equally result in communal disorder. The Hindus who are not now supporters of Congress are in a jumpy and excitable state owing to the change of procedure announced by the Secretary of State with regard to the Round Table Con-

* See the Report of the Simon Commission (Cmd. 3569) vol. II, p. 84.

ference, and as they appear to see in this a fundamental change of policy, they may be caught on the rebound. Many Mahomedans are anxious for early provincial autonomy: the Hindus, on the other hand, for obvious reasons, deprecate advance in the provinces at a different pace from advance at the centre. The communal award is eagerly awaited.* The present situation is dramatic: it is capable of entirely unforeseen developments, and may indeed be radically altered by the time that this article is published.

IV. Constitutional Development

THOUGH the communal problem at the moment completely overshadows Indian politics, it must not be supposed that no progress is being made in constitutional affairs. We described this period at the beginning of the article as one of conscientious spade-work. It is an open secret that the Government of India are toiling and moiling at the preparation of memoranda and despatches containing their views on the outstanding points of principle and detail. The Reports of the Federal Finance and Franchise Sub-Committees were published on May 7 and June 3 respectively, but the new procedure announced by the Secretary of State on June 27 has precipitated another crisis, which, with the prevailing speculation as to the communal award of His Majesty's Government, has tended to divert attention from these two very valuable reports, except in so far as the Franchise Report bears on the communal issue.

The Federal Finance Sub-Committee, on a forecast of federal and provincial budgets after the federal constitution has been introduced, anticipate that while, if economic conditions become normal, there will be a small surplus of about 4½ crores at the centre, the aggregate of provincial deficits will be approximately 3·82 crores,

* See the summary of the award given at the end of the issue.

the United Provinces and the Punjab alone showing a small surplus, and Bengal a deficit amounting to two crores. This forecast includes a contribution of five crores from railways and State contributions of 74 lakhs. The complete surrender of income-tax revenue to the provinces is not, in their view, warranted, and the centre must retain a considerable proportion, the rest being distributed to the provinces on rather an elaborate method, the result of which will be that Assam alone will show a deficit. The Committee have no hesitation in reporting that, if the federal government assumed responsibility for the whole of the pre-federation debt, its obligations would be covered by the assets taken over, and that the service of this debt would be fully covered by the sources of revenue remaining at its disposal. As regards powers of taxation, they propose certain sources of revenue in regard to which the power of legislation should rest with the federal government, certain other sources in which it should rest with the federal government, subject to State rights, and finally, sources in which it may rest with the units subject to a right of federal surcharge. The Committee believe that, provided normal economic conditions permit, the Peel Report provides a foundation on which an Indian federation can be established and begin its work.

The Report has not met with much informed criticism, and, as might be expected, the chief line of attack has been that the provinces do not receive full financial autonomy. The Working Committee of the All-India Moslem League consider that any system of contributions from autonomous provinces will render them " financially helpless, politically impotent, and administratively incapable of vigour, energy and effectiveness." From Bengal complaints are made that that province is badly treated and that the unfairness of the Meston settlement is perpetuated. The Report is perhaps too technical for the public to take more than a merely general interest in regard to the resultant position of the provinces and their contributions. It is, however,

recognised in better informed circles that the Committee under-estimate the danger of the continuance of deficit provincial budgets, and seem unduly optimistic as to the early return of normal economic conditions. The absence of any material reserve, even on the assumption of a quick return to prosperity, causes considerable apprehension.

The Report of the Indian States Enquiry Committee was published on July 29, and thus completes the picture of federal finance. The Committee have carefully examined the debit and credit side of the financial relations of British India with the States, and recommend : (1) the total remission of tribute within a period of 10 years—59 lakhs—together with immediate relief to certain States of 11 lakhs ; (2) in respect of ceded territories, a cash credit to the States concerned, amounting to 37 lakhs ; (3) adjustment of immunities now enjoyed in regard to customs duty, salt and postal arrangements. The effect of all adjustments will be to cause a considerable loss of revenue to the federal government, certain States being in a position analogous to deficit provinces. The total loss may be as much as a crore of rupees, but may be considerably less. The Committee point out that " by their very entry into federation, the States would be making a contribution which is not to be weighed in golden scales." This Report should help to remove one of the most serious obstacles to federation, but is bound to meet with serious criticism from British Indian politicians as, in combination with the findings of the Federal Finance Committee, disclosing a somewhat shaky financial basis for the future, and as erring on the side of generosity to the States. The task of this Committee was exceptionally difficult, as " the course of history during the last 150 years has brought into existence an intricate network of relationships between the two parties, the unravelling and readjustment of which must be accomplished before any advance can be made," and there will be common consent that their recommendations are far-sighted and statesmanlike.

The Report of the Franchise Committee, on publication, aroused the keenest interest : it makes a direct and intelligible appeal to the ordinary elector and can be readily translated into terms of current politics. The outstanding recommendation of the Report is the increase of the electorate from 7,000,000 to 36,000,000, or from 5·4 to 27·6 per cent. of the total adult population. Adult franchise is dismissed as impracticable, owing to the dearth of officials qualified to work such a system and the enormous numbers involved, with only a very small percentage of literates. Electoral qualifications should, it is proposed, be based on property and education. The latter has the advantage of providing for an automatic extension of the franchise in the future. Additional qualifications are suggested for women, which would give them a voting strength of about one-fifth of the whole. The general electoral qualifications, however, would mean that the estimated 35 millions of the depressed classes could not be enrolled in proportion to their population. Since it is essential that they should be able to express their opinions in the Councils, the Committee make suggestions for securing, by some form of differential franchise, a voting strength more proportionate to their number. The actual method should be left to local governments, owing to the wide difference of local conditions, but the voting strength should in any case not be less than 10 per cent. Special representation for industrial labour is recommended, but, in the absence of a communal settlement, they are unable to make final recommendations for the representation of special interests. A number of provincial franchise schemes, varying according to the special needs of each province, are proposed. Turning to the centre, the Committee endorse the proposal that British Indian members of the Senate should be elected to it by the single transferable vote, on the principle that the upper house represents the units of the federation, and the lower house the nation as a whole. The Federal Assembly should consist of 300 members, instead of 200

recommended by the Federal Structure Sub-Committee, the area of the constituencies should be reduced by one-third, and the electorate increased from about 1¼ million to 8½ million by changing the franchise.

As was to be expected in the circumstances already described in this article, the reactions to the Report are mainly on communal lines. The Hindus generally complain that the majority have not recommended immediate or prospective adult suffrage. The Working Committee of the All-India Moslem Conference, accepting the extension of the franchise, objects to the "segmentation of the Indian electorate" through special constituencies, which, if retained at all, should be for a transitional period, and Moslems should have a share in them. It demands existing weightage for Moslems except in Bengal and the Punjab, where it urges a Moslem majority. On the other hand, the large extension of the franchise proposed has shocked people like Sir Chiman Lal Sitalvad, who think it risky in the case of an illiterate population. The landowning classes are disappointed that no additional special representation has been proposed for them. The size of the constituencies, the proposed strength of the Federal Assembly, and the increase in the number of special constituencies, as being likely to complicate the problem of adjusting communal representation, have all come in for a certain amount of criticism. Responsible opinion, however, for the most part would agree with Sir Sivaswami Aiyar, a prominent liberal, that the report is "a most able document and thoroughly impartial," and that "the proposals of the Committee for the extension of the franchise have gone as far as is possible under existing circumstances." But it is likely that these recommendations will be subjected to a more critical examination, in the light of the communal award by His Majesty's Government when it is made known.

Matters of general constitutional interest, much discussed during the period of our review, have been the

possibility—indeed the necessity—of speeding up the introduction of the reformed constitution, and the desirability or otherwise of establishing provincial autonomy as early as possible and prior to the completion of the federal scheme. The announcement made by the Secretary of State on June 27 is largely concerned with these questions. He explained the decisions of His Majesty's Government that there should be one Bill covering the whole field (*i.e.*, that provincial autonomy would not be first introduced), that the communal decision would be announced during the present summer, and that a more expeditious procedure for the settlement of outstanding problems had been designed. The main features of this new procedure were that no more plenary sessions of the Round Table Conference would be held, and that full consultation with Indian opinion would be secured by the continuous session of the Consultative Committee, by informal discussion with individual Indians especially qualified, by the appointment of a Joint Select Committee of Parliament, before the introduction of the Bill, with power to confer with Indian representatives, and, lastly, by formal consultation, if necessary, with Indian representatives in London before the Joint Committee is set up. The object of the British Government was clearly to combine greater speed with a more practical collaboration with Indian opinion than could be secured by discussion in full conference.

The decision met with a mixed reception. Most Mahomedan public men regard it as on the whole satisfactory, though Sir Abdur Rahim urges that the legislatures should be invited to co-operate more closely. The Hindus are dissatisfied, though at first there was no suggestion of withdrawal of co-operation, and the steadily growing agitation against it has been due to other causes than its merits. Mr. Chintamani, for example, did not regard it as "wholly satisfactory to Indian nationalists." Mr. Kelkar is gratified that Indian opinion is to have an

opportunity of expressing its views before the Joint Parliamentary Committee. Sir Sivaswami Aiyar feels that the proposed procedure is better designed to secure expedition. Sir A. P. Patro does not read into the statement any sinister change of policy on the part of His Majesty's Government, but thinks the Consultative Committee should have been taken into confidence before it was made. Messrs. Sapru and Jayakar attribute the statement to Tory pressure, and see in it a clear abandonment of the original intention of the British Government, to reassemble the Round Table Conference for a final review of the work of the various committees, and, while not insisting that a full Round Table Conference should be summoned for a third time, urge "that a smaller body . . . should meet for a final review of the work of the committees, including the Consultative Committee, and for treating with British representatives." The liberals in the United Provinces apprehend a considerable interval between the introduction of provincial autonomy and responsibility at the centre. Mr. Sastri bitterly denounced the procedure: "If experts and people with specialised experience are only to give evidence before the Joint Parliamentary Committee, dominated as it must be by Conservatives, the new constitution will," he declared, "be an imposed constitution, and not one to which progressive parties in India have previously agreed, and which they may naturally be expected to accept." He considers that the decision "humiliates Indians in the extreme." The Congress press has skilfully encouraged opposition, by ridiculing the liberals or by quoting Mr. Winston Churchill's approval of the announcement as the clearest proof that the British Government have abandoned the policy set forth in the various statements of the Prime Minister. The further speech of the Secretary of State and the clear invitation for suggestions has fallen for the time being on deaf ears, and Congress are seizing the opportunity to urge the liberals and others to join them in their policy of non-

co-operation. Messrs. Sapru and Jayakar have now resigned their membership of the Consultative Committee, and they with twelve other prominent Round Table Conference delegates have announced that the maintenance of the conference method is, as it was, an essential condition of their co-operation and support. The door is not, of course, finally closed, and it is possible that some acceptable and working compromise may be discovered before this article goes to press.

But the question to which some answer should be given is why a modification of procedure designed to expedite the establishment of the new constitution, and accepting the principle of a single Bill and Indian collaboration, should meet in the end with such definite opposition in Hindu circles. The answer seems to be that it is due to three causes: first, distrust of the Conservative majority in the present Parliament; secondly, apprehension that the method now proposed will eliminate effective Indian criticism at the final stages, and, thirdly, suspicion that it foreshadows, in spite of emphatic disavowal, the prior introduction of provincial autonomy. A more fundamental reason would, however, seem to be the conviction of many Hindus that, in any case, it would be impossible to support the communal decision, and that, therefore, their withdrawal was only a matter of time and expediency: it would be wiser, having regard to the first elections under the new constitution, to make common cause with Congress on the issue of procedure, before the decision was announced. At the moment an *impasse* seems to have been reached, and it would be idle to prophesy whether or not a way out will be found.

India.
July 23, 1932.

GREAT BRITAIN

I. The Position of the Government

EVENTS at home during the last quarter have been overshadowed by events abroad. No issue, however important in itself, but has necessarily been related in men's minds to one or other of the great conferences that have taken, or are taking, place. Geneva, Lausanne, and Ottawa have been the foci of converging interests, and next autumn they are to be succeeded by the World Economic Conference. Upon the success or failure of these conferences, which represent different aspects of the world crisis, the fortunes of the present Government, and indeed of many others, will depend. It is no part of the purpose of this article to discuss these conferences—that is done elsewhere. The Lausanne Conference alone has finished its work. As we go to press, the result of Ottawa is still in doubt, while the Disarmament Conference has only reached a sort of half-way-house in the form of certain conclusions, themselves merely provisional, and even at that not unanimous—a deadlock some people call it. However that may be, the labours of that Conference, which is referred to more fully on another page,* are clearly likely to be prolonged, and a considerable time must elapse before the final result is reached. But the inter-dependence of disarmament

* See p. 693.

and the prospect of a general economic recovery has been put beyond all doubt by the obvious American determination, if the question of war debts is reconsidered, to make their attitude dependent upon the adoption of a substantial measure of real disarmament. At present it is a condition of American participation that the war debt question is not to appear on the agenda of the world conference.

It is clear, then, that we must wait before any prediction based on the result of the conferences can be made with regard to the present Government's life. It will certainly be judged by the event, just as its predecessors have been, and the acid test of its success or failure is likely once more to be the state of unemployment, which in a sense is a mirror of the state of trade. As likely as not, too, when the time comes, its own merits and demerits will enter comparatively little into the decision of the electors.

But if little can be said to-day about the Government's prospects, it is always possible to consider what progress has hitherto been made, and the present state of public opinion. The up-to-date results of the Disarmament Conference have undoubtedly disappointed a large number of people, who are not confined to any one party. As the *Daily Telegraph* put it, " a series of largely academic resolutions." Nothing tangible was decided ; all that the Conference has done is to formulate principles " as a basis for further reductions." The Conference is to reassemble between September and January. In the meantime the armaments truce of last September is renewed until March. It is felt by many that the meagre results have made more difficult the outlook for the coming world conference. But those who feel like this are people who have been following events, and we are merely concerned in this section with the effect of events on the position of the Government. The man in the street has too vague an idea of what has been happening at Geneva to form a sufficiently definite opinion to

apportion either praise or blame. There has been no full dress debate in Parliament on the subject to enlighten people, and the opinions that have been expressed are not unanimous, even among those who are regarded as the protagonists of disarmament. Lord Cecil, for instance, whose views on such a subject naturally command attention, while he admitted frankly that nothing definite had been achieved, thought the Geneva resolution " an immense opportunity." " We have got to insist," he said at the Liberal summer school at Oxford the other day, " that these general principles are turned into reality." Sir John Simon's answer to the criticisms of the interim resolutions at Geneva is that they would only be justified if the resolutions were final. The public generally will suspend judgment till a later stage.

Lausanne, too, was a first step, though a first step of immense importance, as has been generally recognised. As Sir Walter Layton has put it, the conclusion arrived at virtually marks " an end to reparations." " Saturday, July 9," he said in a broadcast to America, " will be noted by historians as one of the most important dates of modern history. On paper the agreement is provisional only ; but if there is one thing certain it is that there can be no going back upon the German agreement." The agreement was discussed in the House of Commons on July 12, when Mr. MacDonald claimed that, though the problem of the war debt settlement had still to be faced, much had been definitely accomplished. " Lausanne has," he said, " brought us nearer to France, France nearer to Germany, and France and Germany nearer to us." As regards America, " there are still delicate relations," but " Lausanne has opened new ways, it may be very broad ways, and I ask for the work of my colleagues and myself the hearty approval of this House." That approval was unreservedly given, by the Opposition as well as by the Government's own supporters. The announcement of the agreement with France that followed, and a certain change in the

attitude of Italy since the Conference caused a good deal of mystification, and even anxiety, but there is no doubt that the prestige of the Government, and especially of the Prime Minister, has been increased by Lausanne. The stock of the Government has, moreover, decidedly benefited by the successful conversion of the 5 per cent. war loan. This, however, brings us to the subject of domestic politics.

Against this exciting background Parliament has pursued an unhurrying and unhurried course. Thanks to its delegation of the details of fiscal legislation to the Tariff Advisory Committee, it has been relieved of what would have been its most harassing problem. At the beginning of June the Committee took a step towards justifying the hopes expressed when the Import Duties Act was under discussion last spring, by appointing a National Committee, from which regional committees have been formed to consider rationalisation projects for the iron and steel industry, and Sir George May warned the industry that, if it hoped to receive continued protection, effective replanning must take place.

The Parliamentary session closed early, on July 13, in order to enable the Government delegates to leave for Ottawa. The first task of the House during the quarter under review was to complete the last stages of the Finance Bill, but it is unnecessary to describe this measure, as it was fully dealt with in our last issue. Other legislation consisted of the Coal Mines Act, which is referred to in the next section, and the Irish Free State (Special Duties) Act, which gives the Government power to tax imports of any kind from the Irish Free State up to 100 per cent., in order to recoup itself for the loss of the land annuities withheld by Mr. de Valera—the history of the Irish crisis during the last three months is described in another article. There was a full dress debate on the question of national economy at the beginning of July—a special committee of Conservative members

has made it its task to endeavour to keep the Government up to the mark in this respect.

On June 27 there was a statement of great importance by Sir Samuel Hoare. He announced a new programme for the purpose of the constitutional reforms which are to confer Dominion status upon India; the Round Table Conference will not be again convened. The Prime Minister's promised award on the Indian communal question is expected this month. It is interesting to note in connection with the subject of Indian policy that the vacancy in the Cabinet caused by the death of Sir Donald Maclean on June 15 has been filled by Lord Irwin.

There have been three or four by-elections, but they seem to throw little light on the position of the Government, merely indicating a natural tendency on the part of electors to return to their normal allegiance. At Wednesbury, no doubt, the figures of the Government's defeat were striking,* but even Wednesbury, usually a safe Labour seat, was a case of reversion, though the " means test " admittedly influenced the result. If the times do not improve, the Government will no doubt fare badly in other industrial constituencies, but it needed no Wednesbury to make that clear.

As for the Liberals and Labour, both have continued to show signs of fissure. The Independent Labour party has left the Labour party, only to split itself in the process, while the Liberals, especially the young Liberals, do not seem to grow any more reconciled to the continued presence of Liberal Ministers in the Government. Ottawa indeed may prove to be a turning point. If one of its consequences should be a large additional instalment of protection for this country, it is thought likely that followers of the Liberal Ministers will freely break away and move independently to the left, if the Ministers themselves remain in office.

* The figures were as follows: Labour 21,977, Government 18,198. At the last election they were: Government 25,000, Labour 20,842.

But from the standpoint of the position of the Government the event of the quarter was, of course, the great conversion operation. Mr. Chamberlain was severely criticised, during the debates on the Finance Bill, for his failure to produce a far-reaching conversion scheme. The preparation of such a scheme necessarily calls for secrecy. The Chancellor turned the tables against his critics, with quite devastating effect, when on June 30 he finally announced his plans.

The conversion scheme is, in its boldness, simplicity, and scope, the biggest thing of its kind so far attempted. It provided at one blow for the conversion of £2,000,000,000 of 5 per cent. war loan to a basis, not merely of 4 per cent., but actually of 3½ per cent. The loan, in so far as it is not converted, is to be redeemed on December 1; but holders had the option of continuing at the reduced rate, and, if they accepted conversion terms before July 31, received a bonus at the rate of £1 for every £100 of war loan held. The bonus, moreover, was not subject to income tax as far as the "ordinary investor" was concerned. The saving to the Exchequer is of the order of magnitude of £23,000,000 a year.

This gigantic operation is admitted on all hands to be a triumph of prudence and statesmanship. Its success called for careful and effective co-operation between the Government, the Treasury, and the banks. A bank rate of 2 per cent.—the lowest for 35 years—laid the psychological foundations of its now assured success. Even so, considerable risks were involved, and the fact that they have been successfully surmounted must be credited to the National Government as a major triumph of its career. By the end of July, when the right to the bonus expired, the acceptances amounted to about £1,850 million, or nearly 90 per cent. of the total of £2,086,977,258. The holders of £48 million of the balance of £236,977,250 require cash on December 1. The holders of the remaining £188,977,258 may declare before the end of September if they wish to be

repaid on December 1, otherwise they will be deemed to have accepted conversion, and many of them have already made known their intention of letting their stock be automatically converted.

If we were to close our record at this point, the prospect would seem full of hope, but there is unfortunately a reverse side to the shield. Conversion with its substantial reduction of the net debt charge and its stimulus to lower interest rates generally is one essential element in trade revival, but there are other elements which are less satisfactory. According to a statement issued on August 9 by the Ministry of Labour, there were 1,994,453 wholly unemployed persons on the register of employment exchanges on July 25, 721,552 temporarily stopped, and 94,777 normally in casual employment, a total of 2,811,782. This was 64,439 more than the number on the register on June 27 last and 98,432 more than a year ago.

Nor do the trade figures supply more cheerful reading. The following table shows the volume of imports and of (total) exports, respectively, for April, May and June, as compared with the corresponding figures for 1931 :—

	April	*May*	*June*
		£ millions	
Imports			
1931 ..	70·0	69·6	68·6
1932 ..	53·5	55·7	57·5
Exports (including re-exports)			
1931 ..	39·1	39·6	35·5
1932 ..	39·4	34·6	33·9

It will be noted that recent restrictive measures have had an effect upon Great Britain's "visible adverse balance." But our exports, in spite of the various stimuli applied, still remain disappointingly irresilient.

Further information about the conditions of trade and industry will be found in the section that follows, but, depressing as the statistics continue to be, we have only to look back a year, and the memory of the dangers through

which we have passed will restore our perspective. The lesson of the figures is, after all, not one of despair; they simply show that recovery must depend on international effort, and that our prospects, like those of the Government, depend upon the results of the great conferences whose proceedings or prospects are discussed in this issue.

II. Coal, Cotton and Railways

BRITISH industry as a whole has marked time during the last few months. Coal mining has felt the seasonal depression worse than usual—the number of unemployed miners reached 425,000 in June, and there was a further increase in July. Production in textiles, which received most benefit from the depreciation of sterling, has remained greater than a year ago, but employment is falling off, and the cotton trade has provided one of the worst breakdowns in industrial relations that has occurred in Great Britain since the war. Over most of industry there is a truce of mingled desperation and hope; the bottom of the depression may have been reached, but the signs of recovery are slight. In the industrial field the three most important developments of the quarter have been, perhaps, the coal settlement, the railways pooling plan, and the collapse of collective bargaining in Lancashire.

Parliament disposed of the annual coal crisis a month ahead of time. The Act of 1931 continuing the 7½-hour day in the mines and maintaining wage rates was to have expired in July, but instead of letting things drift until the last hour, the Government rushed legislation through at the beginning of June which prolonged the 7½-hour day indefinitely (or, rather, until the 7¼-hour day of the Geneva Convention is generally adopted in Europe). The Labour plea that wages must be safeguarded by statute from reduction was rejected, and Mr. Runciman accepted a gentlemen's agreement on the part of the coal owners mission .eductions will take place for twelve months.

The seven-hour day of 1919–1926 disappears from the statute book and becomes once again an ideal. The miners pressed hard that the owners should agree to some form of national co-ordination of district wage agreements when the present truce expires. The Government is sympathetic but not prepared to legislate. Next spring the miners will try again; whether the owners will then respond to proposals for national conciliation machinery is another matter.

The Act also prolonged for five years Part I of the Coal Mines Act of 1930, which governs the schemes for the production and sale of coal. The Government did not take the opportunity to revise the schemes to meet the serious defects that have been revealed by the first eighteen months' experience of their working, and amendments are to be made, on the owners' initiative, by departmental order. Proposals are under discussion which involve much closer control of supplies and prices in the home market, both in the districts and nationally; a subsidy for the export trade (this would require statutory powers); and more complete control over the opening of new or the re-opening of old collieries. They have been criticised on the ground that they do not go far enough—they do not touch some of the main vices of the quota system, with its encouragement of the inefficient pit—and that they involve a strengthening of the owners' monopolistic powers without any strengthening of those of the community. One effect of the change in the political atmosphere last autumn was a cooling off of the movement for colliery amalgamations. The Government, however, has made it clear that it will not scrap the Reorganisation Commission appointed by its predecessor, and the Commission has issued a warning to owners that they must bestir themselves. The merger of the whole Lancashire coalfield has fallen through owing to the difficulties of financial unification. On the distributive side some progress has been made, and a large scheme for co-operative

selling in South Wales is on foot. Interest in the better utilisation of coal has also awakened during recent months.

The falling traffic receipts of the railways form a sharp incentive to cut costs, and have proved a spur to extensive internal reorganisation and closer working between the companies. The Minister of Transport has approved the pooling arrangements submitted by the L.N.E.R. and L.M.S.R. companies, and an arrangement between the G.W.R. and L.M.S.R. companies is foreshadowed. The pool already approved (after a public inquiry) affects 50 per cent. of the joint receipts of the two companies, and although a distinction is carefully drawn between pooling and amalgamation, many of the presumed economies of amalgamation should be secured. Certainly a big step will be taken towards the elimination of inter-railway competition. The displacement of labour will probably be serious, and the unions have staked out a claim for compensation for their members which, so far, has not been admitted. The question of rail and road competition will come to the front again with the publication, which is momentarily expected, of the report of the Salter Conference.

The cotton industry continues to weather the depression badly. The spurt given by currency depreciation is largely spent; Japanese competition, held off for a few short months by Japan's short-lived attachment to gold and by the Chinese boycott, has returned in full force. In all overseas markets exchange difficulties, tariffs and quotas are acutely felt; tariff protection in the home market affords only a slight counterpoise. The trade statistics are melancholy. Last year the exports of piece goods were less than in any year since 1864, towards the end of the cotton famine. Between 1924 and 1929 world production of cotton yarn increased by 24 per cent.; British production fell by 6 per cent. The world total last year was still 8 per cent. above that of 1924; the British figure was 31 per cent.

below that of 1924. The world export trade in piece goods rose by 5 per cent. between 1924 and 1929; that of Great Britain fell by 16 per cent. Last year world exports were 37 per cent. below those of 1924; British exports fell off by 58 per cent. In 1913 Great Britain did 65 per cent. of the world trade in cotton goods; in 1924, 54½ per cent.; last year only 35⅓ per cent. This picture of rapid decline, fierce competition, and lost markets is the background of the internal demoralisation of the Lancashire industry.

The most considerable effort yet made to secure organised contraction and to adapt the size of the industry to its post-war volume of trade failed in June. The scheme of the Joint Committee of Cotton Trade Organisations for scrapping or immobilising surplus plant was decisively turned down. The Government had promised support if the idea of a statutory levy were supported by a substantial majority, but the final vote of the spinning section—to which it was proposed first to apply the principle—was overwhelmingly hostile. In the same month an attempt to combat weak selling by a production quota scheme in the fine spinning branch also broke down. There is now, probably, an end for some time to any large-scale co-operative effort at reform. The normal forces of attrition will slowly work themselves out. The industry's experience of rationalisation has not, of course, been happy. The individualistic spirit has been confirmed in its suspicions and conservatism by the history of the Lancashire Cotton Corporation, which four years ago was heralded as the beginning of a new era of large-scale amalgamations and mass production and mass selling in lost markets. The great combine has not justified the hopes set on it, and is now itself faced with the necessity of drastic reorganisation.

Just as the employers have been unable to agree on common policies of reconstruction, so the unions have dug themselves in behind traditional defences that changed

circumstances have rendered untenable. Thirty-five years ago the authors of *Industrial Democracy* declared that "the machinery for collective bargaining, developed by the cotton operatives, in our opinion, approaches the ideal." It seemed to them a perfect blend of democracy and the expert, admirably contrived to give security and stability, which by "the uniform application of an identical method of remuneration throughout the whole trade leaves the able capitalist or energetic workman free to obtain for himself the full advantage of his superiority." The words read ironically now that the self-regulating machine has stopped, and the common rule has been submerged by a return to individual bargaining more characteristic of the 'forties than of post-war industry.

The spinning section of the trade is working without governing hours and wage agreements, but labour conditions remain generally intact, although isolated inroads have been made, and the employers are about to make an extended attack. In the manufacturing section the sequence of events has a distressing fatality. After a long series of abortive negotiations and strikes,* popular resentment among the weavers undid all attempts to introduce by consent the labour-saving system of increasing the number of looms worked by each weaver. Irritated by the delays, and by the way in which the rank and file of the operatives had thrown over their leaders, the employers moved for a general wage reduction. This, in April, the unions refused to entertain, using the not unreasonable argument that wage cuts alone would not bring prosperity, and that the workers alone should not be called on to make sacrifices so long as the employers made no effort at reform. Individual employers were, however, taking things into their own hands and applying lower wage rates, and their central body could not withstand the pressure behind it. On June 11 all wages and hours agreements were

* See THE ROUND TABLE, No. 82, March 1931, p. 392.

ended, and the field was left open to each individual employer to go his own way. The rot had not then gone far, and the unions by a little manœuvring might have compromised on a moderate reduction and saved their agreements. But they would neither strike nor negotiate without the assent of the rank and file, who in two ballots failed to give a decisive mandate either way. It was not until the end of July that the leaders dared to risk an appeal to the employers for negotiations. By that time whole districts had cut wages, the reductions varying capriciously from one mill to another, and ranging from 1s. to 2s. 9d. in the pound on earnings, which among the weavers are only exceptionally more than £2 a week. In the earlier weeks the operatives sporadically put up resistance, only to find their jobs filled by the unemployed who gathered at the mill gates. But resentment is intense, and the reopening of the county negotiations was accompanied by the outbreak of a surprisingly successful local strike at Burnley, where 22,000 operatives came out, and in which non-unionists as well as unionists were compelled by mass picketing to cease work. The negotiations broke down on August 9, in an exasperated quarrel on the question of the reinstatement of the operatives displaced by strikes; the unions, however, had still to meet the employers half-way on the amount of the wage reduction to be accepted. On August 11 the Weavers' Amalgamation declared for a county strike of the weaving mills. At the moment of writing the temper, no less than the way to compromise, is still to be discovered.

The result is, perhaps, what might be expected of an industry in which there is a large surplus of productive capacity, and a large surplus of labour, and in which long-continued depression has made both employers and workers desperate. Once a few firms began to cut wages the market was quickly upset, and firms which had no wish to interfere with wages were compelled in self-defence to do so, although they might realise that in the end there

would probably be no lasting increase in the volume of business to go round.

The problem of the contracting industries, of which the cotton trade is so painful an example, is the main theme of the five industrial surveys of Lancashire, Merseyside, the north-east coast, south Wales, and south-west Scotland, which have been prepared by the universities of those areas, and published by the Board of Trade. These attempt an estimate of the surplus labour that is likely to remain when the general crisis has passed, and each report comes back to the central point that, if these areas are not seriously to decay, new sources of occupation must be found outside the old staple industries on which their populations have so long been dependent.

POSTSCRIPT.

Since this article was written, the Conference on Road and Rail Transport have issued a completely unanimous report. The Conference consisted of the heads of the four big railways and four representatives of the commercial road services, with Sir Arthur Salter as chairman. The Conference took £60 million as the amount annually spent on the roads, and they suggest that this sum should be borne by the different classes of mechanically propelled vehicles in the following proportion, the amount to be paid in the form of licence duties and petrol tax: £23,500,000 is allocated to commercial vehicles (about £2,500,000 more than they pay at present), and £36,500,000 to private cars and other kinds of passenger conveyance. The principle upon which this apportionment rests was based mainly on petrol consumption and ton mileage, but allowance was also made for other considerations, such as speed and unlimited franchise of the road as compared with the extra wear and tear caused by the heavier vehicles. No increase in the licence fee for the smaller lorries would be involved, but the amount paid by the heaviest type would be enormously increased —hitherto the maximum duty has been fixed at 5 tons, heavier vehicles not having been contemplated when the present system of licence duties was adopted. Want of space prevents our describing the other proposals.—EDITOR.

CANADA

I. PERSONALITIES AT THE IMPERIAL CONFERENCE

OTTAWA once before in its history played host to a gathering of the statesmen of the British Commonwealth, when the Colonial Conference met there in 1894, but never has it welcomed within its gates so many eminent personages as the Imperial Economic Conference of 1932 has brought together. Set in a broad wooded valley with the Laurentian hills as a background, it is a city of waters and trees, and the rich endowments of nature have been splendidly embellished by human skill operating through the taste of private individuals and the Federal District Commission, an organisation generously subsidised by the Federal Treasury, which has girt the city with broad drives and boulevards and laid out a series of beautiful parks. The Canadian capital therefore provides an admirable setting for the Conference, and with the working quarters in the Parliament Building situated on a massive bastion of rock overlooking the Ottawa River, and living quarters in the nearby Château Laurier, as fine a hotel as North America can boast, the delegates have been given living comforts and working conveniences such as could not be matched in London itself. By general agreement the physical preparations of the Canadian Government for the Conference were perfect in every detail, and it remains for the chosen delegates of the Commonwealth to justify the care, that had been expended on them, by the successful application of their intellectual powers to the problems before them.

The personnel of the Conference comprises a variegated array of political talents and business and administrative experience, but inevitably a fruitful outcome depends upon the statesmanship of the heads of the various delegations,

and therefore some appraisement of their personalities and careers may be apposite.

Mr. Richard B. Bennett, the Canadian Premier, as both the originator and the Chairman of the Conference, has the first claim to consideration. Born of United Empire Loyalist stock in the province of New Brunswick in 1870, he is the architect of his own fortunes. *Res angusta domi* compelled him to begin earning his living as a teacher at an early age, but when he had saved some money he was able to attend the law school at Dalhousie University and qualify for the bar of New Brunswick. After practising for a few years at Chatham, N.B., an offer of a partnership in the leading law firm in the rising western city of Calgary opened opportunities for the development of his talents as an advocate, and before he was forty he was leader of the provincial bar of Alberta. What time he had to spare from the claims of a large law practice he gave to politics, and after serving first as a member of the legislature of the North-west Territories and then as leader of the Conservative Opposition in the Alberta legislature, he entered the Federal Parliament as member for Calgary at the reciprocity election of 1911. In his first Parliament his competence as a debater made him a man of mark, but he differed from his party leaders, first on their railway policy and then on their plan for a coalition Ministry, and so in 1917 he withdrew from public life and for the next eight years devoted his energies to his law business and large industrial properties in eastern Canada which had been bequeathed to him by a friend of his youth. However, in 1925 he re-entered the Federal Parliament and speedily asserted himself as one of the ablest parliamentarians at Ottawa. There was no serious opposition to his claims to the leadership of the Conservative party when Mr. Meighen resigned it in 1926, and his aggressive strategy in opposition paved the way for the Conservative victory of July 1930, which brought him the Premiership of Canada in his fifty-ninth year in the prime of his powers.

It has been Mr. Bennett's lot to hold office during one

of the worst periods of economic stress that Canada has ever known, and even his sternest critics admit that no statesman could have spent his abilities more unsparingly in the service of his country than he has done in the last two years. Endowed with a fine physique, his tremendous energy, his driving power, his ingrained habits of industry and his capacity for quick decision constitute invaluable qualifications for the Premiership, and in Mr. Bennett's case they are reinforced by a wide experience of large business affairs and a special knowledge of banking and of the pulp and paper industry. He has persistently disavowed any pretensions to mastery of the science of economics and, scorning theoretical doctrines, has prided himself on his preference for a practical approach to all problems. He has also been a staunch devotee of protectionism on the ground that it is the only possible policy which can save Canada from economic vassalage to the United States rather than from any theoretical belief in its merits as a fiscal creed. Time was when he was rated the most perfervid Imperialist in Canada, and his vehement advocacy in the campaign of 1930 of the principle of economic nationalism embodied in the "Canada First" policy need not be construed as proof that he has shed his early zeal for the preservation and consolidation of the great political society known as the British Commonwealth. He may find himself hampered from giving full play to his own convictions about Imperial economic policy by the nature of his political support, which is drawn chiefly from industrial elements, never prone to view with equanimity the curtailment of their precious tariff privileges; but he will never admit that he countenanced any policies inimical to the real interests of the Commonwealth. A skilful and experienced debater, he is too rapid in his delivery and too prone to improvisation on his feet to be an orator of the first rank, but he has a gift of forthright utterance which invariably commands public attention for his speeches. His political enemies attribute to him Mussolinian proclivities and an unwillingness to trust his

colleagues and subordinate officials with responsibilities, and the opinion prevails in his own party that if he would acquire the art of devolving to others petty tasks which minor officials should easily handle, he would have more time for cool reflection and would reach maturer judgments than are now possible under so heavy a burden of varied cares. A man of few close personal friendships, he is a respected rather than a popular figure, but he has the faculty of commanding the loyal devotion of all whose duties involve close relationship with him. In regard to the personnel of his own delegation, Mr. Bennett has decided to follow the practice adopted by British Premiers at other conferences, namely to bring to the council board from time to time such of his Ministers as are concerned in their administrative duties with the problems under discussion.

The British delegation is a team of varied attributes and political antecedents, but there is no reason to suppose that the harmony that has been maintained in the Cabinet from which it is drawn will not be preserved at Ottawa. Its leader, Mr. Baldwin, represents the best type of progressive Conservative who, by his transparent honesty of purpose and generous outlook on social and economic questions, commands the confidence of the British public in a degree enjoyed by no contemporary politician. He is a believer in protection as essential for the economic salvation of his country, but he appraises the virtues of a tariff mainly in the light of its efficacy as an instrument for breaking down the protectionist barriers which have reduced international trade to a feeble trickle. He has an admirable temper for a negotiator at a conference such as this, and has an almost unique gift for converting opponents to his own way of thinking. Mr. J. H. Thomas, the Dominions Secretary, represents the Labour element in the National Government, and to no Conservative Minister does he yield in his ardour for Imperial economic co-operation. Mr. Runciman is the representative of Liberal-ism and in his hands will be most of the actual tariff bargaining which has to be undertaken ; his admirers assert

that he has the best combination of business and political brains in Great Britain, and, if he has not completely abandoned his faith in free trade doctrines, he freely realises that their application to British fiscal policy has ceased to be practicable in a protection-ridden world. It is wholly fitting that the name of Chamberlain should have a place at this fateful Conference, and Mr. Neville Chamber-lain, the Chancellor of the Exchequer, brings to it the Imperialist zeal which has become a family tradition, and an extensive knowledge of financial and fiscal problems. Lord Hailsham represents the more reactionary element of the Conservative party, as Sir Philip Cunliffe-Lister does the younger school, and both of them, while disposed to push a tariff policy to greater extremes than their colleagues, and less concerned about the maintenance of satisfactory trade relations with countries outside the Commonwealth, will not press their views to a point which might cause any breach in the ranks of the British delegation.

Mr. Stanley Melbourne Bruce, the leader of the Australian delegation, has touched life on many sides. Born in Melbourne of a rich mercantile family, of Scots blood, he got his university education at Cambridge where, if he did not gain high academic honours, he won distinction as an athlete by rowing in the 'Varsity boat in 1904. Called to the bar, he never practised seriously, but after acquiring a fine war record in the grim years following 1914 he was, thanks to his ample means, free to contemplate a political career. Starting in public life as a protégé of the celebrated Mr. W. M. Hughes, he soon displaced him in the affections of the Nationalist party of Australia and became Premier in 1923. As head of a coalition Government he guided the destinies of Australia through six troubled years until he fell out of favour with the voters and was badly defeated at a general election in 1930. For two years he was out of politics, travelling abroad, but now he is back in office, not as Premier, but as one of the dominating figures in a Ministry recruited from the new-born political party which bears as its title " United Australia." Ten years of public

life have ripened Mr. Bruce's powers to a wonderful extent, and the inexperienced novice of 1922 who delivered halting speeches with a diffident mien has been transformed into a mature and skilful politician who as a speaker could hold his own in any company. He has been suspected in his native land of being more of an Englishman than an Australian, but the grounds for the charge are superficial and he has always combined a passionate devotion to the ideal of the Commonwealth of nations with a zealous guardianship of Australia's national rights. In his economic views he is a firm believer in a moderate brand of protection, but both his intellectual prepossessions and his business interests as a partner in an importing house make him deeply averse to the extravagant protectionism which the Labour party of Australia sponsored, and his influence has been steadily exerted for its modification. He can be relied upon to further all reasonable schemes of Imperial economic co-operation. Upon this subject he has definite, clear-cut, views which he is wont to advance with forceful emphasis. His colleague, Mr. H. S. Gullett, is an ex-journalist and an authority upon immigration, irrigation and correlated problems. Sharing as he does Mr. Bruce's views upon the tariff and other problems, he has already, as Minister of Customs, made a substantial contribution to the liberalisation of Australian fiscal policy.

Mr. Joseph Gordon Coates, the leader of the New Zealand delegation, shares with Mr. Bruce the honour of a splendid war record, but he was denied the advantages of a university education, and from his early youth pursued the avocation of a farmer in the north island of New Zealand. Elected first to the House of Representatives in 1911 at the age of thirty-three, his political career was interrupted by his war service, but soon after his return from Europe he was taken by the late Mr. W. F. Massey into his Cabinet and gained administrative experience in different offices. The death of Mr. Massey in 1925 opened the way for his elevation to the Premiership, and one of his first duties was to represent his country at the Imperial Conference of 1926. His

Ministry had an easy life until the great depression descended upon New Zealand, when a gradual erosion of its popularity ended in a severe defeat at the polls in 1930. A spell as Leader of the Opposition followed, and the Premiership was once more in sight when he patriotically agreed to join the National Government formed by his chief rival, Mr. G. W. Forbes. In it he ranks as second in command, and when domestic problems prevented the presence of Mr. Forbes at Ottawa, he became head of his country's delegation. A man of fine presence, he would be the last to lay claim to the possession of any meteoric gifts of intellect, and he has marked deficiencies as a public speaker. But he has a fund of vigorous industry and practical good sense which constitutes no mean equipment for a Dominion statesman. He has all the cautious outlook of the born countryman, and will never be tempted by rash adventures in wild social and economic experiments. He is primarily interested in the fortunes of the farming community of New Zealand, and he would, it is believed, be prepared to keep New Zealand's fiscal barriers against British goods at a very low level, provided, however, that New Zealand is given more and better preferences for her farm produce in the British market. He has also emerged as a zealous protagonist of currency reform on some plan which will have the effect of raising commodity prices and bettering the fortunes of the embarrassed farmers of New Zealand.

It is, however, no disparagement to Mr. Coates to suggest that his colleague, Mr. Downie Stewart, despite the handicap of a physical disability which compels him to use a wheeled chair, will make a more important contribution to the deliberations of the Conference. A barrister by profession, and a gallant soldier in the war, Mr. Stewart learnt politics at the knee of his sire, who was also in his day a prominent politician. Entering politics himself in 1913, he has for many years been reckoned the best political brain in New Zealand, and is the intellectual mainspring of the National Government, in which he holds the dual

offices of the Ministries of Finance and Customs. There is no greater authority upon the economic and political problems of New Zealand, and M. André Siegfried paid him the compliment of seeking his collaboration in writing his book *Democracy in New Zealand*, as did Professor Le Rossignol in another work styled *State Socialism in New Zealand*. In his outlook Mr. Stewart might be classified as a Liberal-Imperialist, and he brings to the council board an acute mind, a charming personality, and a whole-hearted zeal for the economic consolidation of the Commonwealth.

Of very different antecedents and temper is Mr. N. C. Havenga, the Finance Minister of the Union of South Africa, who heads its delegation. An intimate comrade of General Hertzog since the far-off day when he left his studies in 1899 as a stripling to share with him the hazards and hardships of a hopeless struggle against the might of Great Britain, his experiences of the war years in which he was severely wounded and taken prisoner, are said to have left bitter memories. Entering the Union Parliament in 1915 as a member of the Nationalist party, which his old commander had founded, his natural flair for politics soon brought him to the front, and, when his party came to office in 1924, nobody else was seriously considered for the important Ministry of Finance. South Africans of British stock have been disposed to suspect him of a dangerous lukewarmness with regard to the British connection, but while he has steadily supported his leader in his efforts to secure a complete emancipation for South Africa from the leading-strings of Downing Street, he has always declared that she must remain a loyal partner in the Commonwealth. A capable administrator of the national finances and a competent public speaker, he has been a firm advocate of a protective system which would give South Africa her share of secondary industries, but he is also essentially a realist who knows that for some time to come South Africa must depend for prosperity upon her primary industries, and that a policy of economic isolation which would

hinder the acquisition of profitable export markets is unthinkable for her. He is also an unswerving champion of the gold standard and its restitution in countries which have abandoned it, and he would fight to the bitter end against the schemes of various schools of currency reformers who regard the gold standard as an anachronism. His two colleagues, Mr. Fourie and Mr. Grobler, partake of Mr. Havenga's memories of the South African war, and both belong to the extremist wing of the Nationalist party; but they lack their colleague's abilities and political insight, and will in the main no doubt be content to follow his lead at the Conference.

At the head of the Indian delegation is one of the most distinguished of Indian statesmen in the person of Sir Atul Chatterjee. A graduate of Cambridge, he has spent the best part of his life in the service of the Government of India, and has occupied a series of high positions; he was for a period a member of the Viceroy's Council, and only recently laid down the office of High Commissioner for India in London. He is a cultured man of liberal outlook with a wide experience of public affairs, and has always been a firm upholder of the British connection. With him are associated Sir George Rainey, a Scot who has had a distinguished career in India, and was lately Minister of Industry and Commerce in the Viceroy's Cabinet, Sir Padamji Ginwala, a Parsee, who has served as Chairman of the Indian Tariff Board, and Said Haji Abdul Haroon, a Moslem merchant from Karachi, who is a member of the Legislative Assembly of India.

The Irish Free State delegation have come in the rôle of watchful observers rather than as active participants in the Conference; at their head is Mr. Sean O'Kelly, a veteran of the Sinn Fein movement, and with him are two younger politicians, Mr. Sean Lemass and Dr. James Ryan.

Newfoundland is represented by Mr. F. C. Alderdice, an Ulsterman who, fresh from a decisive triumph of his party at a general election, had scarcely settled down in

office when he had to leave for Ottawa, and a small delegation from Southern Rhodesia is headed by its Premier, Mr. H. W. Moffat, a nephew of the great explorer, Dr. Livingstone, who, through long residence north of the Orange River, has a complete familiarity with the needs and problems of his country. Altogether there have forgathered at Ottawa an impressive band of British statesmen and, if the Conference fails, it should not be from lack of political experience and wisdom.

II. The Broadcasting Problem

A RADICAL step was taken in respect of radio broadcasting at the last session of Parliament when an Act was passed giving effect to the principle that "broadcasting should be placed on a basis of public service," and that the stations providing such service should be owned and operated by one national company organised and controlled by the Government.

This legislation was based on the report of a Parliamentary Special Committee appointed early in the year to consider the report of a Royal Commission on radio broadcasting under the chairmanship of Sir John Aird, President of the Canadian Bank of Commerce, which, after an extensive investigation, delivered its findings to the Government in September, 1929. The delay of more than two years in following up the so-called Aird Report was due not merely to the change of Government which took place in 1930, but also to the litigation over the constitutional question raised by the province of Quebec, as to the right of the Dominion to legislate with regard to radio broadcasting. Quebec's contention that the subject was one which fell, in part at least, within provincial jurisdiction was, however, rejected by the Judicial Committee of the Privy Council in a judgment delivered in February 1932, and thereupon the Dominion Government proceeded without delay. It is of interest to note that the judgment, like that of the same Court in the recent case on the regulation of aviation, laid special emphasis on the fact that

Canada was a signatory of an international convention with regard to wireless (signed at Washington in November 1927), and declared that such a convention could not be distinguished from a treaty with foreign countries, the obligations arising under which the British North America Act specifically provides that "the Parliament and Government of Canada shall have all powers necessary or proper for performing." This necessarily involves, the judgment declares, the right to legislate with regard to radio broadcasting so as to bind all the inhabitants of the Dominion, since in no other way could the Dominion guard against infringement by its nationals of the stipulations of the convention.

As the recommendations of the Parliamentary Special Committee largely followed those of the Aird Report, it will be well to begin with the latter. The terms of reference of the Aird Commission were:

> To examine into the broadcasting situation in the Dominion of Canada and to make recommendations to the Government as to the future administration, management, control and financing thereof.

The system which the Aird Commission found in existence was one of private enterprise, except in Manitoba where the stations were owned and operated by the provincial Government. Full jurisdiction over the administration of all radio matters in the Dominion, including the licensing and control of broadcasting stations and the granting of receiving licences was vested in the Minister of Marine and Fisheries, and the Dominion maintained a free inspection service which included the detection and elimination of interference caused by faulty power systems. There was also provision for the subsidising of private commercial stations deemed worthy of financial assistance, but this had never been given effect to except in the case of the province of Manitoba, where half the receiving licence fees had been granted in aid of the provincial system. The number of broadcasting licences in effect in 1930 was 78 private commercial and 9 amateur, a total of 87; and there were, in 1929, about 297,000 receiving licences.

The outstanding features of the evidence given before the Commission were, it declares, (1) the tendency for advertising to bulk too large in the programmes offered, and (2) the foreign source of the majority of programmes. The reason for the undue amount of advertising is financial. The lack of direct revenue to the private commercial stations from the entertainment provided for the public forces them to resort to advertising as a means of revenue. The result is not merely an undue insistence on the merits of certain tooth-pastes and corn-plasters, but " the crowding of stations into urban centres and the consequent duplication of services in such places, leaving other large populated areas ineffectively served." The foreign source of the majority of programmes is explained, of course, by the proximity of the United States with its largely similar language and its great development of the technical and social possibilities of wireless. Nothing impressed the Commission more than the danger of the private enterprise system resulting in tens of thousands of Canadians taking their ideas and their tone from so-called entertainments provided by foreign commercial agencies, whose sole preoccupation is to give the public what it wants, because their sole objective is profit through advertising. Nothing impressed the Commission more than this danger unless it was the potentialities of broadcasting as an instrument of education, not merely in the sense of academic instruction, but in providing the right kind of entertainment and informing the public on questions of national interest. Particularly in a country of the vast extent of Canada, with so many people living more or less isolated lives, the Commission felt that broadcasting could be made " a great force in fostering a national spirit and interpreting national citizenship."

Such were, according to its Report, the chief considerations " on the merits " which led the Commission to recommend in favour of placing broadcasting " on a basis of public service." There was also, it should be added, the fact that it found, amid considerable diversity of opinion

on various phases of the subject, " unanimity on one fundamental question—Canadian radio listeners want Canadian broadcasting." There was almost entire unanimity, also, among the various provinces; with the exception of Quebec and New Brunswick, all expressed themselves as " ready and willing to enter into negotiations with the Government of Canada and the Governments of the various provinces with a view to the organisation of radio broadcasting on a basis of public service." Quebec and New Brunswick both declared themselves in favour of a definite policy being established by agreement between the Dominion and the provinces, but insisted that jurisdiction lay with the provinces and not with the Dominion. This, of course, was prior to the ruling of the Privy Council in favour of the Dominion.

In view of this large measure of unanimity, the Aird Commission recommended, *inter alia*, in favour of broadcasting being placed on a basis of public service, the stations providing the service to be owned and operated by one national company working in collaboration with a provincial authority in each province which should have full control over programmes in its own territory. A series of high-power stations throughout the country was recommended, supplemented where necessary by stations of lower power in local areas. Direct advertising was to be prohibited, and specified time was to be made available for educational work. Funds were to be provided from the revenue produced by licence fees, rental of time on stations for programmes employing indirect advertising, and a subsidy from the Dominion Government.

The two-year interval between the filing of the Aird Report and the appointment, following the Privy Council judgment, of the Parliamentary Committee, was marked by the active prosecution of the debate between the advocates of private enterprise and the champions of public ownership and control. On the one side were ranged organisations representing the station owners, the manu-

facturers of radios and the advertisers, and on the other such bodies as the Canadian Radio League and the all-Canadian Congress of Labour, practically all the educational authorities and others.

So thoroughly had the question been canvassed that the hearings of the Parliamentary Special Committee appointed early this year to consider the recommendations of the Aird Report brought out little that was new in information or argument. On the side of private enterprise the chief considerations urged were that to forgo the revenue derived under the present system from advertising would mean an undue cost to the public if programmes equal to those now provided are to be maintained; that the present system was already alive to the educational potentialities of the radio and was ready and able to extend its service in this direction as desired and, in any case, that there was no more reason for the State to control radio broadcasting than to control magazines or the daily press; that a public ownership system would inevitably mean less progressiveness and less keenness to take advantage of new developments; that the science of radio was only in its infancy, and that it would be unwise for large capital expenditure to be made by the Government which new inventions—the perfection of television was particularly emphasised—might presently render more or less useless.

As against these arguments, it was urged that the system of financing by means of advertising alone could not provide programmes of the quality and range that should be provided; that the present private ownership system meant duplication in the more populous sections of the country and neglect of outlying districts; that a purely commercial system, whose main consideration was necessarily profit, could not be expected to make radio broadcasting the servant of education as it might and should be made; that "the air" was, so to speak, a national resource, and a national resource which could be made a powerful instrument of education and enlightenment, and that it should not be

turned over to private interests to be exploited for private gain.

The questions that evidently assumed the greatest importance in the minds of the Committee were those of cost and of the best method of realising the potentialities of radio broadcasting as an instrument of education. On the question of cost the evidence was decidedly conflicting. The Aird Report estimate was a capital outlay of about $3,225,000 and an annual expenditure of about $2,500,000. The sources of revenue suggested were a licence fee of $3.00, rental of time for a limited amount of "indirect" broadcasting (*i.e.*, the mere mention of the name of the sponsor as distinguished from a description and crying up of the sponsor's products), and a subsidy from the Dominion Government of $1,000,000 per annum. The opponents of public ownership, on the other hand, estimated an initial capital outlay of $5,400,000 and an annual expenditure of $5,725,000. As regards revenue, it was urged that not more than $1,500,000 could be realised from licence fees, and that if direct advertising were prohibited, the revenue from rental of time would be practically nil, with the result that there would be an annual deficit of $4,200,000 unless the licence fees were increased to at least $7.00 per receiving set. No definite pronouncement was made by the Committee as to which set of figures it accepted, but it is to be noted that it varied the suggestion of the Aird Report that all "direct" advertising should be prohibited, recommending that advertising be limited to 5 per cent. of each programme period. Another consideration besides that of revenue which led to this decision was that, unless advertising were allowed, to at least a limited extent, American industries interested in selling goods in Canada would have a decided and unfair advantage over their Canadian competitors.

But the question which overshadowed all others in the minds of the Committee was that of making the most of

radio broadcasting as an agency of education and enlightenment. Striking evidence was given of the possibilities in this direction. The Director of the Department of Extension of the University of Alberta told them of 2,000 people studying Canadian history one night a week, including a considerable number of the 70,000 Ukrainian inhabitants of the province who, of course, were at the same time improving their knowledge of English; of programmes of Ukrainian folk-songs and dances arranged by an Edmonton Ukrainian choir; of 2,000 people studying French under a university professor of French two afternoons; of an indignant protest from a large group of Calgary business men because the broadcast was not in the evening, as several hundred residents of Calgary were anxious to take the course. A letter written in French from a French-Canadian mine-operator in a country district gives a vivid picture of the service that is being rendered:

> You would be interested if you could look in on us during one of your French lessons. The men under my charge are a mixture of French and English. We all come up from the mine at 4.45 p.m. so as to be ready for your lecture at five o'clock. The Englishmen are learning to speak French and the Frenchmen are learning to speak more correctly. We use pencils and note-paper and our discussion goes on for half an hour after you have stopped talking. I wish also to say how much this course is appreciated in my own home, where my children have an opportunity of hearing our language spoken correctly.

Similar courses were conducted in English literature, economics, advances in science, international affairs, practical farm problems and other subjects, while programmes of good music and good plays were also regularly given. It was the considered opinion of the university authorities that, from the point of view both of primary and of adult education, satisfactory results could only be obtained by making radio broadcasting a national service. In the field of primary education it was felt that no commercial organisation, however intelligent and beneficent, could achieve what has been done in the State of Ohio,

where under the State Department of Education there are more than 6,000 schools equipped with receiving sets, and every day the children put away their books at certain periods and listen to travel talks by great explorers, lessons in geography by people who know the country under discussion, little historical dramas, musical appreciation, talks on science by expert teachers, and the like. As regards adult education—and it was emphasised that the wise use of leisure will be one of the greatest social problems of the future—it was pointed out that the only hours that are worth much for courses of instruction are evening hours, which naturally, are the "peak hours" from a revenue point of view for a commercial system which depends for its existence upon advertising.

Views of this kind clearly made a deep impression on the Committee, supported as they were by evidence of growing apprehension in the United States about the effect of what is virtually a private commercial monopoly of radio broadcasting in that country. A large and representative number of educational organisations, the American Federation of Labour, and 1,100 daily newspapers have all been waging war on the Radio Corporation of America and the commercialisation of the air. Mr. Hoover in 1924, when he was Secretary of Commerce, declared that it was "not conceivable that the American people will allow this new-born system of communication to fall exclusively into the power of any individual group or combination."

American experience served to confirm the Committee in the view to which the bulk of the evidence in general seemed to point, namely that radio broadcasting is essentially "a natural monopoly," and that the only question is whether the monopoly should be granted to private interests or retained by the State. That position reached, there was, in view of the evidence, only one answer which the Committee could give—that the monopoly should be exercised by the State itself. It was suggested that there should be a compromise solution—

ownership by a private corporation representative of the railway companies and other large interests, together with supervision and control by a government commission. The decision of the Committee, however, was against any such half-way house. The result was a clear-cut recommendation in favour of the principle of State ownership, control and operation.

Legislation following closely the recommendations of the Committee was passed practically without opposition. It constitutes a Canadian Radio Broadcasting Commission which is to have power "to regulate and control broadcasting in Canada carried on by any person whatever." Power is given to acquire existing private stations, to construct such new stations as may be required, to foster the establishment of small stations with local coverage, and in brief to take the steps necessary to ensure that there shall be adequate broadcasting to all parts of Canada, irrespective of the density of population. Complete control of programmes is vested in the Commission, which is to be assisted by a deputy commissioner, and an advisory council in each of the provinces. As regards finance, the Commission is limited to the revenue from receiving and private broadcasting licence fees, and from rental of time for advertising, which is not to exceed 5 per cent. of any programme period. The permission of a limited amount of advertising is intended, besides bringing in revenue, to prevent discrimination against Canadian manufacturers in favour of their American competitors.

The new legislation has been well received by the press and the public, and it may be assumed that it has the approval of the great majority of the people. Among the reasons for such approval, not the least significant is the underlying feeling that, good friends as we desire to remain with out great neighbour, we must live our own life and shape our own future.

Canada.
July 1932.

AUSTRALIA

I. The Economists' Report

THE quarter under review has been full of exciting political and constitutional experiences for the people of Australia. The struggle between the Commonwealth and New South Wales Governments and the measures resorted to by each, the dismissal of Mr. Lang by the Governor of New South Wales, general elections in three States, the supersession of Labour Governments in the two largest States and the accession of a Labour Government to power in Queensland, the Privy Council decision in the New South Wales Legislative Council case, the minor but piquant situation in Victoria, where the absent Premier and a faithful remnant of Ministers sought the confidence of the electors upon the main plank of the Opposition programme, while the acting-Premier and the main body of the Cabinet appeared to be trailing in the tracks of Mr. Lang—these were enough to satisfy the keenest and most exacting appetite. In the present economic situation and in view of the integration of policy and finance demanded by the Financial Agreement, the complexion of government in every State is a matter of concern throughout the Commonwealth, so that State politics are of Australia-wide interest. The implications for the federal system of the measures which the Commonwealth Government applied to Mr. Lang, and the constitutional aspects of the dismissal of a Ministry, matters which in other circumstances would characteristically have played a major part in the parliamentary and electoral

battle, were submerged; what was at stake was so immediate and so pressing as to leave little time or room for constitutional issues.

The month of April opened with a conference of Premiers convened by the Commonwealth Government to consider what steps could be taken to assist in the solution of the unemployment question. A small committee of economists, Treasury officials and business men, was set up to make a preliminary economic and financial survey, and the result was a report which covered the ground of fundamental causes, the effects of remedial measures hitherto undertaken, prospects and plans for the future. The extent of unemployment was illustrated by the fact that 28 per cent. of trade union members were out of employment. The basic fact was that the present overseas price of Australian exports was only 32 per cent. in gold, 44 per cent. in sterling and 57 per cent. in Australian currency, of what it had been in 1926–7. Reviewing the measures taken, the Report referred to the "Premiers' Plan"* of 1931, and the Committee was satisfied with the Plan but only moderately satisfied with the way in which it had been carried out. The Plan contemplated a reduction of the total deficits for the current year to £14·65 million. But this reduction would not be realised: deficits of £18,000,000 must be faced. In the sphere of adjustable government expenditure (*i.e.*, other than interest) substantial reductions had been made, ranging from 15 per cent. in New South Wales to 29 per cent. in South Australia; in the particular item of wages and salaries, the average reduction ranged from 12·8 per cent. in New South Wales to 20·5 per cent. in Victoria. The most complete achievement of the Plan was the reduction of interest, ranging from 25 per cent. to 33 per cent. Outside government expenditure, reductions in the cost of production had been effected by the reduction of interest, somewhat counteracted, however, by defects in the moratorium

* See THE ROUND TABLE, No. 84, September 1931, pp. 892–895.

legislation of some States, which required the mortgagor to show cause, and by a tendency in lenders to raise rates on renewal of loans. But it was part of the scheme of the Committee of Experts advising the Premiers in 1931 that there should be an all-round reduction of 10 per cent. in real wages (as distinguished from nominal wages) as part of the conditions necessary to bridge the gap between costs and prices. This had not, however, been given a trial, and the inaction of State authorities had led to an average increase of 8 per cent. in real wages, in the case of those in employment in the industries governed by these awards. The net result all over Australia was that on the average there had been no reduction in real wages at all, and therefore no contribution from that source to the absorption of the unemployed in profitable production.

Turning to the future, the Committee found that indications pointed to total budget deficits of £22,000,000 for 1932–33, and they considered it necessary that immediate consideration should be given to steps necessary to bring that amount down to £12,000,000. They pointed to the formidable debt of £42,000,000 on Treasury Bills. As yet this had served to sustain rather than to raise internal prices, as the money had been found through the repayment to the banks of advances by private borrowers and the absence of any effective demand for accommodation by producers and traders. But such methods of public finance endangered currency control, and the disastrous results of the loss of such control were vigorously portrayed in the Report.

For establishing equilibrium between costs and prices the Committee's recommendations were a judicious mixture of reduced costs and a high rate of exchange. The first was to be sought by carrying out in their completeness the proposals of the 1931 Plan—real wages generally must be reduced by 10 per cent. below the level of 1928, and the wage-fixing authorities must give effect to economic conditions; where interest was not reduced, compulsory

measures must be taken. The raising of prices should be attempted by authorising the Commonwealth Bank to manage the exchange rate, in the light of economic conditions.

> The required fall in nominal wages would (the Committee pointed out) be made less severe by a rise in the rate of exchange setting in operation forces tending to raise all prices and thus to offset the fall in prices resulting from lower wages. We should thus have attained the lower level of wages with a steadier level of prices. The degrees of the reduction of wages and of the increase in the rate of exchange would need to be chosen with a view to a minimum dislocation in budgets and in nominal wages.

As regards the immediate burden on budgets through increased exchange for internal payments abroad, the suggestion is made that,

> if the rate is properly chosen the revenue will in a year or two increase to a degree more than sufficient to pay the added cost of the exchange. The increase would cause some apprehension in London and a fall in the price of Australian stocks, but these fears would be allayed as business activity improved, and as budgets approached a balance, just as in Britain after the departure from the gold standard.

As against an exclusive resort to either of the alternatives of an all-round reduction of costs with a view to returning to parity with gold or sterling, or of raising the local price level by means of the rate of exchange, the Committee considered that—

> The logic of facts might well impose the middle course suggested, just as it imposed Britain's departure from gold. Any policy will involve in present circumstances difficulties and dangers. These may be the greatest if we drift without a definite aim or plan, incurring a series of growing deficits, destroying confidence in the currency and its guardians, and exhausting the country's reserves of working capital.

But an essential condition was the existence of a central reserve bank free from both the fact and the fear of political

control and prepared to administer its part of the policy adopted in the general interest.

Turning to the measures available to Governments for the purpose of effecting an immediate absorption of unemployed, the Committee reported that every reason was against an extended programme of public works, but means of equipment for the storage and handling of wheat in bulk and the planting of soft woods, and the proper care of native forests appeared hopeful avenues for reproductive activity. The removal of hindrances to industry, such as the tariff and the numerous restrictions imposed by obsolete regulations and industrial awards, would provide openings for labour and capital. As prices and costs were brought into harmony, and while private capital was still timid of venturing into undertakings, Governments might give an impetus to investment by loans, secured by debentures, to private enterprise holding out prospects of future development on a large scale. But unless overseas prices improved none of these measures could deal adequately with unemployment, and the community was faced with the need of providing sustenance. While sustenance should in general be for work done, it must be recognised that it cost more to provide sustenance by intermittent work paid at basic wage rates than it did to provide mere sustenance. The best hope of turning sustenance money into payment for work was in rural industries, where much could be done if labour and capital were cheap. As sustenance payment might be used to provide labour at a low cost, the temptation to farmers to dismiss employees in order to obtain subsidised labour might be obviated by local organisation. It might also be possible to arrange for subsistence farming by families in receipt of sustenance. On a block of, say, five acres, equipped with a temporary dwelling and domestic stock by the farmer on whose land it was situated, the tenant would raise most of his subsistence and give a certain amount of work on the farmer's land. "An ultimate object of the scheme, apart from the attempt to

provide subsistence for the unemployed man with a family to support, would be the creation of a land-owning peasantry, the absence of which has been a marked feature of the Australian countryside in areas climatically suited to it."

The Prime Minister accepted the principles of the Report and when the Premiers' Conference met on April 14 he proposed that the Commonwealth and the States should co-operate, on the basis of the conditions laid down, in obtaining from the banks—recourse to the public was not deemed feasible—a substantial sum, "say, £10,000,000," to be expended on objects contemplated in the Report. But Mr. Lang would not even discuss a project which, he said, exploited the sympathy of Australians for the unemployed and used it as a lever to strike down all the industrial conditions that the workers had built up in health, time, and money, over forty years. "Having started on the road to restriction and deflation," he said, "there is no logical end to it. It can be stopped in one way only, and that is by Governments and people saying 'We will not move an inch further along the road we have been going.'" It was the interest payments that were pulling Australia down. And with this Mr. Lang departed for Sydney. The defeat of the Labour Government on a vote of want of confidence left Victoria at first unrepresented, and when, a dissolution having been granted, Mr. Tunnecliffe, the acting-Premier, appeared at the Conference, it was to reject the conditions laid down by the Prime Minister. The Nationalist Premier of Queensland hesitated on the question of exchange management, and, with a general election pending, was alive to the political dangers that faced a Ministry pledged to further wage reduction. In the result, the major matters of raising the exchange and reducing wages were postponed until a further conference to be held in June, when the Victorian and Queensland elections would be over. But arrangements were effected by which each of the States other than New South Wales could borrow its assigned quota out of an

amount of £1,200,000, and the Commonwealth would contribute an amount equal to this quota. No participation by the New South Wales Government in any loan effected by the Commonwealth being at the time possible, the Commonwealth undertook to provide and spend in New South Wales what would have been the quota of that State in a £1,800,000 scheme, i.e., £600,000.

Apart from politics, there were characteristic reactions to the Economists' Report. One forecast was immediately fulfilled—the belief that the exchange rate was to be raised forthwith from £125 to £135 caused a fall in the price of Australian securities in London, and there was a quickened demand for exchange on London in order to get money out of Australia before the threatened impost became effective. With one important exception, the banks were opposed to the proposal and commercial opinion was the same. There was scepticism about freedom from political control, seeing that the proposal itself was one of policy. Labour organisations and the public servants declared themselves against wage reduction, and looked to "taxation on higher incomes" and "changes in monetary policy." The original plan was attacked from both sides as having aggravated rather than mitigated the situation, on the one side because of its deflationary character, on the other because legislative interference with private contracts had cut away security from beneath the feet of lenders and encouraged repudiation by debtors rather than an honest will to meet obligations, so that lack of confidence closed the avenues for private investment and enterprise and public faith in government credit: the result must be an increasing dependence of economic life upon resort by Governments to the banks, and socialisation resting upon the growing insecurity of the financial basis. Another view of the situation accepts the principle of the Premiers' Plan, that the catastrophic fall in prices requires adjustments other than those which would have taken place automatically as a result of mere economic pressure, but

challenges claims or attempts to extend them to cover the whole gap between the prices of 1929 and those of to-day. In 1929 Australia was still living in a boom condition with inflated ideas of values, and the usual accompaniment of extravagance and inefficiency; it would be as unwise as it is unnecessary to resort to exchange control for the elimination of a salutary corrective. The real aim to which government planning should be directed is the balancing of budgets both on a short and a long term view of the situation. This requires a highly skilled reorganisation of public administration, and a review of the several State services, whether they be strictly "governmental" or in the nature of "socialistic enterprise." Much capital would have to be written off to put the latter on a sound financial basis. But if this were done, and the management freed from political interference, the resulting economies and efficiency would soon make themselves felt in decreased expenditure and increased revenue. The charge of lost capital has to be borne in any case by the public account, and an amortisation scheme should be adopted for its gradual extinction. In some people's view, this reorganisation is the most urgent problem that Australian Governments have to face, and its accomplishment the most important contribution that Governments have now to make towards the restoration of credit and prosperity.

The Premiers' Conference resumed its sessions on June 28, attended by the new Premiers of New South Wales, Victoria and Queensland, just as this article was leaving Australia.

II. The Fall of Mr. Lang and the State Elections

IN the last issue of The Round Table,* an account was given of the far-reaching provisions of the Financial Agreement Enforcement Act. As soon as the High Court

* The Round Table, No. 87, June 1932, p. 638.

declared the Act valid, the necessary proclamation was issued under it to attach a part of the State revenue. The first to be attached was the income tax payable to the State. Taxpayers who had received assessments were directed to pay their taxes into the Commonwealth Bank in Sydney and not to the State taxation authorities. These instructions were for the most part readily observed by the taxpayers of New South Wales, but the Government of the State made every effort to frustrate the effective working of the Commonwealth law. The doors of the State taxation department were locked, and Commonwealth officers were refused access to the records. No notices of assessments were sent out, and the collection of income tax was therefore temporarily suspended. The Commonwealth Government then proceeded to put into operation those provisions of the Act by which the Commonwealth was empowered to obtain all the moneys of the defaulting State which were deposited with its bankers. Before the Enforcement Act came into operation the New South Wales Government had withdrawn from its bankers over a million pounds in cash and had deposited it in the New South Wales Treasury. The Commonwealth, therefore, could not expect to receive a sufficient sum from the banks to recoup itself for the payments it had made on behalf of New South Wales. But the amount involved in the demand on the banks was substantial. The position was complicated by the fact that part of the funds which had been paid into the banks represented moneys paid to the credit of the State Government for special purposes, such as, for example, moneys of suitors paid into the State Supreme Court.

The High Court sustained the banking provisions of the Enforcement Act by a majority of four to two. On April 22 the Court by a majority of five to one dismissed the State Government's application for a certificate of appeal to the Privy Council against the decision upholding the validity of the Act. This was in accordance with the

established practice of the Court to determine finally in Australia constitutional questions arising between the Commonwealth and the States.

Unable to pay any money into the bank without at once losing it to the Commonwealth, the State Government paid all money received into the Treasury, and instructed the heads of departments and other civil servants to follow that practice. As the New South Wales Audit Act requires that moneys received to the credit of the State should be paid daily into a bank account, this action of the Government appears to have been a breach of the law. On April 26 the State Parliament met. It was generally expected that a Bill would be brought down to amend the Audit Act and so render lawful this failure to observe its provisions. But this was not done.

On April 29 the Enforcement Act was amended by the Federal Parliament so as to increase the powers of the Commonwealth Government and add to the list of attachable revenues. The Commonwealth also made a formal demand that the State Commissioner of Taxation should hand over all assessments and other documents to the federal officers so as to enable the Commonwealth to collect the income tax. This demand was not fully complied with until May 12. On May 5 a further amending Act was passed by the Federal Parliament which added a part of the receipts of the State railways and tramways to the revenues which the Commonwealth could attach. Meanwhile there had been further defaults by the State Government for which the Commonwealth had to assume responsibility, and the total sum due by New South Wales to the Commonwealth was declared by the High Court to be £2,029,432 on May 4.

The State Government, by using the cash at the Treasury, was able to pay its civil servants. But it failed to make payments of child endowment moneys and pensions to widows and superannuated civil servants, and announced that it might have to suspend entirely all "social services"

payments such as the dole to the unemployed. The Prime Minister asserted that these actions of the State Government were unjustified, and were only an attempt by the Premier of New South Wales unfairly to fasten on the Commonwealth the blame for a position which he had himself created. The Commonwealth Bank, it was stated, would provide means for the payment of all State revenue due to particular individuals, and the Enforcement Act was amended so as to facilitate this. But Mr. Lang refused to use the banks.

Following further resolutions of the Commonwealth Parliament, on May 5 proclamations were issued to attach the following State revenues: death duties, stamp duties, licences and fees from the liquor trade, revenues from Crown land, motor registration and licence fees. The next step was a Commonwealth proclamation requiring all civil servants, whose duty it was to receive any part of the attached revenues, to pay into the Commonwealth Bank whatever moneys came into their hands from these sources. This proclamation operated as from May 11. A circular issued from Mr. Lang's department on May 10 directed that, notwithstanding the Commonwealth proclamation, all moneys collected should be paid into the Treasury. The Commonwealth proclamation appears to have been almost universally disobeyed, owing, in part, to pressure brought to bear by the Ministers in charge of the various departments. One State officer, who endeavoured to carry its requirements into effect, found that his directions were countermanded by the Minister for Lands, and he himself was ordered to "go on leave."

Meanwhile the Parliament of New South Wales had not been idle. A Mortgages Taxation Bill was introduced in the Legislative Assembly on May 11. This measure, which was described as a capital levy, provided, among other things, that all mortgagees or their attorneys or agents should be liable to pay a tax of 10 per cent. of the amount secured by their mortgages within fourteen days

of the commencement of the Act. Failure to do so would result in the mortgages becoming vested in the Crown. The Bill passed the Assembly where an obsequious majority had long been accustomed to obey all the behests of the Premier. In the Legislative Council some supporters of the federal Labour group voted with the Government, and the Bill was passed by 48 to 43 in the early morning of May 13 after an all night sitting.

The outlook seemed hopeless chaos, especially for the banks and insurance companies which had advanced huge sums on mortgages. One insurance company alone would have had to pay in cash over one million pounds. In some quarters it was thought that the Bill was one which by his instructions the Governor was required to reserve for the Royal assent. Before this had been determined, however, the Federal Parliament met and passed through all its stages a Bill designed to nullify and render inoperative the New South Wales measure. Later in the same day came the dramatic news that the Governor, Sir Philip Game, had dismissed his Ministers and sent for Mr. Stevens, who had recently succeeded Mr. Bavin as leader of the Opposition, and commissioned him to form a Government.

The dismissal of the Government came as a surprise, as up to that time the Governor had refused to intervene, despite considerable agitation that he should do so. The correspondence which led up to the dismissal commenced on May 12, when the Governor asked for the circular of May 10 (already referred to). A copy was forwarded to him, and he then wrote to the Premier.

> I have received the copy of the circular for which I asked you. It appears to me that the terms of this circular direct public servants to commit a direct breach of the law as set out in proclamation No. 42 of 1932. . . . I feel it my bounden duty to remind you at once that you derive your authority from His Majesty through me, and that I cannot possibly allow the Crown to be placed in the position of breaking the law of the land. I must ask you, therefore, either to furnish me with proof that the instructions in the circular

> are within the law, or, alternatively, to withdraw the circular at once.

Mr. Lang replied, stating that the circular "represents the decision of Cabinet, and no doubt was arrived at after consideration of the primary duties of maintaining the essential and social services of the State. The only reply you can be given is that the circular cannot possibly be withdrawn."

Subsequently on the afternoon of May 13 the Governor, after an interview with Mr. Lang, wrote again:

> The position as I see it is that Ministers are committing a breach of the law. Into the aspect of justification it is not, as I conceive it, my province to inquire. My position is that if my Ministers are unable to carry on essential services without breaking the law, my plain duty is to endeavour to obtain Ministers who feel able to do so. As I have already pointed out to you in my letter of the 12th instant, it is impossible for me to put the Crown in the position of being a party to illegal action. If Ministers are not prepared to abide by the law then I must state without any hesitation that it is their bounden duty, under the law and practice of the Constitution, to tender their resignations.

To that letter Mr. Lang replied: "If your letter of to-day's date means that you are requesting the resignations of Ministers, you are hereby informed that your request is refused."

Later in the same afternoon Sir Philip Game replied:

> Your letter informing me that Ministers are not prepared to tender their resignations has just reached me. In view of this and of your refusal to withdraw the circular, I feel it my bounden duty to inform you that I cannot retain my present Ministers in office, and that I am seeking other advisers. I must ask you to regard this as final.

The new Government obviously could not meet the House, and it at once asked for, and secured, a dissolution. Mr. Stevens made it clear, however, that under his Government New South Wales would work harmoniously with the rest of the Commonwealth, and that there would be no more talk of deliberate repudiation. The Commonwealth

Government suspended the operation of the Enforcement Act, and the State financial administration became normal again. The elections were held on June 11. They resulted in a sweeping victory for the joint forces of the United Australia party (the successor of the old Nationalist party) and the Country party. In the last Parliament the Labour Government had 55 supporters and the Nationalists and Country party 35. In the new Parliament the Government has 66 and the Labour Opposition only 24. Both in the city and in the country, constituencies which for years had consistently returned Labour members are now represented by Government supporters. Several former Ministers lost their seats, and Mr. Lang himself only narrowly escaped being defeated by a candidate supporting the policy of the Federal Labour party. It is not to be overlooked, however, that of 1,322,513 votes cast, 531,422 were cast for Mr. Lang's supporters. The most important issue at the elections probably was whether or not New South Wales was to abide by the decisions of the Premiers' Conference and so play its part in co-operation with the other States in a united attempt to overcome the present financial and economic difficulties. But the result of the poll must not be interpreted simply as a popular endorsement of this policy. It is to be attributed largely to a desire for stable and honest government, to a hope that with a change of government unemployment may diminish, and to a strong belief that the Government led by Mr. Lang was corrupt and rapidly bringing the State to complete economic ruin.

The new Government is led by Mr. Stevens. His Ministry is a composite one selected from both the United Australia party and the Country party.

The events of the last two months in New South Wales have well illustrated Dicey's statement that "federalism means legalism." The contest between the Commonwealth Government and the Government of the State was fought out in Parliament and the law courts. Despite

some arrogant threats of civil war by supporters of the State Government, hot headed language on both sides, and some anxiety among more level headed people, there was no violence of any kind.

The dismissal of the Lang Government has also shown the close interdependence of the several States of the Australian federation and the dominance of the federal law. A State Government was dismissed by a State Governor because it persisted in requiring its servants to contravene a federal law prescribing the manner in which, in the peculiar circumstances, they should carry out their duties. Constitutional theory in Australia has now travelled far from the early doctrines of the immunity of State instrumentalities and non-interference by the Commonwealth in State affairs. Federal control has been becoming steadily more pronounced and more extensive. The Financial Agreement has had an effect, greater perhaps than was anticipated, in promoting a large measure of practical unification in Australia. Even before 1929 its financial supremacy was giving the Commonwealth a greater power over the policies and Governments of the States than the mere words of the Constitution would indicate. It is now clearer than ever that, if it is to pay the piper, the Commonwealth will insist on calling the tune.

In the middle of the New South Wales electoral campaign the Judicial Committee of the Privy Council delivered its reserved judgment on the question of the abolition of the New South Wales Upper House. Its decision affirmed that of the majority of the judges both of the Supreme Court of New South Wales and of the High Court. The dismissal of the New South Wales Government's appeal means that the Legislative Council cannot now be abolished except in the manner provided by the New South Wales Constitution Amendment Act, 1929, that is, by referendum. The decision serves to emphasise the fact that the Legislature of New South Wales is different from the Imperial Parliament. It has a purely

statutory origin, and its powers are prescribed by the Imperial Acts which created it, and particularly by the Colonial Laws Validity Act, 1865, Section 5, which requires that laws making alterations in the Constitution must be "passed in such manner and form as may from time to time be required by any Act of Parliament or colonial law for the time being in force."

Victoria

In Victoria the attitude of the Labour Government to that part of last year's Premiers' Plan which required a reduction of government expenditure, produced a political crisis before the Premiers' Conference met. The reductions in pay in the public services had been enacted for one year only, and would expire on June 30. The Labour Conference and its executive had declared against their renewal and threatened with expulsion all Labour members supporting them. On the meeting of Parliament in April the Government was challenged by the Opposition to state its attitude, and the reply that the time was not yet ripe for a statement on the financial policy of the ensuing year was treated as an evasion of the issue. A vote of want of confidence was carried on April 13, and Parliament was dissolved. The acting-Premier (Mr. Tunnecliffe) proclaimed his determination to protect salary and wage earners against further attacks and claimed credit for having imposed on public servants the smallest reduction in Australia. For the future, the Government was prepared to re-enact the reduction of the salaries of judges, Ministers, members of Parliament, and the higher classes of public servants: the position of others it would refer to a classification board. He protested against the "cruel burden" of overseas interest, and declared for immediate and unanimous action by Commonwealth and State Governments to bring about by negotiation a reduction of such interest on the same basis as that already effected in internal interest, the money so

released to be applied to the provision of additional relief works. Further, provision was to be made for the unemployed by the flotation of an internal loan, by increased taxation of "about 10 per cent." on existing rates, by further protection against eviction or foreclosure of mortgages, and generally by a policy for "stimulating trade and industry by keeping up the living standards of those in employment instead of lowering these standards and thus reducing the purchasing power of the community by further reduction in salaries and wages." The leader of the Opposition (Sir Stanley Argyle) and the Leader of the Country party (Mr. Allan) declared that the Government policy was one of double repudiation, in that, having secured a reduction of interest under a scheme of which the reduction of public service charges was a part, they now proposed to abandon that part of the scheme; and in the second place, because the proposal for "negotiations" with regard to the reduction of overseas interest was a mere cloak for arbitrary action upon it. The election contest was short and vigorous, and one of its features was the large number of young men among the anti-Labour candidates. The poll took place on May 14. The result was a decisive defeat of the Government, three of whose members lost their seats. In the new Parliament there were 33 "United Australia" members, 14 Country members, one Independent, and 17 Labour members, as against 18, 14, 3 and 30 in the old Parliament.

Electors probably paid less regard to the particular items of rival programmes than to the broad considerations which had guided them at the federal elections in December. Commonwealth Ministers appeared on the platform with Opposition candidates, and Mr. Scullin spoke in favour of the State Government. Events at the moment in New South Wales were showing what might happen when Commonwealth and State were pursuing conflicting policies. Mr. Tunnecliffe's attack was directed even more against the Commonwealth

Government than against the State Opposition; and though he had Mr. Scullin's support, there was a suspicion that he was closer to Mr. Lang, and dread of a Lang era in Victoria. Even before the defeat of the Ministry, it was known that there were wide differences in the Cabinet. The policy speech of the acting-Premier was followed by two resignations on the ground that it broke faith with the Plan, to which the Premier and his Government had been parties. Then came a series of disclosures. The Premier, Mr. Hogan, who was in England, had cabled to the acting-Premier that the demands of the party executive revealed it as the enemy of State and people, and he insisted that the policy speech must stand by the Premiers' agreement. The cablegram was not laid before the Cabinet, and the policy speech was a plain disregard of its terms. Two more members of the Government declared themselves loyal to the Premier, and remained in the Cabinet at his request "to protect our policy." The election went on, with a Government policy which the head of the Government had roundly denounced. Neither of the Opposition parties put up a candidate against Mr. Hogan who was re-elected to his former seat in the Assembly without opposition. Immediately the result of the election was apparent, the Government resigned, Mr. Hogan communicating the decision by cable and telephone to the Lieutenant-Governor. The leader of the Opposition, Sir Stanley Argyle, had no difficulty in forming a Ministry in which he included the leader and two other members of the Country party, land Mr. J. P. Jones, Minister of Public Works in the late Government, who had dissociated himself from the Labour party as soon as the intention to depart from the Premiers' Plan became manifest.

Queensland

Unlike the elections in New South Wales and Victoria, the election in Queensland was the ordinary election due

to effluxion of time. The Nationalist victory of 1929 was due in part to fortuitous circumstances, and a term in opposition, if it did not consolidate the Labour party, at least patched up its differences. The Government's policy of aiming at the balancing of budgets by retrenchment and the abandonment of costly adventures, was the cause of much unpopularity, and for many months before the election the general opinion was that the Moore Ministry would be defeated. In his appeal to the country, Mr. Moore could promise nothing more than a relentless pursuit of a policy which he deemed essential to save its credit and maintain its economic life, and to keep faith with the Premiers' Plan. The measures which would be necessary would be the more drastic as the proceeds of former loans, from which deficits had been provided for, were now exhausted. The policy speech of the Leader of the Opposition, Mr. Forgan Smith, flattered the hopes of the discontented, without incurring the odium of Langism. He would review the Premiers' Plan, taking note of the zeal which the Government had shown in wage reduction, compared with their tender regard for fixed money claims, and he promised relief from the interest burden "where it was too great for industries or individuals to carry successfully." Labour policy would be to promote stabilisation in internal economy. It was necessary to increase the capacity of the people to consume and purchase more. The 44 hour week would be restored, the reductions in wages and benefits would be abandoned, social services would be improved and extended, and funds would be made available to meet requirements for workers' dwellings and homes. The Bureau of Economics established for informing and advising Governments, would be abolished as an irksome imposition upon industry, and a Bureau of Industry, on which trade unions, agriculture and industry generally would be represented, would enable investors in the £2,500,000 loan for reproductive works, which a Labour Government would raise, to feel

assured that the funds would be used in a proper and effective manner. The relief of taxation was not forgotten, it would result from a policy of reducing unemployment and setting up greater industrial activity. Before so attractive a programme, the austerity of Mr. Moore fared as Mr. Bavin's did in New South Wales in 1930, and the position of parties in the new House is Labour 33, Nationalist 27, Independent 1.

Mr. Forgan Smith's difficulties will begin at once. He cannot borrow except through the Loan Council, and if he could, his prospectus would attract few lenders. Among Government supporters there are some who will require to recognise that promises have served their purpose when they have secured an electoral majority, and others who frankly demand "a reduction of the interest burden to nil." It must be remembered that there is no Legislative Council in Queensland, and nothing, therefore, to withstand the will of the Assembly. Mr. Forgan Smith had enough reputation for moderation for it to have been possible to think of a coalition Ministry when the issue of the election appeared indeterminate. But the definite Labour majority put that out of the question. The result will probably be a repetition of the battles in caucus and cabinet, and the ultimate cleavage in the party with its attendant expulsions that has marked the course of Labour in office in other States and in the Commonwealth.

Australia.
June 29, 1932.

SOUTH AFRICA

I. The Session—and After

THE fourth session of the Union's sixth Parliament closed on much the same note as it had commenced on. It had been called in November to hear the Minister of Finance's ringing affirmation of his gold standard policy, and to pass a Financial Emergency Regulations Act, constituting him, for a period, financial dictator for the maintenance of that policy. In the last days of the session, at the end of May, it extended the period of dictatorship, and set the seal of a party majority on the Report of the Select Committee, which had advised, as everyone knew it would, against any disturbance of the South African pound's "safe anchorage" in gold. In the intervening months much had happened. The grimness of the country's economic plight had been intensified, and the price paid in subsidies to keep the farmers content with the Government's policy had been increased; there had been endless discussions of currency questions inside Parliament and out; but the net result had merely been the hardening of party lines of division with regard to an issue which had far better have been kept out of the arena of party strife. A change of currency policy in South Africa will, it would seem at present, only come as the result of a change of Government.

The session which ended on May 27 was singularly barren of legislative achievement. Perhaps it could not well have been otherwise. For about half of it the discussion of the currency problem monopolised attention; for the rest, the Government was largely preoccupied with the

economic difficulties of the country and the pacification of disgruntled followers. It could hardly have been expected that it would push on with avoidable legislation that would raise first-class issues, and add to the troubles which were already so potent in murdering sleep. Probably the most important measure that passed into law was the Native Service Contract Bill. That Bill was dealt with in the last number of THE ROUND TABLE.* It brought into relief the divergence between the Northern and Southern viewpoints in native policy, and thereby engendered much heat—in some cases between members of the same party. A Liquor Bill, aiming at increased facilities for sale, especially to natives, was withdrawn in face of the threat of vigorous opposition. The Coinage Bill, that was to replace the pound, the shilling and the penny with distinctive South African coins, was not proceeded with; no doubt its reintroduction will depend in part on what takes place at Ottawa. Among the measures that also passed into law was a crop of private Bills, and the usual series of "control Bills" so typical of our time—mealie control, tobacco control, meat trade control, dairy industry control—all hampering freedom of trade and some making inroads on the pockets of the general taxpayer. For the rest, there was little apart from financial measures. These financial measures, however, attracted more than the usual amount of attention. They imposed heavy additional taxation—the total for the session was about £6 million—and they reduced the emoluments of State servants, including, of course, railway employees. Hence they put a severe strain on ministerialist loyalty, and in a critical division on one of the salary-reduction Bills the Government's majority fell to five. Three years ago a majority of twenty-five could, for most purposes, be counted upon.

As a result of these measures the Government was able to realise its object of a balanced budget—balanced, perhaps one should say, by way of qualification, in

* THE ROUND TABLE, No. 87, June 1932, p. 669.

anticipation, for present trade and revenue tendencies do not indicate that it is likely to be balanced in fact. Economic conditions in the Union have in recent months gone disturbingly from bad to worse. South Africa is now feeling the full force of the economic storm. It has chosen to meet it without seeking the relief that the abandonment of the gold standard might provide, temporarily at least, and, as a consequence, it is making heavy weather. Confidence has ebbed, initiative has dried up, the towns, no less than the countryside, are suffering most severely. While in 1929 importation was at the rate of £80 million per annum, in recent months the rate has been round about £25 million, an alarming decline, even when allowance is made for the fall in the gold prices of commodities. The customs revenue in the new financial year is so far about 25 per cent. below the estimate made only three months ago. There is every indication of the year ending once again with a deficit of two million pounds or more on general account, coupled with a railway deficit of from three-and-a-half to four millions. Apart from a world recovery, it is difficult to see how these deficits are going to be liquidated. The financial and economic prospect is indeed at present one of unrelieved gloom.

It is not to be wondered at, therefore, that Ottawa has come to be an almost magic word. Since the session ended, Mr. Havenga, our Minister of Finance, and two of his colleagues have gone to the Canadian capital. There are many in South Africa who look to the Conference for tariff preferences that will create new markets and enhanced prices for South African products. Others again cling to the hope that it will provide the occasion for a change in South Africa's present currency policy; one of the results of the discussions will, they hope and pray, be an Empire currency with the devaluation of the South African pound as a corollary.

Mr. Havenga is fully alive to the potentialities of the Conference, and may be counted upon to pull his very

considerable weight in the attempt to take advantage of the present opportunity, knowing full well that, however doggedly some of his followers may mutter incantations to avert any threat to South Africa's "economic independence," they will, when it comes to the point, no doubt receive willingly enough such gifts as the Greeks may bring. His attitude on the tariff question is already well known. He has made it abundantly clear in Parliament, and recently in London. He hopes to encourage trade between the members of the Commonwealth, but not at the price of cutting off trade with other friendly portions of the world. His hope is for freer trade as such, within the Commonwealth first, and within a steadily widening area of the world next or, better still, at the same time. There will be few outside the ranks of the Empire Crusaders on your side of the water to quarrel with that ambition.

On the currency issue he is less comforting to the advocates of devaluation in Parliament and the country, for he has declared roundly that he will stand or fall by the 113-grain gold pound, and he is a man of his word. In London he has since justified that policy as a continuation of the consistent policy of Great Britain herself until circumstances became too much even for her. South Africa, he asserts, as the world's greatest gold producer, must in her own interests stand by gold, all the more so as her trade position enables her to maintain gold payments. In the terms of the Macmillan Report he is only prepared to recognise depreciation when depreciation has become a fact, and that day is not yet in South Africa. But closer reading of his speech shows that he is not impervious to argument. For any single country, or small group of countries, to attempt to regain prosperity by manipulating the currency would be disastrous, but if debtor nations as a body favour devaluation and are prepared to carry it out by really international action—why, that is another story.

There is one side of the currency question which has hardly been discussed in these parts, perhaps hardly

realised. Ottawa may constitute a grave danger to South Africa. Many influential men overseas are advocating a policy of bimetallism. If that should be adopted at all widely, it would have most disconcerting repercussions on the gold industry, which, at the present time, stands alone between South Africa and disaster. However, we shall see what we shall see. Meanwhile it is a little unfortunate that hopes with regard to Ottawa have been pitched so high. The Conference cannot in any case achieve an immediate revolution in existing conditions; it can at best only lay the foundations of a new system. But possibly its indirect results may be greater than its direct results. Agreement at Ottawa should be a potent factor in stimulating that confidence of which we are all to-day so sorely in need.

If South Africa's economic *malaise* accounts for the extravagant anticipations cherished with regard to Ottawa, it also supplies the background for the consideration of important political developments which have been taking place in Natal. In the last number of THE ROUND TABLE* an account was given of the emergence of the devolution or secession movement in that part of the Union, and of some of the factors that have led up to it. Undoubtedly it is an expression of the perturbation felt by Natal, conscious as it is of its distinctively British tradition, at what it regards as the anti-British policy and traditions of the existing Government. Yet it is the present economic maladjustment, from which Natal is certainly not suffering less than the rest of the Union, that prompts the eager desire to see or hear some new thing, and has thus provided the atmosphere that breeds disaffection. The devolutionists have secured an unexpectedly large backing of public opinion. They have not always been very precise as to what they want; at times the cry has been for the separation of Natal from the rest of the Union, at times for a change of the present unitary constitution to a federal

* THE ROUND TABLE, No. 87, June 1932, pp. 616 *et seq.*

basis, at times for separation as a first step towards federation. Devolutionists have also been by no means lucid in explaining what they mean by federation, nor too diligent in examining its economic consequences for Natal. But the important thing is that they have held out the ideal of a substantial change—and it is a change that Natal wants, a change which will be the more acceptable if accompanied by the prospect of freedom from the "Dutch domination" of to-day. And so the movement has captured the public imagination, and spread like a veld fire through the land.

It was this situation that disclosed itself to the Natal members of Parliament (all but one of them belonging to the South African party) when they returned home from distant Cape Town at the end of the parliamentary session. They decided that the movement had become too strong for them to crush; they decided that they had to compromise. And so they came together and issued a statement in which they pledged themselves to the ideal of federation, undertaking to place Natal and federation for Natal before party allegiance, and to form a Natal federal group within the South African party, with its own caucus and its own leader. In return for this pledge they understood, so it would appear, that the devolutionists would definitely abandon all propaganda for separation.

But the pursuit of compromise does not always lead to tranquillity. Within a fortnight of taking their pledge the Natal members found themselves repudiated from two sides. The devolutionists indicated that they were not abandoning the separation ideal, and General Smuts, on behalf of the South African party, repudiated federation, and declared that he could not acquiesce in the *imperium in imperio* implied by the creation of a separate federal group within his party. The result of it all is the emergence of a definite cleavage in the South African party ranks in Natal. Most of the Natal members are taking their stand by General Smuts, but some at least will adhere to their federalist pledge, at the cost, if need be, of the severance

of their present party ties. It would seem that on this issue Natal is likely to be acutely divided.

The move towards federalism in Natal is significant in relation to the general temper and present attitude of the people of that province—it is significant also in relation to the wider constitutional question known in South Africa as the provincial problem. When the four South African colonies combined to form a Union twenty-two years ago, the central constitutional question of a federal as against a unitary system was decided against federation, but as a concession to the federalists the Provincial Councils were established as definitely subordinate law-making bodies. The compromise has never taken root, and there are few who would envisage the permanence of the system in its present form. At some time or another South Africa will once again have to make the choice between a federal and an unqualified unitary system. In an earlier number of THE ROUND TABLE* the events were recounted which led up to the Government's declaration last year in favour of the latter policy, i.e., for the abolition of the provincial system. The Natal agitation is in large measure a reaction against that declaration. It is the alternative policy, federalism, that Natal so earnestly desires.

But apart from Natal, the Government has been raising heavy weather with its abolition policy. Among its supporters, who are mainly country-dwellers, and as such well content with the provincial system, which tends to lay the burden of local government mainly on the shoulders of the town-dwellers, little enthusiasm has been evoked; in the Transvaal and the Free State there has indeed been active opposition. As a result, it appeared for a time as if the new policy would have to be abandoned, or at least put into cold storage. Then circumstances came to the Government's aid. The Free State Provincial Council found itself crushed by an overwhelming deficit. In desperation it passed a resolution asking the central Govern-

* THE ROUND TABLE, No. 85, December 1931, pp. 195 *et seq.*

ment to take over responsibility for its administration. Apparently this was conceived as a means of bringing pressure to bear on the Government to come to its aid with a special subsidy. If that were so, the scheme failed. The bluff was called. The Government announced that it would accede to the request as framed, and has done so literally by virtually taking over the Free State. It has further made use of the opening thus offered to appoint a commission to devise an alternative system of local government to be applied in the Free State, or in any other province which may similarly be taken over. It would seem indeed to be part of the Government's policy to put a little gentle pressure on the other provinces in the form of a restriction of their subsidies, so that they may follow the Free State's example. It is clear, however, that these provinces are not going to surrender without a fight; the Nationalist majority in the Transvaal Provincial Council has voiced its defiance in no measured terms; abolition may in fact still be a very long way off. Meantime, however, the Commission has been constituted—not without difficulty, it is true, since no South African party man, nor anyone from Natal, was willing to act on it, and at least one prominent Nationalist similarly declined—but constituted it has been, and no doubt it will serve the purpose of conveying some aspects of the problem into the political background, at least for a time.

It remains to say a word about party prospects. During the session the Government maintained its position under heavy assaults, despite the fact that two of its supporters —one a Nationalist and one a Labourite—crossed the floor. On the feeling in the country in this respect some light has been shed by an important by-election recently held at Colesberg. Colesberg is a far-flung constituency covering several Karroo districts in the Cape Province. Up till the 1929 election it had been a South African party seat. In that year the Nationalists won it by a majority representing 10 per cent. of the total number of votes polled.

On a very much larger poll, which included the newly-enfranchised European women, they have now retained it by a $3\frac{1}{2}$ per cent. majority. The reduction of the majority is of some importance from the South African party point of view, but the Nationalists have to their credit a far greater achievement in having held the seat at all. For the electorate consists almost entirely of sheep-farmers and railwaymen and their dependants. The sheep-farmers might have been expected to avail themselves of the opportunity to protest against the Government's gold standard policy, the railwaymen against the cuts in their emoluments. That the turnover of votes was in the circumstances relatively so small is an indication of the strength of nationalism in South Africa. That strength derives essentially from its sentimental appeal. The South African party sought to fight the by-election on economic issues. The Nationalists, apart from their efforts to counter that attack, and to arouse the never sleeping fear of non-European competition, relied on the stimulation among the Afrikaans-speaking voters, who overwhelmingly preponderate in the constituency, of a sense of their distinctiveness. General Hertzog addressed his eve-of-the-poll appeal to "Nationalists, Afrikaners" (and to most people in South Africa "Afrikaner" means an Afrikaans-speaking South African). Taking the Natal movement above referred to as his text, he urged them to rally in defence against the attack on everything that is Afrikaans. Eve-of-the-poll appeals may not turn votes, but they are often indicative of the prevailing mental attitude of those to whom they are addressed. Nationalism is securely founded in the memories of South Africa's unhappy past; it is maintained by a sentiment strong enough for the most part to repel the bread-and-butter arguments of economic distress. The South African party still has many weary marches to complete if it is to see the walls of Jericho come tumbling down at the general election which is due to take place two years hence. That realisation would seem to be the lesson of Colesberg.

South Africa

II. The Native Economic Commission, 1930–1932

SHORTLY before the Colesberg election was lost and won by appeals to Afrikander nationalism at its crudest, and the fear of native competition in the railway service and elsewhere, a flood of light was turned upon the dark reservoir from which that competition emanates. Following on sporadic troubles in the latter part of 1929, all of which could be traced back to economic causes, Government appointed a Native Economic Commission to investigate, first and foremost, the social and economic condition of the Bantu in the larger towns. The long-awaited Report of the Commission appeared in May.*

The Report must be welcomed—but with some misgivings. It seems inadequate to the importance of the questions the Commission was asked to report upon. Unfortunately there are grounds for fearing that the compilation of the Report was too hurriedly performed. It has been generally hailed as a "fact-finding" commission, more perhaps because it has refrained from urging the adoption of any thorough native policy than because it has marshalled hitherto unknown facts in any quantity for the attention of the Union Government and its citizens. Too many of the "facts" have not been brought out; they lie buried in the evidence which, unfortunately, is not to be published, but is to be accessible only in the Union archives at Pretoria. Non-publication is, no doubt, not the Commission's fault. But it should have called for greater care on the part of the Commission to ensure that the gist of the important evidence was made available in the Report itself. It is really only in the addendum, by Mr. F. A. W. Lucas, that an adequate idea is given of the mass of valuable material which must be available in the evidence submitted from various sources. Again, it is only in this addendum, which is in many respects the most valuable part of the published Report, that page

* U.G. 22, 1932.

references to the thousands of type-written pages of evidence are generally given.

This omission is very unfortunate, as many may wish to check and obtain further information on points which the Commission has raised. The "fact-finding" Commission has gone about its work too light-heartedly. For instance, it evidently thinks that the purchase of land by natives outside areas scheduled under the 1913 Land Act is worthy of mention—but it is not concerned to say how great (or how small!) these purchases have been. Again we read (in paragraph 60) that, "a case was mentioned to your Commission of a man, who had learned better methods from the Europeans, and produced a larger crop than his neighbours, who was killed, in order that the soul of husbandry which had settled on him could be distributed to the benefit of all, by the witch-doctor." By whom was this statement made, and how long ago was the incident referred to supposed to have taken place? The tale is a well-known "old-stager." If there is a modern authenticated instance, it is important that details should be made available. If there is not, it is equally important that the source of the statement should be given, in order that anthropologists may examine and dismiss it. Anthropologists are fully aware of the obstacles witchcraft places in the way of economic progress through natives relying on it rather than on improved methods to increase their crops, and through the discouragement to acquisition caused by fear that a jealous chief may accuse of witchcraft those whose wealth becomes obnoxious to him. But they are unwilling to give much credence to this other danger without more definite evidence.

The fashionable "agreement to differ" has also been widely adopted by the Commission. The Report is signed by all members, but it contains in its main text very numerous reservations. That is perhaps a [illegible] method, for it does not break up the continuity of the argument. But it appears sometimes that disagreement is more fund[illegible]

mental than is suggested when the main Report merely notes dissent and then resumes the even tenor of its way. One rather ludicrous example occurs in paragraphs 200ff. when "your Commission *unhesitatingly* affirms" what Dr. Roberts, a member of the standing Native Affairs Commission, immediately "finds himself unable to accept." Such statements must detract from the authority of the Commission's recommendations.

Nevertheless the report is worthy of grave attention. It is especially noteworthy that a commission, which is not predominantly negrophilist in the character of its personnel, should have reported so unanimously on the urgency of the native economic problems. The Report is all the more alarming for not being alarmist. It becomes clear in more than one place that the most imminent native problem is that of mass-starvation.

The Commission's terms of reference were to report upon :—

1. The economic and social conditions of natives, especially in the larger towns of the Union.

2. The application to natives in urban areas of the existing laws relating to the regulation of wages and conditions of employment and for dealing with industrial disputes, and/or the desirability of any modification of these laws or of providing other machinery for such purposes.

3. The economic and social effect upon the European and coloured population of the Union of the residence of natives in urban areas and the measures, if any, to be adopted to deal with surplus natives in, and to prevent the increasing migration of natives to, such areas.

4. What proportion of the public revenue is contributed by the native population directly and indirectly. What proportion of the public expenditure may be regarded as necessitated by the presence of, and reasonably chargeable to, the native population.

The Commission has very reasonably considered the first and third terms together, and just as reasonably reported that the urban native problem is not primarily an urban problem, but that "in the *economic* development of the reserves must inevitably be sought the main solution of the native economic problem."

Native Economic Commission, 1930-1932

It did not require a commission to point out that the South African native is poor. It may not, however, have been previously recognised that large numbers of natives are steadily growing poorer. Yet this is everywhere reported: in the Ciskei, the Transkei, in Bechuanaland, in the Transvaal. The diet of the South African native is becoming not more, but less, varied; mealies are no longer supplemented to the same extent by milk, and the consumption of meat is growing even more rare. As a result physical deterioration is marked:

> You will see malnutrition stamped on the race.* . . . We have now throughout the reserves a state of affairs in which, with few exceptions, the carrying capacity of the soil for both human beings and animals is definitely on the downgrade; a state of affairs which, unless soon remedied, will within one or at the outside two decades create in the Union an appalling problem of native poverty.†

Memoranda submitted by the Director of Native Agriculture and by the late Mr. S. G. Butler (*Annexure* 14) show how inadequate is the surplus produce of the natives in a number of reserves, a surplus which, allowing only for a very moderate diet, must cover tax payments and the purchase of clothes and other necessities. It may be remarked that the surplus is more likely to have been over than under-estimated, while Mr. Thornton's estimates of the total produce are almost certainly too large.

The net result of these conditions is that there must be a considerable efflux of natives from the reserves to find wage-paid work, either on farms or in the towns. This relieves the pressure on the reserves, but it is doubtful whether the net effect constitutes an item on the credit side of the balance. It has been pointed out that:

> The absence of males from their homes during the greater part of the year is invariably reflected in the cultural operations of the land and the resultant low yields. Even while the responsible male times his visits home to coincide with the ploughing and seeding season, agriculture suffers. It allows of no preparatory cultivation, nor does it enable him to take advantage of favourable rainfalls.

* See especially *Addendum*, 60–70. † *Report*, 69.

It necessitates leaving to the women and to juniors the major part of the work. There can be no organised system of working. The standard of agriculture, therefore, is low and there can be no development.

This, of course, makes it the more imperative for the migrant to remain longer in the town and earn more there. But the large scale movement of this necessarily unskilled (because casual and temporary) labour keeps down the level of native wages. Thus a vicious circle is set up connecting the two main aspects of the native economic problem, poverty in the territories and inadequate wages in the towns and in rural European employment, which it seems wellnigh impossible to break.

To what are the poverty-stricken conditions of the native territories mainly due? The Commission's answer is "over-stocking," which has already converted a large part of the Ciskei into a desert and is well on its way to make desert conditions general. The main avenue for attacking the problem, it holds, is by teaching the native to regard his cattle from an economic and not from a religious aspect. He must also be taught better agricultural methods in general, and must be provided with better facilities for disposing of his stock, and for costly cattle fencing. This is true—although a native society divorced from the cattle cult, with chiefs unable for lack of land to perform their primary economic function of providing land for their tribesmen, is not likely to be led easily to better things by educating the chiefs and then calling upon them to exert their customary tribal influence on their people. That is the suggestion in one part of the Report. It would seem to be unduly optimistic.

But the problem is not even as simple as this. The late Mr. Butler reported (see *Addendum*, 53) that though the Transkei was over-stocked, there was an insufficient number of oxen available for agricultural purposes. Over-stocking is not merely a function of the traditional importance of cattle in native society, it is a function also of the type of

cattle owned and of a total insufficiency of land in the reserves for the needs of the native population in that state of development in which it is at present, and is likely to be for a long time to come. This seems to be recognised in the Report.

The provision of more land is also essential. The present yield of native agriculture and stockfarming is so low that the native areas will, with proper farming, be able to support a much bigger population than they actually do at present. But the introduction of better farming methods will be hampered in many parts by the congestion now existing, and it will be necessary to relieve the congestion.

It is, perhaps, something gained that a commission, reporting even as late as 1932, should note the economic as well as the moral necessity of fulfilling the promise of providing more land for native reserves made in connection with the Natives Land Act of 1913, which so drastically limited the rights of most natives to acquire land outside those reserves.

Besides the reserve natives, there are some 2,000,000 others who live on European-owned farms. Forbidden, by that Act of 1913, except in the Cape, to hire land outside scheduled native areas on any other basis than labour service, they mostly form a class of labour tenants, though in some districts hired labourers are more numerous. The Native Economic Commission has taken evidence as to the situation of these tenants. The most striking variations are reported. There are instances when "the native was required to work for a period of nine months during the year, as and when required by the farmer. In return for his services he was permitted to cultivate a strip of land . . . under 2½ acres . . ." On the other hand, there are instances of fairly tolerable conditions. The Commission inclines to the opinion that labour tenancy is uneconomical both for the farmer and his tenant, since the tenant is able to reap but a small return from land which would give a much greater return if cultivated by the farmer himself with his more advanced European methods.

This, however, presumes that the farmer would so cultivate his land if he was not forced to allow his labourer to use it. That is somewhat of an assumption. Dr. Neveling and Dr. Neethling have stated that, "in most cases the native's land should not be considered as a reduction in the area of the cultivated land of the farmer, but as an increase in the cultivated area of the farm as a whole." There is, however, no doubt that progressive agriculture requires the remuneration of the native labourer to be rather on the cash basis, and the Commission strongly recommends, in the first place, a strict insistence on written contracts, and in the second place, a gradual attempt to abolish the labour contract system. It is an ironical commentary that this Report should have been presented at a time when the legislature was engaged in passing the Native Service Contract Act, which is intended to stereotype a form of labour tenure in which, in the absence of a written agreement otherwise, the duration of the contract is presumed, and its extension is also presumed unless notice is given to the contrary; in which the contract is automatically renewed with the new owner if the farm be sold; in which, in the absence of a special agreement, the contract is regarded as broken if the tenant is absent for three months, or if another native from the same kraal breaks his contract, all members of that kraal are laid open to eviction. And the sanctions for these breaches of civil contract are criminal.

The remaining sections of the Native Economic Commission's Report are much less informative. Comparatively little is told of the economic and social condition of the urban native. In respect of this, its first term of reference, it falls far short of the recent independent report of Professor Leubuscher on *Der Südafrikanische Eingeborene als Industriearbeiter und Stadtbewohner*.* The Commission reports that a development of the reserves which will prevent large influxes of temporary labourers into the towns

* Jena, 1931.

will enable the urbanised natives to become skilled and thus earn higher wages. Subject to dissent by Mr. Lucas and Dr. Roberts, it also approves of the principle of the industrial colour bar, though that might be presumed to hamper the endeavours of the urban native in a way similar to the presence of numbers of reserve natives. On the question of the extension of wage determinations to natives, the majority Report is impressed by the difficulties in the way, the minute of dissent by Mr. Anderson, Mr. Lucas and Dr. Roberts, by the desirability of increasing native earnings in all possible ways. The latter very pertinently point out that "a country which believes in, and makes use of, a 'scientific tariff' should not be afraid of the use of scientific wage regulation." It may be suggested that both attempts at scientific regulation may be undesirable; for the rest, the Commission was not asked to pronounce any opinion on the Union's tariff policy.

The last section of the Report, on the face of it, would seem to show that taxation does not press unfairly on the native, for he contributes some £3,322,917 to the Union and provincial revenue, and is responsible for some £4,184,700 of public expenditure. But the statistical allocation on which this finding is based, seems to involve a very large amount of guesswork, and in general no opportunity is given for checking its working. Paragraph 1099, for instance, says barely, "*Licences*—the amount allocated to natives has been arrived at after a detailed examination of the items." In discussing the proportion of the expenditure reasonably chargeable to natives much use has been made of the "National Income Ratio." The share of the national income enjoyed by natives has been calculated at one-eighth, and the presumption has been made that, unless there are special invalidating circumstances, one-eighth of the several items of public expenditure should be debited to the natives. Assuming that the ratio is correct, it might be claimed that it is correct to employ this ratio

all along the line. It can hardly be applied to parliamentary expenditure. Natives are debarred from sitting—and in most cases from voting—therefore, they may be presumed not to receive the benefits of equal representation with the Europeans, and certainly no part of the expenditure is returned to them in the form of parliamentary salaries.

The same holds good of other administrative expenditure, especially of that utilised, in the form of subsidies to wages, in attempting to promote a "civilised labour policy" at the expense of native employment. One magistrate expressed the opinion "that if the Masters and Servants Act were not enforced in that district, one quarter of the police force could be dispensed with there." What proportion of the police vote, necessitated by laws which every native believes are directly to his disadvantage, can be reasonably charged against those natives? (It should be said that, as a matter of fact, the Commission's estimate on the police vote is probably not excessive.) The task of apportioning the natives' fair share of taxation in proportion to the benefits they receive from Government is, if not impossible, one which requires far more acute and sustained attention than has, from all appearances, been given by this Commission. In any case, it is not the practice of modern States to tax the poorer sections of the community so highly as to ensure that they receive from Government only those strict benefits which they have themselves paid for. Nobody has yet thought of enquiring whether the South African farmer is under or over-taxed in proportion to all that Government does on his behalf.

But let that pass. For all its shortcomings, the Report is a valuable, though most disquieting, revelation of the inadequate black foundations on which white society rests. If it leads, in however tentative a fashion, to the strengthening of those foundations, the Commissioners will have earned the gratitude of both blacks and whites.

South Africa. July 1932.

NEW ZEALAND

I. The Government's Plan

On April 27, during the special session, Mr. Downie Stewart, the Minister of Finance, introduced his financial statement. Owing to the way in which the main items of revenue have continued to shrink and expenditure, *e.g.*, the debt services and the cost of exchange, has increased, there will be a gap between revenue and expenditure which is estimated at £8,300,000. The gap is to be bridged in the following manner.

	£		£
Reduction in salaries, wages and pensions	1,100,000	the discharged soldiers settlers mortgages (in which £10,500,000 of reserves are invested) by arrangement with the Bank of New Zealand, the National Bank of New Zealand taking a proportion ..	2,200,000
Abolition of subsidy on unemployment funds	1,450,000		
Assistance from highways fund ..	500,000		
Subsidies to local bodies to remain a charge on highways account ..	125,000		
Reductions in other items	325,000	Leaving what Mr. Stewart described as "a manageable deficit for 1931-1932" of	2,000,000
Hoover moratorium (if extended) ..	600,000		
From hypothecation for £2,500,000 of		Total ..	£8,300,000

The hypothecation, Mr. Stewart claimed, would afford the community a breathing space from further

taxation, for it is clear that the remaining taxable capacity of the Dominion is limited. He pointed out that, in the three years ended March 31, economies and adjustments had been effected to the amount of £5,940,000 per annum, and that of the £2,976,262 savings recommended by the Royal Commission, £2,286,390 had either been effected or approved by the Government. "In addition," said the Minister, "relief to the Consolidated Fund will accrue from the following items":—

	£
Abolition of subsidy on unemployment funds	1,450,000
Relief to hospital subsidies from unemployment funds ..	200,000
Hoover moratorium (if extended)	600,000
Further reductions by railways	100,000
	2,350,000
Add savings in accordance with Commission's recommendations	2,040,000
Total savings and adjustments at present in sight for 1932–33	£4,390,000

The grand total of the relief to the Consolidated Fund over the period under review is, he pointed out, £10,330,000, of which approximately £2,500,000 has been obtained by various adjustments and the balance of £7,830,000 from economies. These figures indicate the strenuous efforts made to cope with the position.

These savings, however, do not satisfy the Chambers of Commerce. The Canterbury Chamber, in its May Bulletin, and the Associated Chambers of Commerce in a letter to the Prime Minister, published on April 19, called for far more drastic retrenchment in all departments, on the same scale as those which were being effected in commercial and industrial organisations. Unremunerative services must, they insisted, either be made to pay or abolished, and the elimination was suggested of any trading by government or local bodies which competed with that of private citizens and taxpayers. The Government has not accepted the recommendation of the National Expenditure Commission that the New Zealand division of the Royal Navy should go

back to Admiralty control and that the annual contribution to the Singapore Base should be further reduced. It does not wish to see the work of construction there delayed.

Early in April the Government floated a loan of £5 million in London, but the response was disappointing. £4 million was for funding the Treasury bills that mature in June, the rest for financing the much-reduced programme of public works.

As regards the exchange problem, on April 29 a deputation representing the Meat Export Board, the Dairy Produce Export Control Board and other mercantile interests, waited upon the Prime Minister and the Minister of Finance. The primary producers, they said, felt that they were being robbed of the advantage of a high exchange for the benefit of another section of the community, and they asked that the exchange should be allowed to operate freely. Mr. Downie Stewart told the delegation that on the day of the general election the New Zealand Government had received a cable saying that unless the Government compelled the banks to remit to London £1,000,000 a month for the next twelve months, the position in London would become unmanageable. To meet this difficulty, it was necessary to constitute the exchange pool, as the banks had informed the Government that they could find the money needed in London only if they had control of the exchange. Had the suggestion for a high exchange been adopted, the Consolidated Fund would have had to find another £3,500,000 and the local bodies, which had large commitments in London, would have been called upon to pay thousands of pounds in exchange. By the end of June New Zealand's internal obligations would be substantially met, and he added that if the regulations of the pool, which he wished to abolish as soon as possible, were observed, it could be lifted by the end of that month and there would be no interference with regard to next season's exports. On June 14 the Prime Minister stated that the exchange pool would be done away with at the end of the

month, and that there would be no interference by the Government with the exchange rates, that that matter could be left to the banks.

The Government published their statement of policy on May 7. It took the form of a full page appeal for the co-operation of the public on patriotic grounds. "The prosperity of New Zealand depends in the main," they pointed out, "on the price at which its primary produce sells in the overseas market." In 1931 our total exports were only £35,153,028 as compared with £56,188,481 in 1928, and this drop of over £21 million had occurred in spite of a substantial increase in production. To meet this situation, however, still greater production was needed. "The problem of the producer in the past has," the statement continued, "been that his costs of production have remained at a high level, whereas his income from his farm products has sadly diminished."

The Government's aim is to bring down the costs of production and reduce rent and interest charges, to remove difficulties resulting from previous legislation, to stimulate and increase productive industry, enabling it to absorb more and more of our unemployed. It is endeavouring to develop farming lands and to divert unemployed labour to them from the cities. The Unemployment Fund has enabled over 20,000 people to be given productive work in the country. The Government is also considering a scheme for subdividing large areas into small lots of from 5 to 40 acres on a community basis. The settlers will be assisted to build their homes and to get through the early stages. This policy was embodied in four main measures, the Industrial Conciliation and Arbitration Amendment Act, the Mortgagors and Tenants Relief Amendment Act, the National Expenditure Adjustment Act and the Unemployment Amendment Act. This legislation occupied the attention of the House for the greater part of the eleven weeks' special session, and the reaction to it is the main feature of the history of the quarter under review.

Compulsory Conciliation and Voluntary Arbitration

After a warm discussion Clause 2 of the Industrial Conciliation and Arbitration Amendment Bill,* which gave the Government power by Order in Council to exempt either wholly or conditionally, all or any particular class of the persons engaged in any industry from the operation of the system, was withdrawn. On the main features of the Bill, however, the Government was adamant. Eventually it became law with two important amendments, one giving unions the right, in the case of female workers, to apply to the Arbitration Court for an order fixing the minimum rate of wages, the other clarifying the section relating to piece work. There will, however, no longer be automatic recourse to that Court when the parties cannot agree, as there has been in the past. They must now in the first instance go before a conciliation council. If they settle their dispute there, the settlement will operate as an industrial agreement subject to any of the parties affected having the right to apply to the Court for total or partial exemption. Failing settlement, unless there is practical unanimity (*i.e.*, generally speaking a three-fourths or five-sixths majority of the assessors according to the number engaged) in favour of reference to the Court, existing awards or industrial agreements binding on the parties to the dispute are deemed to be cancelled.

Any industrial union or association of employers bound by an award or an industrial agreement in force on April 27, the date of the passing of the Act, may apply for a new award or agreement if the old one has been in force for not less than six months, and has an unexpired term of not less than three months. If no new award or industrial agreement is made, the existing award or agreement will be cancelled. In future, awards or agreements may

* The Round Table, No. 87, June 1932, p. 688.

contain provision for the payment of workers at piece rates and also by results. Even where there is no specific provision, the employer may still agree with the worker to have piece work payment, provided that it does not result in the worker receiving less than the minimum wage provided for in the award or agreement. The character of the debate was so fiery that the closure was put fifteen times at various stages and there were over 66 divisions altogether, two Labour members being suspended. The Government majorities varied from 11 to 20, and the third reading was carried by only 15, some of the Coalition members voting with the Labour party against the Bill.

It was urged by Labour that the complete abandonment of the principle of compulsory arbitration, which had worked well for forty years, would certainly lead to industrial disorder; that it amounted to a proclamation by Parliament that in future the workers would have to rely upon unconstitutional methods to redress their grievances, that they would be dragged down to the level of coolies; that insidious attacks would be made upon wage rates and working conditions throughout New Zealand, and that the worst form of sweating would be introduced under piece work contracts.

The reverse side of the shield was presented to the House of Representatives by the Prime Minister, and by Mr. Masters, the Minister of Education, in the Legislative Council. If, said these Ministers, there is to be greater confidence in industry, more capital invested in it and encouragement to employers to maintain larger staffs and to develop industries, there must be fewer irksome conditions and less harassing interference by union officials; costs must be substantially reduced. The Minister of Education gave some striking instances of how industries had been strangled by the high cost of labour and maintained that awards, based as hitherto on the actual cost of living and not on the ability of the industry to pay, were based on altogether wrong principles.

Relief to Mortgagors and Tenants

The Mortgagors and Tenants Relief Act extended the relief given to mortgagors under the Mortgagors Relief Act, 1931.* It also authorised the Court to grant relief to lessees by way of reduction or remission of rent, the lessor, pending its decision, being prevented from selling the property or exercising the right of re-entry. The relief that the Court can give in respect of mortgages of farming lands was extended to all mortgages. In the case of table mortgages, the Court was empowered to extend the term, and to postpone the date of payment of principal and interest. As originally introduced the Bill enabled the Court in all cases to cancel the mortgagor's liability under his personal covenant, but this power was restricted by an amendment in the Legislative Council to the postponement of the mortgagee's right to sue the mortgagor under the latter's personal covenant, and the Court can impose special conditions on the mortgagor as a condition of postponing the exercise of the mortgagee's rights. Provision was also made for the automatic reference by the Court of all applications for relief to an adjustment commission for investigation unless the parties agree to accept the decision of the Court without such reference.

The significance of this new measure is obvious. The New Zealand *Herald* (Auckland), pointed out on March 4 that once the Legislature placed an interfering hand on private contract it would not be able to stop, but must yield to the pressure ever urging it to go further. The pointed question in the House, whether any power was given to reduce the amount of the principal secured by a mortgage, indicates how further lengths are anticipated. But it may reasonably be asked whether the Government sees the consequences of what it is doing. Does it realise the end of a process which can bring the whole of the securities held by the State Advances Department—involving millions of borrowed capital—under review? Has it considered the effect on real property as

* The Round Table, No. 84, September 1931, p. 922.

security for advances? These are the two questions the legislation prompts, and no satisfactory answer is even hinted by official pronouncements on the subject.

The general trend of the discussion, however, was to the effect that the Bill did not go far enough, and as it was introduced before the National Expenditure Adjustment Bill, which effected a statutory reduction in interest and rents, a great deal of time was spent in advocating such general relief. The reason for the latter measure was that the Government was entering an uncharted sea, and did not—to use the Prime Minister's metaphor—know where the rocks were. An even stronger reason was that the Cabinet was divided on the soundness of the policy of statutory reduction. In his financial statement on April 7 Mr. Downie Stewart had expressed the view that voluntary private adjustments, with the help of the Mortgagors Relief Act, where necessary, would give more equitable results in the great variety of cases than any flat-rate reduction by legislation could do, but he had subordinated his personal view to that of his colleagues, and to what appeared to be the general view.

The objects of the National Expenditure Adjustment Act were five in number:—

(*a*) The reduction of salaries, wages, pensions and allowances. (*b*) The reduction of interest, rent and other fixed charges. (*c*) The imposition of a special stamp duty on receipts of income from securities issued by the Government or by local or public authorities. (*d*) The determination of the rates of interest that may be paid on deposits by any savings bank, building society or investment society. (*e*) The determination of the conditions on which trading companies may accept money on deposit.

The salary "cuts" are to operate as from April 1. There is to be a further cut—this time graduated—in the salaries of the public service, ranging from 5 per cent. to 12½ per cent. The salaries of Ministers of the Crown are reduced by 15 per cent., that of the Speaker of the House of Representatives by 12½ per cent., and those of the

Speaker of the Legislative Council, the Chairman of Committees of both Houses and ordinary members of Parliament by 10 per cent. Subsidies to local authorities, hospital boards, fire boards and the Rotorua Borough Council are reduced by 10 per cent. Besides, substantial reductions are made in old age pensions, and those of widows, miners, soldiers and their dependants and also in family allowances.

Considerable opposition was shown to the reduction of members' salaries by Labour members, and to the reduction of pensions both by Labour and by several Coalition members. An amendment to defeat the reduction in old age pensions was defeated by 36 to 34 while the cut in soldiers' pensions was retained by 38 to 34.

Part III of the Act makes a compulsory reduction of 20 per cent. in interest on all mortgages (including agreements for sale and purchase of land and company debentures but not mortgages on demand), and in all rents, accruing—in each case—on or after April 1, 1932, and before April 1, 1935. This reduction applies only to contracts in force at the passing of the Act (May 10). Provision is made for the standard by which the reduction is to be arrived at, and both penal and net rates are to be reduced accordingly. The net rate is not to be reduced below 6½ per cent. in the case of mortgages of chattels, nor below 5 per cent. in that of other mortgages. No ground rent will be reduced below 5 per cent. per annum of the unimproved value appearing in the district valuation roll on April 1, 1932. Similar provisions are applied to dividends on the cumulative preference shares of companies. The reduction applies whatever the relative financial positions of mortgagee and mortgagor or landlord and tenant, except that application may be made to any competent Court for relief on any of the following grounds:—

(*a*) That the rate of interest or of rent under the contract is fair, taking into consideration the nature of the security or the premises. (*b*) That adequate concessions have already been granted

to the mortgagor or tenant. (*c*) That the reduction would be a case of hardship to the person entitled to receive such interest or rent, as the case may be.

As under the Mortgagors and Tenants Relief Act, every application for relief is automatically referred to an adjustment commission unless the parties agree to accept the decision of the Court.

The Act also imposed a stamp duty of 10 per cent. upon debentures (including inscribed stock issued by the Government), empowered the Governor-General by Order in Council to fix the maximum rates of interest payable on deposits at savings banks, building and investment societies, and on deposits held by trading companies In the case of debentures issued by a local authority the net amount received by way of stamp duty, less 5 per cent. for administrative expenses, is to be paid to the local authority, if it is a rating authority, to be applied in reduction of rates. In his financial statement Mr. Downie Stewart said that in order to place the holders of government bonds, who had to accept a 10 per cent. cut in their interest last year by virtue of taxation, upon the same footing as the private mortgagee, he proposed to supplement the taxation on interest from government bonds by a stamp duty on interest coupons of 10 per cent.

This brings me (he said) to the position of the tax-free debentures. Apparently both the economists and the Royal Commission contemplate that any stamp duty imposed or interest reduction should apply to the tax-free debentures as well as those not tax free. The argument used is that this stamp duty is a special revenue duty framed for an emergency and not forming part of the ordinary system of income tax. This view is held not only by the Royal Commission and the economists, but it appears to be considered justifiable by some of the stock exchanges and other organisations dealing in investments. I am unable to acquiese in this view and it must therefore be understood that, while the recommendation is submitted to the House by the Government on the advice and acquiescence of the authorities I have quoted, it does not express my own personal view.

The plain man considers that this device is merely a quibble to tax government bonds that were declared tax free, and a repudiation of a solemn contract entered into with investors. In the Legislative Council Sir Francis Bell, who unsuccessfully introduced a motion to delete the preamble to Part III, said that the action of the Government was without precedent in the Parliamentary history of England and New Zealand, and that it creates a precedent which would be used the moment the Labour party got into power. Well might the Prime Minister say that the Government was embarking on a voyage in an uncharted sea, and did not know where the rocks were.

The reason why this legislation has been generally accepted was well put by the *Otago Daily Times* of Dunedin :—

Under the stress of circumstances (said the *Daily Times* on May 11) proposals have been adopted which are destructive of principles that have generally been regarded in British communities as unassailable. Securities of all kinds have been statutorily reduced in value. The old notion of the sanctity of a contract has been temporarily abolished. How long it may take to revive it must be doubtful. The mortgage system in New Zealand has received a blow from which it may never recover. The legislation to which all this is attributable was framed with the object of securing that invested capital might be subject to losses commensurate with those inflicted on public servants, in whose salaries fresh cuts are being made as part of the programme of economy that has been forced on the Government. And, because it has been generally recognised that the sacrifices that are necessary in order that the Dominion may fight its way back into financial health must be distributed as equitably as possible, there has been a wide measure of acceptance of, and acquiescence in, the legislation requiring a reduction of interest rates and rentals.

Unemployment

The Unemployment Amendment Act effected the following changes. It imposed an emergency unemployed charge of 1s. in the £ (in lieu of 3d.), which is estimated to bring

in between £3,000,000 and £3,500,000. This is in addition to the general levy of £1 a year, estimated to produce just over £400,000. The tax is now extended to include women with individual incomes below £250 a year from sources other than salaries or wages, though they receive an exemption of £20 on such income. The State pound for pound subsidy has been cancelled, and the Unemployment Board has taken over the responsibility of the Hospital Board for the relief of distress arising out of unemployment in the case of people who are able and willing to work. The change-over is being gradually accomplished, though not without friction. The Board has power to utilise its funds for the purchase of food, clothing or other necessities, and, if necessary, for the payment of rent for the benefit of unemployed and relief workers or their families or dependents.

Power is given the Minister of Employment to make agreements with owners or occupiers of land for occupation or cultivation by unemployed workers and their families, and for the erection of suitable dwellings. The object is to give these people an opportunity of becoming owners of small areas in developed districts already provided with roads and other facilities. Each holding will be equipped with a cottage of the public works type. Wherever possible the holding will be part of an existing farm, and the farmer will be asked to co-operate in the provision of seeds and stock and the loan of implements. The areas will range from five to ten acres, and it will be possible for the holder of the section ultimately to lease or purchase a small farm including his original holding, for it is proposed to take options over the adjacent land. In the meantime the holder will have a chance of providing his family with some food. It is also proposed to select holdings of two acres or more, so located as to permit the holder to obtain work on surrounding farms. Authority is given under the scheme to spend up to £500,000.

On June 15 Mr. Coates, the Minister for Employment,

said that the small-farm plan was being taken up with enthusiasm, and that 1,000 practical farmers were giving their help and advice gratis. Some 300 sections had already been approved and cottages were being erected; from 300 to 400 offers of further sections were under consideration. The development of milking on the share system promises to become an important feature of the scheme, but whether the benefit conferred will justify the heavy expenditure seems doubtful.

In announcing the new proposals on March 23, Mr. Coates said that the number of registered unemployed on October 6, 1931, was 51,408, but at the date of his speech the number had remained fairly constant at about 45,000 for several weeks. (The number registered on June 6 was 53,479 but there are no fewer than 66,400 odd receiving relief in various forms from the Unemployment Fund, the difference being accounted for by the fact that a registered man who receives relief employment of a more or less continuous character is removed from the register.) The total number of men in subsidised employment on farms was 17,000. About 1,000 single men had been moved from congested city areas into camps for highway construction, but the system would be further extended, and the purpose not confined to road work. They had also begun to establish camps for married men to enable them to undertake more useful tasks than was possible in the cities.* Gold prospecting and land drainage and improvement were absorbing a large number, and land settlement was also being carried on or contemplated by private individuals.

At a later date Mr. Coates announced a further scheme for assisting building and repairing operations, which the Unemployment Board would subsidise to the extent of one third of the wages paid, provided that the amount does not exceed 22s. 6d. a week. There are said to be between

* The number of married men in the cities had only fallen from 11,500 in October to 11,200 in March.

5,000 and 6,000 building tradesmen in the ranks of the unemployed. On April 22 Mr. Coates announced a change in the relief scheme to operate from May 1, the stand-down week for relief workers being abolished and a new scale of payments adopted. The revenue of the Unemployment Fund was estimated at £3,600,000 while the total relief pay on scheme 5 alone at the rates announced must exceed £3,000,000. The change-over of the burden of relief from the Hospital Boards to the Unemployment Board was to take place in about a fortnight.

As a protest against the new scheme the Leader of the Opposition moved the adjournment of the House in order to provide an opportunity for discussing the new rates of relief pay, which were said to have made the position of the unemployed worse than before. Labour members contended that the new scheme had increased discontent and unrest among relief workers; that the Government was pursuing a wage reduction policy; that while about 167,000 women paid the unemployment tax, no provision was made for them, and that the payments made should be at least equal to the sustenance rates laid down by the original Act.

The general position with regard to unemployment is causing everyone concern. Before the increased taxation referred to above was imposed, the expenditure under the Act from the Unemployment Fund was at the rate of approximately £50,000 per week or just over £2,500,000 a year. The increased taxation now imposed will make available an amount estimated at from £3½ to £4 million. The expenditure from the Unemployment Fund has, however, been growing rapidly and the new taxation will evidently be insufficient to provide relief for all unemployed on the scale which is being adopted. If the number of registered unemployed increases, as seems likely, and relief is to be provided for the country districts as well as the cities, it will probably take from £4½ to £5 million to meet the cost, and further taxation seems inevitable. Indeed

rumours are now current of a special session for the purpose. The Consolidated Fund revenue for 1930–31 was just over £23 million. The figures for 1931–32 have not yet been published but they will be much lower, and for the current year it is not anticipated that the Consolidated revenue will greatly exceed £20 million. Serious minded people are asking themselves whether New Zealand can afford to spend a sum approximately equal to 25 per cent. of the Consolidated Fund revenue on unemployment relief.

II. The Reaction

WHILE the Government has been doing its best to carry out its policy of avoiding a "dole" and giving work to the unemployed and sustenance to those unable to work, the Labour party, both in and out of Parliament, have been relentlessly violent in their opposition, though their criticism has been destructive rather than constructive. From their point of view the Government's policy is calculated to diminish the purchasing power of the people, to divert an increasing number of workers from regular industry into what they call "the slave camps" of the Government at a starvation wage. The Government, they say indeed, intends "to turn New Zealand into a slave camp, with the mass of the useful population intimidated into cringing servitude by the lash of hunger and the fear of unemployment." Although women have to pay the unemployment tax, they are excluded from all unemployment schemes. Nor has the Government any plan for giving training or employment to unemployed boys between 15 and 20, whose number is estimated at 20,000, and to whose plight the Auckland Committee of Church leaders called attention on June 4. Higher graduated taxation and the utilisation of our internal credits, or a policy of inflation would appear to be the measures upon which the Labour party, if in office, would rely to solve the unemployment problem.

They warned the Government that its policy was breeding a revolutionary party. Last Easter at Westport, Mr. H. E. Holland, their leader, stated that if the Arbitration Bill were passed and the recommendations of the National Economy Committee adopted, the "most dangerous hour in the history of New Zealand would have struck," and "all the conditions making for industrial upheavals and insurrectionary developments would have been created." Speeches by other Labour spokesmen followed similar lines. A speaker in the Legislative Council feared that some of these gloomy anticipations were largely responsible for the unrest that followed.

During the last two months we have had unrest, disorder and riot. Dissatisfaction with the conditions of the employment of relief workers and the nature of the relief granted have led to strikes of unemployed and, at the time of writing, a strike of coal miners on the west coast of the South Island is in progress. At Dunedin, at the beginning of April, because rations in kind were given instead of orders, there were disturbances in the course of which an attempt was made to overturn the Mayoress's car and to drag her out of it. Windows were broken and there were clashes with the police.

On April 12 Mr. Holland warned the House that what had happened at Dunedin was a faint rumbling compared to what was likely to happen throughout the Dominion. His prediction proved correct. On April 13 in Auckland a meeting of post and telegraph employees, who have been co-operating with the Labour party in its protest against "cuts," attracted a large number of unemployed and they were addressed through a megaphone. A small body of mounted police, behaving with great restraint and courage, attempted to clear a passage, but were so roughly handled that twelve had to be taken to hospital, at least three of them seriously injured, and some 150 casualties were treated by the St. John's Ambulance Association. While the police were busy with the crowd at the Town Hall, the hooligan

element ran amuck, smashed window after window in Queen Street, and looted liquor, jewellery and clothing, but no food. That the attack was premeditated was shown by the number of battens torn from fences and the heaps of stones. Special constables were enrolled, and naval units sent by the *Philomel* to assist the police. The following night, despite all precautions, another, though a less serious, disturbance took place in the Karangahape Road, spasmodic attacks being made upon windows, but the police, the specials in their steel helmets, and the blue-jackets kept the crowd on the move until it dispersed.

Preparation was also promptly made in Wellington to cope with anticipated trouble. A large body of special constables was enrolled, public meetings were prohibited and a Public Safety Conservation Act on the lines of the Imperial Emergency Powers Act of 1920 was passed into law. This Act authorises the Governor-General, under certain conditions, to declare a state of emergency either throughout New Zealand or in any specified area by proclamation, and to make regulations necessary for the public safety. Mr. Holland and Mr. McCombs, a Labour colleague, expressed their regret at the lawlessness and their sympathy with the injured, but according to Mr. Holland the trouble was "the inevitable result of the Government's policy," and Mr. McCombs considered "the lawlessness entirely due to the maladministration."

Christchurch was the next city to suffer. The staff of the Tramway Board went on strike on May 3–4. About 6 a.m. as the first tram for Sumner was coming out of the sheds some 300 men armed with iron bars and stones attacked it, but they were promptly routed by the police. A stick of gelignite was found on the tram line. A football team had to abandon a match in Black Maria to escape the mob and there were subsequent small isolated instances of picketing and window smashing.

On May 10 Wellington's turn came. There had been meetings of strikers to protest against the new relief scale,

and a procession some 4,000 strong marched to Parliament Buildings. For two hours the crowd waited patiently while deputations interviewed Mr. Coates. Not appreciating what was going on inside, the crowd grew restless. At last, just at dusk, when a promise was made that Mr. Coates would announce amendments in the morning, there was a cry of "Up the town!" and some 30 or 40 young irresponsibles rushed along Lambton Quay, Willis and Manners Streets, upsetting fruit stalls and motor cars and breaking some 174 windows—quite indiscriminately. There was little looting but in most cases the damage was done out of pure wantonness. There was indeed not much time to pillage as the police were hot-foot in pursuit.

Eventually the rioters were intercepted and some arrests made. A meeting next day on a vacant section in Cuba Street looked as if it might develop into a further outbreak but on the first volley of stones the small body of police, foot and mounted, charged with their batons and dispersed the crowd.

To so small and law-abiding a population as that of New Zealand these disturbances were naturally of considerable concern, but the cabled reports to other countries gave an exaggerated idea of their extent and importance. The pronouncement of the Wellington stipendiary magistrate in sentencing the convicted rioters of that city is applicable to all the disturbances both in Wellington and the other centres.

> My opinion (he said) is that this orgy of window-smashing and looting was not the work of the genuine unemployed. It was, I think, the work of a small band instigated and led by members of an organisation operating in our midst—the Communists—whose doctrine appears to be the fostering of mob violence and revolutionary disorder.

Some of the associations of members of the public service, however, mainly employees in the general division, corresponding to members of trade unions in private employment, not content with a petition to Parliament protesting

against further cuts and suggesting a system of inflation, actively joined the Labour party in demonstrations against the Government. Notable among them was the Post and Telegraph Employees Association—not to be confused with the Post and Telegraph Officers Guild—the Amalgamated Society of Railway Servants, the Railway Tradesmen's Association and the Engine-Drivers' and Firemen's Association. The attention of the Prime Minister was called to a letter dated March 24 issued by the Thames Section of the Post and Telegraph Employees Association to the following effect:—

> Petition to Parliament against further reductions in salaries and wages. For the information of the members of your Association I have to inform you that the following business men could not see their way clear to sign the petition which I circulated in Thames protesting against further salary and wage reductions—an admission that they were in favour of the cuts. It is the intention of the members of my organisation to place a boycott against all the undermentioned firms. A list of the names of eleven firms was attached.

Proof was given too that the threat was being put into effect. Further the *Katipo* (the Maori name of a venomous spider), a small journal that has the backing of the Association, has been abusing the Government. The Prime Minister thereupon declared that it was time that the public servants of New Zealand realised that they were public servants and ceased trying to pose as the "bosses" of the public, but he unfortunately failed at the same time to make clear to the public the absolute loyalty of the administrative branch of the service and its abstention from politics. In the last Bill of the session, the Finance Bill, a clause has been inserted giving the appointing authority, with the concurrence of the Governor-General in Council, power to terminate without notice the employment of public servants, who have hitherto been deemed to be on three monthly terms, if adjudged guilty of conduct calculated to incite, procure or encourage grave acts of violence, lawlessness or disorder or if by

public statements intended for publication they have sought to bring the Government of New Zealand into disrepute, or in any other manner have shown conduct gravely inimical to the order or good government of New Zealand.

The clause was passed, although other people besides the protesting Labour members considered that it was too vague, and that it placed too dictatorial a power in the hands of the appointing authority.

Another clause in the same Bill, extended the life of the present Parliament for a year on the ground that the Government plan for the adjustment of the Dominion's finances required four years. The extension was strongly opposed as unconstitutional, even by some of those who believe that our present three year term is too short. It, however, also became law.

III. Imperial Matters

The Treaty With Canada

THE treaty between Canada and New Zealand ratifying the trade agreement recently arrived at by Mr. Downie Stewart and Mr. Stevens at Honolulu and signed on April 23, came into force on May 24. Mr. Stewart informed the House that it would not, he considered, have been a good augury for the success of the Imperial Economic Conference if two of the self-governing Dominions who were to take part in it had been unable to come to a friendly agreement with regard to their own trading conditions. In view of that Conference, the agreement is to remain in force for only one year, and the whole subject will be reconsidered in the light of the decisions reached at Ottawa. There is a long list of affected articles, but those of chief interest are New Zealand butter and Canadian motor vehicles. As regards the former, the same rate has been fixed as for Australian butter, i.e. 5 cents a lb. in lieu of the present British preferential tariff rate of 8 cents.

There is still the possibility (said Mr. Stewart) that during the winter months, Canada might in future years, even under the conditions now prevailing, require a certain amount of imported butter, and if the rate of 5 cents per lb. is made permanent, New Zealand should be able again to supply the market.

One valuable concession to New Zealand (and apparently also to other parts of the Empire) is that wool, hides, skins and pelts will continue to be free of duty, and the Canadian Government has decided to impose a general and an intermediate tariff on those goods when they come from outside countries.

Briefly, New Zealand has secured the same rates as Australia; indeed on a substantial number of items of special interest to her she has secured lower rates than Australia.

Among other things, Canada is now to receive a preference of 2s. per 100 super feet on her rough sawn and dressed timber.

The dual purpose of encouraging certain New Zealand industries and of assisting trade with the United Kingdom is (said Mr. Stewart) achieved by imposing on certain Canadian products higher duties than on the competing goods from the United Kingdom, and in the case of motor vehicles by insisting that before they can obtain the benefits of the British preferential tariff they must contain 75 per cent. of Canadian material and/or labour, and in other respects comply with the regulations in force for the application of the British preferential tariff. When motor vehicles do not comply with these conditions, but contain over 50 per cent. and less than 75 per cent. of Canadian material and/or labour, the duty is increased by 10 per cent.

The requirement of a 75 per cent. Canadian content for motor vehicles gives effect to the wishes of the motor-car manufacturers in the United Kingdom, and the extra duty of 10 per cent. on the vehicles having a lower Canadian content than 75 per cent. will assist the United Kingdom manufacturers in maintaining their trade with this country.

Mr. Stewart went on to explain that the reason why Canadian goods had not been wholly replaced under the British preferential tariff—New Zealand goods had always been entitled to the British preference in Canada—was, that

before such a policy was adopted, it was considered that the whole position should be discussed at Ottawa with the representatives of the United Kingdom and Canada, and, if necessary, also with other parts of the Empire.

The press seems to consider that New Zealand has obtained as much as could be expected under the circumstances.

The Ottawa Conference

For the last three months keen interest has been taken in the question of who is to represent New Zealand at the Conference and the policy that is to be put forward. A special committee of the Cabinet consisting of the Prime Minister, Mr. Stewart and Mr. Masters has been obtaining information from the various departments and preparing a policy, but the country has not yet been told what that policy is to be, although the Government is known to have been in close touch with the British Government. There was a good deal of intrigue in connection with the appointment of parliamentary representatives. It was only announced on May 27 that Mr. Forbes, Mr. Coates and Mr. Downie Stewart were to go, accompanied by the heads of the Customs and Treasury departments, and five advisers representing the Meat Producers Board, the Dairy Produce Board, the Fruit Export Control Board, the Fruit Growers Federation, the Farmers Union and the Manufacturers Association. The expenses of these advisers will not be paid by the Government.

In normal times such a delegation would have met with general approval, but in view of its present serious condition the metropolitan newspapers were practically unanimous in condemning the decision of the Prime Minister and the Minister of Employment to leave New Zealand. Many people believed that Mr. Downie Stewart, with the necessary official assistance, could himself represent the Dominion single-handed, as he did in the negotiations with Canada, and that he is quite capable of dealing with the problems of currency, price level and banking that are to be

discussed. The Prime Minister had warned our people against "undue expectations." "The return that New Zealand could make to Britain for the preference already given was," he said, "limited by the fact that already very extensive concessions and preference had been granted to Great Britain, a fact," he added, "fully recognised there." But in spite of this warning, there are lively hopes, especially among the primary producers, that New Zealand will derive great benefit, and the primary producer group urged that she should, in any case, send a strong delegation, representative of all interests, as the work would be beyond the capacity of any one man. The various interests here, moreover, sheep farmers, dairy farmers, manufacturers, fruit growers, tobacco growers, are all reminding the Prime Minister of the privileges he might ask for them, and of the protection that should be assured to them when Great Britain's claims come up for consideration. None of them, however, suggests what really substantial measure of reciprocity we ourselves can offer. The slogan of New Zealand for the Conference might be said to be, "It is more blessed to receive than to give." The Sheep Owners Federation want tariff preference for their mutton and lamb; the Dairy Board wants the quota system plus a tariff, and by the quota system they mean that all New Zealand dairy produce should enter Great Britain free, and that the quantity from foreign countries should be controlled. For the purpose of the quota they would take the 1930 figures as the basis.

There had for some time past been considerable doubt as to whether or not Mr. Coates would go to the Conference, and on June 21 the 400 delegates at the Annual National Dairy Conference at Palmerston North urged the Government to let him represent the primary producers. The Prime Minister at once replied that it was the unanimous wish of the Cabinet, which was in complete agreement upon the representations to be made on its behalf, that Mr. Coates should head the delegation.

New Zealand

The Irish Crisis

On March 24 the New Zealand Government sent a cablegram to the British Government and another on April 4 to Mr. de Valera. The purport of these cablegrams was that it had always looked upon the Irish Treaty " not only as an agreed solution of differences hitherto existing, but as affording a basis satisfactory in all essentials for the free association of the Irish Free State as an equal partner in the British Commonwealth," and that " the principles embodied in the Statute of Westminster (which New Zealand accepted, despite the strongest objection, solely to meet the views of other Dominions differently situated) offer in all essentials a complete guarantee for the future of the autonomy and equality of all the Governments of the British Commonwealth." The Government hoped that the Irish Free State Government would not feel obliged to take any step that might prejudice the continued association of that State as an equal partner in the Commonwealth.

The Governor-General's Gift

No chronicle of the quarter under review would be complete which failed to record the generosity of the Governor-General. Lord Bledisloe has already made gifts to encourage art, culture and agriculture, and on April 15 he proposed to forgo 45 per cent. of his salary of £7,500, already voluntarily reduced by him by £1,062 in consequence of the state of our finances. He and Lady Bledisloe have now purchased and given to the nation the former residence of Mr. James Busby, the first British Resident at Waitangi, in the Bay of Islands, the scene of the signing of the treaty of Waitangi, the Magna Charta of the Maori, together with 1,000 acres to be held under a trust which will provide for the preservation of this historic building in a national park.

New Zealand.
June 25, 1932.

EAST INDIA (CONSTITUTIONAL REFORMS) COMMUNAL DECISION

1. The Prime Minister's promise on December 1 last to decide upon a provisional solution if the communities failed to agree is recalled.

2. On March 19 H.M. Government were informed that the failure of the communities to agree was blocking the reforms. They were satisfied that it was essential for progress that at least some of the aspects of the communal problem should be decided.

3. Their scheme is confined to representation in the provincial legislatures. Their proposals, moreover, only deal with certain aspects of the communal question. It is hoped that, once the method and proportions of representation are settled, the communities themselves will arrive at a *modus vivendi* on other communal questions.

4. The door is not closed on an agreed settlement, but the Government will not take part in any negotiations with a view to revision, or receive any representations, unless supported by all the parties affected. If, however, a practicable alternative scheme, either in respect of one or more Governor's provinces, or in respect of the whole of British India, is agreed upon by all the communities concerned before the proposed new constitution has become law, they will recommend its adoption by Parliament.

5. Seats in the legislative councils in Governor's provinces, or in the Lower House where there is an upper chamber, will be allocated as in the annexed table.

6. Election to seats allotted to Moslem, European and Sikh constituencies will be by voters voting in separate communal electorates, covering between them the whole area of the province (except backward areas). This electoral arrangement (and other similar arrangements specified below) may be revised after ten years with the consent of the communities affected.

7. All qualified electors, who are not voters in a Moslem, Sikh, Indian Christian, Anglo-Indian, or European constituency, may vote in a general constituency.

8. Seven seats will be reserved for Mahrattas in certain selected plural member general constituencies in Bombay.

9. Qualified members of the depressed classes will vote in a general constituency, but a number of special seats will be assigned to them (see the table). These seats will be filled by election from special constituencies in which only qualified members of the depressed classes will vote. These constituencies are to be formed where these classes are most numerous, but, except in Madras, should not cover the whole province. No number has been fixed, pending further investigation, for Bengal, as it seems possible that, in some general constituencies there, a majority of the voters will belong to the depressed classes, but the latter are intended to obtain not less than ten seats. No precise definition of depressed class voters in such constituencies has yet been made; but it will be based on the general principles advocated in the Franchise Committee's Report. The definition may have to be modified in some provinces in northern India. These special depressed class constituencies are to come to an end after twenty years, unless previously abolished with the consent of the depressed classes.

10. Election to seats allotted to Indian Christians will be by voters voting in separate communal electorates, but practical difficulties are likely to prevent the formation of Indian Christian constituencies, covering the whole

area of the province, except possibly in Madras, and Indian Christian constituencies will almost certainly have to be formed only in one or two selected areas in the province. Indian Christian voters in these areas will not vote in a general constituency. Those outside will do so. There may have to be special arrangements in Bihar and Orissa, where a great many of the Indian Christians are aborigines.

11. Election to seats allotted to Anglo-Indians will be by voters voting in separate communal electorates. Anglo-Indian constituencies are intended to cover the whole area of each province, and to use a postal ballot, but no decision has yet been reached.

12. As regards the backward areas, the number of seats assigned is provisional, pending further investigation.

13. A certain number of seats are to be specially allotted to women. The electorate for each seat is to be limited to voters from one community (except at Shillong), and the special women's seats have been specifically divided between the various communities (see table). The necessary special electoral machinery has still to be framed.

14. The seats allotted to Labour will be filled from non-communal constituencies. The electoral arrangements have still to be determined, but in most provinces Labour constituencies will be partly trade union and partly special constituencies as recommended by the Franchise Committee.

15. The special seats allotted to commerce, industry, mining and planting, will be filled by election through chambers of commerce and various associations. The electoral arrangements have still to be framed.

16. The special seats allotted to landholders will be filled by election by special landholders' constituencies.

17. The method of election to university seats is still under consideration.

18. The determination of the constituencies is to be undertaken in India as early as possible. This may involve some slight variation from the number of seats now given, but the essential balance between communities will not be affected. No variation will be made in Bengal and the Punjab.

19. The questions of the composition of second chambers, and of which provinces shall have a second chamber have not yet been decided; but H.M Government consider that the composition of the Upper House in a province should be such as not to disturb the balance between the communities resulting from the composition of the Lower House.

20. The question of the size and composition of the central legislature is deferred until the question of the representation of the Indian States has been further discussed. Full regard will be given to the claims of all communities to adequate representation.

21. As already decided, Sind is to be a separate province, if it can be satisfactorily financed. The financial problems involved have, however, still to be reviewed in connection with other problems of federal finance. In the meantime figures for the existing province of Bombay are given as well as schemes for separate legislatures for Bombay and Sind.

22. The Bihar and Orissa figures relate to the existing province. It has not yet been decided whether Orissa is to be a separate province.

23. Figures are given for the Central Provinces including Berar, but no decision has yet been reached about the constitutional position of Berar.

London.

August 4, 1932.

ALLOCATION OF SEATS IN PROVINCIAL LEGISLATURES (LOWER HOUSE ONLY).

Province.	General.	Depressed Classes.	Representatives from Backward Areas.	Sikh.	Muhammadan.	Indian Christian.	Anglo-Indian	European.	Commerce and Industry, Mining and Planting, Special (a).	Landholders, Special.	University, Special.	Labour, Special.	Total
Madras	134 (including 6 women)	18	1	0	29 (including 1 woman)	9 (inc. 1 woman)	2	3	6	6	1	6	215
Bombay (including Sind)	67 (b) (including 5 women)	10	1	0	63 (including 1 woman)	3	2	4	8	3	1	8	200
Bengal	80 (c) (including 2 women)	(c)	0	0	110 (including 2 women)	2	4 (including 1 woman)	11	19	5	2	8	250
United Provinces	132 (including 4 women)	12	0	0	66 (including 2 women)	2	1	2	3	6	1	3	228
Punjab	43 (including 1 woman)	0	0	32 (including 1 woman)	86 (including 2 women)	2	1	1	1	5 (d)	1	3	175
Bihar and Orissa	99 (including 3 women)	7	8	0	42 (including 1 woman)	2	1	2	4	5	1	4	175
Central Provinces (including Berar)	77 (including 3 women)	10	1	0	14	0	1	1	2	3	1	2	112
Assam	44 (including 1 woman)(e)	4	9	0	34	1	0	1	11	0	0	4	108
North-West Frontier Province ..	9	0	0	3	30	0	0	0	0	2	0	0	50
Bombay (without Sind)	109 (b) (including 5 women)	10	1	0	30 (including 1 woman)	3	2	3	7	2	1	7	175
Sind	19 (including 1 woman)	0	0	0	34 (including 1 woman)	0	0	2	2	2	0	1	60

(a) The composition of the bodies through which election to these seats will be conducted, though in most cases either predominantly European or predominantly Indian, will not be statutorily fixed. It is, accordingly, not possible in each province to state with certainty how many Europeans and Indians respectively will be returned. It is, however, expected that, initially, the numbers will be approximately as follows:—Madras, 4 Europeans, 2 Indians; Bombay (including Sind), 5 Europeans, 3 Indians; Bengal, 14 Europeans, 5 Indians; United Provinces, 2 Europeans, 1 Indian; Punjab, 1 Indian; Bihar and Orissa, 2 Europeans, 2 Indians; Central Provinces (including Berar), 1 European, 1 Indian; Assam, 8 Europeans, 3 Indians; Bombay (without Sind), 4 Europeans, 3 Indians; Sind, 1 European, 1 Indian.

(b) Seven of these seats will be reserved for Mahrattas.

(c) As explained in paragraph 9 of the statement, the number of special Depressed Class seats in Bengal—which will not exceed 10—has not yet been fixed. The number of General seats will be 80, less the number of special Depressed Class seats.

(d) One of these seats is a Tumandar's seat. The four Landholders' seats will be filled from special constituencies with joint electorates. It is probable, from the distribution of the electorate, that the members returned will be one Hindu, one Sikh, and two Muhammadans.

(e) This woman's seat will be filled from a non-communal constituency at Shillong.

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