

# THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF  
THE BRITISH COMMONWEALTH

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THE BRITISH COMMONWEALTH

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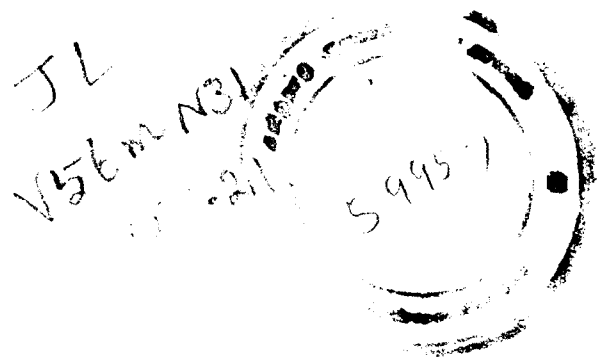
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## WHERE IS EUROPE GOING ?

### I. ANXIETY

WHILE the economic depression dominates public attention in the greater part of the world, there is also at this moment a real anxiety, among those best qualified to measure the opposing tendencies, as to the general political position. This anxiety is probably greater than at any time during the past five years. The close of the first half-decade after the entry into force of the Treaties was marked by a political *détente* which was both expressed and consolidated in the Locarno agreements. The second now ends with such disquieting signs that many, perhaps the majority, of those who are watching them most closely would incline to the view that we have rather fallen back than made an advance upon the position reached in 1925. There is indeed much to be said against the acceptance of such a verdict, but that it is widely entertained can hardly be denied. The recent Assembly of the League of Nations served, more than any previous Assembly, to effect a real contact between the minds of those responsible for the foreign policies of Europe. The discussions on minorities, on disarmament, and on economic policy, were more real and candid, and less distorted or disguised by rhetoric; the conversations in the corridors were franker and more illuminating. Together from these elements there began to crystallise a certain collective sense of the general situation which necessarily carried

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great authority, and it was undeniably disquieting. It is true that such a concentration and interchange of opinion, formed so largely in one specialised profession, needs a certain corrective. Like the atmosphere of Washington, dominated exclusively by those engaged in political life and administration, and without the sobering and sedative effect of the diversity of interests and large indifferences of a capital like London, that of Geneva may over-emphasise a single point of view, and, while accurately diagnosing certain tendencies and dangers, may exaggerate their gravity. But when all due allowance is made, no observer could fail to be impressed by the note of real anxiety. It is certainly a moment when balanced and measured opinions, and views with not too short a perspective, are necessary.

The best single comment on the situation was perhaps that made by M. Hymans. He pointed out that between the Assembly of 1929 and that of 1930 the three chief political events had been on the right side of the account, but that they had not effected the psychological *détente* which might reasonably have been expected from them. The Naval Conference settled the "parity" question between the United States of America and Great Britain, and averted the danger of a new naval competition which would have been, perhaps, a greater danger to peace than any now confronting us. The Reparation Conferences reached a settlement purporting to secure a final solution and (quite apart from the German aspect of it) removing a host of complicated and embittering disputes affecting all the belligerents in the late war. And, lastly, the Rhineland was evacuated in June, five years before the Treaty date. The success of the Naval Conference was, however, at once forgotten in its failure. It failed as regards Europe, and left the French-Italian problem aggravated and exacerbated. The reparation settlement was again largely ignored, till its very success released certain forces, hitherto repressed, which have begun to cast doubt on its finality.

## The Two Tendencies

The evacuation of the Rhineland, whatever may be its ultimate effects in appeasement, was used as an occasion to exalt nationalism, and encouraged the more dangerous sections of Germany to give freer expression to their feelings than they had hitherto felt it safe to do. Each of the two aspects of this paradoxical situation is important. The fact that opinion has so largely misread and misused these major events will not ultimately deprive them of their natural consequences, but the existence of the psychological elements which caused such a distortion remains as a dangerous factor in every dispute and difficulty that may arise.

### II. THE TWO TENDENCIES

WHAT are the causes of the sharp and almost sudden change in outlook and attitude from the comparative optimism of last year? We shall perhaps be in a better position to answer this question when we have glanced in turn at different parts of Europe, but before we do so certain general considerations should be mentioned.

In the first place there has been, in the post-war period, a marked tendency for Europe to oscillate between two opposing moods and tendencies. After each forward movement there has been a noticeable reaction, and then a slow recovery. There has been a certain ebb and flow on the top of the more permanent currents, often making it very difficult to discern the latter. The fact is that the forces and tendencies that make for pacification and the reverse are in so many countries so evenly balanced, and are so closely dependent upon movements in other countries, that a single event will often change the whole equilibrium. The more permanent tendencies may remain very little changed; and if this is so the oscillatory movement is of comparatively little importance. We have doubtless one such movement now, perhaps started by the failure on the European side of the Naval Conference.

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It may be, however, that a deeper current is becoming discernible. Twelve years have passed since the close of hostilities. There is always a strong reaction and revolution after a great war, which in time has always passed. It was upon such a basis of public feeling that the League, and the constructive efforts of which that is the chief example, were founded. Is this feeling weakening? Are the foundations of peace efforts being sapped because the memories of the war are losing their horror and a new generation is even finding a romance in them? Are we tending to slip back to the old ideas, methods and practices, which meant war before and would mean it again? To the extent to which this may be true we have, of course, something which is much more serious than any oscillatory movement, because it is in its nature not only permanent but likely to increase. Probably the greater proportion of the people in nearly every country which saw the late war at all closely, whether as belligerent or neutral, are as strongly opposed to the idea of war as they were ten years ago. It may be, however, that the proportion is tending to diminish, and that the resistance of those who do not want another war to the kind of ideas and policies which would ultimately bring it is growing less. We have a warning to hasten in completing, or rather in strengthening (for that is the main necessity) the world machinery of Covenant and Pact and concerted policy designed to avert war.

Chief of all, however, among the causes of the present pessimism is one which, happily, is in a sense accidental and in its nature temporary. The whole public temper of the world has been dominated during this last year by the world economic depression. This is no place to discuss the origins of this depression,\* how far they are similar to those which have brought depressions in the past, and how far they are peculiar to the present time. It is enough

\* An article dealing with the depression in Great Britain will be found on pp. 41-58.

## The Two Tendencies

to say that the depression is not due to political factors. It is possible to imagine certain political conditions (a different China or Russia, or a political *rapprochement* facilitating freer trade) which would help the situation; but it is no change in these which accounts for the difference in the economic situation in 1929 and 1930. If, however, the causes are not political, some of the consequences are. The first effect of a depression is to create everywhere an apprehensive and defensive mood, which calls out for security and then usually translates itself into action which collectively means less security and not more. The disappointment of impoverishment brings with it a gloomier judgment of whatever is happening; and a gloomy judgment of a danger, when general enough, often aggravates the danger itself. The forces that make for the maintenance of peace are creative and constructive and need qualities of faith, hope and charity which tend to accompany prosperity more frequently than impoverishment. Unhappily the economic depression may leave some consequences more permanent than itself, for the stress of the moment is driving one country after another into commercial policies of discrimination and "unfair" assistance to inroads on other peoples' markets, which may long remain a source of friction after the original cause has gone. Lastly, the economic depression has thrown an extra and heavy strain on internal political stability. In several countries the equilibrium is precarious; it would take little more to upset it; and when this is the condition in a number of countries with close associations, a revolution in one is likely to spread quickly to others, as we have once more seen in the recent epidemic of revolutions in South America. Since internal revolutions in Europe would be likely to involve external complications, fears that such revolutions might occur have naturally increased the anxiety as to the prospects of peace.

## Where Is Europe Going ?

### III. THE COUNTRIES OF EUROPE

**I**T is time, however, to turn to a more particular consideration of the position in those countries on which the future of Europe chiefly depends. The surface to be covered, in any case, is so considerable as to preclude more than slight comments ; and we will, therefore, omit any reference to countries which have little direct bearing upon the anxieties immediately confronting us, however big a rôle they may play in the future.

We will begin, for obvious reasons, with Germany. It is the recent elections there which have given a sharp edge to current anxieties. The results broke upon Geneva with a real shock. Some movement to the right had been expected, but the success of the Hitler party was staggering. The shock was so sharp and sudden indeed as to diminish the value of the collective judgment of the general situation which seemed to crystallise at Geneva. Had the elections taken place a little earlier it would have been easier to place them in a true relation to other facts. Now that a little time has passed, several things which tend to mitigate the first anxiety have become fairly evident. The support to Hitler came overwhelmingly not from veterans inflamed by the past but from the young men concerned with their future ; it used material, found an expression, and will have consequences, that touch upon external relations, but essentially it is economic in origin and internal in character. In the second place, the danger of revolution, with consequences that would hardly be limited to Germany, though not over, is sensibly less than at first. Germany is a country which has not only strong explosive forces within it but also very strong forces which make for order and stability. Her history since the armistice, indeed, is so far a miracle in representative government ; in spite of defeat in a destructive war, a

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revolution, an entirely new democratic constitution (based on a particularly difficult electoral system), the country has been governed, on the whole, wisely and moderately, and has long maintained in the office of Foreign Minister men as conciliatory as Stresemann and Curtius. The stresses and strains of Germany's experience were bound sooner or later to result in a serious internal political crisis. This was artificially retarded, so long as there was an obvious necessity to maintain a united front against other countries in the reparation and other negotiations, and while the foreign soldier was still on German soil. Now that this retarding force has been removed it has been further accelerated and exacerbated by the economic depression. Germany now begins for the first time since the war to feel herself able to indulge in some of the luxuries of political life which would have been too dangerous before. In this sense, a very limited and provisional sense, there is some truth in the contention by French critics of M. Briand that the evacuation of the Rhineland this year, so far from appeasing, has aggravated the political position. This may also be the explanation of the tragic misuse of the occasion of June 30. Had Stresemann lived he might perhaps on that day have said two things which Germany much needed to hear. The first : " this is the irrefutable proof of the wisdom of a policy of conciliation ; what other policy could conceivably have freed German soil five years before the Treaty date ? " The second : " this is the close of a chapter ; now let us live as neighbours with our neighbours." No such word was said by any German leader, or has since been said. The occasion was used, throughout Germany, to celebrate not pacification, but a new outburst of nationalism.

The consequent disillusion and reaction in other countries are intelligible, and were indeed inevitable. But the only too natural conclusion that perhaps the early evacuation was a mistake would be a profound error. The occupation was like a weight holding down explosive forces which

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increased during the process, and were bound some time to be released. The danger attendant upon Germany's conscious re-entry into full and free manhood, and equality among the great nations, would have been greater had that re-entry been longer retarded. Whether with or without revolution, Germany will work out her new political equilibrium and will discover what is to be the dominant association of forces in guiding her policy. What that policy will be in external affairs we cannot, of course, forecast, but it must largely depend on the way other countries react towards their present anxieties, whether they move resolutely along the path of pacification or turn back from it—and for Germany the Disarmament Conference will be the criterion.

This is, however, not a reflection which can be expected to commend itself to French public opinion. The effect of the German elections in France was immediately visible, and it may in the end even prove to be more serious than the direct effect in Germany itself. French policy is at once exceptionably immovable beyond certain limits and easily changeable within them. The answer to the old question whether post-war France is militaristic is simple. If it means that she has militaristic and aggressive ambitions the answer is certainly no. If it means that she faces a possible military danger in terms of a military preparation, the answer is certainly yes. The idea of diminishing the danger by a political penetration, by adopting a policy so conciliatory as to make it less likely that an aggressive policy in the potentially enemy country would secure sufficient internal support, is a difficult conception for a French mind. The Anglo-Saxon, with some traditionary safeguard in an intervening sea, and with a long experience of varied Colonial and Dominion problems, such as that of South Africa, finds it easier. M. Briand has, indeed, consistently preached the political value of conciliation for many years, but to France as a whole it is a supplement not a substitute for adequate military arrangements.

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Against any probable opposing strength she wants to see a sufficient superiority of forces on which she can rely herself. These cannot be her own alone. She must then, she thinks, have allies. Or, if she could be sufficiently sure of the League system working and wielding adequate strength in time of need, that might do instead; but for that the sure prospect of material forces is essential; no promise of moral support will deflect her policy. The points within which French policy moves are thus reliance upon effective League support plus conciliation on the one hand, and reliance upon alliances on the other. At different times and in response to different external events one or the other becomes the dominant aspect of her policy. The forces behind each are not unequal, and it does not require a great deal to shift the centre of gravity. But the shift is not always complete. A narrow vote on reparation, following the first Hague Conference of 1929, with its special tactics and temper, resulted in the fall of M. Briand, who represents the one aspect, and his replacement by M. Tardieu who, on the whole, reflects the other. But the change was not so violent as to prevent M. Briand from remaining as Foreign Minister. The German elections have weakened his position and must modify his tone. The chief danger of the near future is perhaps that it will harden France's attitude in the preparations for the Disarmament Conference. Ultimately one of the main forces that should operate to secure reduction of armaments is the prospect that, in the absence of a general agreement, Germany is unlikely to remain indefinitely bound by the present restrictions. But the first ominous warning of this prospect has, for very intelligible reasons, an opposite effect.

In Italy the position is somewhat obscure, as it must be under such a centralised and censored system. No one can say with certainty what is the economic condition, the real public attitude to the regime, Mussolini's health or future policy, or what would happen if he went. Quite apart

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from the particular case, it is evident that the peace of the world must always be somewhat precarious if the policy of a great country, on the greatest issues, can be determined by the judgment, or the caprice, of a single person, who is subject to all the accidents of mortal nature. Apart, however, from this general overhanging interrogative, there is one apparent development in Italian policy which deserves comment. Italy has, on the whole, been a reluctant adherent to the new peace system, hesitating between the desire to be free of new restrictions on her future expansion, and an equally strong desire to avoid isolation. This is the clue to her attitude to the League of Nations ; to the Locarno agreements which she obstructed until it was certain that they would be concluded, and then signed ; and to the Kellogg Pact, which she scoffed at while its fate was in the balance, and then equally accepted. But during the last year or so she has fully realised—more perhaps than any other country—that the importance of a country's armaments depends entirely upon their *relative* strength in comparison with others ; and she sees that she might hope to get by negotiation a better ratio than her financial resources would enable her to secure by competitive expenditure. She is, therefore, working simultaneously for a ratio satisfactory to herself, and for a genuinely strict limitation on the basis of that ratio. This policy is understood, of course, in France, and the acceptance of the ratio asked for is not thereby made easier.

The relations of Italy with Jugo-Slavia are still not free from danger, but they have been less evident recently, partly perhaps because the present regime makes it less likely that casual incidents will slip through to publicity, and partly because the intense internal strain between Serbs and Croats turns attention rather to possibilities of revolution than of external trouble. But a military and autocratic regime, with military expenditure which is a very heavy burden on the country, especially in time of depression, and an indignant if suppressed Croat popula-

## The Countries of Europe

tion, chafing under what is exclusively Serbian rule, necessarily involves elements of danger.

In other countries in this part of the world the agricultural depression, with its consequent effects on the financial position, and on popular discontent, dominates everything. Bulgaria, Roumania, and Hungary have felt the strain most seriously. The marriage of King Boris is a reminder of the tendency of Italian policy to feel towards something of the same kind of relationship with Bulgaria and Hungary as France has with the Little Entente. Roumania, in restoring Carol, has naturally added to the speculations as to attempts to restore the young Hungarian heir, who is about to come of age ; but the continued authority of Count Bethlen, the doyen of Prime Ministers, is a substantial security against rash action.

The unofficial but significant Balkan Conference, including all the States of the Near East and Turkey, recently held at Athens and opened by M. Venizelos, is one more welcome sign that the once troubled Balkans are making more definite progress towards stable good relations than most parts of Europe. The settlement of the refugees, the sorting out of the populations by flight or expulsion, have given each country a stable and homogeneous population to an extent never previously known. Another significant event is the recent conclusion of a Treaty of friendship and arbitration between the hereditary enemies, Greece and Turkey. The Balkans are unlikely again to trouble the peace of Europe, if the great Powers loyally support the Covenant and refrain from using them as an arena in which to try out their own political strength.

Turning back westward we find in Austria an internal situation which presents some ground for anxiety, especially as internal movements here may so easily have external reactions. Austria has made extraordinary progress in recent years, and, in view of the fears of 1922, it is interesting to see that Vienna, though feeling the present depression,

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has in the last few years been the most prosperous part of the country. There has been a curiously persistent but precarious political equilibrium, the Socialists administering Vienna and their opponents, the Christian Socialists, dominating the central government. The internal danger results from the existence of two unofficial armed forces. A dangerous situation which developed in 1927 has been greatly relieved by Herr Schober : anxiety has revived with his recent fall.

In Poland the internal situation is again strained, and is made more difficult by the agricultural depression. Relations with Germany, after some signs of improvement, have once more relapsed, and fears of Russia increase.

At this point we come to one of the great uncertainties of the near future. The "five-year plan" is now half-way through. Opinions differ as to the extent to which it will ultimately succeed. But several things are fairly clear. The amount of effort and money that is being put into capital works is immense ; the standard of living which the people who are making this effort have so far been apparently content to endure is extremely low. There has probably never been in the history of the world (except where slave or hired labour has been used for such work as the building of the pyramids) anything to equal the contrast between current consumption and capital expenditure. Russia, to finance this scheme, is dumping her natural resources ; she may soon be in a position, if she desires, to dump industrial products. Her intentions are certainly pacific for the moment, but the state of mind which is developing between Russia and other countries, and which State-dumping, the most resented of all forms of commercial policies, will make much worse, presents grave dangers for the time when Russia has completed her plan and has the industrial resources she hopes from it. Already fears of Russia in adjacent countries are a substantial factor in the general disarmament problem.

## The Universal or the Alliance Principle

Little need be said of the rest of Europe. Spain has her internal troubles, but they are internal only. The northern countries are inclined to draw together for consultation, but except so far as anxiety about Russia troubles them, they fear little and threaten nothing.

### IV. THE UNIVERSAL OR THE ALLIANCE PRINCIPLE

IF we are to thread our way through the maze of special conditions and tendencies which have been very roughly sketched in the above summary, we must have the clue of some general conception. The writer is profoundly convinced that the ultimate fate of the world will depend, not upon this particular difficulty and dispute here and there, but on the main direction taken by policy. Will the national and effective policy of the principal countries in their external affairs be based on the "universal" or on the "alliance" principle ? Both are in operation now ; which will prevail ? It is on the answer to that question that the ultimate issue of war or peace will depend. Let us be more explicit. Many countries are bound by alliances ; most by engagements to certain principles in a general system, whether it be the Covenant of the League of Nations or the Pact of Paris, or both. Which will prevail in case of conflict ? The criterion is simple. If a dispute arises between a country within one group and another outside it, by what principles will the friends of each party guide their policy and determine their attitude ? Will they, in effect, feel, "we are in an alliance, we must stand by our allies," or will they feel, "our obligations under the Covenant and the Pact override any subsidiary and narrower obligations, and we must determine our attitude to any disputants by reference to their observance of the principles of those treaties ?" There can be no doubt as to the legal position. The Covenant overrides all other engagements that might



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conflict with its provisions. But will that be the actual position when the case arises, and will each country be so confident beforehand that it will be, that the centre of gravity for its policy will now and henceforth be found in the League and not in alliances ? No clear and decisive answer can be given. But in which direction are forces moving ? There have been periods in the last ten years, in 1925 for example, when one was clearly conscious of the centre shifting to the central and universal system ; the group arrangements began to be visibly weaker and, so to say, "diluted." There have been other periods, and perhaps the present is one, when the movement appears to be in the other direction.

Nothing can be more certain than that if Europe divides again into opposing alliances, and each country trusts to these for its defence, the alliances will harden in time into two great groups, between which the competition will continually be more intense and more dangerous. Each provocative action, or each increase in armaments in one group, being subject to no corrective force, will stimulate a similar movement in the other group, and the end is inevitable. The future of the world depends upon whether the "universal" principle prevails.

This does not, of course, mean that all regional agreements are to be deprecated. Locarno covered only a region, but as it was genuinely intended to settle difficulties between the signatories, and not to combine them against non-signatories, it was a fragment of the universal not an example of the group system. This, indeed, is the criterion of the advantageous as distinct from the dangerous form of combination.

At present the issue is quite uncertain. France has her allies. Italy feels towards Bulgaria, Hungary, Turkey—and possibly Germany. But nothing has yet developed which is too strong for an adequately supported universal system to dominate and control. It is here that the attitude of the British Empire and the United States is so decisive

## Redeeming Features

for the fate of Europe. Will the League and the Pact of Paris together be so supported that the individual countries of Europe will make them rather than alliances the real and effective basis of their policies ?

### V. REDEEMING FEATURES

WE have so far dwelt upon the factors in the European situation which account for the prevailing mood of anxiety. It is important, for any balanced view, to give due weight to a number of opposing forces and tendencies. These can be only briefly recited here. Though economic anxieties have certain regrettable political consequences, they also to some extent divert attention from excessive political preoccupations, and they create new associations which very beneficially cut across political groupings. At Warsaw we find among others Poland and Bulgaria, at Bucharest we find Roumania and Hungary concerting policies together on the basis of common agricultural interests and without any regard to political groupings. M. Benes has long wanted an economic grouping which will include both Czechoslovakia and Hungary. As economic problems dominate men's thoughts more and more, and the lines on which any economic combinations would form are entirely different from those of the political groupings, the latter will tend to be weakened.

A second incidental advantage from the economic depression is that it will afford a new stimulus for reduction of armaments. We have seen the more promising attitude of Italy towards disarmament negotiations ; and the German situation, in spite of its first effect, may in the end add to the forces making the disarmament negotiations a reality. Then, again, among the elements of the "United States of Europe" proposal, which cannot be discussed in detail in this article, are certainly some strong forces that make for pacification in Europe. Meantime, the

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forces which so recently resulted in Locarno and the Pact of Paris, if temporarily a little obscured by the passing phenomena of this year, still exist and will again find full expression. The reality of the contact which Geneva now establishes between those in responsible control of foreign policy throughout Europe, and the serious anxiety which attended the discussion of recent events, while they have given greater prominence to the dangers, also make it more likely that they will be averted. Every Minister will return impressed with the necessity, amid the irritations and exigencies of his daily business, of improving the international situation. This means partly avoiding provocative action under a momentary pressure ; partly a sustained and deliberate effort to remove sources of friction. But, above all, it means strengthening the preventive machinery against war in order that governments, in the real orientation of their policy, may look to help through the League, and not from alliances, as their real defence against external danger. The greatest of all contributions to this, and the most vital need of the time, would be to revive a confident belief that the existing engagements of League members, including particularly those which concern sanctions, will be faithfully observed. Either Europe will be satisfied that in case of need League members will stand together against an aggressor, or it will organise itself into groups and alliances ; and this second alternative will inevitably lead ultimately to war.

## THE UNITED STATES : THE SLUMP

A YEAR ago things were pretty black in these United States. Stock prices, lifted to fantastic heights in August and September, 1929, rocked backwards and forwards through the first half of October, until on the twenty-third of the month, following a few days of disturbing liquidation, the top stories of the structure fell down. On that one Wednesday the value of shares listed on the New York Exchange broke five billion dollars.

On the next day there was a panic. (Surely we may now call it by its right name, without euphemisms and without fear of indictment for high treason.) Shares were thrown at anyone who would buy them—and in some cases there were no buyers. The flood ran its course until 1.15 p.m., when Richard Whitney, now President of the Stock Exchange, representing a bankers group with \$240,000,000 behind him, stepped into the middle of the mob on the Floor and bid 205 for 25,000 shares of United States Steel, then selling at 194. His gallant audacity turned the tide, and the list swung upwards, closing strong. During the next three weeks, the Exchange was open for three hours a day most of the time, except for two days when it didn't open at all. The banking group liquidated their emergency commitments, other folks liquidated too, until on November 13 came the culminating crash. And for a second time a financial disaster of the first magnitude was averted by a dramatic bid, placed by John D. Rockefeller, for a million shares of Standard Oil of New Jersey at \$50 a share. Well, when the smoke cleared away or the flood

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abated or whatever happened, the statisticians came out on deck with their subtractions. Some of them said that "values" had declined \$35,000,000,000 in the past month, and none of them put it lower than \$27,000,000,000; anyhow these astronomical totals couldn't be apprehended by the average man. Except that the average man did see a little light when he learned that this amount was either three or four times the present capitalized worth of all the sums which Germany is obliged to pay by way of reparations between now and 1962. Here endeth the first lesson.

We Americans are said to be an optimistic people; but what odd forms our optimism takes! We were then told, and half believed, that no real "values" were lost; that the collapse merely involved a shrinkage in paper profits. We were treated with parental solicitude by the Administration, reassuring us, as after a bad dream, that all the factories were still standing, all the tangible wealth of the country was still there. "This is your own little room, son, and this is your bed, and here are your blocks, and your father is sitting beside you." That sort of reassurance now seems puerile. Compare it with the stunning fact that the delicate financial machinery of the United States, spinning inflated credit into inflated equity values and back again, did not crumble at the blow it got, and bring down with it a dozen large banking firms and a dozen principal industrial concerns. As the negro doughboy said in France, "All Ah asks of this heah war is that Ah shall be a survivah!"

After the nightmare "came the dawn," as they say in Hollywood. And with it came the doctor's idea that a little sunshine sprayed on these dry bones would cause them to rise again. In December the President delivered an optimistic message to Congress, and Treasury certificates were offered at the encouragingly low rate of  $3\frac{1}{8}$  per cent. The bones stirred. Heads of the chief industrial companies were called to Washington, plans were made for expansion and expenditure, programs were published. Business

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would be running at a normal rate within sixty days. The bones sat up and began to rattle about with a certain vital excitement. Steel bookings up, railroads placing orders, inventories down, stocks on the bargain counter. Baron Rothschild made money hand over fist through buying French securities in gloom and selling them in glory. Buy 'em quick. STEEL  $185\frac{1}{8}$ ,  $\frac{1}{4}$ ,  $\frac{3}{8}$ ,  $\frac{1}{2}$  . . . 187 going up. CASE THRESHING MACHINE 194. . . . 211 $\frac{1}{4}$  . . . . 213 $\frac{1}{2}$ . "Business is good," big bankers said to be investing quietly, ground cleared for a new bull market. America always comes back. Remember Baron Rothschild.

So stocks revived, but the expected Spring revival of business did not materialize. Copper dropped to its lowest level in twenty-five years, steel prices worked downwards. A vast surplus of wheat destroyed the price to the farmer; and one of the worst droughts on record began to destroy a good part of the corn crop. Cotton sold (or could not be sold) at a figure under the price of production. And overshadowing all were depressions abroad, revolutions in South America and the probable harmful effects of the new American tariff, the highest ever enacted. Thus after a June slump, and an August slump, the stock market, early in September, settled into a severe but orderly decline which carried its average price level on October 22 to a point below the panic prices of November 13, 1929.

In some magazine or other, two or three weeks ago, appeared the story of a miserable man who suddenly found himself behind the bars. His lawyer came to see him. "My dear fellow," he said, "this can't be! You can't be in jail on any such charge as that." "But I *am* in jail," the miserable man replied. Here endeth the second lesson.

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### II.

ALL this must sound rather surprising to the gentle reader—the suggestion that any considerable number of Americans really care about the ups and downs of an institution located in one small building on the corner of Broad and Wall Streets, New York City. And, further, even if it were true, could any half-intelligent commentator so lose his sense of proportion as to write an article about it? Tiresome as the prospect may be, the gentle reader will have to hear more in this strain—for the trend of the Stock Market is the chief preoccupation of hundreds of thousands of people, and a major concern of the Federal Government itself. Those who have lost money hope to get it back in a rising market. Those who have “carried” their shares from top prices down to the bottom, hope for an improvement. Banks which to-day are lending some \$225,000,000 *more* on pledged securities than they loaned last November, banks which stepped into the breach to relieve the brokers, would like to see prices advance until their clients could liquidate their loans without too great a loss. And the Government’s interest, Mr. Hoover’s interest, is this: that a high standard of living has been established in the United States within the past few years. It ought to be possible to maintain that standard; it must be done! Yet factories cannot run without orders, and orders will not be placed until demand appears, and the demand will not make itself felt until confidence is restored in the continuing prosperity of the country. The pump of industry is dry; a rising market, indicating confidence, would be the best and quickest priming to the pump. Given that leverage, promptly, the unemployment situation would at once improve, wages would not have to be cut, strikes could be averted and the standard of living would not suffer more than a temporary debasement. If this reason-

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ing is sound, then the rest of the world as well has a vital interest in the course of the New York Exchange. For to an increasing degree corresponding prices in London, Paris and Berlin wait upon indications from New York; and if confidence could be engendered here by a rising market, and that rise were followed in the capitals of England and the Continent, then demand and production would increase abroad, and better days would come round again.

But it would be a mistake to rely too much on any apparent stabilization of the New York market just now, or indeed on any temporary upward trend. For there are certain elements in the situation which are bound to be felt, and their effect cannot be gauged to-day. The high tariff enacted by Congress last Spring will cause unfavorable repercussions, particularly in trade relations with Canada, the largest consumer of American goods. If the Young plan is to succeed, Germany will be forced to sell her products externally in order to accumulate foreign exchange. She must manufacture well and cheaply to compete successfully with Great Britain and the United States. Having mastered the art, she will emerge as the most effective, if not the most powerful, industrial nation in the world. On the other hand, if the Young plan fails—if the scheme of payments breaks down—there will be another period of dislocation, even though the final solution may prove to be fundamentally better for the creditor countries.

There are other factors which have a bearing not so much upon a betterment in business, since that is bound to come in its appointed time, as upon the degree of prosperity which the United States may be expected to enjoy again. For years past we have had a large share of the world’s trade in copper, cotton, and oil; but the African mines, once in operation, can produce and sell copper more cheaply than most of our own; the quality of American cotton, experts say, is showing such a persistent deterioration that

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the present quality of crop can hardly be produced at a profit ; while the world's oil, once chiefly derived from this country and sold at semi-monopolistic prices, has appeared in quantity in other parts of the globe, until to-day more than a third is supplied from sources outside the United States. "The oil business is no longer exclusively an American industry," says the trade journal of the Standard Oil of New Jersey.

Production abroad is no longer just an auxiliary reservoir from which any part of the world's requirements which the United States cannot supply may be drawn. On the contrary, foreign crude is now in active competition with the American product for world markets. The extensive exploration of the last ten years or so has disclosed unsuspected treasures of raw material in many lands. The potential output of these fields—and of others still undiscovered—has scarcely been touched, while the history of producing areas in the United States has been mostly a succession of feverish drilling and rapid draining.

Thus the United States must face the prospect of losing some portion of its foreign market through tariffs, or through competition in the price of manufactured goods and raw materials. If foreign demand diminishes, and if industry nevertheless is to be brought back to the pitch of 1929, then domestic consumption must be accelerated. One factor, of course, in this country's phenomenal economic advance has been the growth of its population. Yet to-day the rate is said to be but one per cent. per annum, and it is predicted that in ten years time that rate will be cut in half. The records of the past decade indicate that by 1950 the population of the United States will be fixed—in the near neighborhood of a hundred and fifty million. So our statisticians are not helpful in providing us with unlimited people to buy unlimited goods.

Laymen may discuss these matters with one another, in and out, to their hearts' content. On the other hand, angels fear to tread, and fools scarcely ever rush in where the gold problem is "under advisement," or where econo-

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mists ponder whether the world is suffering from over-production or under-consumption. But even here the layman suspects in a vague way that decreasing gold production will lower the standard of living, and he knows beyond peradventure that there is a serious lag between consumption and production, nor does either of these conclusions impart much cheer. Lastly, to be done with the story, there are the unemployed. How many, we do not know. The final census report showed 2,508,151 in April, but these figures did not include men and women laid off but not discharged, nor did they make due adjustments for part-time work. Governor Roosevelt of New York State puts the total figure to-day at five million, and in the opinion of John Hunter, Superintendent of the United Charities of Chicago, "We are face to face with the worst winter the United Charities has known since 1866." State and city committees have been appointed to alleviate the situation. The President has named a Federal Committee composed of six cabinet officers and the Governor of the Federal Reserve Board, and has drafted Colonel Arthur Woods from the Rockefeller Foundation as chairman in charge of "a race against misery." Bankers in New York City have pledged funds to provide work for 3,000 men through the winter, and Congress will be called upon for an appropriation. Those who ought to know believe that a crisis will be reached in late January and early February when the normal seasonal decline in industrial work is superimposed upon a general depression : but no one can foretell how serious it will be nor the extent to which it will be aggravated by crime and violence.

There, is the pessimistic picture in all its drab colors. Your commentator has no illusions about it. Certainly it does not represent the whole truth : furthermore, it is darkened by resentment against the pink promises and rosy reassurances of the Spring and Summer that were thrown out to hide unpleasant realities. Moreover, there

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are factors working for improvement : the banking system, until now, has successfully withstood an unprecedented strain, inventories of raw materials and finished goods are low and must be replenished, savings bank deposits are on the increase, the fall in commodity prices has apparently been halted, and the aggregate of dividend disbursements, so far in 1930, compares favorably with the total paid in 1929. Lastly, and by no means least, our illusions of yesteryear, like our markets, are deflated. Most of the wind is out of our brains ; we are back at work, sober and self-confident.

\* \* \* \* \*

Perhaps the grounds for true optimism lie deeper still.

The present moment is one of great distress. But how small will that distress appear when we think over the history of the last forty years : a war, compared with which, all other wars sink into insignificance ; a taxation, such as the most heavily taxed people of former times could not have conceived ; a debt larger than all the public debts that ever existed in the world added together ; the food of the people studiously rendered dear ; the currency impudently debased and improvidently restored. Yet is the country poorer than it was forty years ago ? We fully believe that, in spite of all the misgovernment of her rulers, she has been almost constantly becoming richer and richer. Now and then there has been a stoppage, now and then a short retrogression ; but as to the general contingency there can be no doubt. A single breaker may recede, but the tide is evidently coming in.

This is not the Chairman of the Sun Life Assurance Company of Canada speaking, but his distinguished progenitor, writing in the *Edinburgh Review* of January, 1830. The elder Macaulay continues :—

If we were to prophesy that in the year 1930 a population of fifty millions, better fed, clad, and lodged than the English of our time, will cover these islands—that Sussex or Huntingdonshire will be wealthier than the wealthiest parts of the West Riding of Yorkshire now are—that cultivation rich as that of a flower-garden will be carried up to the very tops of Ben Nevis and Helvellyn—that machines

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constructed on principles yet undiscovered will be in every house—that there will be no highways but railroads, no travelling but by steam—that our debt, vast as it seems to us, will appear to our great-grandchildren a trifling encumbrance, which might easily be paid off in a year or two—many people would think us insane. We prophesy nothing . . . . We cannot absolutely prove that those are in error who tell us that society has reached the turning point—that we have seen our best days. But so said all who came before us—with just as much apparent reason.

Surely, in the winter of our discontent, we may legitimately warm our hands before such fires as these.

### III.

**B**ECAUSE of our preoccupation with business affairs, November fourth will come and go without causing much excitement. On that day Senators will be elected to represent one-third of the States, all of the seats in the lower house of Congress will be contested, and a majority of States will choose their governors. Yet there is comparatively little interest in the outcome.

As things now stand, the Republicans are nominally in control of the Senate ; but a roving band of Westerners, Republican in name, vote much as they choose, and really hold the balance of power. In the House of Representatives, Mr. Hoover has a majority of 103, and from this body he has so far received good support. But industrial depressions always work to the disadvantage of the party in power, and the swelling opposition to the Volstead Act will be a source of strength to the Democratic candidates. What the result at the polls will be no one, of course, can foretell : but a singularly candid prediction was recently made by Nicholas Longworth, Republican Speaker of the House :—

Many dry Republicans may go down to defeat in the November election, but I cannot see the Democrats running the House. However, the Republican majority will be reduced, and this may give the

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Democrats and independents an opportunity to tie up legislation through a combination similar to that in the Senate.

It is embarrassing, at any time, for a party to have responsibility without power. In the trying circumstances in which the United States finds itself to-day such an anomaly in government might work great hardship on the people. So we find many Democrats who cherish the hope of electing their Owen Young in 1932, who, nevertheless, do not desire control of the House of Representatives during the next two years. But the true party man—the *fiat justitia* fellow—will cast his vote for the Democratic candidate, recalling that since 1866 his party has never but once managed to win the Presidency without first winning control of the House two years before in these intermediate elections. And if he wants to put it the other way round, he can work himself up to quite a frenzy of hope : for each time his party has won in the “ off-year ” they have followed that victory with a President of their own.

We shall wait until November fourth and see what we shall see. Meanwhile, what did the market do to-day?

New York.

October 31, 1930.

## THE IMPERIAL CONFERENCE

(From a Canadian Pen)

ANOTHER Imperial Conference opened in London on October 1. In its personnel the Conference presented two interesting features ; it is the first at which the Labour party has provided the British representatives, and it also brought to the council table at Downing Street a larger number than usual of new personalities from the Dominions. Indeed, with Mr. Cosgrave unable to head the Irish delegation on account of ill health, General Hertzog, among the heads of delegations, was the only survivor of the Conference of 1926. From Canada Mr. Mackenzie King, a Liberal, was replaced by Mr. R. B. Bennett, a Conservative, and in Australia Mr. Scullin, a Labour Prime Minister, supplanted Mr. Bruce, a Nationalist, while New Zealand, in place of Mr. J. G. Coates, a Reformer, sent Mr. G. W. Forbes, who had assumed the Premiership only a few months previously as head of the United party on the death of Sir Joseph Ward. Sir Richard Squires, the Prime Minister of Newfoundland, was also a new delegate, and to the members of the Indian delegation, except the Maharajah of Bikaner, the Conference was a fresh experience. In regard to the actual work of the Conference the procedure followed at the Conference of 1926, when most of the business was transacted in plenary sessions, was abandoned in favour of the method adopted at the London Naval Conference, when the Heads of Delegations discussed matters before they reached the stage at which it was deemed desirable to submit them to a plenary session. As a result only three plenary sessions have been held. Meanwhile the work of the Conference has been carried on by the various

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committees and sub-committees which had been set up or at meetings of the Heads of Delegations.

### I. IMPERIAL ECONOMIC CO-OPERATION

THE last two Conferences had concerned themselves chiefly with constitutional issues. Indeed the latter was almost the sole preoccupation of the Conference of 1926, which evolved the document known as the Balfour report, designed to confer formal legitimacy upon the existing constitutional *ménage* of the Commonwealth. Economic issues had hitherto suffered from comparative neglect and a feeling had steadily developed that with the attainment of a *modus vivendi* about the constitutional question, the time had now come to consider plans for the better co-ordination of the economic activities of the Commonwealth. Moreover, it seemed as if in the intervening years since 1926 the need for such improved co-ordination, which had long been recognised in Great Britain, had become more fully appreciated in the two most important Dominions, Canada and Australia, by reason of economic adversities. In 1926 both of them were enjoying a spell of comfortable prosperity of whose permanence they were serenely confident, but, from a variety of causes, hard times have descended upon them both within the last eighteen months, and they appear to have generated a widespread sentiment in these Dominions that some more vigorous efforts for the stimulation of inter-Imperial trade were imperative if the Commonwealth was not to sink into a common morass of economic trouble, and experience a gradual waning of its power and prestige.

In Australia Labour, and in Canada the Conservatives had won general elections mainly on the cry that the existing protection of local industries had hitherto been inadequate and responsible for a deplorable setback in the economic fortunes of the country. Both the victorious parties on assuming office had resorted to severe measures

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of protection intended to stimulate domestic industries and to diminish local unemployment or, in the case of Australia, with the object of correcting the balance of trade. But simultaneously with this move in the direction of higher protection, their leaders, Mr. Bennett in Canada and Mr. Scullin in Australia, had avowed their intention of coming to the Conference and promoting by every possible means the development of inter-Imperial trade. It was left to Mr. Bennett, the Prime Minister of the senior Dominion, to force the pace and, at the plenary session of the Conference held on October 8, after Mr. J. H. Thomas, the Secretary of State for the Dominions, had indulged in a rather discursive review of the economic situation, first of Great Britain and then of the Commonwealth as a whole, but had propounded no suggestion of any new policy for the stimulation of inter-Imperial trade, Mr. Bennett not only favoured the Conference with an exposition of his views, but made a definite offer. He began by stating that, in approaching the economic problems of the Empire, he stood four-square behind the policy of "Canada First," which was to be achieved through a flexible tariff ensuring the proper protection of the manufacturer, and safeguarding the consumer from exploitation. After this clear indication that he was determined to safeguard what the manufacturers of Canada regard as their special preserves, he declared that a system of reciprocal preferences was the only possible instrument for successfully stimulating inter-Imperial trade. He admitted that one of Canada's primary concerns to-day was the problem of marketing her wheat crop which, in the absence of a strong export demand, has been piling up in the storage elevators, and he declared that at least part of the solution of this problem lay in securing a better market in Great Britain. Asserting that Canada is willing to pay a price for this market by giving in the Canadian market a preference to British goods, he demanded, in somewhat brusque terms, that the Conference should subscribe to the principle of an Empire preference, and take without delay



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the steps necessary to put it into effective operation. Thereafter, dismissing Empire Free Trade which Lord Beaverbrook and his allies were advocating, as impracticable and undesirable, he made the following proposal as his contribution to the improvement of inter-Imperial trade.

I offer (he said) to the mother country, and to all the other parts of the Empire, a preference in the Canadian market in exchange for a like preference in theirs, based on the addition of a ten per cent. increase in prevailing general tariffs, or upon tariffs yet to be created. In the universal acceptance of this offer, and in like proposals and acceptances, by all the other parts of Empire, we attain to the ideal of Empire preference.

Mr. Scullin, on economic issues, took a virtually identical line; but he went a step further in making a suggestion for an allocation, by arrangement between British and Australian manufacturers, of an import trade valued at between £40 and £45 million from foreign countries in goods of a type in which Great Britain could compete. He declared also that, while Australia was firmly determined to encourage her secondary industries, it was recognised that there were certain types of goods for which the size of the local market did not yet justify the establishment of domestic manufacturing plants, but he promised that if British industrial leaders would assist in developing Australian industries, Australia for her part would do everything to help Great Britain to secure the preponderating share of her import trade. The other delegates who spoke also gave vigorous support to Mr. Bennett's demand for a reciprocal preference.

In making his offer Mr. Bennett used the phrase, "the addition of a ten per cent. increase in prevailing general tariffs, or upon tariffs yet to be created." At first this was interpreted in some quarters as meaning that the general tariff which is applied to imports from the United States and other foreign countries not possessing trade arrangements with Canada, would be raised ten points, e.g., if the rate was at present 30 per cent. it would be increased to 40 per cent. But Mr. Bennett subsequently explained

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that he only proposed an increase of ten per cent. of the existing general rates, a very different thing, which meant that, if the present general tariff on some article is 30 per cent., it would be raised to 33 per cent. It is true that Mr. Bennett declared that his ten per cent. of increase was an elastic figure which would be adjusted to meet special cases, and he indicated a willingness to discuss possible adjustments, but the fact remains that the actual offer which he made can only be regarded as of an almost trivial character, and it falls very far short of offering any satisfactory compensation for the dislocation of British trade arrangements which a food tax with preference to the Dominions could not fail to cause. The following illustration of existing rates upon certain goods and the rates to which Mr. Bennett proposed to bring the general tariff on them was given in *The Times*.\*

| Tariff Item                                                             | British Preferential | Intermediate       | General (Present) | General (Proposed) |
|-------------------------------------------------------------------------|----------------------|--------------------|-------------------|--------------------|
| 286 Earthenware and stone-ware .. .. .                                  | 25%                  | 30%                | 35%               | 38½%               |
| 296 Pipe, cast-iron or steel, valued at not more than 5 cents per pound | \$7 per ton          | \$12 per ton       | \$14 per ton      | \$15.40 per ton    |
| 432d Manufactures of tinplate and of tin n.o.p. ..                      | 20%                  | 27½%               | 30%               | 33%                |
| 445 Electric light fixtures and appliances .. ..                        | 20%                  | 30%                | 30%               | 33%                |
| 523b Woven fabrics wholly of cotton n.o.p. .. ..                        | 3c.                  | 3½c.               | 4c. plus          | 4½c.               |
| (ad valorem)                                                            | per lb. plus 22½%    | plus 27½%          | 32½%              | plus 35½%          |
| 554 Woven fabrics of wool ..                                            | 20%                  | 25%                | 30%               | 33%                |
| (ad valorem)                                                            | plus 12½c. per lb.   | plus 17½c. per lb. | plus 20c. per lb. | plus 22c. per lb.  |
| 611a Boots, shoes, slippers, etc.                                       | 25%                  | 35%                | 40%               | 44%                |

These figures show that in some cases the differential

\* See *The Times*, October 10, 1930.

## The Imperial Conference

between the general tariff and British preference rates would be increased by 30 per cent. or more of its present amount, and in certain lines the differential might enable British exporters to secure some of the Canadian business now enjoyed by America and other foreign rivals. But it was also quite clear that Mr. Bennett, whose advocacy of a policy of higher protection won him many votes at the last general election in Canada, and who had proceeded at a special emergency session held in September to give effect to his tariff pledges, has not so far felt himself in a position to countenance for the benefit of British trade any serious invasion of such markets as Canadian industrialists claim as their own preserves, and that a scale of local protection on a higher level than the Liberal Government of Mr. Mackenzie King advocated is a settled policy of his administration. It was perhaps difficult for Mr. Bennett to make any more generous offer at the present time. Out of the nineteen members of his Cabinet, no less than fifteen represent industrial constituencies whose voters were for protection against all outside competition, whether British or foreign. The cold truth must be recognised in Great Britain, that as long as economic nationalism governs ideas overseas in the way that it does at present, especially when industrial interests are in the ascendant, as they are in Canada to-day, British trade cannot expect anything from tariffs which involves any substantial encroachment upon their preserves. This attitude is not indeed limited to those interests. Economic nationalism influences classes which have nothing to do with industry. It is their aim to make their country in the highest degree self-sufficient, and to broaden the base upon which its prosperity rests by strengthening the industrial side. But if there was to be an all-round successful bargain for the stimulation of inter-Imperial trade, it was none the less singularly unfortunate for its prospects that this Conference should have found installed in office high protectionist Governments in the two most important Dominions. It is the

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political parties which depend for their electoral support upon voters engaged in farming and other primary industries who, being anxious to secure relief from what they regard as the oppressive exactions of domestic manufacturers, have always been willing, and even anxious, to make the barriers against British imports as low as possible. As far, at any rate, as Canada is concerned, British export trade was given a much more favourable position under the terms of the Dunning budget, which has now been wiped out, than it would be even if the present schedules were altered to its advantage by Mr. Bennett's proposed ten per cent. increase in the general tariff. There was therefore a distinct measure of audacity in Mr. Bennett's proposals; two months previously he had sharply raised the tariff duties on Great Britain's chief lines of exports to Canada, notably on textiles, and now he was demanding a wholesale change in the British fiscal system, without making any suggestion of a compensating diminution of the British preferential rates in the Canadian tariff, the present higher level of which can scarcely fail to cause a curtailment of British exports to Canada.

But the realities underlying Mr. Bennett's proposals were at first imperfectly realised throughout Britain and, before a cooler examination revealed their true nature, there was an almost general disposition to acclaim them as a splendid offer which demanded an immediate and sympathetic response from the MacDonald Ministry. And the Government, by reason of its failure to produce any concrete policy of its own, had, as the *New Statesman* complained, allowed Mr. Bennett to seize the initiative and was, as a consequence, placed in a very difficult quandary.

It was generally believed that a certain element in the Ministry headed by Mr. J. H. Thomas, the Secretary of State for the Dominions, was strongly in favour of some scheme of reciprocal preferences, and their hands were fortified by evidence forthcoming at the Conference of the

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Labour party at Llandudno to the effect that protectionist sentiment was steadily gaining ground in the ranks of Labour. But the key to fiscal policy still remains with the Chancellor of the Exchequer, and Mr. Philip Snowden has never evinced the slightest sign of wavering in his devotion to the free trade faith. It is understood that he was quite uncompromising in his rejection of the Dominions' demand for reciprocal preferences, and, in a speech at Manchester on October 18, he made a reasoned defence of what he referred to as "our well-tryed fiscal system," ridiculing preferences as futile and dangerous. Indeed, it was obvious that a man of his temperament and views would resign office rather than countenance any such scheme. On the other hand, Mr. Ramsay MacDonald was said to have an open mind on the subject, and it is believed that, if the rest of his party had been united in support of some sort of preference scheme, Mr. MacDonald might have contemplated the resignation of Mr. Snowden. But it happened that Mr. Graham, the President of the Board of Trade, and Mr. Alexander, the First Lord of the Admiralty, ranged themselves firmly with Mr. Snowden, and Mr. MacDonald obviously could not face the crisis which would have been involved in a triple resignation. So the Dominion delegates were given to understand that, for the MacDonald Government at least, a policy involving a food tax must be ruled out, and when Parliament met on October 28, Mr. Ramsay MacDonald emphatically reiterated this decision of the Cabinet.

But in Conservative circles the demand of Mr. Bennett and the other Dominion Prime Ministers was hailed with jubilation, and Mr. Baldwin, on behalf of the party, proceeded to issue a formal statement to the effect that they welcomed the proposal and were prepared, as soon as it was in their power, to do their part in giving effect to it, though at the same time Mr. Baldwin, while not ruling out food taxes as absolutely impossible, shrank from making them a definite part of the official Conservative

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programme, and pronounced himself in favour of what is known as the "quota" scheme in connection with wheat.

The MacDonald Government, upon whom the responsibility for the immediate British reply devolved, could not afford, in view of the wide-spread public sentiment that some serious effort should be made to stimulate inter-Imperial trade, while rejecting food tax preference, to be without some kind of Imperial trade policy. Their first idea had been import boards with power to regulate and even to prohibit imports, a scheme which still finds favour with the Socialist left wing, and, curiously enough, also, it would seem, with certain rebels on the Opposition side of the House. But on reconsideration, the Government decided to put forward the quota for wheat as their main scheme, the plan which, as already mentioned, has also been adopted by Mr. Baldwin as an alternative to the food taxes, of which he also fights shy.

Prior to the Conference the quota scheme had been advocated in the British press from a variety of quarters. It has numerous supporters among the Labour party, and Major E. A. Ruggles-Brise had outlined in the columns of *The Times* a definite plan which commended itself to a number of Conservatives, particularly such as represented farming constituencies. The essence of that plan was that British millers should be compelled by law to use in the manufacture of their flour certain percentages, first of home grown and then of Empire grown wheat, and that only a comparatively small balance should be open to the competition of foreign countries, like Argentina. The corollary of the scheme was that British grown wheat, for which a quota of 25 per cent. was the most common proposal, should be given a guaranteed price of something between 50s. and 60s. a bushel, the Treasury to make up the difference between the world price and this guaranteed price. The Dominion representatives were somewhat dubious about accepting the principle of the quota, but feeling the prospect of any tariff preference to be hopeless, and reluctant to

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return empty-handed, they agreed to refer the question to a sub-committee of experts. The longer the problem was examined the greater were the difficulties which developed. The leader of the New Zealand delegation was openly sceptical about the whole idea, and the Australians, who favoured it, no doubt hoped that, once a quota was applied to wheat, it would be extended to wool, fruit and other Dominion products. Mr. Bennett, the Canadian Prime Minister, had brought with him in his entourage a number of grain experts, and opinion among them was sharply divided. The representative of the Western wheat pools favoured the plan on the ground that it would at least assure a definite market for a certain proportion of Canada's exportable surplus of wheat, and to that extent would simplify the problem of its disposal. But, on the other hand, the spokesman of the private grain interests took exception to the scheme, partly on the ground that, with the establishment of the quota system, Liverpool would be obliterated as a price making centre for grain, and Canada left at the mercy of Chicago and Antwerp for international contacts for her grain trade. The view was also held by some Canadian experts that, without some sort of guaranteed price, a quota would be profitless for Canada. Again, what is to happen to the very substantial exportable surplus of wheat which Australia and Canada would possess every year, even if Britain could be induced to import nothing but Empire grown wheat? It would have to be disposed of in international markets, and there it would have to face fierce competition from Argentine and Russian wheat, which would be all the more intense if the latter were barred from the British market. Surely, said the critics of the scheme, one of two things would happen, either the price of wheat in Canada would be fixed by the international market, or two prices would rule, one for wheat exported to Britain and another for wheat exported to foreign markets. This would mean that in many years the people of Great Britain would find them-

## Imperial Economic Co-operation

selves paying substantially more for their wheat than foreign countries like Holland, and the system would be a constant target for attack and criticism. The MacDonald Ministry only sponsors the quota system on the understanding that the Dominions are agreeable to accepting the world price parity for each year's quota; but the Dominions have been standing out for a guaranteed price, though perhaps not so large as that which would be proposed for the benefit of the British farmer. Now, notoriously, the price of wheat is subject to tremendous fluctuations. If eighteen months ago any British Government had given a guarantee to buy a certain quota of wheat for three years at the price then prevailing, it would to-day be paying almost twice as much as the ruling price of wheat.

Apart from this fundamental difficulty, there are other serious obstacles. The boundary between the prairie provinces of Canada and the prairie region of the United States is an artificial line, and the same kind of wheat is grown on both sides of it. It is impossible for experts to distinguish between Marquis wheat grown in Manitoba and Marquis wheat grown in Minnesota. The wheat of both countries flows freely across the international boundary. For instance, in the autumn months a very substantial volume of wheat from Minnesota and the Dakotas finds an export outlet via Montreal, and again large quantities of Canadian wheat reach tidal water via Buffalo at American ports like New York and Baltimore. Accordingly, the establishment of a quota price presupposes a very rigid system of segregation of Canadian and American wheat, and the same precautions would have to be undertaken if a food tax preference came into being. Indeed, opponents of the preference system argue that it would have to cope with very much the same sort of difficulties as a quota, for Canada would have to sell wheat at the world price under either scheme, and the concentration of foreign competition on the remaining

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markets might actually have the effect of lowering the world price. There is a further complication in the case of the quota, the flour difficulty. The millers in Great Britain would obviously demand that any quota arrangement should treat flour imports in such a way as to check the encouragement to the milling of the wheat in Canada, which would be likely to result from the introduction of the scheme. At first the MacDonald Government proposed the quota plan without much enthusiasm, but certain members of the Cabinet have obviously come to develop a zeal for it, and the Dominions have been pressed to accept it, though some of the latter still remain unconvinced about its merits.\*

### II. THE FREE TRADE TRADITION AND ECONOMIC NATIONALISM

NO attempt will be made here to deal with the constitutional side or with the other economic issues which came before the Conference as well as the problem of foreign policy. Their name is legion. The constitutional side alone included inter-Imperial relations which themselves comprise the whole range of subjects sent up in 1929 to the Conference by the Dominion Legislation Conference, the body appointed by the 1926 Imperial Conference to consider the steps necessary to complete its task of constitutional readjustment, and other problems

\* The Imperial Conference has decided to postpone the question of the quota, and of inter-Imperial economic co-operation generally, until next year, when it will come before another Conference to be held at Ottawa, which will consider in what way each Government can make the greatest possible contribution to such co-operation. In the meantime the existing preferences accorded by the United Kingdom to other parts of the Empire will not be reduced for a period of three years or pending the outcome of the suggested Conference, subject to the rights of the United Kingdom Government to fix the budget from year to year. An abstract of the official summary of the proceedings of the Imperial Conference will be found on page 229 of this issue, and in it the reader will find suggested answers to some of the above mentioned difficulties in connection with the quota.

## The Free Trade Tradition

besides, such as arbitration, disarmament and defence. The question of the relations of the King with the Dominions, perhaps the most interesting of the constitutional questions, will, it is understood, be the subject of a separate article in this issue,\* while the report of the Dominion Legislation Conference has already been discussed in these pages.†

It remains to add a word of comment. For many the results of the 1930 Conference are likely to fall far short of the high hopes which were formed in anticipation. Nevertheless, it would be wrong to dismiss it as an unprofitable gathering. There has been an invaluable exchange of views upon common interests between the statesmen who are charged with the governance of the different units of the Commonwealth, useful progress has been made in the elimination of legal and other anomalies in its constitutional arrangements, and the decision to establish a new organisation, such as the Commonwealth Tribunal, whose need has been abundantly demonstrated. Undoubtedly a step of this kind marks a welcome tendency to pay some attention to the consolidation of the common fabric of the Commonwealth. If progress in the economic field seems disappointingly slow, the cause is to be found in the tremendous difficulty of fitting satisfactorily inside a common hoop fiscal systems so divergent as those of Great Britain and the overseas Dominions. Whatever plan may be adopted, it is clear that an Imperial preference scheme involving tariff reform in Great Britain will not be accepted by its present Government, and among those who advocate a fundamental change in the fiscal policy of the mother country there will naturally be a disposition to allocate all the blame for any impasse to Mr. Snowden and his allies in the MacDonald Ministry. But, in all fairness, the determination of Dominion Prime Ministers to guard their own countries'

\* See p. 96.

† See THE ROUND TABLE, No. 80, September, 1930, pp. 713-726.

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industrial preserves from any real encroachment, in pursuance of the policy of "Canada First" and "Australia First," must also be recognised. Whatever the impression left by Mr. Baldwin's welcome to Mr. Bennett's offer, a Conservative Government in power would have to look narrowly after the interests of their country in actual negotiation. Great Britain's trade with the rest of the Commonwealth has been expanding gradually in recent years, but it still constitutes only one-third of the country's total foreign trade and, whatever view be taken on questions of fiscal theory, it would obviously be a risky experiment to embark upon drastic rearrangements of fiscal policy which might have disastrous reactions upon the remaining two-thirds of Britain's foreign trade, without a definite assurance of a compensating increment in her trade with the rest of the Commonwealth. Clearly such an increment is not at the moment in sight. But, just as there is evidence that the tide of political nationalism, which flowed so strongly in the post-war decade in the Dominions, has reached its high water mark and now begun to ebb, so there may come an ebb in the tide of economic nationalism which is now surging, and not only in the Dominions, but in most of the countries of the world. It is not even absent in Great Britain itself. Each of the Dominions is faced with the fundamental problem which the possession of a physical equipment far in excess of the needs of their still scanty population involves, and the merits of the high protectionist policies which are being tried as a remedy for their present troubles will be subjected to an acid test in the years to come. They may survive it, but if they do not, a policy, more favourable to British trade than Mr. Bennett's, may no longer seem inconsistent with a policy of "Canada First," and some future Imperial Conference may meet in an atmosphere less unfavourable to the promotion of real economic co-operation between the units of the British Commonwealth of Nations.

## ENGLAND IN THE GREAT DEPRESSION

### I. THE DAY OF RECKONING

AS an economic observer looks back over the past ten years, he cannot help reflecting that Great Britain, like Australia, whom she properly though somewhat self-righteously blames, has been steadily putting off the day of reckoning. Political promises have outvaunted each other, and governments have come and gone, but policies have changed little and actions less. Those who have offered Socialism have socialised nothing much but charity; those who have offered Protection have spent their energies in debating what they should protect and on wondering how far the country was with them. Scarcely ever in that period has the number of registered unemployed fallen below one million. But procrastination must by now have had its day, for Great Britain is facing a winter with well over two million unemployed, and the economic state of the nation is a question too urgent and too important to be disregarded; analysis must come first, but action cannot be much longer delayed.

Just when, or whether, Great Britain's troubles may come to deserve the name of crisis is more doubtful. Many believe that the presentation of the budget next April will be the critical moment, since anything from £25,000,000 to £50,000,000 will have to be found to cover the deficit of the present year and the prospective deficit of the next, and

## England in the Great Depression

since any addition to direct taxation at this moment might break the camel's back. Some observers think, indeed, that the mere exposure of the condition of the national finances, which budget time must bring, would cause a serious breach in British government credit and might even instigate a flight from the pound.

But, however unpleasant the next budget, by now the country is prepared for the shock. There is no danger to the stability of our exchanges. For years it has jogged along with a million unemployed, content, for the most part, with the popular assurance that it has been passing through a temporary depression and that times would change. Now that the slump really has come, the people of Great Britain begin to perceive that all along the country has been on the crest of the wave, and that her unemployment problem is a phenomenon of comparatively good times as well as comparatively bad.

## II. THE WORLD SLUMP

OF course the world slump has made things much worse, and it is worth while investigating its character if not its causes. All the features of previous trade depressions are here displayed—the heavy fall in prices, first and largest among raw materials and foodstuffs; the lag between the prices of commodities at wholesale and at retail; the accumulation of stocks at the lower stages of production and their gradual depletion in the upper stages; business losses and unemployment; decline of new capital issues; low prices for industrial share securities and gradually improving markets for bonds bearing fixed rates of interest, modified by distrust of political eventualities; low rates of interest on short term obligations; diminished velocity and volume of credit; and a strong central banking position. We may leave it to the professional economists to describe the time and direction of cause and effect among these

## The World Slump

inevitable concomitants of what we call a trade depression.

But the present depression is more than a repetition of history. It has features which in years to come, when these things are brought under control, may well single it out for the title of the "Great Slump." To begin with, it comes at a time when in many countries industry has still failed to readjust itself after the warping produced by the war. For five years, setting all other ends aside, the great industrial countries organised their labour and their resources for one purpose which vanished as swiftly as it had arisen, and the world as a whole has never since found equilibrium. Again, the slump is superimposed upon a secular fall in commodity prices, which was already causing serious disturbance. Thirdly, rationalisation—the organisation of whole industries with the same kind of aim as that of individual firms—and the substitution of machine processes for labour, can scarcely ever have been so rapid. Most important from the point of view of Great Britain, the preceding boom was highly localised and was associated with enormous financial speculation, which exploded violently, as it was bound to do. Finally, government indebtedness, both internal and external, and private international indebtedness stand at a level hitherto unparalleled. A fall in prices, like that which the world is now undergoing, naturally entails a corresponding increase in the real wealth represented by fixed money incomes, that is to say, in the charge which the possessors of such incomes lay upon the efforts and resources of the rest of the world's population, leaving less for the "enterprising" classes as a whole.

One need go no further than this for the origin of the peculiarly burdensome difficulties of debtor countries like Germany, Australia and Brazil, and of the political disturbances which they are experiencing.

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### III. GREAT BRITAIN'S SPECIAL HANDICAPS

IN all these trials, Great Britain takes her share. True, as the greatest creditor country she finds some compensation in falling international prices. The terms on which she exchanges her goods for those of other countries have improved, since the prices of the foodstuffs and raw materials which she imports have fallen much more sharply than the prices of the manufactured goods which she exports. The interest on her overseas investments represents a greater and greater volume of national wealth. But she can no more hope to gain in the long run by extorting a progressively larger volume of goods from her debtors than her own bankers could expect to gain by pursuing a policy which steadily bankrupted those to whom they had lent money. The whole economy of Great Britain is built up on the basis of her overseas trade, and perhaps more than any other country she depends for her own well-being upon that of the world at large. Her rapid industrial expansion and her high standard of living were achieved at the cost of that dependence, and would have to be sacrificed if it were abandoned. We must seek for special causes to explain why she has not hitherto participated as fully in the rising wealth and trade of the world, as she must inevitably participate in their decline.

There are two special reasons why a decline in prices, whether over a long or over a short period, should affect Great Britain more seriously than other countries. The first is the vast extent of her internal national debt. Its mere existence does not theoretically diminish the national income in normal times, since the raising of taxation and its distribution as dividends on government bonds form only an internal transfer—a transfer, however, which on balance takes something from the more enterprising and gives it to the more stagnant elements of the population. The high taxation involved undoubtedly diminishes the

### Great Britain's Special Handicaps

enterprise of the creative elements. But when prices are steadily falling a large internal debt creates serious trouble in the division of the national product. So much of the latter falls to the wage-earners, so much to salaried workers, so much to the holders of fixed interest-bearing bonds, and the remainder is the portion of shareholders and enterprisers generally. The incomes of all these people represent claims on the pool, or rather the stream, of goods and services which make up the national income, and those goods and services have somehow got to be divided up among them in the course of the economic process. As prices fall, the money value of the whole national income falls likewise, but the money value of those incomes which are fixed in terms of £ s. d. does not, so that the proportion of the national income which they take rises. The inevitable result is that the profit maker and shareholder get squeezed out. Their share of the national income is diminished; in consequence, enterprise is stifled, business is stagnant, and unemployment inevitably follows. Wages and salaries can be adjusted to the new circumstances with difficulty, but far more easily than interest charges, especially on government debt; hence the larger the internal debt in relation to the total wealth of the community the swifter and more serious is the effect of a general fall in prices.

Of course the same argument applies to the debenture debts of industry as to government loans, but here the position is on the whole less tense, since adjustment can take place, however gradually and painfully, through the bankruptcy of individuals and firms and through the acceptance by creditors of schemes of adjustment. The only way in which the prior charges in industry can be diminished to accord with a general fall in prices, while avoiding violent economic disturbance and dislocation, is by the promotion of arrangements whereby debenture holders become shareholders, or at least everyone's claim is proportionately written down. Such arrangements are



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inevitable since they are a condition of the rehabilitation of industry upon a profit-making basis. Part of our competitive difficulties has resulted from the way in which inflation has diminished the internal debt, both governmental, industrial and commercial, of certain of our rivals, and we cannot afford to stand still and do nothing to correct that handicap.

The second special reason why Great Britain is hit more hardly than most of her competitors by a fall in prices is the peculiar inelasticity of her industrial organisation. Her lack of adaptability is hard to prove by individual instances, but it has been commented upon again and again by experienced observers. The rigidity of the labour structure is even more obvious, scaffolded as it is with trade union restrictions and with the unemployment insurance system. These matters will be touched on again later in this article; here it is enough to say that they greatly enhance the dangers and difficulties consequent upon a world decline in prices, whether temporary or permanent.

Thus the world slump alone, operating upon the special situation of Great Britain, is quite sufficient to account for the peculiar depression of the present winter—in other words for the last one million increase in the numbers of registered unemployed. Very little can be done by Great Britain in isolation to remedy the world slump; so much depends upon the international co-ordination of credit policy, so much upon the psychology of merchants and manufacturers all over the world. Some amelioration of the effects might be secured, indeed is being secured, by a policy of public relief works, but public credit is already strained and opportunities for works of economic value become progressively fewer. In any case, neither public works nor Protection nor any other nostrum can interfere with the world fall in prices itself. Whether, and to what extent, prices will or can be encouraged to rise again—a matter of the most vital import for the world and for this country—is a matter for speculation still. Great Britain's problem is

## Great Britain's Special Handicaps

to adjust herself, at least as well as her rivals, to existing conditions.

What it is essential, therefore, for her to do, is to examine her position before the world slump began. By 1924 the effects of the violent depression of 1921 had worn off, the war was receding into history, the Ruhr disturbance was at an end, and political and economic affairs were becoming increasingly stable. It is not profitable at this moment to enquire into earlier years. Between 1924 and September, 1929, just before the big American collapse, British prices fell 22 per cent. This fall, perhaps one-third or even one-half of which resulted from the return to the gold standard at the pre-war parity, would by itself have caused serious strain on the industrial structure of the country, since average money wages proved exceptionally rigid and fell to nothing like so great an extent. But at the same time, the terms of trade were changing in Great Britain's favour—that is to say, she was getting progressively more in exchange for a given quantity of her goods—and this provided a larger total real income to be divided up, while at the same time her average productivity was rising; and although available statistics of productivity and of real wages are somewhat questionable, it is probably true to say that on the whole her total real income kept pace with average real wages. Thus between 1924 and the commencement of the world slump, Great Britain got no further out of adjustment to world conditions, and, if she participated little in the boom of 1928-29, her position was not subject to any severe deterioration. But in 1924, and over almost the whole of the subsequent five years, she already supported an excessive number of unemployed workers.

## England in the Great Depression

### IV. MALADJUSTMENT IN 1924

THAT is the real hard core of the problem of Britain's economic position—the first million unemployed, not the second million. In 1924 her economic affairs were already out of adjustment; in 1929 they were still out of adjustment and ill able to bear the trials of a world depression. What then were the nature and causes of this maladjustment? In some ways it is a question of the actual membership of the unemployed. In June, 1924, five big industrial groups, all interested in export—coal mining, iron and steel, engineering and shipbuilding, cotton, and woollen and worsted—accounted for 397,000 unemployed out of 1,085,000, or 36·8 per cent. The numbers registered as seeking employment in these industries totalled 3,339,000, or 29·4 per cent. of some 11,325,000 in all insured trades. Five years later the numbers seeking employment in the same five industrial groups had fallen to 3,085,000, which was only 25·4 per cent. of the total number (12,095,000) of insured workers, but the numbers unemployed in them had risen to 474,000, or 40·7 per cent. of total registered unemployment, which then stood at 1,164,000. The numbers unemployed in the engineering and shipbuilding industries had fallen considerably, but, with the German recovery and the coal stoppage of 1926 intervening, unemployment in the coal mines had been multiplied threefold. These figures illustrate the well-known fact that British unemployment has been heavily and, what is more important, continuously concentrated on a few trades, principally the heavy industries and textiles.

The above high percentages of unemployment do not represent the existence of a large reserve of labour intermittently employed, as in the building and dock trades. An enormous number of the unemployed in the heavy industries and the textile trades have had scarcely any work

### Maladjustment in 1924

for several years. Of the unemployed workers now receiving "transitional benefit"—that is to say, those who, though once insured, have not paid 30 contributions in the past two years—nearly one-quarter of the men are registered in coal mining, and nearly one-third of the women in the cotton trade. Thousands of those now registered as unemployed in the coal-mining industry entered it during the war and have rarely found employment in it since. Many thousands more, while certified as capable of work—some work, that is—are prevented by physical injury or defect from ever becoming miners again, a fact which is brought out by the large numbers of unemployment insurance and transitional beneficiaries in this industry who are in receipt of workmen's compensation, often for total disablement, as well as by the coincidence of considerable registered unemployment with a genuine shortage of suitable labour for the mines during the occupation of the Ruhr. This last section of the unemployed, the unemployable, present a social problem only indirectly relevant to the issues now under review. On the other hand, the former section, the physically fit men who have been unemployed, or employed for only a week or two, over a period of years, are the real bones of the problem. Their own industries cannot absorb them. The world demand for cotton and wool products shows signs of continuous decline, and other sources of energy take the place of coal. Rationalisation, belated as it is, may enable Great Britain to retain and even to enlarge her present volume of exports in her staple industries, but it holds out no hope of securing employment for all the workers who have hitherto sought their livelihood in them, since one of the first economies at which it aims is economy in labour force.

Nor, even before the present depression laid the heavy weight of unemployment upon almost every town and trade, did there appear to be much room for these unwanted workers in trades other than those in which they had formerly sought their livelihood. The policy of trans-

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ference—never, it is true, attempted on a large scale and badly handicapped by the existing terms of Unemployment Insurance—has been meagre in its results, not merely on account of the natural reluctance of workers to leave their homes for places and industries strange to them, and of the problem of finding house-room for them, but also on account of the difficulty of finding sufficient jobs available outside the depressed areas. The expanding industries and industrial areas have not been expanding fast enough. The most serious aspect of Britain's foreign trade position since the war has not been her failure to retain her exports of coal, cotton goods, woollen and worsted goods, and heavy iron and steel products; it has been her inability to share to an extent commensurate with her former importance as a manufacturing country in the trade in new articles of consumption—artificial silk, gramophones and wireless, household machinery, motor cars. This inability is reflected, internally, in the unemployment figures. Of the expanding trades, food, drink and tobacco, automobile manufacture, silk and artificial silk, electrical equipment, and chemical and allied trades accounted for 82,000 unemployed on September 23, 1929, and the building and contracting trades, also expanding, for a further 121,000. Another 100,000 unemployed were registered in the prosperous distributive trades. These industries between them accounted for over one-quarter of the total unemployed.

So far, and in what follows, we have referred only to manufacturing and distributing industry, but agriculture cannot be excluded. Though its volume of unemployment is not comparable with that of the heavy industries or textiles, its condition is, beyond argument, thoroughly unsatisfactory. It is a depressed industry. And, like other British industries, it is depressed, not merely because world economic conditions are adverse, especially for agriculturists, but because of special difficulties peculiar to Great Britain. The low price of wheat and the imports of

## The Costs of British Industry

foreign dairy products both contribute to the plight of the British farmer. The declared value of gross imports of foodstuffs into Great Britain in 1929 amounted to nearly £450,000,000 (other than tea, coffee, and alcoholic drinks, and foodstuffs for animals), and although the major part of those imports consist of such staples as wheat and flour, maize, beef and mutton, in which Great Britain cannot hope to regain more than part of the home market, and of commodities like currants which she does not produce at all, the figure, includes the following amounts of retained imports which are highly significant.

|                                                      | £ million. |
|------------------------------------------------------|------------|
| Fruit (of varieties grown in England) and vegetables | 23·2       |
| Cheese and butter .. .. .                            | 67·4       |
| Poultry and eggs .. .. .                             | 20·4       |
| Bacon and ham .. .. .                                | 47·4       |
|                                                      | <hr/>      |
|                                                      | 158·4      |

Practically the whole of these imports could be replaced by British products. The revival of agriculture in England cannot solve the unemployment problem, which is primarily one of urban industry, but a healthy countryside is an essential for a healthy State. It would also alleviate our financial problem by reducing imports, and it would relieve the existing pressure of the country on the towns. It would even provide an alternative field of employment for the surplus labour in, for instance, mining, much of which was drawn from agricultural occupations during the war. But, whatever measures may be proposed for agriculture, the industrial problem, with which this article is more immediately concerned, demands instant attention.

### V. THE COSTS OF BRITISH INDUSTRY

AT bottom, when all special explanations have been cleared away—foreign tariffs, horse-power taxes, political disturbance—there can have been only one basic reason why the industries in Great Britain were unable to

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compete successfully for export trade with rivals starting at the same time and possessing no greater natural advantages, namely, that their costs were too high compared with those of other countries. That must be a truism, but it should not be lightly concluded that any one element in costs, whether wages, or overhead charges, or transport, or power, or any other, was solely or principally too high. Efficiency of organisation, for instance, is an important element in determining total costs. Costs were too high in the old industries, too, but the new industries and the sheltered industries presented a different and a more vital problem, for they had not felt the sharpest blasts of the cold wind of competition, which was forcing down wages in the former staple trades, and compelling them to reorganise. It is a great mistake to relate this question of costs only to the outstanding export industries, when it is applicable to industry in general. Industries now exporting little might have exported more; industries now exporting nothing might have entered successfully into competitive markets; industries now subject to the competition of foreign imports might have been able to defeat that competition had costs in general been lower, including the costs of transport, of building and of distribution. The economic structure stands or falls by the strength of the whole; and if the general weakness throws a strain upon certain great girders which they are unable to support, there is no use in blaming those girders alone for the insecurity of the whole structure.

The conclusion cannot be escaped that ever since the post-war boom aggregate costs in Great Britain, compared internationally, have been too great to enable her to maintain the balance of payments due to her over what she owes to other nations, at a figure large enough safely to support the industrial and social structure which had been reared upon it, and consistent with the extent to which the savings of her people were being attracted abroad by the high rates at which foreign borrowers were willing to raise

## The Costs of British Industry

money. Any tendency for exports of capital to exceed the balance available when all imports and exports of commodities and services have been accounted for, along with international interest payments, must inevitably put a strain on the exchanges and so force up rates of interest at home to a level unjustified by the internal situation alone. The consequent discouragement of potential home borrowers is itself a cause of unemployment, since resources of men, money and machines available for the production of constructional goods are forced into idleness by lack of demand. The restoration of the £ sterling to its pre-war parity, while it probably aggravated this maladjustment, cannot have created it, since it was already apparent some years before the decision to stabilise was taken, when the £ still stood at a substantial discount in relation to gold.

The same problem may be regarded from another aspect. The volume of demand for labour, under given competitive conditions, must vary according to the price that is asked for it. The existence of an abnormal volume of unemployment ever since 1924 shows that, at any rate in relation to circumstances other than the cost of labour, wage rates on the whole were even then too high. That is a simple logical deduction which cannot be escaped or hedged. Whether the other circumstances might have been altered is another matter. Since 1924, though the cost of living has fallen by 20 per cent., wages have remained practically without change. Real wages are therefore considerably higher than in 1924. What it is important to urge is that attention should not be concentrated upon the old exporting industries, where wages were actually being cut, as though they were for ever and ever to be the country's sole means of support, but rather on the new ones, and on those which might have become exporting industries if their costs had been lowered; over this field of industry, with scarcely an exception, wages and conditions of labour were comparatively generous. They were, indeed, too generous in relation to the volume of international trade which the

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country has been vainly trying to maintain, and the primary reason for their maintenance at an uneconomic level was the failure of unemployment elsewhere to exert due pressure upon them. There are a host of reasons for this—housing shortage in the expanding areas, trade union defences of all kinds, restrictions upon entry into industry, the terms of unemployment insurance, casualisation and organised short-time practically subsidised by the State. Immobility and lack of adaptability in her labour force have been perhaps the most powerful single cause of large scale unemployment in Great Britain.

But labour is not the only charge upon industry. Could other costs have been reduced sufficiently to enable industry to pay the same money wages on the average and yet employ all those available for work? It may be so. Demarcation friction between union and union, unnecessary restrictions upon the rate and method of work, are among the artificial rigidities introduced by the trade unions into the industrial structure, all of which are costly, not merely to individual employers, but to the country as a whole. Artificial rigidities introduced by employers include the operation of rings and combines and the use of short-time working as a long-run alternative to concentration of work. None of these things could be afforded at a time when adaptability was the first essential of national economic strength. Excessive competition resulting in the retention of redundant and out-of-date plant could not be afforded either. Marketing methods abroad might have been improved, demand might have been stimulated at home by a reduction of the costs of distribution, the incidence of taxation—especially on industries whose machinery has to be frequently scrapped—might have been made more equitable. A great distance has still to be trodden along all these roads.

The cost of capital has also been high. Had it been possible to divert a greater flow of savings into home investment, not merely would the cost of capital to British pro-

## Conclusion

ducers have been reduced, but the very need for a cut in their costs in order to secure a greater volume of exports would have been diminished, since investment overseas would presumably have fallen off at the same time, and a smaller net export of goods and services have been required to cover it. British investors have been discouraged from investing their savings at home, chiefly by the higher rates obtainable on overseas securities, and by the unprofitability of the great staple industries; for the same reasons, home industries have been discouraged from borrowing.

No doubt can exist as to the urgency of the need for an all-round reduction of British industrial costs. The reports of the Economic Mission to South America and of the recent coal mission to Scandinavia—to take only two instances—tell a tale of markets being lost to competitors who undercut Great Britain not only by their enterprise, but also by the cheapness of their goods. Moreover, there are already signs that wages are likely to be substantially reduced on the continent of Europe and in the United States. Mr. Henry Ford, raising the wages of his employees to meet—or to defy—the industrial depression, is a voice in the wilderness. The prospect of reduced wages in Germany, in France, in Belgium, in Czecho-Slovakia, in the United States, is a sorry one for Great Britain. If she was out of adjustment long ago, and is so now, she would be doubly out of adjustment then.

## VI. CONCLUSION

**F**AR more important than anything else for all countries, including our own, is a world rise in prices, bringing with it a recovery in world trade; but no country by itself can bring that about. Central Banks may be able to remove obstacles to such a rise; beyond that it must come from the general economic conditions themselves. Here, however, we shall omit reference to all but such remedies as lie in our own hands.

## England in the Great Depression

The need is as clear as it is urgent for the co-operation of all the parties to industry—of the workpeople, in minimising the artificial restrictions upon the labour that they offer, and, if other remedies fail, in accepting a reduction of wages to accord with the fall in prices, beginning with the sheltered industries ; of the salaried employees, in sharing with the wage-earners in any sacrifices which have to be made ; of the employers, in securing the reorganisation of their industries, on the basis of efficiency, not of monopoly ; of the investors, in subscribing towards the raising of industrial capital ; and of the State, in removing those unnecessary restrictions upon industry which it has itself introduced, and in furthering the efforts of the other parties to restore to British industry its adaptability and competitive strength. There are two things which the Government can undertake spontaneously and without reliance on the co-operation of others. The first is the thorough reform of the unemployment insurance system, so as to remove from it both the taint of subsidised idleness and the accusation that it throws sand into the wheels of the industrial machine. The second measure is a sincere attempt at public economy, thorough-going but not parsimonious. Those two reforms are the condition of a real restoration of business confidence in Great Britain.

One participator in the national income who has gained automatically by the fall in prices has not yet been mentioned. The problem to making the rentier pure and simple share in the adjustment to a world fall in prices is extremely difficult. The fact that holders of fixed-interest-bearing bonds have gained, with all other recipients of fixed income in industry, immensely increases the difficulty of securing general reductions of wages. Yet as a rule the rentier is not simply a receiver of a fixed money income like a wage earner. He is very often, perhaps usually, a shareholder and "enterpriser" too, and what he has gained as a rentier he has probably lost, and more than lost,

## Conclusion

as a shareholder. Moreover, his gains as a rentier have been balanced by his sacrifices as a payer of income tax and super-tax. Lastly, it is a dangerous principle to fix the rewards of the rentier according to an index number of prices. If the rentier is penalised now, is he to have the right to compensation if prices rise ? If there is a large rise in prices, wages may be expected ultimately to rise too (though not to the full extent of the rise, if we are to cure our disequilibrium). But it would be a new principle indeed that the rentier should not take the risk of such a rise. Had prices risen and not fallen, not a voice would have been raised to demand any adjustment in his favour. Suggestions have been made that a further differential tax should be imposed on "unearned incomes." But would such a tax decrease if prices were to rise again ? Thus, any attempt to penalise the rentier bristles with difficulties.

Public works are a palliative, they can never be a cure of long-term unemployment, though they might turn the scales in a short depression. Devaluation and inflation are attractive expedients, but they lead to a very steep and slippery slope, and the experience of the past five or ten years does not encourage any reliance upon the powers of our industrial, financial and political leaders to negotiate it with wisdom and discretion. Protection cannot so easily be dismissed, but a consideration of the special reasons which have been bringing it to the fore, their merits and demerits, must be reserved for a future article.

The fact remains that Great Britain is in a specially difficult situation, calling for special efforts and qualities. She cannot be a "closed system." More than any other country, we live in, and depend on, the rest of the world. To meet the changing circumstances of the world we must therefore show the utmost resilience, elasticity, adaptability, efficiency and openness to new ideas, methods and inventions. Rigidity of ideas among employers and men, trade union restrictions, heavy taxation, in particular all that is covered by the word "dole," the socialistic

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tendency to belittle and depress private enterprise, are rendering us a very inelastic nation industrially. While we must wait upon world conditions for the return of real prosperity, it is in these spheres that reform is urgently required, if the lifting of the depression is not to find us in a still more difficult position than we were in when it descended upon us.

## INDIA : CONFERENCE OR INTRANSIGENCE

IT is six months since the writer dispatched from India the last instalment of this chronicle of events, and it is common knowledge that they have been six of the most crowded and fateful months in the history of British India. She has been vexed by armed aggression from without her borders, and riot and lawlessness within them. But, happily, this is not the whole story, for, in spite of misfortunes and distractions, the movement which began with Lord Irwin's pronouncement of November 1 last year has not been brought to a standstill. It has, if anything, gathered strength from bitter experience, for there can be none so blind as not to see how perilously near to catastrophe the country has been brought by men who, whatever their motives may have been, have set in motion forces which they cannot control, and have brought about results which will torment the country and its people for years to come. This movement, on which so much depends, is, of course, the movement for co-operation between Great Britain and India in the search for a peaceful and statesmanlike solution of the Indian problem. That problem will, with the arrival in London of India's representatives to the Round Table Conference, come up for definite decision. Our last estimate of the forces for and against a peaceful solution by conference has, however, held good in its main outlines.\* All the parties, and practically all the individuals, who then supported the Conference are still supporting it. It may be, indeed it is certain, that storms of other kinds and from different quarters will blow. It can only be hoped that the Conference will survive these too.

\* See THE ROUND TABLE, No. 79, June 1930, pp. 507-519.

## India : Conference or Intransigence

### I. THE INDIAN SCENE

THE period under review has been exceptionally full of incident and interest. There was India's reaction, both official and non-official, to the Simon Report; the nomination of the Indian delegates to the Conference; the tumults and disorders of the civil disobedience movement; the disturbances along the frontier from the Khyber in the far north to Waziristan in the south; the general election; the session of the Indian Legislature; the abortive peace mission of Mr. Jayakar and Sir Tej Bahadur Sapru to Mr. Gandhi and the two Nehrus; the attempts on the part of Indian politicians to secure a united Indian front at the Round Table Conference; the recrudescence of political assassination in Bengal and the attempt to carry it into other provinces; the proscription of the Working Committee of the All-India National Congress. Events have crowded upon events. But our list is far from being a mere chance collection of heterogeneous incidents and people. A closer inspection will reveal to the observer certain outstanding features which give design and arrangement to the whole. There is first of all what may be called the contest between Gandhism and Irwinism, both beyond doubt in pursuit of the same ideal; but with very different ways of following it. The first-mentioned uses a method which has repeatedly led to the sort of troubles which have racked India for the last six months, and the second a safe and practical line of advance. Non-co-operation or conference has been the choice, and it is well for India that there has been an alternative at all. Without it, strong bodies and interests which have stood aloof from the Congress agitation, or even opposed it, would have remained at best just passive spectators of a movement with which they sympathised at heart, or else they would have become mere partisans. Subsidiary to

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the main features but standing out boldly from the picture are the rival loyalties and ambitions of the different Indian communities, and the political problems of greater or less magnitude which arise out of this rivalry. But overshadowing every other feature we have India's common interest in her future place in the British Commonwealth, and the road by which she is to march to it.

Six months ago the whole outlook was confused and threatening. It needed a close knowledge of Indian politics and personalities to retain any confidence that the Round Table Conference would take place at all. The first phase of the unrest, Mr. Gandhi's defiance of the salt laws, and the spectacular breaches of the same law by crowds of excited persons to which it led, had virtually come to an end, even before the Mahatma's arrest and incarceration in Poona gaol. Peshawar and Chittagong, followed not long afterwards by Sholapur, and the long drawn out and still continuing disturbances in Bombay, marked the rise of a second phase, a different and far more formidable one, a phase which compelled the Government of India and the Viceroy to put into effect the various emergency powers conferred on them by law. Happily, direct action of this kind has not spread to any extent outside the places mentioned, though the ceaseless activities of Congress workers, employing a technique which we shall examine shortly, spread throughout India, and produced an anxious and dangerous situation which affected great tracts of the country. By the end of June, however, it was possible to trace a distinct ebb in the tide of disorder, and July witnessed a definite slackening in Congress activities everywhere, except in one or two places. Unfortunately, this ebb had no sooner set in than the subterranean activities of the terrorist and anarchist, the sure and certain product nowadays of any widespread political agitation in India, particularly in Bengal, began to manifest themselves. In August these sinister activities culminated in the murder at Dacca of Mr. Lowman,



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the Inspector-General of Police in Bengal, one of the most distinguished police officers in India, in the attempted murder and serious wounding of one of his brother officers, and in the murderous assault in broad daylight in the streets of Calcutta on Sir Charles Tegart, the famous Commissioner of the Calcutta Police. In September a large store of bombs, and other preparations for revolutionary crime, were discovered in the Punjab, and at the end of September and in the beginning of October there were attempts to assassinate police officers in Bengal, the United Provinces, the Punjab and the North-West Frontier Province. During this period, too, attacks began on small parties of police in various parts of India. Nevertheless, by the end of July, there were plain signs of uneasiness among Congress workers and of revulsion and disillusionment among the masses, both rural and industrial, except in Bombay, which has throughout remained the storm centre and the headquarters of the civil disobedience movement, in the United Provinces, which is the home of the Nehrus, and in the Central Provinces.

Perhaps the most marked and, from the point of view of Congress, one of the most successful, sides of the whole civil disobedience movement has been the boycott of British goods. When their other efforts began to fail, Congress workers turned to this weapon with redoubled zeal, enlisting large numbers of young men, boys and even women, to picket shops, and otherwise to harass and intimidate dealers in British goods, particularly in cotton piece goods. At the same time there was the picketing of liquor shops and the obstruction of auctions of liquor licences, with the object of depriving the provincial governments of their excise revenues. The result has been immense loss, not only to the authorities, provincial and central, from the drop in their revenues, but also to the unfortunate Indian dealers, many of whom have been literally ruined. At the time of writing, the boycott is also breaking up, largely because the worm in time is bound

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to turn, and the chief victims, these same Indian dealers, finding courage in their very despair, have rebelled against Congress tyranny. But the national revenue accounts for this year will make sad reading. Not the least serious effect of the boycott has been the dragging in of women and school children, many of the latter mere infants. Ideas and lessons have in consequence been inculcated which will assuredly bear bitter fruit for future governments of India, whether Indian or British. In particular, Bombay City has been the scene of constant strife between boycotters and demonstrators and the police. That unhappy city has indeed scarcely known a single day's peace since the beginning of the summer.

As we have seen, however, all over India—with the one exception of Bombay City—there has been, to put it at its lowest, a lull in the civil disobedience movement. It began to show itself towards the end of June, and it has not yet broken. Naturally, however, this lull did not start of its own accord. Both the Government of India and one or two of the provincial Governments had to take determined action. At the end of June, the Government of the United Provinces proscribed the Working Committee of the All-India National Congress, the headquarters of which were at Allahabad. About the middle of May, this Committee had issued a series of resolutions designed to stimulate civil disobedience, including the refusal to pay certain taxes, and had advocated a more thorough boycott of British goods. In June, it openly defied the recently promulgated ordinances for the prevention of intimidation and unlawful instigation. But, worst of all, the Committee had attempted to seduce the troops and police, making use of their organisation of Congress Committees in the provinces for their purpose. Lastly, there was good reason to believe that the Committee was instigating unrest in trans-border areas. The chief leaders of the movement, among them the two Nehrus, Mr. Patel, ex-president of the Legislative Assembly, and

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Pandit Madan Mohan Malavaya, had, moreover, to be arrested at various times for breaches of the law. All this necessitated further extraordinary legislation in the form of ordinances and, in addition to the two already issued for the prevention of intimidation and unlawful instigation, a third had to be passed at the beginning of October authorising the Government to take possession of premises occupied, and movable property owned, by associations which had been declared unlawful. The promulgation of this new ordinance followed an announcement by certain of the civil disobedience leaders that they intended to set up a parallel government on the Irish model, with courts and administrative officers complete. The new ordinance had to be put into force immediately in Bombay, and on October 15 there was a big round-up, the Congress offices and those of certain allied bodies being raided, and large numbers of persons arrested. This drastic action put an end, for the time being at any rate, to the attempt to set up a parallel government.

To add to the Government's difficulties, Hindu-Moslem tension had been constantly growing all this time. Two outbreaks, at any rate, are serious enough to deserve special mention. One took place at Dacca in June which resulted in a number of casualties and left a strained situation for weeks ; but there was an even worse outbreak at Sukkur in Sind in August, when about fifteen people, mostly Hindus, were killed, and over a hundred, again mostly Hindus, were hurt. This last outbreak threw an immense strain on the authorities. It came at a time when they already had their hands more than full as a result of the destructive floods on the lower Indus. But from the beginning of the summer the Moslem reaction to the activities of Congress has been growing more and more serious, and by the end of September Moslems were holding counter-demonstrations of their own, particularly in Bombay. The well-known Moslem left wing leader, Mr. Shaukat Ali, had indeed to issue a public warning that, if the activities of

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Mr. Gandhi and his followers did not cease, there was bound to be a Hindu-Moslem riot on a very large scale.

Lastly, in this tale of woe, it is necessary to notice the state of affairs on the Frontier. The outbreak at Peshawar was mentioned in our last despatch, and also some of its attendant circumstances.\* All through the summer parts of the Frontier Province, particularly the Peshawar district, remained in a grave state of unrest. But at the moment the internal situation is fortunately well in hand. The position has been very difficult—at times even critical—on the Peshawar, Kohat and Bannu borders. By the end of June the Lashkar of the Haji of Turangzai had been finally driven out of the Peshawar district, but the Haji then began to negotiate with the Afridis with a view to further trouble. Moreover, hardly had he been turned out of the Peshawar district when unrest developed away to the south, in Waziristan, early in July. This was, however, quickly suppressed after a certain amount of skirmishing between scouts and regulars and the Mahsuds, and a certain amount of bombing by the Air Force. But by the end of July it was clear that the Afridis were working up for trouble on a large scale, and towards the end of the first week of August the eruption into the Peshawar district, which for a time presented the authorities with an undoubtedly formidable problem, began. From five to ten thousand Afridis took part in it. The Air Force immediately took the offensive, and on the 8th the Cavalry was also in action. On August 9 and 10 gangs of raiders actually attacked various parts of Peshawar City, but by the 12th the bands were in full retreat over the border, having been most effectively shelled. In August, too, a serious situation developed for a time in the Bannu district. The Hathi Khel Wazirs live on both sides of the administrative border, and the trouble began on our side. It was, therefore, found necessary to disarm the villages near the border

\* See THE ROUND TABLE, No. 79, June 1930, p. 523.

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at the end of the month, and during the process suddenly resistance developed with the result that a British officer was killed. This, however, finished the trouble in the Bannu district, and since September, although there has undoubtedly been tension in places along the border, there has been no overt disturbance worth mentioning.

## II. THE CONSTITUTIONAL ISSUE

**T**URNING now to what is, after all, a more fundamental side of Indian affairs, it remains to notice the reception accorded to the Simon Report and the main course of Indian politics, especially the attempt of Mr. Jayakar and Sir Tej Bahadur Sapru to bring about a settlement between Mr. Gandhi and the two Nehrus and the Government.

The reception of the Simon Report in India could, of course, broadly speaking, be foreseen. The lines on which political opinion in India is divided, and the way in which the publication of the Nehru Report in August, 1928, proved to be the beginning of a new Hindu-Moslem situation—a situation, indeed, which still exists—have already been explained in these pages.\* Outside Congress the field is split between the All-India Moslem League, which now includes all sections of Moslems, and the All-India Hindu Mahasabha, both of which bodies are concerned, for the present, mainly with the “communal” aspect of politics rather than with the broader national aspect. In other words, Moslems and Hindu Mahasabha want to see certain points at issue between them settled before they proceed to consider the broad outlines of the future Constitution of India. Now, the Simon Report obviously could not please either of these bodies. It could not please the Hindu Mahasabha because it retains the communal electorates, and it could not please the Moslems

\* See THE ROUND TABLE, No. 73, December 1928, p. 110.

## The Constitutional Issue

because it does not guarantee them the majority which they claim in the Legislative Councils of the Punjab and Bengal, by virtue of their numerical superiority in those provinces. It does not, moreover, extend the reforms to the North-West Frontier Province, nor does it propose the creation of a new province in Sind, these being the four specific points on which they and the Hindu Mahasabha are at variance. The Indian Liberals who, at the moment, are making much the same sort of claim as the Congress party made a year ago, naturally complain that the Report does not go anything like far enough for them, and, in particular, they object to the overriding powers assigned to the provincial Governor, and to the refusal to grant responsible government at the centre. The Congress party simply refused to discuss the Report at all. European opinion in India on the other hand, on the whole, accepts and supports it, but it cannot be denied that the Round Table Conference robbed the Report of a good deal of its importance, and this came out clearly at the summer session of the Indian Legislature in July. Normally, the Report would certainly have given rise to a series of fierce forensic duels, but actually it caused hardly more than a languid interest. It was cursorily discussed when the question of the expenses of the Indian delegates to the Round Table Conference came before the House, but it was generally agreed by the Opposition that important matters connected with it would be better discussed at the Conference. Apart from this, the only noteworthy feature of the session was Lord Irwin's speech, in which he defined the scope of the Conference, and showed that it would be no more limited than the announcement of November 1, 1929, had promised. “It is clear,” he said, “that His Majesty's Government conceive of it, not as a mere meeting for discussion and debate, but as a joint assembly of representatives of both countries on whose agreement precise proposals to Parliament may be founded.” The Viceroy also gave a full review of Congress activities,

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and referred in impressive terms to their inevitable results. The speech was favourably received both by the House and the country, and one of its immediate effects was an appeal by a number of political leaders for co-operation in the work of the Conference, which was issued after a meeting of various political parties, as a result of which the proposal was made that Mr. Jayakar and Sir Tej Bahadur Sapru should try to bring about a reconciliation between the point of view of the imprisoned Congress leaders and that of the Government. It is now a matter of common knowledge how these two gentlemen asked and were afforded facilities for seeing Mr. Gandhi and the two Nehrus in prison, and the Nehrus were, in their turn, allowed to visit Mr. Gandhi in gaol at Poona to discuss the matter with him. The only upshot was a series of demands put forward by the Congress leaders which no Viceroy could have accepted. To mention only one of them, they demanded that the Round Table Conference should meet only to draw up a scheme of government for India which should be equivalent to full Dominion status, with certain temporary reservations. Lord Irwin naturally replied that he was unable even to discuss such a demand.

The general elections to the Indian Legislature were held in the autumn, but as the Congress party refused to stand, they lost much of their interest, although there was one important new development. The well-organised powerful non-Brahmin party in the south captured a number of seats and will undoubtedly be an important factor in the life of the Assembly.

Such, in broad outline, has been the course of events during the period under review. The Congress party will not be present, but the fact that the Round Table Conference has been able to meet, and with so full an Indian representation, is both a triumph for Lord Irwin's policy and a thing of hope for the future. Indian unrest is certainly only scotched, not killed. The experience of the last ten years has shown that Congress agents can nearly always

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stampede the masses, whether in the town or the country. Their methods are invariably the same. They play on the undoubtedly low standard of living which prevails among the Indian masses. The burden of their appeal is that providence has placed these masses in a bountiful country which produces two crops a year, and all that the heart of man can desire. Yet the foreign Government takes away the whole surplus of the land and leaves it with a bare living for its people. Youths of the student class, and women, nowadays in increasing quantities, are used as emissaries to spread their propaganda and to intensify the effect of the agitation, and as long as there is widespread poverty in India so long will these specious arguments have their force. The standard of living has been steadily rising for the last few decades, a fact which is capable of proof to any student of economics, but a truth of this kind can hardly be expected to be self-evident to an agricultural or an industrial labourer. Lessons from the experience of Ireland and Russia are, of course, freely drawn upon by Congress agents. The results we have been witnessing for the last six months.

## RUSSIAN REALITIES

**I**N Russia, if one has an interest in the passing scene, time never hangs. In the midst of friends in a bustling metropolis, among utter strangers in a mud-sunk hut out on the steppe, the physical surroundings may be oppressive, but the social panorama never is; for Russian humanity is always intriguing, and was never more so than in these days of stress and excitement over the collectivisation of the land and the five-year plan. Wherever you go people are in a communicative mood. GPU or no GPU,\* they will talk, and with an intimacy and an eloquence that overwhelm and move, and no less charm, the listener. So when I discovered, on reaching the provincial town of M——, that I should have to wait for my train until the evening, I was quite easy. I knew I should find plenty to see, and even more to hear.

I had been in this town seven years previously on my first visit to Russia after the Revolution. Of its railway station I then wrote that it was "a wreck with only the front part rescued from ruin and held together none too securely by stalwart logs and manifold scaffoldings." Now it was completely rebuilt and its immense waiting rooms with their huge windows, their cement floors, and whitewashed walls, were a joy to the eye. They were clean, too, with no paper, no remnants of food or *débris* of any kind scattered about, and, miracle of miracles, with but few flies. As formerly, masses of people with their tea-kettles, their sacks of pro-

\* i.e. the State Political Police.

## Russian Realities

vender, and their bundles of bedding, were waiting around for trains. They sprawled on the benches, the floor, the doorsteps, the sidewalks, in groups and in heaps, some awake, some asleep, and, whatever their inner feelings, in their faces one could discern no signs of disturbance. Well-booted, decently clothed, amply fed, they looked quite composed and comfortable. Some of them were eating, out of their own sacks, of course, raw salt pork, hard-boiled eggs, cheese, butter, home-made sausage—food which one could not readily obtain in town, except in the open market and then at atrocious prices. Some of them were smoking their funnel-like cigarettes rolled skilfully in printed paper; others were gazing listlessly at the passing scene, or reading newspapers and pamphlets, or conversing with neighbours. In one place a group had gathered round a youth with a shaven head and were listening to his loud and animated reading of the programme of the Commissary of Agriculture for the ensuing year. Further on, in the very corner, squeezed in between a long table and the walls, another group had clustered round a beggar with a wooden leg and a blind eye, who was playing an accordion and singing humorous limericks. Bursts of laughter and approval greeted his neatly phrased thrusts at the new rulers and their ways. Several soldiers and a GPU officer were among the audience, and they too laughed at his parodies, not as boisterously, but with quite as much enjoyment as the crowd did. Outwardly, this mass of humanity in the waiting room seemed bent on a holiday, without a care in the world, intent solely on fun and excitement. They were peasants from the country.

Only when I turned to the buffet did I become aware of the desolation that the Socialist offensive of the past winter had brought in its train. A few pieces of herring, a plate of fly-specked cheese, a basin of paper-wrapped candy, stacks of huge slices of black bread and an enormous samovar sizzling audibly—nothing else on show at the counters. Gone were the platters of cheese, the strings

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of sausage, the heaps of boiled beef and fried chicken, the white rolls, the pastries, the mounds of chocolate bars that only a year before shook the counters of the buffet in every respectably sized railway station. Yet crowds of people were clamouring for what there was. "Any biscuits?" I asked the attendant when my turn came in the queue. "Not one," he snapped back, and without waiting for a further word doled out to me two big slices of black bread on a clean plate and a ticket for tea, and immediately turned to the next man.

I partook of the bread and the tea and sallied forth to the post office behind the station to send off a telegram to a friend advising him of my arrival the next morning. As everywhere else, a long queue had gathered here. I obtained a form, wrote out my message and took my place in the queue. It moved with incredible slowness, for there was only one clerk on duty and he was the whole post office. He sold the stamps, registered the letters, sent off the parcels, received and paid out postal saving deposits, accepted money orders, dispatched telegrams and sold stationery. Peering through the glass cage that separated him from the public I could see him hard at work, writing, blotting, figuring on the ever-present *shtchot*,\* cutting receipts with the inevitable scissors, counting and recounting change, and now and then pausing to argue with a customer over the writing of some address or the sewing of the cloth round a parcel. The multitude of operations in which he engaged to complete a transaction did not, of course, speed up the service. The presence of so many people in the queue with parcels, the mailing of which in Russia is always a ceremonious affair, further retarded movement.

A woman with a basket bulging with produce took her place directly behind me. A large woman she was, with a sweaty face and an open mouth through which she breathed audibly. So restless was she that she continually strained

\* Abacus, *i.e.*, calculating frame with balls on wires.

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her head from side to side, as if in the hope that this would somehow or other quicken the movements of the queue. Asking me to keep her place she danced out several times to see if anything in particular was holding it up. Of course she talked. She could not understand why so many people had come with parcels, just at the time when she was in such a desperate hurry. That was her luck. She had left a three-months' old baby at home in charge of a six year old girl who was no more dependable than a kitten. She had been gone over three hours, standing in queues in the co-operatives and prowling about the bazaars, and Heaven only knew what had happened to the baby. Several of her neighbours in the queue commiserated with her and proceeded to tell of their own troubles. One had a husband with a bad heart, and all he could eat was milk-soup and rice. But the local co-operatives had been out of rice for weeks, so she was now sending a registered letter and money to a friend in Moscow, a Party man, in the hope that he could obtain rice there and send it on to them. Another, a young woman with a flushed face and tragic eyes, was telling about her father, a former merchant, who had been exiled to a village in Vologda early in the spring, and she had come to send him money. As she spoke her eyes grew moist, and the fat woman, catching my eye, shook her head dolefully and sighed. Soon these women were all talking away like old friends, though it was evident that they had never met before. I know of no place in the world, not even the hard coaches on Russian trains, where people get so intimately acquainted with one another in a short time as in these endless Russian queues.

A loud voice burst on the air. The clerk and a customer had got into a dispute. The customer, a tall youth with broad shoulders and a sun-baked face which was sprinkled with lime, as were also his working clothes, had asked for "everything one wants for a letter." The clerk gave him an envelope and a stamp but no paper. He had none left.

"How can I write a letter to my mother if I have no

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paper?" queried the young man earnestly. The clerk refused to answer. "Why are you sold out?" the youth demanded with indignantly.

"How should I know?" shot back the clerk. "Ask my superiors." Meanwhile the queue was held up and everybody bawled at the young fellow to move on. Slowly he turned round, and with a shout of *vreditel*,\* at the clerk so loud that everybody could hear, he walked away. The clerk was not disposed to tolerate the insinuation, for he immediately jumped to his feet, stuck his head out of the window, and yelled angrily:

"What sort of a *vreditel* am I? Shame on you to fling such an insult at me," and, turning to the people in the queue, he continued, with a gesture of self-righteousness, "I am forty-three years old and I sweat every day in this stuffy post-office for forty-two roubles a month, and he says I am a *vreditel*."

"Shame, shame," exclaimed several voices, and the youth, recovering his good-humour, explained that he meant no harm, and had blurted out the word because he had lost his temper. The clerk, satisfied with the explanation, returned to his work, and the youth, smiling and blushing and, as if in apology to the people who had heard him, admitted that he had used the word unjustly. I pulled out several sheets of paper from my writing case and offered him them. Instantly the eyes of everybody were on me, and even more on my writing case, and I could hear the remarks, "evidently a foreigner, sure a foreigner, what a beauty" (meaning the writing case). The girl whose father was in exile informed me that being a foreigner I did not have to stand in the queue, and several others, with that respect and generosity which Russians never fail to show to a foreigner, suggested that I should go straight up to the window and the clerk would attend to my wishes. That, of course, I knew. By showing his passport or his credentials a foreigner in Russia can usually obtain imme-

\* The literal translation is "damager."

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diate service; but this time I refused to avail myself of the privilege. I had all the time in the world, and I might as well stay here and wait for further incidents. Quiet ensued. The clerk, Russian fashion, continued to write and blot and figure and cut receipts with his scissors, now and then arguing with customers and reading aloud addresses on parcels, and even messages in telegrams, which, of course, he was not supposed to do; but nobody resented the betrayal of their privacy. What is privacy to a people who, with little or even with no encouragement, turn their very souls inside out to a chance acquaintance.

So preoccupied was I, indeed, watching and listening, that I had not noticed that my turn had come at the window. But my companions had, and they lost no time in reminding me of it. I disposed of my telegram, but I did not go out. The queue was now growing longer and longer, and two of the latest arrivals, both women, were arguing heatedly over their places. I stationed myself in a corner and began to write letters. The proletarian approached me again and asked apologetically if I would oblige him with another piece of paper, and when I handed it him he did not depart. Instead, he began to talk, or rather to ask questions, in the manner of Russians when they meet a foreigner. "Where had I come from? What was I doing in town? How did I like the Soviet regime and the new building programme? How was the revolutionary movement progressing in foreign lands? What was the foreign proletarian saying about the Bolsheviks? And how much did I pay for my writing case, and would I sell it, if he paid me cash at once? Ah, what a writing case, what leather, what workmanship, he had never seen one like it! But then, at the end of the five-year plan they too would have writing cases like that and perhaps better ones; they would have everything in abundance and there would be no queues, for everybody could have his orders delivered at home . . . *Nichevo*.\* Only people had to

\* Never mind, or don't be disturbed.

## Russian Realities

have patience and forbearance and not complain too much. . . .”

Meanwhile a woman with the inevitable basket strutted up to the clerk's window and took her place at the head of the queue. Instantly she was bombarded with protests, but she explained that she did not have to stand in the queue.

“What do you mean, you don't have to?” someone challenged in anger.

“Yes, what do you mean?” several others repeated the challenge.

“I am drawing out money from the savings department, and that I can do out of my turn,” was her retort.

The clerk pushed his head out of the window and confirmed her words. That ended the protest but not the dissatisfaction. A woman only several places away from the last arrival raised a fresh complaint. She did not understand, she declared, why anyone should come to this particular post office to draw out money when there were so many other places scattered all over the town that paid out saving deposits. Several persons in the line agreed with her, and their comments did not escape the ears of the accused woman. She rose in self defence. “What else could I do?” she said pleadingly. “I have come with my sick daughter to go to Moscow. I left an order with the porter to buy two tickets in the hard coach, and he informs me that the sleeping places in the hard coaches are all sold out. He could get us sleeping places only in the soft coaches, and that costs a good deal more. I had to get money in a hurry, and at the savings window in the waiting room there is a long line of people, so I thought I'd come here.” The explanation was unanswerable, and now instead of censure people had only words of sympathy for her.

Hardly had she gone when a little man, a hunchback with a wiry black beard and a protruding nose which imparted to his face a rabbit-like appearance, dashed into the room and pushed up to the service window in front of the queue. A

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volley of angry voices shouted at him to get into line, but he did not budge.

“I have brought money to deposit, so why are you so indignant?” he cried. A good enough reason it was, and nobody said another word, though one man, speaking as if to himself, remarked that he did not see why any exceptions should be made for people with money to draw out or to deposit. Whereupon someone else felt called upon to explain that if such an exception had not been made people would not readily bring their money to the savings department. They would keep it at home, and that would be bad for the Government, would deprive it of the use of all these sums.

“All these sums,” sneered the original complainant; “these miserable pennies.”

“Yes,” protested the other with feeling, “these miserable pennies can buy a few machines and a few tractors, and that is something in the five-year plan, isn't it?”

The man muttered something inaudible and dropped the discussion. The queue began to move without further interruption, and people looked cheered that the obstacle was out of the way. But they counted without Russian realities, for soon the clerk's stentorian voice boomed out again.

“You haven't written any address for the reply on your letter.” He was speaking to a youth who wished to have a letter registered.

“Write it then,” said the youth; “village P., district T., section O.”

“Write it yourself,” the clerk interrupted. “Don't you see all these people waiting to be attended to?”

“But, *tovarish*,”\* the youth protested meekly, “I cannot write; I am illiterate.”

“You?” burst out the hunchback. “So young too? What are you, a proletarian or a peasant?”

“A peasant.”

\* Comrade.



## Russian Realities

"And you never went to school?"

"Never."

"Aren't you ashamed of yourself, when our Government does so much to teach people, especially the young, to read and write?"

"But why am I to blame?" the youth retorted, his face suffused with embarrassment. "My father always wandered about from place to place, and when he finally settled there was no school in the village."

"And where do you come from?"

"The north, away up in Murmansk. There the Soviets have not built as many schools as here in this town. The proletarian always gets the best of everything."

This last remark instantly caused an eruption.

"And you peasants," a woman burst out hotly, "don't have to get the best of everything, you have it already—pork, butter, cheese, eggs, milk."

"And you scrape the hide off us townspeople, proletarians or no proletarians," added another woman with bitterness.

Others joined in. Excitement rose high and would not die down even when the clerk once more shoved his head out of the window and begged for order. But he did not insist on it. Instead he lighted a cigarette and listened.

"Seven and eight roubles for a pound of butter, that's what the peasants are asking."

"Three roubles for ten eggs."

"Twenty-five roubles my neighbour paid for a little pig, and when she brought it home it died."

"And they tamper with the weights."

"And water their milk."

"The cheats, the cheats!"

"The militia ought to do something about it; arrest the rascals."

"The militia! They are too busy admiring themselves in their new boots."

The young man was so overcome with dismay that he looked like a hunted animal. He was too perplexed for

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words. Only when the excitement had abated did he find his tongue.

"But you don't understand," he stammered out; "up north where I come from it is different. We haven't even enough bread; things don't grow there like in these parts. We have only fish and fish and fish."

"Nu,\* when the land is collectivised," another youth chipped in, city bred evidently, for he was smoking a factory-made cigarette, "there will be everything for everybody everywhere, even in Murmansk, and at low prices too."

A loud guffaw from a tall man who was leaning on a cane greeted these words. So loud was this guffaw, and so obstreperous, that people turned their eyes on the man, and he, suddenly aware of the attention he had attracted, drew back as though conscious of guilt and fearful of punishment. That he was, or had been, a man of parts—a merchant, a lawyer, a contractor—a man of repute in the town, was evident from his appearance, from the trim of his beard, the cut of his clothes and the collar and tie he was wearing. The youth with the cigarette eyed him with stiff contempt and muttered something under his breath. But the man never even turned to look at the speaker.

"Well," said the hunchback to the boy, "give me your letter. I'll write the address for you, but you go to school. It is a shame for a young man like you in these days to be illiterate. If you live in this town come to the *likbez*† of my union; we'll take care of you."

I left the post office and sallied forth into the street. The sun was high and warm, and masses of people with their cumbrous bundles were streaming in and out of the station. Where had they come from? Where were they going? Why were people travelling so much in Russia these days? It was not autumn, when students start for school. It was not spring, the season when peasants in this region stream home from town. It was the begin-

\* Well.

† Illiteracy Committee.

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ning of summer. Of course the constant call for new hands from the hundreds of factories under construction all over the country accounted in part for this rush to the trains, but only in part. Something else was drawing people somewhere, everywhere, and, whatever it was, the spectacle of them surging in masses to all parts of the country made one stirringly aware of the fresh waves of feverishness that had come over Russia.

I sauntered round the public square which spread apron-like in front of the railway station. On one side, within the shadow of a tumbling fence that was overhung by the tops of little trees, a long row of *izvoshtchiks*\* had stationed themselves. Their *drozhkys*† were the most battered I had seen, with tops, bodies and wheels patched and repatched and presenting as ancient and scrappy an appearance as they did themselves with their unshaven faces, their frayed and massive coats and their tattered boots. Several of them hailed me and offered to drive me in to town, but I waved them aside and stood facing them.

One of them asked for a cigarette, and when I gave it him, the others, all of them I thought, hastily swarmed round begging for cigarettes too. Luckily I had enough to go round, and as they smoked they launched into eager, heated talk. Times were so bad for an *izvoshtchik*, and they were so upset. The peasant, the proletarian, the office man, were living in security and knew one day where their bread would come from the next, but not the *izvoshtchik*. And why not? Because he had no friends—everybody hated him. The very Soviets who had come to succour the poor were snatching the last slice of bread from the *izvoshtchik*. For ages and ages all passenger traffic in that town had been handled by him and people were quite satisfied, and now the Soviets had built a trolley, and folk could ride all over the town for ten copecks—ten dirty copecks. As though there were not other things that the Soviets could build—bath-houses, children's homes, workers' clubs! Why did they

\* Cab drivers.

† Cabs.

## Russian Realities

have to start a trolley? And why, above all, did they import buses to go all the way to the suburbs and carry folk fifteen versts for twenty copecks? And now there was talk of a flock of taxis coming the following year, and what for? Did not *izvoshtchiks* have to eat? And prices were jumping higher and higher every day. If only bread had not been put on ration. The year before they could buy enough for themselves and their horses, and it was so much cheaper than oats. But now all the bread one was allowed was merely enough for one's own needs, and *izvoshtchiks* had to buy oats for their horses at eight and ten roubles a pood, and where were they to get the money? People did not want to pay decent prices any more, and called *izvoshtchiks* robbers, kulaks, damagers, counter-revolutionaries, and other names. No respect, no tolerance, no sympathy. What a life and what a fate for an *izvoshtchik* under the Soviets! Of course the authorities proposed a way out, the one they were proposing to everybody they were ruining—the *kolhoz*.\* A new heaven it was, this *kolhoz*, for all sinners and all saints and everybody else! But an *izvoshtchik* was no muzhik and no shopkeeper and no loafer. He knew only his horse, his *drozhky*, the streets of the city and nothing else! What would he do in a *kolhoz*? Now with summer here they could somehow struggle along, but when autumn and winter came, what would they do? What? What indeed but yield to the inevitable? Spoiled lacqueys of a vanished civilisation, they did not realise that there was no place for them in a world like Soviet Russia in which nothing matters so much as the machine. Consolation I could not offer them. Perhaps they were not expecting it. But when I left, I was cleared of all my cigarettes.

I rambled on from street to street, until I strayed into the big market place. Here life roared. Row upon row of peasant carts with all manner of produce—butter, cheese, eggs, meat, vegetables, live chicken, live pigs—stretched

\* Collective farm.

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from one end of the square to the other. Townspeople, chiefly women with the inseparable straw baskets, marched in an endless procession from cart to cart, feeling the produce with their hands, sniffing the meat and the cheese and the butter, dipping their fingers into things and sampling them. They asked the prices and bargained vociferously, or tried to, but in vain. The peasants stuck to their demands, and people snatched the food from their very hands, everything from scabby old radishes to squealing pigs.

"Why are you asking eight roubles for a pound of butter," I heard a pretty young woman ask a heavily moustached muzhik who was leisurely chewing away at his black bread and raw salt pork, "when that man there is selling his for seven?"

"Then buy from him," calmly replied the peasant.

"He has no more left," the woman remarked.

"Why am I to blame then?" chuckled the peasant. "Do I control other people's lives? Do I tell you what to do, and where to go? You are your own master, and I am mine. Do you understand, lady? I cannot sell butter for less than eight roubles a pound. Maybe the other man puts sawdust into his. How do I know?"

Without a further murmur the woman paid him his price. "Children," she muttered, as if in apology, "must have butter."

"Funny people!" went on the peasant, addressing no one in particular, but anyone who cared to listen to him, "if they'd bring soap, tobacco, kerchiefs, leather, other things, we could barter. But no, they want to buy only for money, and they think that money nowadays is the same as it used to be, when you could buy a pair of soles for twenty-five copecks. Now you go to the shoemaker and ask him to put on a pair of soles on your boots and he wants twelve roubles. In the old days for twelve roubles you could buy two new pairs of boots," and he turned to wait on freshly arrived customers.

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Everywhere there was the same swell of excitement, the same exchange of banter, interspersed now and then with words of acrimony and contempt. The peasants, of course, were impervious to sharp language. They would have their price or they would not sell.

All of a sudden a voice boomed out: "Swine, swine, swine, away from here, away." The speaker was an elderly peasant with a beard and he was standing on his wagon in his boots, and with his hands was brushing off the buyers. They protested vehemently, but he would not listen to them. "Away," he shouted, "away. I have nothing more to sell, nothing. I'll take everything back home and dump it into the pig-pen. Away, I tell you," and he grabbed the hand of a woman that had crept into the straw of his cart and pushed it out. He spread out his arms and would allow no one to touch anything in his wagon.

"Come, grandfather, don't be foolish," a passer-by exclaimed.

"Foolish, foolish," he grunted in anger, "two cheeses they have mauled up to-day, and the other day they broke half a dozen eggs, and who is the loser? I am. Everything they must dig their dirty hands into and break, destroy!—The swine! Away, away," he fumed. "I'll sell nothing, nothing any more. I'm going home."

Some of the women evidently knew him and sought to flatter and coax him out of his ill humour. They praised his cheese, his butter, his eggs, above all his fair-mindedness. Gradually the flattery and the entreaties mollified him and he told the women that if they would line up in a queue, as they did in a co-operative store, and promise not to push and thrust past one another he would resume trade. They agreed, but he would not get up from his reclining position until they had actually carried out his wishes.

To me it was an amazing spectacle. A mere muzhik, perhaps illiterate, in full view of crowds of people, enforcing his own discipline on town women. In the old days he

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would have been so obliging and apologetic, and he would hardly have dared to speak above a whisper to women out shopping in the bazaars. And now—how desperately times have changed!

In another part of the bazaar a crowd was storming at a peasant who had brought several live geese to market, and still further on another crowd had lost its self-control and with harangues and shouts was pushing against a cart in which there sat a middle-aged peasant woman. She had just arrived with three live pigs and everybody wanted to buy them, offering the price she demanded. Everybody, in fact, was shoving money into her face, but she did not know whose money to take. Frantic with distraction, she pleaded with them to control themselves, and wait until she could attend to them. But they clamoured for the pigs, flourishing their money before her eyes, pigs to supply the fat for seasoning potatoes and *kasha*\* and soups that everybody wanted. The woman was overcome with perplexity. She looked terror-struck. Her voice trembled and her hands seemed paralysed. Presently a man came to her aid. Forcing money into her hand, he helped himself to one of the pigs. Two women did likewise, and the crowd instantly dispersed as easily as it had gathered.

I felt someone nudging me. It was a tall muzhik with a swarthy face, enormous moustaches and good-humoured heavy-lidded eyes. He excused himself for intruding, but explained that he thought I was a foreigner and just wanted to make my acquaintance. I followed him to his cart and in a torrent of exuberance he proceeded to tell me of the respect that he had always had for foreigners. He knew something of them, for during the war he was a prisoner in Germany for three years, one in a military camp and two on a farm in Westphalia. He used to go to market in Westphalia, and people were so different there; they didn't push, they didn't shout, they didn't grab; they were cultured, not like dark-minded Russians. He stuck

\* Gruel.

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his hand into a linen sack, brought out a handful of dried pears, and offered them to me with an apology for not having a more worthy gift for "a foreign guest." Or perhaps I was hungry? He had bread, pork, pickles, and would gladly share them with me. Then, growing chummy and intimate, he confided that he was through with the bazaar. Never again would he take his produce to any bazaar. The devil was in the bazaars. Everybody was cheating everybody else there. Was it not insane for peasants to demand, and for city folk to pay, eight roubles for a pound of butter? But the peasant was not to blame. The other day he wished to buy a raincoat for his wife, and how much did I suppose they asked for one in the open market? Seventy-five roubles! And in the co-operative the same coat was selling for sixteen. The manager of the co-operative had told him that if he would bring eggs, butter and meat, he could get goods in return to the full amount of his produce, and he would not have to stand in a queue. He had a pig at home weighing ten poods and he would take it straight to the co-operative. Why, in the open market a kilo of sugar was eight roubles and at the co-operative only eighty-three copecks, and a pair of boots in the open market cost seventy-five roubles or more, and in the co-operative it cost only twenty or twenty-five. Indeed, he was done with the open market, where people were just skinning one another. Several women approached and, without even asking whether he had anything for sale, thrust their hands out of sheer habit into the straw in the cart in search of possible produce. When they moved on he laughed and shook his head in disapproval. "They don't behave like that in Westphalia. *Akh*, people are so polite there!"

Continuing his confidences he informed me that he was a *primak*\*, and had married a woman with a home of

\* A man who marries a woman with a household of her own, and goes to live with her instead of, as is the custom among peasants, taking her to his own home.

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her own, and gone to live with her. They had five children and were a happy family, though only two of the children were his. Ah, if I would only pay them a visit! Would I? They would all be so happy to entertain me for a week, a month—as long as I cared to stay. Of course their home was no palace. They were not landlords. But his wife was an excellent housekeeper, and he had taught her a few things that he had learned in Westphalia, and they kept their house clean. They had the walls papered and hung with pictures, and no pig or chicken ever crossed their doorstep. Never. Animals were kept in their proper place, outside, just as they were in Westphalia.

"You would like our home," he raved on with increasing gush, "and you would enjoy my family, my wife and my children, and I want to tell you that we have things—meat, milk, eggs, pickles, dried fruit, even white flour—all our own. Please come."

I assured him that much as I should have liked to avail myself of his invitation, it was impossible, as I was scheduled to leave that very evening for a different part of the country. He was visibly disappointed.

"Well," he suggested after a lengthy pause and with that show of friendliness and humility which makes the Russian peasant as touching and lovable a person as there is in the world, "if you cannot come now, may be you can some other time. We'll have such fun together, and it will be interesting for you to see our village and make the acquaintance of the people there. Come on a Sunday if you can and see how our folk dress. All peasants protest and whine and say they have nothing, but you should see the way our girls doll up on Sunday. You would never think they were peasants—soft leather shoes and rubbers and satins, and even silks."

Then he shifted the subject to a more serious matter—the kolhoz.

"There is a kolhoz in our village," he went on gravely, "but I have not joined it, and I am bothered a lot as to

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what I should do. Of course I am very happy as I am. We have seven dessiatins of land, two cows, this here horse, twenty-five hens, six sheep and three pigs, and we work our land, not like other muzhiks, but with sense and system, just as a *bauer* in Westphalia would do. I earn something on a side line, too, playing the accordion. I play quite well. Once I hear a tune, I can play it right off. I am deluged with invitations to play at weddings. But I have to be cautious, or the Soviet might say that I was making too much money, that I was a kulak, and, citizen, I'd rather be dead than be branded as a kulak, and run the risk of being banished with the family to some God-forsaken forest in the north. But I won't be caught. I won't give them a chance to call me a kulak. I'd never hire an outside person to work for me, even if all my crops were to rot in the field. I am a literate man. I read the papers and pamphlets, I know what is going on in this here country, and I have learned to keep just within proper limits. Do you suppose that I could not keep four cows? Of course I could. But I only have two, and in the fall I'll sell one. I am safer with one. But this kolhoz—the devil knows what is going to come of it. The local Soviet people give me no rest. They say they must have me in the kolhoz. I could establish order and discipline, and make it go. But I dread giving up my independence; I am so happy with my family now. *Akh*, if you would only come so that we could all get together and talk it over at leisure and at length. Please do try to come some time this summer. We shall be so pleased, so honoured."

Late in the afternoon sauntering about the town I entered a co-operative restaurant. I thought of getting dinner there, but the crowds at the tables and the closely packed queue at the door were not encouraging. I tried several other restaurants, but the same conditions obtained everywhere, so I went back to the railway station—being a transit passenger I was entitled to special consideration in the buffet. But I had not reflected that there were

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hundreds of others who deemed themselves entitled to the same consideration. However, I took my place in the far-stretching queue to obtain my dinner checks from the cashier. Meals here were simple. They consisted of two courses, a vegetable or milk soup and either fish or kasha. There was no meat and no dessert, but the price was modest enough, only eighty copecks. Tea could also be had with plenty of sugar at five copecks a glass.

The ordeal of obtaining the checks over, I paraded round searching for a vacant seat. At last I found one at a table near a window, at which three other visitors were sitting, two young men and a girl. The men kept their hats on, as did most of the people in the dining-room, and they had writing cases with them. Evidently they were officials from the provinces. The girl was bare-headed and bare-legged, with one hand on a parcel in her lap and the other holding a book which she was reading. The three must have been trying to attract the attention of a waitress for some time, for one of them, as much in fun as in disgust, began to clang his pocket knife against a glass. Waitresses with red and sweaty faces, dressed in white gowns that were visibly spotted with grease, scurried up and down between the tables, replying to impatient customers with the universal *ceichas*, *ceichas*, a word with an elastic, or rather a variable, meaning. Ordinarily it signifies "right away"; literally it means "this hour"; and actually it means "this or any other hour to-day, to-morrow or some other day." At last a waitress favoured us with her attention. She picked up the dishes left by the previous diners, wiped up what they had spilt on the floor, picked up our checks and departed. Soon she returned with our soup and then once more forgot us. We hailed her several time as she flitted by, but she put us off with her ever-ready *ceichas*. Someone near by then started beating with his spoon on a plate, other impatient would-be diners joined in, and presently the room was swelling with a symphony of clanging noise. One grey-haired man sitting

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at a neighbouring table kept muttering to himself, but quite loud enough for us to overhear, *bezobrasie*, *bezobrasie* (shame, shame). A waitress passing by, he grabbed her by the hand and shouted: "Why do you torture us like this? Why are you workers in social dining-halls such callous bureaucrats?"

This particular waitress had evidently not yet learned to feel the sting of the word, bureaucrat, or else she had grown hardened. Quickly she wrenched herself loose and dashed off to wait on people in the lower part of the room. Thereupon the man jumped to his feet, shoved his chair violently out of the way, and muttering furiously, "Scandalous, scandalous," flung out of the room with such a show of annoyance that half the restaurant turned to stare at him. Two men rushed for his chair, a youth with a shaven head and a middle-aged man with a red face and a fluffy beard. The youth got in first, and the middle-aged man after a searching survey of the room with his big naïve eyes, took a place at the window immediately behind our table, and waited for another vacancy. Irrepressibly loquacious, he turned to us and began straightaway:

"There is no use getting impatient nowadays. A man with no self-control like the citizen who just walked out in a huff, may in a moment of excitement kill somebody or drop dead with a burst heart." There being no reply he moved away. Presently the two men at my table could no longer restrain their indignation. This lassitude, this disorder, this disregard for human patience and human needs. It was a shame, and they in such a hurry, too, to catch their train! They shouted at one of the waitresses, but she paid no heed; one of them therefore decided to go and give the manager a piece of his mind. He soon came back, and shortly afterwards the manager, a little man with a bald head sunk between his shoulders, himself brought two portions of fish for the officials. "I told my *nachalstvo*,"\* he said, as if to justify himself, "that we needed more

\* Superiors.

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help, but they pay no attention to me, so what can I do?"

The officials hurriedly gulped down their food and left, and the bearded man instantly jumped into one of their seats, a woman with a huge shawl over her head occupying the other. The man seemed to be in an expansive, yet pleasantly informal, mood.

"If people only knew," he said, as if continuing a vein of thought on which he had started earlier, "how important it is always to be in full control of one's impulses, they would be much happier than they now are." He paused and looked at the woman and the girl and me, as if to ascertain whether we were companionable, and then went on: "Here am I, fifty-three years old. All my life I have been rushing about in search of some great happiness, always collecting things, more and more of them. Then came the Revolution, and smashed everything, my belongings, my plans, my future. But one thing it left untouched—my disposition." He leaned over toward the girl as if to see what she was reading, but she never raised her eyes.

At last our waitress brought the orders for the girl and me. She set them down, picked up the checks of the newcomers and was gone again. The man looked about the room which was now so packed that the gangways were all blocked, and the waitresses had to shout to make a way through. Then his eyes rested on me and I could feel his fixed stare. Presently he asked me where I came from. When I told him, he exclaimed, "Such a long way from home, ah!"

Now of course I knew I was in for a volley of questions, and they came one after the other. Then, as if out of a sense of sportsmanship, he proceeded to narrate the story of his own life. He had once been an architect—a *samouchka*.\* His father was a well-to-do peasant and lived in a village some fifty miles away. He had put up many a building of

\* Self-educated.

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note on the estates of various landlords, but now his career was at an end. Day after day he sat at his desk going over drawings and columns of figures, and getting 135 roubles a month. Once he had planned to go abroad, perhaps to travel in America and see something of the skyscrapers there. But all the travelling he now did was an occasional trip to his native village to buy flour, eggs, butter and meat. He did not even go to Moscow any more.

The waitress came up again at this point with his soup and the woman's, and both began eating with that rhythmic audibility which in Russia accompanies the consumption of all fluids. Suddenly he sat up as if struck by a startling idea. "*Da* (yes)," he exclaimed, pointing at me with his forefinger, "you are just the man to tell me something. The other evening some friends came to visit us at home and we were talking about America, when one of them said that he had read somewhere that Americans do not marry until late on, thirty, thirty-five or even older. Is that true?"

"Quite often it is," I replied.

"Really? And I thought that it couldn't be true and argued that it wasn't. It seemed so impossible. Why do such people marry at all?" He stared at me as though expecting an answer, but I offered none. "Now here am I," he resumed, "I married at nineteen, and now I have three children, all sons. Two of them are no longer at home—no use hanging round a father who cannot help them under a proletarian regime. One of them has almost disowned me—ashamed of having a father with a bourgeois past. He is a mechanic in the tractor factory in Stalingrad. He has not been home for three years and has even stopped writing letters, much to the distress of his mother. But he is still our son, and we have his picture on the wall. Do you understand? He is still a big part of us, and he always will be whether he comes to see us or not. The other is away studying agriculture. He does keep up more or less desultory relations with us, and he comes to see us once or

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twice a year. We have his picture too on the wall. Then there is the youngest, seventeen or about seventeen. He is still with us. Now supposing my wife and I had not married or had married late—she is fifty-two now, and I am fifty-three—well, we should have each other, but that would be all, and at our age people might die through some unforeseen cause. Suppose then that one of us did die, can you not see how dismal life would be for the other? Children, citizen, good or bad, are the greatest boon in life. Have you a wife?”

“No.”

“Ah! You know there is a Russian saying, ‘not married at thirty and not rich at forty and your life is lost.’”

“What rubbish,” murmured the girl, looking up from her book.

The man eyed her resentfully.

“Rubbish,” he snorted. “Bourgeois ideology, little girl, would have been a more becoming expression.” Turning to me again he continued:

“And now the slogan is ‘if not ruined at thirty and not dead at forty, you are no good anyway.’”

The girl squirmed with indignation.

“Why are you spewing out this nonsense?” she cried earnestly and reproachfully.

“Nonsense? Is that what it is?” he shot back, full of irritation and amazement.

“Yes, nonsense, revolting nonsense. You just admitted that you were fifty-three, much older, therefore, than forty, yet you do not look in the least ruined, and you certainly are not dead. You can talk more nonsense than anybody I know.”

“Haw, haw, what a girl!” and he laughed heartily.

“How old are you?” he asked her.

“Eighteen.”

“A *Kmosmolka* (Young Communist)?”

“No.”

“A plain citizeness?”

## Russian Realities

“A plain citizeness.”

“And a militant one! Well, well.”

The girl, tired of the wrangle, returned to her book.

“Eighteen,” repeated the man solemnly, “eighteen and she knows so much. She could surely tell us how many stars there are in the sky. They are all like that, these young people. Take my son, Vassily, my youngest. He is not yet eighteen, and the other evening as we were sitting down to tea he confessed to his mother that he was in love with the daughter of a neighbour, a railway engineer, and what do you suppose he told us he wanted to do?”

“Marry the girl?” ventured the woman.

“Nothing of the sort,” replied the man, with a flush of indignation. “Marry the girl! Hm—. If it was only that he wanted. But no, he asked us if he could bring her to the house and live with her, imagine that!”

“Well, well, not so bad,” remarked the woman, with amused astonishment.

“But we told him it was impossible,” he continued. “He was so young, with his whole future ahead of him—study, work, a secure position somewhere in this chaotic Soviet world, and our two rooms so small, with such a tiny kitchen that when a sack of flour or potatoes is set down or an armful of wood brought in my wife can hardly turn round. We argued long and earnestly with him and heaped reproaches upon him, and what do you suppose he said? If we did not agree to let the girl come, he would leave us, go off to Stalingrad, where his eldest brother is, take the girl with him, find work for both and live with her there. That’s what he said.”

“And what did his mother say?”

“Ah, his mother, she is on the verge of a collapse. Of course, she pleaded and pleaded, put her arms round him, telling him in tears that if he ran away, she would die or go mad with loneliness. And she would, too, believe me, my dears, she would. Her whole life is wrapped up in the children, especially now that everything else we ever had, every hope



## Russian Realities

and every ambition, have gone smash. Vassily is her idol—the youngest—and contact with him makes her, and me too, feel our other sons near again. When we see him or hear him speak, indeed, we seem to hear and see them too. And do you suppose he was much upset? Not at all. He was just indignant. It was only after his mother had cried her eyes out that he at last promised to go on living with us as he had been, and never again to bring up the subject of the girl. But he may change his mind and carry out his threat to run away with her. Who knows? But we certainly won't let him bring the girl home. *Akh*, these children!" He sighed and covered his eyes as though to hide the surge of emotion that was shaking him. The woman and I exchanged glances but neither said a word, and the girl was so absorbed in her book that she seemed oblivious of the world.

The waitress at this juncture reappeared with fish for the woman and kasha for the man. The woman at once began eating, but the man only looked at his food.

"Of course, parents don't count any more," he resumed, "but, thank God, children do. Here they do," and he vigorously pounded his breast. He took a mouthful of food, but his appetite was gone. He pushed his plate aside.

A priest who happened to be passing at once fixed hungry eyes on the uneaten food. He was humped and uncouth, his robe was soiled and tattered and his boots mud-bespattered. In one hand he grasped a bent staff and with the other a sack slung over his back, and he was muttering something. I did not hear what he said, but the man did, and pointing with his eyes at his *kasha* he said, "*pozhaluista*" (please, help yourself). With a pathetic grin the priest hurriedly picked up the kasha and the bread and scraps of fish on the plates and rolled them all up in a piece of paper and shoved them into his sack. Then crossing himself and bowing profusely he slouched off.

Dusk was now setting in, but soon a volley of electric

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light splashed over the dining-room. The time was drawing near for my train, and I parted from my companions. The crowds at the station were growing larger and larger and more and more tumultuous. The ticket offices had not yet opened—they never do in Russia until just before the trains arrive—but masses of people had already formed up into closely packed queues. Orderly queues they were, this time, for they were chiefly composed of peasants with an age-long tradition of patience and forbearance and with no idea of the meaning of time. Pushing through all these people with their bulging boxes and bundles and baskets and the heavy smells of sweat, sausage, and leather, a porter led me out on to the platform. My train was, he said, due at any moment, which in Russia may mean anything from ten seconds to a full hour, and to pass the time I strolled up and down. On a side-track among a row of freight cars I saw two with the following label:

"Perishable goods—*eggs*;

"Destination—*Königsberg*."

## THE CROWN AND THE DOMINIONS

IN any political debate it is necessary from time to time that we should remind ourselves of the distinction between those things which may be changed as the result of discussion and those which cannot. The debate itself, unless it assumes the possibility of breaking up the society within which it takes place, must move within the limits defined by those permanent conditions which are essential to the integrity and continuity of that society. Whether we are dealing with statutory changes which modify the legal structure, or with those conventional understandings, often more important, which govern its political working, the principle remains the same. New formulæ, legal or political, can change much, but their possible scope is very definitely limited.

The definition of new formulæ was the principal task of the Imperial Conference of 1926, and the details of the outline which it drew were partly filled in by the Conference on Dominion Legislation, which presented its report last February. Both documents have been under review at the 1930 session of the Imperial Conference, and the present article, written before the results of this Conference can be made public, makes no attempt to forecast the form which its decisions may take. Whatever these decisions may be, they must be confined within the limits imposed by the agreed necessity for maintaining the integrity and the continuity of our Commonwealth, and there is no reason why the discussion of these limitations, which are essentially permanent, should await the publication of the results of the Conference.

### I. THE KING AND THE GOVERNORS-GENERAL

THE most important limitations are those which are a necessary consequence of the constitutional position of the Crown itself. The Conference of 1926 found itself

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able to agree upon "a definition of the position held by the Governor-General as His Majesty's representative in the Dominions," and this "definition" was formulated as follows :—

In our opinion, it is an essential consequence of the equality of status existing among the members of the British Commonwealth of Nations that the Governor-General of a Dominion is the representative of the Crown, holding in all essential respects the same position in relation to the administration of public affairs in the Dominion as is held by His Majesty the King in Great Britain, and that he is not the representative or agent of His Majesty's Government in Great Britain or of any Department of that Government.

This formula, like others in the same document, must clearly be read *sub modo*, but in this case the qualifications had to remain implicit. It defines the position of the Governor-General only by reference to something which is left undefined. Logically, this may be unsatisfactory; politically it was unavoidable. Obviously the Conference could not have attempted to "define" the position and functions of the King. But the student may rush in where statesmen fear to tread, and no student of political life can fail to observe that the Governor-General is not, and never can be—even "in all essential respects"—the equivalent of the King himself.

In order to realise this we need not dwell upon purely legal distinctions, important though these may be. No Governor-General enjoys a complete legal delegation of the royal prerogative, and the fact that certain powers, particularly those relating to foreign affairs, are by law reserved to the King has practical consequences of the first importance. But even within that area of internal government in which the prerogative is fully delegated the essential differences between the King and a Governor-General are fundamental and permanent.

The most important distinction is also the most difficult to define in precise words, because its basis is really psychological. That is to say, it is a matter of how we feel

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towards the King. This feeling may vary with individuals ; but, whatever it may be, it is certainly something quite different from the feeling which anyone in the Dominions entertains towards a Governor-General. No formula drafted at any Imperial Conference can make the respect due to a high official equivalent to the personal loyalty which is rendered to a sovereign. Here, indeed, we are dealing with a part of the corporate life of our Commonwealth, which legal and political formulæ can neither create, destroy, nor preserve. The feeling of personal loyalty towards the King is something much more than a "sentimental bond." It is an integral part of the political structure of this Empire, and for it there is no substitute. Should this feeling in fact disappear, no definition of official functions, however ingeniously drafted, can ever take its place.

This fundamental distinction between the sovereign himself and his representatives may seem somewhat elementary, and the only reason for insisting upon it here is that it appears to have been overlooked by some of the more theoretical writers who have been anxious to work out in detail what they call the "logical consequences" of the Report of 1926. There is no reason to suggest that such obvious considerations were not present to the minds of the responsible statesmen who signed that document. Clearly their formula must be read negatively rather than positively, as a warning rather than as a definition. It means, in effect, that the Governor-General is not to take sides in local politics, and that he is not to regard himself as the local mouthpiece of the Dominions Office. In so far as this is a definition, it serves to define a situation which had already been reached in practice.

If we should attempt to read the formula positively as meaning that the Governor-General should be regarded as actually equivalent to the King, this would imply an instruction, not only to the Governor-General, but also to the Dominion Ministers. It would compel them to treat

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him as if he were the King, which in fact they have never done. It is commonly said in the Dominions that the Governor-General is merely a "rubber stamp." Into the precise accuracy of this rather contemptuous metaphor we need not stop to inquire. The point to notice is that the phrase is one which could not possibly be used of the King by any responsible person in this country, not only because such language would be disrespectful, but also because it would be positively untrue. Only a very few are in a position to appreciate fully the part played by the Sovereign in our political life, and those few are seldom free to speak of what they know ; but it is common knowledge that the King's daily work is something wholly different from that of any Governor-General. The fundamental difference between the two offices has its necessary consequences in the actual practice of government. Too literal a reading of the 1926 formula would mean that the Dominion cabinets would have to concede to the Governor-General, as the King's representative, a much more active rôle than they have been accustomed to concede to him as the representative of the British Government.

If then we can agree that the Governor-General is the representative, but not the local embodiment of the King, certain practical consequences follow. Clearly, this affects the question of the proper method of tendering advice to His Majesty. According to the more extreme equalitarian school, each Dominion cabinet stands in exactly the same relation to the King as the cabinet in London, and, therefore, has the right, without any intervention on the part of British Ministers, to demand the King's assent to all documents of state. The difficulty of this theory is that it concentrates wholly upon an alleged right of the Dominions. To the King it assigns duties, but no rights. It apparently assumes that the King is bound to sign any document which a Dominion Minister may choose to send to him through the mail. Any such assumption is not only inconsistent with any proper

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conception of the Sovereign's dignity, but it also ignores the actual practice of government in this country. The King is unquestionably entitled, as a matter of absolute right, to the personal attendance and counsel of his Ministers. If it is his duty ultimately to accept the advice which they may feel bound to offer, this duty is conditional upon their duty to present to him, orally and confidentially, every argument bearing upon the question, giving at the same time full weight to any considerations which he may think fit to urge. Manifestly this duty is one which cannot be discharged by any cabinet except the cabinet of Great Britain. It is one of those differences of function upon which the 1926 Report rightly insists, and it is a difference which is a necessary and logical consequence of the King's own functions.

Once this is realised, the problem of the responsibility for tendering advice to the King falls into its right perspective. The rule that communications between the Dominions and the King must pass through a Secretary of State can no longer be presented as a denial of the doctrine of "equality of status" or as an insistence by the British Government upon retaining the old colonial principle of a central control. It appears at once as an essential attribute of the King's own office, as a necessary condition for the proper discharge of his personal duties under the constitution of our Commonwealth. The King cannot be given in the Dominions a status inferior to that which he holds in the mother country. If he is a real sovereign in England, he cannot be transformed into a "rubber stamp" for the use of Canada or Australia.

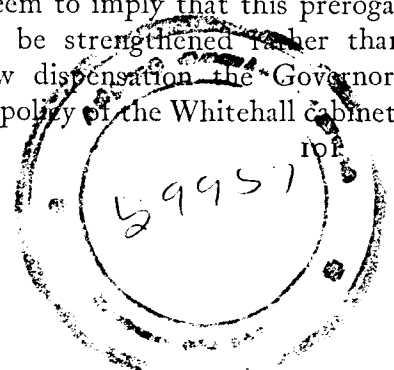
But, although physical reasons prevent the King from enjoying the attendance and advice of his Dominion Cabinets in person, there is a *via media*, suggested to us by an Australian correspondent, namely, the presence at Whitehall of a Dominion Minister—the term is used in its constitutional and not in its diplomatic sense—and it may be that this will be preferred to using the Secretary of

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State. Such a Minister would have, of course, to keep in the closest touch with his colleagues, whose confidence it would be necessary for him to enjoy, and, his office being essentially political, he would share their responsibility to the Dominion Legislature. He could no doubt also fulfil the functions of High Commissioner as well as represent his Government for all ordinary purposes in their relations with the British Cabinet. It has already been suggested in these pages that the High Commissioner might be raised to Ministerial rank and act in some such capacity, but we contemplated the functions of an ambassador rather than those of a Cabinet Minister on account of the difficulty of keeping the necessary touch and confidence with colleagues thousands of miles away, and the question of His Majesty being furnished with direct advice from his Dominion Governments was not at that time in our minds.

Let us now turn to another aspect of the same problem. The question of the proper method of appointing a Governor-General has recently been raised by the suggestion made in Australia that the successor to Lord Stonehaven should be an Australian nominated by the Commonwealth Government. If this suggestion were to be pressed and accepted, the new practice would be, not a "logical consequence," but a definite rejection of the principle laid down in the Report of 1926. The principle there laid down is that the Governor-General should represent, not the British Government, but the Crown itself. From this it would seem to follow that the appointment of any individual should be the personal choice of the King. It is generally understood that in these matters practice has always conceded to the Sovereign a wide measure of independent judgment, and that no recommendation is strongly pressed against his personal wishes. The formula adopted by the Conference would clearly seem to imply that this prerogative of the Crown should be strengthened rather than weakened. Under the new dispensation the Governor-General represents, not the policy of the Whitehall cabinet,

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but the King's person and the royal dignity. That being so, it is clear that he must at least be an individual well-known to and personally approved by the King himself as well as a *persona grata* in the Dominion concerned. If he is to become in effect the nominee of the Dominion Government, then it is obvious that the King's control over the appointment will be reduced to a vanishing point. In practice, the nominee would usually be a prominent politician who has either retired from politics into private life or been placed on the judicial bench. In either case he would almost certainly have been closely identified with active politics in his own country, and for this reason alone he would be particularly unsuited to represent the King's person in that Dominion. Since the office would be the most dazzling gift within the patronage of each Government, it is idle to hope that it would not be the object of keen competition or that the strongest political pressure would not be used in order to forward particular candidatures. Furthermore, we must remember that the Dominion Government, if it is to become responsible for the nomination, must be prepared to defend its action against parliamentary criticism. This means that we may expect lively debates in which the personal merits of a new Governor-General will be acutely criticised by those who are best acquainted with his political career. Since the responsibility for advising an appointment necessarily involves the responsibility for advising a recall, it will further follow that the Governor-General's tenure of office may depend upon the course of politics in the Dominion over which he presides. In a word, acceptance of the Australian proposal would result, not in increasing, but in diminishing, any resemblance there may be between the Governor-General and the King. It would therefore amount to a definite repudiation of the principle unanimously laid down in 1926.

Here again the essential thing is to get the right perspective. If we envisage inter-Imperial relations as a

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kind of competition between jealous governments suspiciously watching each other to detect the least encroachment upon one another's equality, then indeed it is difficult to defend the practice which enables one government to appoint even the titular head of another. Pressed to the last extreme of logical absurdity, the strict doctrine of equality might even compel us to demand that the British Government should be allowed to nominate the King. If, however, we shift our point of view, if we begin by taking the Crown as the natural and necessary centre of our unity, and then proceed to study the implications of that principle, the problem of the right method of appointing Governors-General at once takes on a new aspect. The centre of unity must be a reality, and the King, if he is to be really the keystone of the structure, must be something more than a fiction or a shadow. Those who are to represent his person must enjoy his confidence, and they must share his own detachment from the party politics of every part of the Empire. If unity is to be found in allegiance to the King, then it becomes all-important that the King himself should not be divided. He cannot be transformed into a puppet pulled in seven directions by seven governments. We must concede to him the necessary attributes of his office, and this means that we must assign special functions to the only group of Ministers with whom he can maintain a continuous personal contact.

In all this there is nothing inconsistent with the doctrine of "equality of status," which, as the Report itself reminds us, is only intended to express "the negative relations in which Great Britain and the Dominions stand to each other." On the contrary, it is a necessary inference from the principle that all parts of the Empire are "united by a common allegiance to the Crown," and it serves to illustrate the maxim, no less important, that "the principles of equality and similarity, appropriate to status, do not universally extend to function." A moment's reflection will make it clear that the only functions still reserved to the British

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Government are those which could not be divided without encroaching upon the constitutional position of the Crown.

### II. THE QUESTION OF SECESSION

AN unfortunate and unnecessary debate in the South African Parliament recently disinterred the question of the so-called "right of secession."\* Manifestly this again is a problem which cannot be solved by the drafting of any formula, legal, or political. A healthy society does not usually discuss its own disintegration, and the debates of 1926 proceeded upon the assumption that all were agreed upon the need for preserving the unity of the Commonwealth. But if we must discuss this question, we may best approach it by recognising at the outset that this is one of those fundamental issues which are as foreign to a constitutional conference as a motion asserting the "right to atheism" would be to the agenda paper of the Church Assembly. Viewed as a legal or theoretical question, the claim to secede is clearly inconsistent with the acceptance of a common allegiance, since allegiance cannot be dissolved by the unilateral act of the subject. It is equally inconsistent with the principle of equality of status, for the rights of the Dominions in this matter cannot be higher than those of Great Britain, and it is not claimed that in this country the Ministers or the members of the legislature can throw off their allegiance at will. If, on the other hand, we attempt to envisage the question as one of practical politics, we are at once met with the difficulty that we cannot predict the correct solution of any particular problem until we see the form in which it presents itself. Each particular case is essentially *sui generis*. Seventy years ago in the United States the claim of certain States to secede was promptly denied, and this denial was enforced by arms. In our own time the age-long dispute between Great Britain and Ireland has been ultimately settled by a compromise based upon the acceptance of a common

\*THE ROUND TABLE, No. 80, September 1930, pp. 881-883.

## The Question of Secession

allegiance, and this settlement is embodied in a treaty which can only be altered by mutual agreement. On the other hand, the union between Sweden and Norway was peacefully dissolved by consent, and the control of Denmark over Iceland has been amicably replaced by a bare personal union. No government in any part of the British Empire is at present demanding to secede, but it is quite impossible to predict that no such demand will ever be made. It is equally impossible to devise any abstract formula in the light of which such problems can be solved, when they arise. Any case that does arise will be complicated by a hundred practical difficulties which no formula can resolve, and we can only hope that the statesmanship of the day will prove equal to its task.

Within the limits of this article it is clearly impossible to discuss the application of these principles to all the various problems of foreign policy, defence, and economic co-operation with which the Imperial Conference is called upon to deal. Suffice it to say that the answer to each particular question, whether it be a question of policy or of mechanism, must be governed by those conditions which are imposed by certain fundamental facts. These conditions are not unalterable, but their alteration can only be achieved, even peacefully, by a revolution. The most serious criticism of certain theoretical efforts to work out in detail the "logical consequences" of the Report of 1926 is that they are not logical enough. True logic demands that the Report should be studied as a whole, and any deductions drawn from its statements of general principle must be subject to the same limitations as those which the Conference recognised as binding upon itself. The principle of a common allegiance and the principle of differentiation of function are in every way as important as the principle of equality of status. The logic of good government is certainly not so easy an intellectual exercise as the working out of a scholastic syllogism, but it is none the less based upon first principles.

## CANADA : AN IMMIGRANT'S IMPRESSION

### I. THE ONE AND THE MANY

*Cælum, non animus, mutant qui trans mare currunt\**

THERE is good reason for believing that the future of the British Commonwealth depends very largely on a realisation that the familiar tag is no more than a half-truth. The other half, left uncovered by a threadbare phrase, promises to be much the more important. For, if we take *cælum* in the wide sense of all the necessities that are imposed by a complete shifting of the geographical seat of home, we shall have to agree that a change of *animus* must follow in due course upon the change of *cælum*. So, as is the manner with proverbial tags, we must eke out the shortcomings of one by a judicious modification of another : *Sedes mutantur, et nos mutamur ab illis*. To know the change and feel it has been the lot of every emigrant who has been more than a bird of passage, as it has been the lot of the writer of this paper.

If, then, the combined statement with its mutually corrective halves is to be taken as the whole truth, we are faced, in any effort to forecast the future of the British Commonwealth, with the old dialectical problem of the one and the many. The danger now is that, at the centre in England, habit and necessity and a still under-informed

\* See article "France and Germany," in No. 50 of THE ROUND TABLE.

## The One and the Many

public opinion may combine to over-emphasise the oneness, while the circumambient Dominions, concerned more with the creation of a future than the retention of a past, may over-drive the manyness. The manner in which the Empire free trade propaganda has been conducted in England affords abundant illustration. From much of the talk one would gather that Alberta is only a remoter Norfolk and that Melbourne can be readily brought to think in the same terms as Sheffield or Birmingham.

At the other extreme one finds such a group as the die-hard South African nationalists, who, in seeming blindness to the dangers of their own situation and to the significance of Commonwealth unity for their own security, persist in their drive for an "independence" which would inevitably be precarious, and most probably calamitous. Yet, if one were asked to state on which side the more pressing danger lay it would have to be admitted that English slowness really to understand manyness is more serious than the seeming indifference of the Dominions to the claims of oneness. Diversity and the necessity for it receive too often in England the tribute of lip-service unaccompanied by real understanding, except among a limited few who have had special opportunities of contact with Dominion life and thought.

Really the crisis of to-day is much more acute than one would have gathered from the facile propaganda for Empire free trade. The situation is, in many respects, strikingly similar to that which was presented after the Peace of Paris in 1763. A great common menace has been struck down, only to widen the scope of free assertion for the overseas Dominions. Like the American Colonies, the Dominions, become more self-conscious and self-confident through participation in a successful war, have moved rapidly to political and economic maturity and sense of separate identity. War has left for them too an aftermath of trouble which calls for the concentration of all their energies upon internal reconstruction and readjustment.

## Canada: An Immigrant's Impression

Meanwhile a somewhat weary and disillusioned England is turning in upon herself, showing a disposition to

shake the yoke of inauspicious stars  
From this world-wearied flesh,

concentrating upon social and economic reconstruction at home, and finding in India and Europe more than enough of external preoccupation.

There is a parallel, not at first sight very obvious, in another important and perhaps prophetic particular. The American Colonies built their new republic on principles that shook and reshaped the world when they came into full tide of action with the French Revolution. That is, political ideas fostered and worked out by a people of British stock came, in fullness of time, to fashion a changed world. Is it fanciful to assume that in the idea of a group of States that remains one, though each constituent member is sovereign, we have another such British creation which, in passing to Geneva, as the other passed to Paris, may also be destined to play a major part in the future? The new fact, a century and a half ago, was of a sovereignty compatible with internal liberty; the new fact to-day is of a sovereignty compatible with the common discipline of a group of States.

But the terrible puzzle of India is evidence enough of the importance to unity of a recognition of diversity, perhaps of the limits of diversity, beyond which no real unity is attainable. Persistence and consolidation of unity must depend obviously upon the continuance and growth of a body of common ideas in regard to which three major conditions must be fulfilled. (1) They must be regarded as underlying wide diversities of application. (2) They must be sustained and expanded by contributions freely offered from the experience of each member. (3) There must be deliberate planning—and not of Imperial Conferences only—to guarantee a maximum of free and rich intercourse in ideas.

## The One and the Many

Platitudinous, no doubt, but still fundamental and still largely unrealised. Is it not significant that England herself, through the centuries, has built up her own characteristic life in just this way? Insular security gave free play to local and sectional diversity; a common body of ideas, loosely and flexibly applied, lived its rich life amid that luxuriating variety, and strength, mutual tolerance and infinite inventiveness in resources for the art of life were the result. In this sense the spirit of the Commonwealth is but that of the old England writ large.

It would be tempting to speculate on the limits of diversity which are possible within the one body of common ideas that animate the Commonwealth. Can the *animus* take the colours of any and every *cælum* and still remain itself? For the hiving off process must in any case continue. Groups from the common stock, mingling perhaps with elements from other stocks, must achieve in new environments new variations of the old way of life, and must ultimately claim the right of sole determination of their particular form. It would seem that there are upper and lower limits of admissible variety. Too little destroys the peculiar nature of the unity; that perhaps was the rock on which Imperial federation split. Too much makes unity impossible, a reflection which drives one to speculate on the upper limit of diversity. One imagines that, generally speaking, the more firm and genuine is the faith of the Commonwealth in its own binding principles, the wider will be the variegations of life and race and colour that they can unify. For, in spite of some lugubrious prophets, it has not yet been finally demonstrated that those principles, flexibly but faithfully adapted, cannot be made to span even the chasm between East and West.



## Canada : An Immigrant's Impression

### II. HOME ACROSS THE SEAS

**B**UT this tempting path must not be pursued. All this preface about the present significance of diversity is meant to lead up to some account of a first impression of Canada, the Dominion which affords perhaps the most favourable illustration of the main thesis. What is now offered is no more than an impression, derived from an experience limited in time to a few months and in space to a small area of eastern Canada. A picture taken with such brief exposure and through so narrow a lens can have value only in so far as it can be treated as illustrative of something much greater, as revealing in some significant way the forms of experience which have made, and are still making, the Commonwealth. The fact that the impression is a fresh one, and—it must be confessed—somewhat superficial, may be not wholly disadvantageous to the use of it as an instrument of interpretation.

To assist in defining the standpoint from which the impression is taken, the concluding sentence of an editorial article in a recent educational supplement to *The Times* may be quoted. The article is entitled "Overseas Hopes." It reviews a number of speech-day comments on Empire Settlement, exaggerates in the usual manner the part played by the public schools in building up the Dominions, and then concludes

Parents need not hesitate to let their children settle overseas, for everywhere they will find themselves at home.

Here, beyond a doubt, is the half-truth with which we began ; the unchanging *animus* persisting beneath a much-changed *cælum*. Experience of making a home in one Dominion and now of setting about making a home in another so very different from the last compels the utterance of a most earnest warning against that way of speak-

## Home Across the Seas

ing. For the sentence quoted is open to an interpretation that, if applied in practice, would speedily destroy all hope of the only unity that is now possible in the Commonwealth, a unity of many variations in the one way of life. That the young settler will find much of the old way of life persisting in the new Dominion is true enough. But that he will find, and have to learn to understand, significant and important variations of it that in their cumulative effect constitute a new way of life is equally true. And it is a truth the neglect of which has caused endless friction in the past. Those who are so insistently told that they will "find themselves at home" in a Dominion are only too apt to assume that they can transplant the whole apparatus of home—the whole *animus* of the old way of life with all its particularity—and live in the new land the life of the old. There is nothing of which Dominion society is more suspicious or towards which it is more resentful. And that for the very reason—so little realised in many quarters—that the tone and spirit of Dominion society have been mainly determined, for good or ill, by people quite other than the typical product of English public schools. Even to-day the assimilation by the Dominions of the genuine educational virtues of the English public schools is gravely hampered by the haunting fear that these will inevitably bring with them customs and usages of the old way of life that the Dominions have deliberately discarded. In other words, the Dominion *animus* really is profoundly modified from the older form that survives in the mother country.

So, we can now state the crucial distinction : a "home" in a Dominion is something that is not *found*, but has to be *made*. By "home" is meant a spiritual home, such an adjustment of the self to the standards and values and spiritual resources of the surrounding life as will guarantee unobstructed scope for free growth and service. In making such a home the newcomer remakes himself, a process often long and laborious and even painful, and

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sometimes never completed. It is from such fundamental necessities as these that the practice has arisen in every Dominion of seeking immigrants young enough to undergo at least the concluding stages of their education in the Dominion itself. So necessary is it that a "home" should be *made*, and so little is it true that a home is automatically *found*.

Now that the Dominions have reached a certain maturity, with the great bulk of their populations native-born, this consideration has overwhelming importance. In England the phrase "training for Dominion life" still means too exclusively training in agriculture or forestry. Yet, training in capacity for the necessary social and psychological adjustments is of infinitely greater importance than the acquisition of forms of productive skill whose applicability may be dubious. Only those who have gone through the process can realise how difficult and yet how vital it is. Sentiment has been allowed too long to obscure the hard fact that the Englishman who would make his home in a Dominion must be prepared to adjust himself to a "foreign" country.

Thus the standpoint from which the life of a Dominion is observed makes all the difference. Three possible ones may be distinguished. There is first that of the traveller: the "hotel" point of view we might call it. He brings his way of life with him in his luggage and leaves again with it unaffected. The *animus* of him is never unpacked and so is never fully exposed to the influences of the new *cælum*. Shrewdly as he may observe, he is always detached, and the inmost things he can never know. Then there is the standpoint of the official who has work to do in the land, and must stay much longer than the visitor. His *animus* is indeed unpacked, but as he knows he will want it again as little changed as possible, he puts it aside on a shelf, protected from the influences of the local *cælum*, and takes it down now and again for a little domestic exercise. And he is right, for he knows which is his abiding city. He may do work of unique and lasting value for the land of his sojourn,

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as did the English officials in Canada and South Africa of pre-dominion days. Yet, he too will not know the inmost things, for his "home" is always elsewhere.

Thirdly, there is the "citizen" standpoint—that of the potential "home" maker whose whole destiny turns upon effective incorporation with the life of his new *patria* and effective adjustment to its demands. To him alone the path to the inner *arcana* may ultimately be open. To the influences of the new *cælum* his *animus* is wholly exposed. If he does make reservations, he must know what they are, and what price he must pay to keep them. Obviously, then, the standpoint from which the impression is taken makes a vast difference. The impression of Canada here outlined is taken from the last of the three mentioned.

## III. CANADA

THE most general feature of the picture must be described in language that may sound a little absurd. It is that Canada is in America and is American. In South Africa the whites are still not Africans—they are Europeans. They habitually describe themselves as such and the ubiquitous presence of the aborigine gives daily emphasis to the name. Cultural dependence upon Europe adds further relevance to the description. But Canadians are not Europeans. They are very definitely Americans and are well aware of it. This does not imply cultural annexation by the United States, though dependence upon the States in this regard is the source of some uneasiness in Canada. It means simply that the American *cælum* has had its inevitable effect on the original *animus*. The enormous economic wealth of the continent, ease of communication and the weakness of the aboriginal population go far to account for difference from South Africa in this regard. Further, it is well to remember that a large proportion of the "British" population of Canada is descended from

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ancestors who entered Canada, not from Britain, but from the erstwhile British colonies to the south. The French Canadian, though he resembles the South African Boer in some striking respects, sometimes claiming to be the only true Canadian, as the other claims to be the true Afrikaner, has nevertheless not had the same reason to remember that he is European. Indeed, there are occasions enough to make him assert vigorously that he is not. Content as he is to remain a British subject, he is yet, in feeling, American through and through, and the Canadian-born offspring of British stock become daily more like him in this respect. Hence the tone and "feel" of Canadian institutions are much less British—or even "European"—than those of South Africa. This is especially true, perhaps, of local government and of economic life, but the same phenomenon is evident everywhere. Considerations of convenience and affinity, not to mention material profit, have brought about a good deal of direct importation from the south, but it would be a disastrous error to ascribe the American character of Canadian life entirely to that. To do so would be to interpose a wholly gratuitous obstacle in the way of Canada's being both American and British at the same time. If she is not to be so, the Commonwealth has failed.

Yet, these powerful continental influences are not all-powerful. Resistance to them in the interests of a distinctive State called "Canada" must take the form of a control by history over geography. Geography seems to vociferate "All alike!" History, in a lower key, replies "Not so! Here and here is and shall remain a difference." Hence arises the characteristic Canadian effort: to give to the forty-ninth parallel a spiritual significance that will justify a separate identity and at the same time afford scope for full and free co-operation across the boundary. Energies are more and more bent to this effort with no lack of consciousness of its risks. Prohibition has been tried and dropped. Western Canada is organising its life on

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lines distinctively its own, and the influence of French Canada is a powerful and perhaps growing factor in the same direction. The crux of the matter is that Canada desires to determine for herself the ingredients that shall go to the making of her way of life, holding off, if need be, pressure from the south on the one hand and direction from England on the other. The strength of that resolution has already been tested, and will be tested again.

A feature of the Canadian way of life that at once warms the heart of the potential home-maker is its domesticity. To the eye of the North-European the very landscape is domestic, inviting completion—like a Constable picture—by the insertion of homes. This note of domesticity is struck at the very outset in the voyage up the St. Lawrence. Green fields and pleasant villages on either hand suggest a peaceful security and a fixed rootedness that are of the very essence of home. South African landscape by contrast is both fascinating and forbidding; its alluring charm tempts you to make a home, while its half-ecerie strangeness warns you that you may do so at your peril. Nature there spreads her garden before you, and leaves you to discover the snakes.

Fertile soil and a comparative absence of pests and noxious beasts enhance the sense of domesticity in Canada, and the rigours of winter fortify it with walls of ice and ramparts of snow. There is material indeed for a most instructive study in the influences of winter upon the social and political life of Canada. It makes for sincerity and discipline. You cannot humbug a winter like this. You have to face it for what it is, and to equip and discipline yourself to endure it. Again, there is the promise of spring in it, realised if you train yourself to endure and wait hopefully. Then, the knowledge that it will come again means that you work while you have the chance. Winterless lands are apt to be lands of a perpetual present, insouciant and undisciplined, like the chirping grasshopper.

Along with a strong sense of such domesticity the new-

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comer, especially if he has known the dubieties and shifting lights of South Africa, is impressed by the obvious strength and solidity of the social basis that has been laid for Canadian life. Family cohesion is still surprisingly strong against all the corrosion of the industrialised city; self-dependence is a deeply ingrained habit; everybody seems to work, and to work as though toil were no curse of Adam but a necessary support for self-respect; and the weakling, though he may experience generous charity, must look for little indulgence. Hence "social" legislation of the English type comes slowly. The Labour party is weak, and government, which in South Africa is a citadel of refuge, in Australia an insurance agency, is in Canada a domestic convenience. It is an instrument kept in the cupboard for use when necessary. There are signs of a future where this may all be changed, but it is evident enough to-day. The result is a certain sprawling quality in Canadian life which finds expression in many ways. Economic forces have played their dominating part, central government has been comparatively weak, and local jealousies and differences have favoured strong growths of local autonomy. But a spirit of order and organisation seems to be supervening, especially in the West, and there are signs, like the proposal to nationalise broadcasting, that the same spirit will operate increasingly at the centre.

### IV. SOME QUESTIONS

**F**ROM the general survey of the picture, as of a land still in the making, certain pertinent questions emerge. An attempt to state them may well bring this article to a close.

The first question concerns the continued unity of the country in face of the wide variety of life and circumstances that one finds along the stretched "ribbon" from Halifax to Vancouver. Variety of origin of the people combines with diversity of economic interest to produce a real prob-

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lem. A growing sense of its urgency may reverse the tendency of recent years to exalt the provincial Governments at the expense of the Dominion Government. Religious differences illustrate the danger. When drastic school legislation in Protestant Saskatchewan causes perturbation in Catholic Quebec, there may be many, even among French Canadians, who may look increasingly to Ottawa to preserve a balance. Somewhat similar influences may operate in the field of the administration of justice, especially where great corporations with nationwide economic interests are concerned. Such at least has been the experience of the United States. "Social" legislation is still almost entirely a provincial concern. But example is infectious, and the demand from a common "worker" interest throughout Canada is likely to grow. Men who feel themselves primarily Canadian will be likely to resent a system under which, through crossing a boundary within their own country, they lose rights that they had enjoyed on the other side of it, and had come to regard as integral with their Canadian citizenship. The chances of unity will be further increased if Canada develops a real foreign policy, as apparently she will have to do in the coming years. There at least she can speak with one voice.

The second question concerns relations with the great neighbour to the south. One may question whether the existence of the United States is not a support rather than a danger to the unity of Canada. It serves the purpose that his brother James served for Charles II; that of an alternative which confirms contentment with the existing order. The feeling implies no hostility to the States, only again a preference by Canadians for their own way of life. Similarities in plenty may be detected in the respective ways of life on either side of the border. But there are differences too, and these will tend to become both more marked and more consciously realised.

There are not wanting gloomy prophets who maintain

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that the present division of the continent by an east to west boundary will prove to be against the economic grain, and that the effort to continue it may produce serious conflict. Such prophets can point to the American civil war as, in essence, a conflict of this kind, a clash of economic interests which circumstance had tended to segregate territorially. They can point to the community of interest of a farming and mining West as against a manufacturing and commercial East, and there is no lack of evidence of the tension.

But every large State shows it in some measure. The civil war did not put an end to it in the United States. All that was proved was that the claims of political unity were the stronger, while the economic struggle shifted its venue and changed its methods. Similarly it does not follow that because the prairie provinces have economic interests closely resembling those of the western States ultimate political identification is foreshadowed. If the political cohesion of the United States could transcend the economic conflict there, why should it not do so in Canada ? Besides, the tension may well diminish as industrial development proceeds in the West, or may at least lose much of its territorial character.

Canada showed decisively twenty years ago that, if economic reciprocity with the south is likely to threaten political independence, she will have none of it, and there is no reason to think that her answer would be any less decided to-day. A change of fiscal policy in the States in the free trade direction would probably make little difference in this regard. It is easy too to exaggerate the importance of tariff accommodations with Great Britain. Such things are effects rather than causes of a desire for unity and independence that lies much deeper. The resolve to maintain separate identity does not mean, however, that Canada has any desire for a frontier of the European kind with the States. The conclusion seems to follow therefore that both the independent existence of Canada and the

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continuance of the British Commonwealth require that in some very real sense there should be achieved the realisation of a larger unity in which both the Commonwealth and the United States are members. The process by which this comes about is not likely to take the naïvely simple form that is whimsically suggested in Shaw's *Apple Cart*, but his prophetic vision is quite sound. The British Commonwealth may be but a stage to something further, of still greater value to the peace and stability of the world. Upon Canada falls the high responsibility of functioning as hinge to the opening door, and the forms and limits of her co-operation with England must always be determined by that sovereign consideration.

This third question raises issues which, though they may not figure very prominently in current politics, nevertheless govern the very pulse of the machine. They are the issues of culture, of the way of life itself, the vindication and maintenance of which form the *raison d'être* of Canada's separate being. It would be grossly unfair to judge of the possibilities from what has already been achieved. The spirit of the toiling pioneer is still strong, and rightly so, for the mastery of brute Nature is still proceeding. Hence the immigrant who comes from an old country—the immigrant even from a new country where aristocratic conditions prevail—is apt to get an impression of crudity and material-mindedness. Utility sits enthroned and the claims of dividends seem paramount. The thirst for beauty seems largely unawakened ; ugliness is tolerated—sometimes even perversely admired—if it sustains profits, and the cultural life may seem to the sophisticated European thin, harsh and scrannel. Mechanisation has gone far, especially in amusements and recreations ; creative and imaginative energies are concentrated elsewhere than on the arts, and the Main Street flavour of life is intensified by the survival in many parts of a dour Puritanism that still shrinks from the fullness of the “ good ” life. Furthermore, differences of race and language and religion split up

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the forces of culture, and separation by enormous distances hampers such co-operation as might otherwise be possible. The superficial observer might thus be led too easily to form an adverse judgment. Let him remember, in the first place, the profundity of the democratic conviction that lies at the base of Canadian society. Deeply suspicious of anything that may seem to have the flavour of aristocratic privilege, it is concerned primarily with fundamental liberties and equalities and, while appreciating the need for the encouragement of diversity and the cultivation of a highly educated *élite*, it is a little nervous lest fundamental democratic principle be compromised. How fundamental that consideration is may not be sufficiently realised by those who have been nurtured in the traditions of an old and stratified society. The difference, put crudely, is that between a society which has been deliberately *built*, upon principles consciously held and passionately adhered to, and a society which has *grown* around an ancient and aristocratic ideal of life and manners—embodied rather than formulated—such as we find in the English conception of the “gentleman.” There is room for endless friction and misunderstanding here, and if the ship of the Commonwealth should ever split this may well be the rock to cause the disaster. The “old-country” man is apt to mistake for crudity the robust self-confidence and preoccupation with the sheer *making* of things that he finds in the new lands, while the “new-country” man all too easily confounds respect for tradition with servility, and personal polish of mind and speech and manner with aristocratic affectation. Many a small tragedy of defeated sympathies gets itself enacted again and again as between representatives of the old way of life and those of the new. The phenomenon is familiar enough to all who know Dominion life, and memories of 1776 give it peculiar force in America. Of the two, the “new” country is, perhaps, the greater sufferer. Fearing to seem merely imitative and dependent, it is apt to put on a slightly aggressive pose of “inde-

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pendence” and to exaggerate its very crudities in the desire to remain itself. Thus mental barriers to fruitful cultural intercourse are set up, appearing often at the most unexpected moments and in the most disconcerting forms. Yet, to a dispassionate view, each has what the other needs and it would seem that effective fusion of the two sets of virtues should produce a type that could regenerate the world. What is needed has never been better expressed than in a speech made by Mr. Ramsay MacDonald at Montreal last year :—

The greatness of the future depends upon mingling reverence with enterprise and tradition with energy.

Significantly enough, he sounded the same note on other occasions, and it is not difficult to guess what was in his mind.

The educated immigrant from England, and even the home-keeping cultivated Englishman who has dealings with the Dominion, can do much if he is willing to learn as well as to teach, and if he rids himself once for all of the pernicious idea that Canada is “home” in just the same sense as Kent or Bournemouth. Then he may do not a little to produce that compounding of the tough virtues of the pioneer with the polished culture of the old-type “gentleman” out of which the *Civis Britannicus* of the future will emerge. For, after all, the gentleman is the most universal of species in distribution, no product of any particular clime or history, and not to be moulded to the meticulous niceties of any provincial code of mere manners.

However that may be, the Canadian insists upon Equality as fundamental, and knows pretty well what he means by it. Cultural growth, therefore, has to conform to this prime condition.

Then again, vast economic resources have still to be developed, and Canada's chief contribution to the world must continue for some time to take that form. But the materials of a distinctive culture are not lacking and the

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will and capacity to use them are growing. No Dominion is better equipped with universities or more generous in support of them. There is much ferment in education generally, accompanied by a growing disposition to find alternative sources of inspiration to those of the States which have been rather heavily drawn upon in the past. Canada is fortunate in having both Britain and the States as sources of material and is showing readiness to use both freely. That her outlook is far from being narrowly provincial is shown by the recent appointment of a distinguished English headmaster to the principalship of a Canadian university, and by the triumphant success which attended a visit by a party of English headmasters a few months ago.

This willingness of Canadian nationalism to take its good wherever the good is found is, indeed, among the surest guarantees of the rich variety to which its culture may attain. The voice of the more parochial type of nationalist is occasionally heard in the land and there have been some manifestations of slightly truculent exclusiveness by self-appointed guardians of "true Canadianism." But, on the whole, the very diversity of her population, with the restraints and precautions thence arising, and the necessities of intercourse with her great southern neighbour, render Canada more immune than some other Dominions from these particular growing-pains of national culture. The new immigrant finds that he can retain all his sentimental attachments to the old home without being suspected of imperfect loyalty to the new. Perhaps it is realised that the continuance of these old attachments in unimpeded strength is necessary to the full vitality of the new immigrant, and that the new land cannot enrich her own life by imposing conditions of spiritual impoverishment upon him. So the new filaments grow alongside of the old and come in time to intertwine with them, as the cellular process of Commonwealth itself. The Englishman, for instance, can recall without rebuke the vision of

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primroses by a wet ditch-side or of buttercup-meadows with the swallows in flight ; or the old village smells of drying mud by the horsepond and of wallflowers by the garden gate. The Canadian comes back at him with the pledge of spring in the early maple flowers, with the lilies and violets and cherry blossom of the May-time woodland, the colours of hillside and forest in the spring thaw, or the unique glories of the Canadian autumn. In such an atmosphere there is every chance for maple and primrose to intertwine in a common garland, each member of the double loyalty adding vitality to the other. Further, the strength of the desire of the Canadian-born citizen to visit the land of Wordsworth's primrose and Keats' nightingale is an additional guarantee of the maintenance of the joint sources of culture. Canadian citizenship is, indeed, a free and generous enfranchisement ; the "melting-pot" is much less in evidence than it is across the border, and there is rich promise in the fact.

So the conditions for a native culture are present in the form of a sound social basis, wealth potential and actual, strong local loyalty, high receptivity of mind, abounding energy, and confidence in a mission. The fruit will come in due time. Just as one feels the promise of spring in the bare twigs of a stark and sturdy Canadian elm in winter, so there is the same promise of foliation and bloom in the solid and many-branching structure of economic and social life which has grown up amid the disciplinary rigours of the pioneer age. The imagination of an Englishman who knows his own industrial North cannot but be stirred by the possibilities that are opened out through the industrial use of water-power in place of steam. The promise of a new industrial age, where wealth and prosperity are generated in sweetness and light rather than in grime and darkness, is held out by such a growth as one finds at Shawinigan Falls in Quebec and at other centres in Canada. The possibility is of nothing less than a culture in widest commonalty spread, and the firmness of the social and

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economic roots that are pushing downwards is a real earnest of the hoped-for fruition.

Finally, there is the question of Canada's part in world policy. The senior Dominion of the British Commonwealth, with a territory binding the Atlantic to the Pacific, the interpreter to the United States, mistress of vast resources and lately member in her own right of the Council of the League, she is called upon to play a great part. Destiny seems already to be shaping it for her. When we look at the East with more than half of the world's population, and see a modernised Japan, an awakened China and a fermenting India, we cannot but feel that the future historian will set down as the mark of this age the readjustment of relations between East and West. For something like four centuries the nations of Western Europe spread out over the world and took possession wherever they could. Now in Asia the redistribution of forces has been going on for some time ; Africa is still precariously held ; only in America has the position been consolidated beyond all doubt. That continent is now the true Western frontier, and it is across the Pacific mainly that the threads of the new intercourse will have to be woven and the structure of the new relations built. Hence it is by way of Canada very largely that the British Commonwealth will in the future play its part in the great drama of East and West. There, at least, the advanced base seems to be secure and, in co-operation with the States, equal in resources of men and wealth and ideas to all the demands that may be made upon it.

## AFRICA FROM THE SOUTH

*(From a South African Pen)*

THIS article is concerned with nothing more definite than tendencies. Indeed, in so far as the North is concerned, opinion is still inchoate and policy rather in the making than in being. So much, however, has already happened, and so much more seems to be on the point of happening north of the Zambesi, that the community south of the river can no longer shut itself up in a world of its own. Its horizon is rapidly expanding. It is already beginning vaguely to feel that everything African concerns it more or less, and the sources of the Nile itself no longer seem so far away. Are not Europeans settled so far north as Kenya turning a hopeful eye on the Union ? And citizens of South Africa, who have hitherto been wont to look coldly, if at all, at what lies beyond their northern frontier, are evincing a growing interest in the affairs of Northern Rhodesia and East Africa.

Three main forces are awakening in these many and various communities a feeling towards one another which, if not wondrous kind, is at least a fellow feeling. The first is the obvious, but for all that fundamental, fact that, whatever their size, length of experience or stage of constitutional development, they are all European communities set in the midst of predominantly tribal societies which greatly outnumber them. Secondly, the depression pays no heed to customs barriers, official languages or political outlook. Thirdly, there is the avowed policy of His Majesty's Government towards the British territories north of the Zambesi, in which are included the Kenya Highlands and the Ndola copper belt.



## Africa from the South

### I. THE UNION AND EAST AND CENTRAL AFRICA

THE leader of the Free State republicans recently said that "if the British Government persists in its present native policy, there will even be a republican movement in Central Africa one of these days." His prophecy would doubtless be repudiated with ringing scorn from Livingstone to Nairobi; but stranger prophecies have come true. Meanwhile, prominent Transvaal republicans are looking still further afield, at nothing less than Africa as a whole. They propose that a kind of inverted Dixie line should be drawn by international agreement, more or less along the tenth degree of south latitude, separating the colour-bar States of White Africa to the south of it from the colour-blind States of Black Africa to the north. Such a line would presumably give St. Paul de Loanda, the Katanga, and, of course, the Northern Rhodesian copper belt, and all Mozambique to European Africa, while Tanganyika, Kenya and Uganda would have to be content to form part of what may presumably be called African Africa, because their capacity to bear a white population is so very limited. Doubtless, settlers from those parts could "easily find accommodation" south of our Dixie line; conversely, "encouragement of every kind will be given to tribes wishing to shift towards the north." Portuguese Angola and Mozambique would probably enter a "white African federation," once South Africa has seceded from the British Empire. Then, looking still further north, the advocates of this policy hope for a buffer belt of equatorial territories from the Cameroons to Abyssinia, neutralised and controlled by the League of Nations, segregating the militarised French West African colonies.

These republicans do not minimise the international difficulties in the way of such a consummation, but they draw hope from the fact that "the nations are getting

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used to the idea of control from Geneva." For the rest, they are prepared to support the East African policy outlined in His Majesty's Government's White Papers, based on the Hilton Young Commission's Report,\* on condition that "we in southern Africa are given the rights to which we are entitled." There is a certain naïveté about this last stipulation. "European Africa," sheltered behind the wall of a Monroe Doctrine erected along the tenth parallel, is to be entirely free to manage its own affairs—and those of others. Nevertheless it is a fact of the first importance that some of those, who throughout their long and eventful history have doggedly insisted on keeping themselves to themselves, have now realised, at a moment when the young South African, R. F. Caspareuthus, coming by aeroplane, has almost halved the mail steamer time between London and Cape Town, that this is no longer possible.

To put the matter in a sentence, Downing Street and Ndola copper have between them stimulated a "get-together" tendency from Cape Town to the Kenya Highlands. It is easy to make too much of it; it is not a movement in favour of one huge *bloc*, but rather in favour of at least two such, distinct from the Union; but it is a tendency to be faced squarely. Cecil Rhodes, of course, always looked to far-reaching economic and political developments in Central and East Africa; one of the stock charges by his opponents against General Smuts has been that he was so enamoured of the prospect that he was willing to swamp the Union in a mixed flood of British and Bantu; the Hilton Young Commission recognised the essential unity in diversity of the problem by refraining from reporting on East and Central Africa till they had seen something at least of Southern Rhodesia and of the

\* Report of the Commission on Closer Union of the Dependencies in Eastern and Central Africa, 1929, Cmd. 3234; Memorandum on Native policy in East Africa 1930, Cmd. 3573; Statement of the Conclusion of His Majesty's Government in the United Kingdom as regards closer union in East Africa 1930, Cmd. 3574; also Report of Sir Samuel Wilson, 1929, Cmd. 3378.

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Union. Times have changed. Prominent Nationalists can point hopefully to the markets afforded to Union goods in the interior. General Smuts earned Nationalist approval for his statement of native policy at Oxford in 1929, where, among other things, he advised all the South and East African States to get together and, relying on the great experience of the Union in native matters, to provide His Majesty's Government with "a more responsible and mature white opinion to reckon with and guide them in their task" than could be afforded by the East African territories alone. Now, a Minister in South Africa, Mr. Grobler, and our Prime Minister in London have adopted the same line. Opposed as ever to any interference in the internal affairs of the Union, General Hertzog states that he cannot feel that he is interfering in the affairs of Great Britain when he observes that its proposed policy may have repercussions in the Union, and expresses the hope that the Governments concerned in framing native policy will exchange views before any policy is adopted which differs radically from that pursued in so important a part of the African continent as South Africa.

There is much to be said for such a conference, especially in a Commonwealth whose peculiar pride is the round-table method; but it is doubtful whether some who thus claim the right of being consulted realise that this right, like so many others, cuts both ways. May not the British Government reply that it, in its turn, would wish for an opportunity of expressing its views before the Union proceeds any further with a policy which is at variance with policies contemplated or actually in force in other not unimportant portions of Africa? Be that as it may, the immediate point of interest is that the comments of South African papers, speeches of Ministers, and the cordial reception accorded by General Hertzog in London to the unofficial Kenya delegation, which is to give evidence before the Joint Committee of both Houses, have awakened interest and gratitude all along the East African Highlands.

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There need be no surprise at this display of unanimity. The connection between Kenya and the Union is much closer than the map would suggest. Indians are a common factor; some of the first settlers in what was then British East Africa, British and Afrikaner, came from the Transvaal; the attitude of the average Kenya settler towards natives is apparently much the same as that of the average South African from the Bantu parts of the Union. In 1923, when the vocal section of the Kenya settlers was at daggers drawn with the Imperial authorities on the score of Indian policy, and there was talk of revolution, a delegation visited the Union and a British cruiser arrived almost casually at Kilindini. Early in 1929, again, Lord Delamere, the protagonist of settler claims, spent some time in the Union, and shortly after, General Smuts delivered his Oxford addresses on native policy which clearly had East Africa in mind as much as South Africa. Now Lord Delamere has gone with the Kenya delegation to London and is in close touch with the Premier of the Union.

There can be no doubt that His Majesty's Government has handled a delicate matter somewhat crudely by stressing without real need the 1923 declaration that, where a divergence of interest appears, native interests are to have the preference.\* By letting the phrase slip into the background it might well have made sure of the substance of control. It can only be hoped that the Joint Committee will find means of allaying the suspicions of the settlers, and yet retain the necessary arbitral control for the Imperial Government. But, as far as we can judge from this distance, it will have a difficult task. The Kenya men are alarmed at a

\* On November 12 Lord Passfield, the Secretary of State, made a conciliatory speech on which *The Times* complimented him in a leading article. He explained that the expression, "paramountcy" (of the native interests) would be referred to the Joint Committee; that the Government wanted the principle of continuity, and there was no notion of any new interpretation (the word had been used in the memorandum on closer union too); that the Government wanted to secure the goodwill of the men on the spot, and they called them into council in the Joint Committee, which was proposed in order to obtain the greatest possible measure of goodwill.

## Africa from the South

suggestion made by an official British delegate at Geneva to the effect that His Majesty's Government would welcome the application of the mandatory system to many British colonies and protectorates. Such a step, they hold, especially in regard to native affairs, would be to let well-intentioned theorists interfere in purely British concerns. They insist, moreover, that the Joint Committee must not confine itself to the future machinery of administration but clear up all doubts on native policy too. In the background is their disappointment at finding a new Governor in Sir Joseph Byrne, a man associated with Lord Lugard's West African native policy, which is not their's nor South Africa's.

In so far as the *East African Standard* can be taken as expressing the body of opinion behind the Kenya delegation, that opinion now holds that no part of British Africa can settle its native policy without consulting the rest, and that the natives cannot advance by themselves. There is a good deal of common ground here; the Hilton Young Commission has said virtually as much. But this does not answer the two questions which are really at issue. Whose policy is to prevail? What is to be the nature of the stimulus to be applied to the tribes? Is it to be guidance by officials and missionaries and picked settlers as advocated by the Commission and His Majesty's Government; or is it to be the considerable European immigration and "decent white employment" for the blacks advocated by General Smuts at Oxford? Apparently this section of Kenya opinion desires the latter policy. It holds that no artificial separation between black and white is possible, though in certain respects the two races are "naturally separated, particularly in landholdings." Segregation may be the easiest solution, but it is not the most courageous. That is to be found by encouraging the dependence of the natives on the Europeans until the latter develop "a definite and real responsibility for native welfare." Indeed, "if only the white community of the Union had been continually

## The Union and East and Central Africa

trained in this school of responsibility their problems would not have been so acute as they have been."

The wide experience of the Union has been appealed to in support of these views. If there is one thing that that experience teaches it is that there is nothing whatever natural about the separation of the two races, especially in the matter of landholdings. Native reserves can only be maintained by artificial means: events left to take their natural course produce a white landholding class and a black proletariat; and, after all, setting colour distinctions aside, that is what happened in Great Britain between 1760 and 1840. Candour compels citizens of the Union to confess that the accentuation of the dependence of black on white has not yet awakened a lively sense of responsibility except in a small though, there is reason to believe, a growing minority. And if this defect be put down to lack of responsibility in the past, the answer is that the Cape, whose native policy has afforded the greatest common measure of happiness to men on both sides of the great divide of colour, owes that policy first to the Imperial Government and then to the western parts of the self-governing Cape Colony which, standing back a little from the conflict of black *versus* white, were able to see aspects of the struggle which were hidden from those taking part in it. The troubles of self-governing Natal were mainly due to the natural fears of a small white community vastly outnumbered by men of another race, and to the self-regarding state of mind bred of a practically unchecked monopoly of power. The two Republics had full legal authority since the 'fifties, and, in the case of the Transvaal, practical authority long before that. It is not lack of responsibility that has led the Union into its present pass in the handling of what is admittedly a most difficult and harassing problem.

## Africa from the South

### II. THE RHODESIAS AND NYASALAND

FINALLY, there remains to be considered the influence of these rival currents of thought on the territories that lie between the Union and East Africa. The majority of the Hilton Young commissioners recommended that Northern Rhodesia and Nyasaland should continue, as at present, subject only to general control exercised by the proposed Governor-General of East Africa in matters of common interest, and notably in native affairs, the greatest of those interests. The chairman, however, proposed that Northern Rhodesia should be divided into three parts: the Barotse reserve to the west to be left as a native area; the somewhat isolated north-eastern portion to be united with Nyasaland as a Crown Colony; and the hogs-back of high land in the centre, which bears the railway to the Congo, the copper of Broken Hill and Ndola, and the great bulk of the small but now rapidly increasing European population, to be united with Southern Rhodesia.

The idea of an amalgamation of Northern and Southern Rhodesia is not new. It was first publicly suggested as far back as 1916 by Sir Starr Jameson, when both territories were under the rule of the British South Africa Company, and north-western and north-eastern Rhodesia had only recently been combined to form Northern Rhodesia. The idea was scouted by the majority of the politically active settlers in Southern Rhodesia because, quite apart from financial reasons, amalgamation with this "Black North" would fatally bar the way to the self-government some of them had been envisaging for nearly a decade past. Partial amalgamation on the lines now suggested by Sir E. Hilton Young was debated subsequently from time to time, but Jameson's idea was never taken up again seriously till after 1924, when Northern Rhodesia became a Crown colony and Southern Rhodesia a self-governing colony, subject to special limitations by the Imperial Government, notably

## The Rhodesias and Nyasaland

on native policy. Since then, many in the south, led by Mr. H. U. Moffat, the present Prime Minister, have looked forward to the formation of a Great Rhodesia, all the more as the economic policy of the Union has strengthened Rhodesia's determination not to be entangled in Pretoria centralisation, poor whites and bilingualism. This desire has naturally been further stimulated by the opening up of the Ndola copper belt in Northern Rhodesia.

Until quite recently Northern Rhodesian opinion, as far as it was vocal, was against amalgamation with the south, for fear that that would mean immediate absorption in Southern Rhodesia and, perhaps, ultimate absorption in the dreaded Union, and against amalgamation with the East African territories for a variety of reasons, but again principally differences in native policy. But there was a minority which did not share these views. Two of them visited Salisbury in the course of 1928 and unofficially accepted a draft scheme of amalgamation. There was to be no partition of Northern Rhodesia; that territory was to have very generous representation in the future joint legislature; civil service privileges and other special interests were to be safeguarded; better means of communication and financial facilities were to be afforded, and so on. Then came the copper and the White Papers. The unofficial spokesmen of Northern Rhodesia, with settlers and money in sight at last, feared absorption less than they had done; on the other hand, they objected to the thought of their native affairs being controlled on the lines proposed by His Majesty's Government. It remains to be seen how far the mass of European opinion is behind them; the same warning applies to all the thinly peopled territories under discussion, where Gideon's three hundred sometimes have, in the distance, the similitude of a mighty host. In any case, the elected members of the Legislative Council first asked leave to state their case in London. This was refused. Hence, in September, delegates from the two Rhodesias met at the Victoria Falls, condemned

## Africa from the South

the Imperial policy and discussed amalgamation. The Northern elected members have now inquired whether His Majesty's Government is prepared to discuss with delegates from both territories union under the present constitution of Southern Rhodesia.\* And, to round off this story of the crystallisation that is taking place in those parts, reliable reports have it that men in Nyasaland are looking towards union with the Rhodesias; anything rather than incorporation with the East African territories.

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\* At an interview with the elected members, on October 28, the Governor of Northern Rhodesia (see *The Times*, October 29) authorised the statement that the memorandum of the Imperial Government on Native policy in East Africa would not affect, in any material detail, the policy hitherto pursued by the Government of this territory, and that during his term of office the interests of the European settlers would not in the smallest degree be affected adversely by the memorandum or its implications, and that, in his view, there was nothing in the memorandum that would have the effect of retarding the normal political development of the territory, or militate against the legitimate aspirations of the white settlers to a larger share in the management of their own affairs. In the view of the *Times* correspondent, the statement was likely to affect the proposal to amalgamate the two Rhodesias.

## GREAT BRITAIN: CONFERENCES AND PARTIES

### I. THE NATIONAL SITUATION

**D**URING the parliamentary recess which ended on October 28, the political situation became more confused and the national situation became more embarrassed. The number of the unemployed rose to 2,200,000, and was thus not far short of double the number twelve months previously. Moreover, although there were occasional fluctuations in the total, the number of those permanently unemployed steadily increased, and unemployment extended to industries formerly largely immune and, for that reason, uninsured. During the nine months ending on September 30, exports fell in value by no less than £102,000,000 as compared with the first nine months of 1929, exports of manufactures by £87,000,000, and imports of raw materials by £55,000,000.\* The revenue returns for the first half of the financial year were profoundly unsatisfactory, and, although such returns never give a reliable indication of final results, it should be remembered that their appearance was actually better than their reality, because they represent the yield of taxation levied in respect of the preceding year † and because they take

\* Prices have of course also fallen, though not sufficiently to account for the decline in trade.

† Taxation since April, 1930, has been 4s. 6d. in the £, as against 4s. for 1929. But it depends on whether the tax is deducted at the source or not as to whether the income taxed is that of the preceding year or this year.

## Great Britain: Conferences and Parties

no account of sums borrowed to meet expenditure. Mr. Snowden on October 15 made a reassuring speech to a meeting of bankers, in which he repeated his desire to impose no new taxation even though, in order to avoid the necessity, he would have "to violate his strict financial principles." The phrase aroused some speculation as to his meaning; but the course of events made it appear that he had in mind only the meeting of the deficit on the unemployment insurance fund—which may amount to £25,000,000—by borrowing, and possibly some less strict insistence upon making provision for the sinking fund out of revenue. The deficit on the unemployment insurance fund would, upon the accepted canons of public finance, be a deficit upon the budget. In addition, the revealed deficit caused by the shrinking of revenue, and the increase of expenditure not covered by borrowing, has just been estimated by Lloyds Bank Review at £36 million. The concealed and revealed deficits together will therefore amount to £61 million, a figure within £9 million of the total allocations to the sinking fund in the present budget. No Chancellor of the Exchequer can reasonably assume that the yield of taxation next year will be as good as this. The probable decline in the yield has been estimated by Mr. Oliver Stanley at some £15 million, and, therefore, if the sinking fund is to be maintained at its present level, an orthodox Chancellor would have to budget for raising next year about £76 million by fresh taxation. It is therefore true that almost every event during the recess has indicated that the state of the country has changed for the worse, that the familiar analysis of the incidence of unemployment can no longer bring any comfort, and that all those engaged in industry, whether employers or employed, are becoming really alarmed.

## Party Conferences

### II. PARTY CONFERENCES

#### *The Liberal Plans*

THIS disquiet was reflected in the Liberal and Labour party conferences, which were held before the opening of Parliament. At the Liberal Conference much ado was made on the opening day about the necessity of defending free trade; but Mr. Lloyd George, during the later stages, made an attempt to show his party that the right attitude was readiness for anything that would be quick and effective. Early in November, Liberal policy was crystallised in a new edition of their election pamphlet, "How to Conquer Unemployment." This edition embodied the plans submitted to the Government at the meetings which have been intermittently taking place during the recess between the Liberal and Labour parties in an attempt to agree upon an unemployment policy. The plans comprise the raising and spending over a period of two years of loans to the amount of £250,000,000. One hundred thousand family farms are to be created, and agriculture is to be equipped with credits and with a statutory marketing organisation. Roads, bridges, telephones and houses are to receive a large share of the loan, and it is estimated that work would be found for about 700,000 men over the period in question. It is further suggested that the field of economy already harvested by the Geddes Committee in 1921 should be gleaned by a similar committee.

#### *The Socialist Answer*

Although these ideas of regeneration through public expenditure and statutory rationalisation have many points in common with the professed principles of the Government, the prospect that they will form the basis of an agreed policy is not bright. It has been estimated that the local and national expenditure on development works

## Great Britain : Conferences and Parties

already totals £190,000,000 a year. Schemes costing £135,000,000 have already been approved by the Government, and some 200,000 men should be employed directly or indirectly upon those which can be started before Christmas.\* Mr. Snowden is, moreover, reported to remain unconvinced that a situation which has steadily deteriorated in spite of agreement to spend £135,000,000 will be restored by a further expenditure of £250,000,000 ; and he may well be afraid lest so large a call upon the investor should frustrate his ambition to float a big Conversion Loan. Nor are the Liberal plans likely to appeal to the Conservatives. They specifically reject all idea of protecting markets, and a good many trade unionists to-day, as well as Conservatives, consider that increasing the means of production without, by some method or other, improving the security of markets, would be useless.

At the same time these Liberal efforts do reflect the general opinion in the Labour party that something drastic and dramatic should be done. The significance of the Conference at Llandudno on October 6 was not the heavy defeat inflicted upon the open rebels led by Mr. Maxton but the heavy vote in favour of the "ginger" group and Sir Oswald Mosley. His policy of protecting the home market by import boards and "insulating" the Empire by any and every method was rejected by only 1,250,000 votes to 1,000,000.

### *The Conservative Leadership*

The Conservatives avoided having a party conference altogether, and events have shown that they were wise. Criticisms of Conservative policy by Lord Beaverbrook and Lord Rothermere suffered several changes during the autumn. Considerable coolness between the two newspaper peers developed during the by-election at Bromley, where Lord Beaverbrook decided not to support Lord

\* It was stated in the House on November 6 that the number at the end of September was 150,000.

## Party Conferences

Rothermere's candidate, although the large number of votes polled by that candidate appears to have encouraged both. Then the South Paddington Conservative Association played into the hands of the critics by choosing as their candidate at a by-election a gentleman who first asserted, then denied, and, finally, under pressure from the Conservative office reasserted his loyalty to the official policy. The result was that Lord Beaverbrook produced an "Empire Crusade" candidate who achieved the two remarkable feats of winning the seat and of inducing Lord Rothermere to transfer support to him from the candidate originally chosen to champion the Rothermere United Empire party. Both these malcontent sections during this election showed that they were leading a movement of discontent against Mr. Baldwin's leadership of the Conservative party, but the result seems to have been a misleading guide to the popularity of this motive. It was far more likely due to dissatisfaction with the official candidate than with the Conservative leader or his policy. Mr. Baldwin's policy had during this time developed to a point at which it would have satisfied Lord Beaverbrook some months ago. He announced that he was asking to fight on a policy of immediate emergency tariffs on manufactured goods, and a free hand to protect home and Imperial markets by whatever method was found to be best. He also immediately accepted in principle, on behalf of his party, Mr. Bennett's offer, which was echoed by Mr. Scullin, to heighten Dominion tariffs against other than British goods by the addition of 10 per cent. in exchange for a preferential tariff in this country. Why this hasty acceptance, it is difficult to see on the pure merits of the offer, extraneous reasons apart. One wonders whether Mr. Baldwin too took Mr. Bennett's 10 per cent. to mean more than it actually did. Lord Beaverbrook remained more unconvinced than ever that a leader who changed his mind was a proper leader, and more fanatically insistent than ever upon the need for the immediate taxation of

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foreign imported foodstuffs, undismayed by the fact that Mr. Bennett has declared Empire Free Trade impracticable and undesirable.

### *Mr. Baldwin's Position*

Mr. Baldwin thereupon summoned a party meeting at which his leadership was approved by a majority of four to one on a secret vote and his policy approved *nemini contradicente*. It is only fair to him to add that his leadership seems to command support in central and north-eastern England, whatever searchings of heart it may have created in the south; and, secondly, that no critic has been able to find—and few even to name—an alternative leader. About the motives which inspired his intermittent changes of policy there are two views. It is commonly asserted that he has been pushed forward step by step by his critics, and that he is now prevented from advancing the last step to food taxes only because he fears the electoral consequences. There are others who consider that Mr. Baldwin was very properly restrained at the outset from prejudging the issues which it was the business of the Imperial Conference to judge. When Mr. Bennett made his frankly bargaining offer, Mr. Baldwin was, they point out, able to say that he was ready to bargain on certain lines, and, finally, when he had examined what form of bargaining was likely to prove most practicable, to state that he thought an emergency tariff best suited to manufactured goods, that a quota system, with or without a tariff, best suited wheat, that prohibition best met the threat of bounty-fed and dumped products, and that he was ready to discuss with the Dominions what single method or combination of methods of protection best suited other products. Which of these views is correct must be left to our readers to decide, this article being concerned with events rather than motives. In any case Mr. Baldwin is likely to continue to be made uncomfortable by a Press campaign, backed by a certain degree of dissatisfaction with

## The King's Speech

his methods and personality. But his critics will possibly find it easier to find echoes among the electorate at by-elections, the results of which are considered to be nationally comparatively unimportant, than at a general election. Then they will have to decide whether to risk the defeat of the Conservative party and incidentally their own, by putting up rival candidates. Nobody can say what their decision will be. For the moment the party has decided that the retention of Mr. Baldwin is worth the risk involved in the continuance of his leadership.

### III. THE KING'S SPEECH

WHEN Parliament assembled therefore it found the Conservatives divided, the Liberals unhappy, and Labour depressed by everything except the condition of their opponents. The opening debates showed almost universal anxiety over the state of the country and universal disappointment with a Ministerial programme which failed to reflect that anxiety. The legislation foreshadowed for the next twelve months includes the revived Bill to raise the school leaving age,\* a Bill to set up a Consumers Council to watch the costs and profits of distribution, a Bill to repeal the illegality of general and sympathetic strikes, and two measures to promote land settlement and better agricultural marketing. There was no special measure to deal with unemployment at all, and the reform of unemployment insurance was relegated to a Royal Commission. The Government spokesmen in the course of the debate explained that within the limits of the capitalist system, which they had no mandate to overthrow, they could not devise anything more effective than the extension of relief works, the encouragement of rationalisation, and the expansion of social services. Mr. Maxton and his group urged them to fall then trying to overthrow capitalism, but they

\* Which has, since this article was written, passed its second reading.



## Great Britain: Conferences and Parties

mustered only thirteen votes. The Conservatives pointed out that tariffs offered a remedy within the capitalist system which had never seriously been tried, but they were beaten by 31 votes.

### IV. SIR JOHN SIMON'S REVOLT

THE Government survived because, as Mr. Lloyd George pointed out, the Liberals had nothing to expect from a general election except a protectionist Government, and therefore they preferred to make a further effort to galvanise the Labour Government into activity. Officially then they abstained from voting; but four of them were so impressed by Mr. Lloyd George's arguments that they voted with the Government; and five, including Sir John Simon, were so disgusted with the Government that they voted with the Conservatives. Sir John Simon followed up his action with a letter to his leader explaining that he could no longer tolerate such incapacity in a Government, and therefore could not agree with the waiting policy of the Liberals. Sir Robert Hutchison, the chief whip of the party, resigned his office for the same reasons. This struggle between fear (or hope) and disgust is likely to continue to trouble Liberal members generally. If and when it ends with the victory of disgust, the Government will go, but until then—and the interval may be long—the Government will be just as safe as they want to be. The Liberal party is in an extremely difficult position. If they keep the Government in, some of the Government's unpopularity is sure to extend to them. If they turn the Government out, they have no funds to fight an election with, if, as is reported, the famous Lloyd George fund is practically exhausted, and they will put into power a party committed to a tariff policy, to which the party is traditionally, and still in the main by conviction, opposed. Apart from the view of the party as a whole, too,

## Gropings for a National Party

some Liberals are no doubt influenced by the fact that the Government's policy on paper is liberal, and that a change on the eve of the Indian Conference would be highly undesirable, though this particular section is afraid that the Government may have lost the will to carry out even their own policy, and that they are entering the Indian Conference without any readiness to give a lead, or any capacity to produce a policy of their own. Such is the situation, with the fate of the Government in the hands of a small party whose own existence, as they well know, is in peril whatever they do. The whole system of parliamentary government, indeed, as it has hitherto been known in this country, is, as most Members of Parliament would uneasily confess, itself imperilled by the three-party system.

### V. GROPPINGS FOR A NATIONAL PARTY

THE feeling that democracy may be in danger and the pressure of a national emergency have combined to produce a singular movement towards co-operation among certain members in the opposing parties. Sir Oswald Mosley, it would seem, is making a series of almost unconcealed bids for an alliance with Conservatives on a policy of protection of the home market and "insulation" of the Imperial market. He prefers import boards to tariffs, but would probably agree to a combination of both. The ball which he has tossed to his opponents has been caught by some of the younger Conservatives. They do not, with some reason, feel confident about the prospects of the next Conservative Government, unless some ground for co-operation with the trade unions can be found. None of them are wedded to one particular form of protection, and they count upon a growing conviction in the ranks of Labour that the present standard of living can be maintained only at the cost of increasing unemployment, unless a certain degree of security can be obtained for markets and of

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stability for prices. They note with satisfaction an open mind on fiscal matters even among a few of the Liberals, notably Mr. E. D. Simon. Unfortunately for their prospects, it is highly doubtful whether at the crucial moment, even if Sir Oswald Mosley were to throw in his lot with such a group, many of the Labour rank and file would follow. His intellectual stature has increased since the days when he was Unionist member for Harrow, but, as may be imagined, he is unpopular among trade unionist members even as the Socialist member for Smethwick, and his most natural followers—the Socialist rebels—are already following someone else. It will probably be found that Socialists and Conservatives mean two very different things by protection, and that the Socialists regard it as a convenient vehicle for public ownership, whereas the Conservatives look upon it as a means for perpetuating the private control of industry. Whether any common ground sufficiently extensive to accommodate such divergent principles can be found, depends largely on how deeply everybody is alarmed by the state of industry and the impotence of a negative policy.

## VI. UNEMPLOYMENT INSURANCE

THE most convincing proof alike that the situation is truly alarming and that some new orientation is required among political parties is the deplorable condition of the situation of unemployment insurance. By their Act earlier this year the Government repealed the law which laid upon the claimant the onus of showing that he was "genuinely seeking work," and omitted to increase the number of contributions which entitled a claimant to benefit as a right. There is no limit to the amount of benefit which may be drawn from the Insurance Fund by any claimant who has paid thirty contributions in the preceding two years. This means that anybody who

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has done a full year's work in any insured occupation can draw benefit for about seventeen months, provided that he or she can show that he is available for work and will not refuse suitable employment, and this is very commonly done by women upon marriage, even though they are not really in the labour market. This helps to explain why the fund is running into debt at the rate of about £27,000,000 a year. But, in addition, almost everybody who has ever paid any contributions at all can draw benefit from the Exchequer, and there are between 300,000 and 400,000 such persons, who will cost this year some £22,000,000 to the taxpayer. The maintenance of the unemployed is therefore costing nearly £50,000,000 above what is raised by contributions, and such an expenditure if continued must wreck budget after budget. Two problems must be kept separate; first, that of rendering the fund solvent, and second, that of relieving the Exchequer of its excessive burdens. A reduction of the numbers receiving ordinary benefit by 400,000 odd would solve the first problem without more ado. By far the simplest way of doing so would be to restore the old "one in six" condition which limited the number of days' benefit payable to the number of weeks in which contributions had been paid. This, however, would not affect the enormous number of short timers, who would have to be dealt with by special regulations. Those thus disqualified would have to be provided for by a system of national relief, protected by a test of the means of claimants. This test would undoubtedly serve the second purpose of restricting the out-go from the Exchequer by a considerable proportion. An inter-party committee, invited by the Government to do so, has been studying the question during the recess. But, although that committee was still sitting, the Opposition delegates discovered when Parliament met that the Government had already forestalled a decision on the part of the Committee by referring the same matters to a Royal Commission, and that a sub-committee of the Economic

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Advisory Council had been engaged on much the same task as themselves. The action of the Government has been a severe blow to the principle of inter-party co-operation upon national problems. It has offended the Opposition without conciliating those who deliberately advocate the dole system. Every scandal and weakness—the use of the system by employers to organise short-time, the existence of uninsured industries with a shortage of labour, the support of the fund by borrowing, the invitation to draw benefits rather than find work—are to be continued for the time being. The Government's failure to face the problem of unemployment insurance is symptomatic of a certain lack of courage. But their position is a difficult one. Pushed on from behind, they have in front two parties who may at any time unite to pull them down. They do not fall, only because nobody is yet ready to act as executioners.

## IRELAND : EVENTS IN THE FREE STATE

### I. POLITICAL

**I**F during the last few months our politicians have been virtually silent at home, they have certainly not been inactive abroad. Both at the Eleventh Assembly of the League of Nations in Geneva and at the Imperial Conference in London the representatives of the Free State have been prominent. For many generations it has been the ambition of the Irish nationalists to see their country take its proper place amongst the nations of the world. That ambition is certainly realised to-day. The diplomatic corps in Dublin now includes a Nuncio Apostolic and Ministers from three of the greatest countries in the world—the United States of America, France and Germany. Envoys from other countries will probably be appointed in the near future. Our national pride has been further gratified by the election of the Free State to a seat on the League of Nations Council.\* The Free State Government made it quite clear that the Free State offered itself solely as a candidate on its own merits, and in no sense as a member or representative of any group or combination of States. This attitude was entirely in accord with the declarations made by the Irish delegates at successive Assemblies of the League that, as the Assembly as a whole elected the non-permanent members of the Council, these members must

\* See THE ROUND TABLE, No. 80, September 1930, p. 827.

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represent the League as a whole and not any particular group of States. The other two successful candidates were Guatemala and Norway, Portugal being defeated.

Our representatives at the Assembly were Mr. Ernest Blythe, Minister for Finance ; Professor John O'Sullivan, Minister for Education ; Mr. J. A. Costello, Attorney-General ; Mr. D. Binchy, Free State Minister in Berlin ; Count O'Kelly, Free State Minister in Paris ; and Mr. S. Lester, our permanent agent at Geneva. Mr. Blythe, who spoke in the Assembly on September 15, indicated that the Free State Government agreed with the recommendations of the Committee appointed to consider the amendments required to bring the Covenant into conformity with the Pact of Paris, and that it intended to provide machinery for giving practical effect to all the obligations which it had incurred by subscribing to the general principle of that agreement. A further task, he said, remained. The rules of law governing the mutual rights and duties of nations must be made simple and certain. The first Conference for the codification of international law had not attained the success expected because of the absolute unanimity required. Would it not be possible to adopt another method and to formulate progressively a series of statutes like the statutes of the Permanent Court with a protocol of signature open to States which might decide to accept them at a later date ? The statutes would not define the rights or obligations of States not parties to them, but would introduce an element of security into certain fields of international law and give direction to efforts designed ultimately to secure simplification and uniformity. There was a serious danger to the League in not maintaining a minimum rate of progress in certain fields of activity, particularly in the field of disarmament. A new generation was growing up with no clear realisation of the significance of war. It was essential to bring about disarmament while people still realised the loss and degradation which war entailed. Finally, he referred to the scheme of M. Briand

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for the Federal Union of Europe. He was convinced that this scheme was of a purely constructive nature, and that it would be worked out in close conformity with the objects and spirit of the League and improve relations, not merely between European countries, but between those countries and the peoples of other lands. He reported that since the last session of the Assembly the Free State had accepted seven League conventions, and hoped that they would ratify the Opium Convention before the end of the year. The Free State Government's views on M. Briand's proposals are more fully set out in its Note to the French Government recently published. The Note states that the Irish Government frankly recognise that the geographical contiguity of the States of Europe must lead towards a closer association of those States for political and economic purposes, but that, whilst the Irish Free State has an active interest in every circumstance which affects the peace and well-being of Europe, her concern cannot be so proximate as that of those of her European sisters whose interests are more intimately bound up with the European Commonwealth. In this connection an important factor is the heavy emigration for many decades from Ireland to the American and Australian continents, which constitutes with those regions of the world a bond of moral union in no degree less binding than that which exists between Ireland and the other European States. The Irish Government consider that an agreement of the kind indicated by M. Briand would have the best chance of success if it were framed directly under the auspices of the League of Nations, and were confined in principle to a simple recognition of the fact that the geographical collocation of the States of Europe gives rise to interests and problems peculiar to Europe, which it is the special concern of the European States to co-ordinate and solve, and that in its practical application such an agreement should be based on the principle that each State which is a party to it should be the sole judge of the manner and extent to which it should

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concern of our Government must be the maintenance of good relations with the British Commonwealth, and more particularly with our best customers and nearest neighbours, Great Britain and Northern Ireland. The proceedings at the Imperial Conference must inevitably be of more immediate importance to us than the work at Geneva. Our representatives at this important gathering are Mr. P. McGilligan, Minister for External Affairs and for Commerce, Mr. P. Hogan, Minister for Agriculture, and Mr. Desmond Fitzgerald, Minister for Defence. It is greatly to be regretted that Mr. Cosgrave, whose health is still far from satisfactory, did not feel equal to the strain of acting as the principal Irish delegate. Had he done so, he could have claimed to be the senior Prime Minister in the Empire, although indeed much the youngest in years. His deputy, Mr. McGilligan, who leads the Irish delegation, although not of the mental stature of Kevin O'Higgins, possesses a keen mind, a somewhat acid wit, and a capacity for constructive criticism. His speech and his tough mental fibre alike betray his Northern origin. Mr. Hogan, the fairy godfather of Irish agriculture, is equally outspoken, but with a more imaginative intelligence. Mr. Fitzgerald, the third member of the delegation, has had considerable experience in negotiation at previous Imperial Conferences. If he is more Bohemian and elusive than his colleagues, he is also the man who carried through with vigour and determination the reduction of our army. He preceded Mr. McGilligan as Minister for External Affairs. As Mr. McGilligan's speech at the opening meeting of the Conference clearly indicated, the Free State Government, whilst anxious and willing to aid in the elaboration of principles which should guide the members of the Commonwealth in their mutual economic agreements, is more pre-occupied with questions of Commonwealth political relations and Dominion status. For us, as Mr. McGilligan said, the recognition of our position as a free and sovereign State comes before all other considerations. It is clear,

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therefore, that the Irish delegation will stand for the full implementation of the report of the Conference on Dominion Legislation which is being considered and discussed by the Imperial Conference. In a recent article, Mr. McGilligan states that this report marks the moment in which the whole legal theory of the old British Empire definitely and finally comes to an end. He points out that if its recommendations are carried into effect, the power of disallowance can no longer be exercised in relation to Dominion legislation, the right of reservation of Bills disappears, the Colonial Laws Validity Act must be repealed, and in effect the Parliaments of the Commonwealth are seen to stand forth clothed with the plenitude of their power as sovereign legislative assemblies in international law. The report applies, as Mr. McGilligan says with ruthless logic, the 1926 declaration of co-equality to the complex legal problems which the Conference was convened to solve. It marks the completion of the work which Kevin O'Higgins began at the Imperial Conference of 1926, a work which, as is now revealed, was in great measure possible owing to the decisive support of the late Lord Birkenhead, an action which, with his courageous stand for the Treaty of 1921, will be gratefully remembered in Ireland long after his exploits as "Galloper Smith" are forgotten. Only a great man could have risked so much and been so justified by the results. In an article entitled "Is the Free State now free?" Mr. de Valera's organ, *The Nation*, replies to Mr. McGilligan, and argues that the report of the Conference on Dominion Legislation does not remove, or so much as touch, one of the fundamental objections to the Treaty of 1921, which are rooted in the nature of the agreement, a treaty accepted under duress and a dictated constitution. It also claims that the Free State does not possess the most characteristic and vital right of sovereignty, the right to be neutral when her neighbours are at war, as by Article 7 of the Treaty the Free State is obliged to afford to the Imperial forces in

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time of war various harbour and other facilities for the purpose of defence. This control of our strategic ports in itself, states the Fianna Fail writer, vitiates Mr. McGilligan's argument and indeed disproves the claim to sovereignty implied in his article. Mr. de Valera's paper, of course, cannot conceive a situation in which English and Irish interests are not automatically opposed, or a war in which the two countries might naturally be on the same side. It is clear, however, that under existing circumstances the Free State need not actively participate in a war in which England is engaged, nor, save in the case of a war with the United States, is there the remotest chance that the facilities reserved by the Treaty would ever be used. The Irish delegation will, of course, also press for the abolition of the Judicial Committee of the Privy Council as a Court of Appeal from the decisions of the Dominion Courts. Whether they will agree to its replacement by a Commonwealth Court for the purpose of adjusting differences which may arise between any States of the Commonwealth may well be doubted, unless the right of final appeal on such matters to the International Court at the Hague is clearly reserved. It is quite certain that they will not agree as far as the Free State is concerned to a continuance of the present state of affairs, or to any solution which permits a citizen of the Free State to appeal to an outside court.

As regards economic questions, one may say that their attitude is one of doubtful expectancy and considerable caution. The Free State Government would probably be quite prepared to co-operate in any scheme for setting up a Commonwealth Economic Council. It would, of course, stand to gain enormously in an arrangement which included a tariff on foreign foodstuffs entering Great Britain, and would certainly be prepared to adjust its own tariffs on manufactured goods in return, but it would scarcely relinquish them altogether, in spite of their doubtful value. To do so would be to give a catch-cry to Fianna Fail,

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which is already denouncing any project for Empire free trade as a will-o'-the-wisp. Mr. de Valera will vigorously oppose any proposal to limit our freedom to impose protective duties on British goods, his argument being that Irish agriculture can only be put on a paying basis when our home market, and not Great Britain, becomes its principal mainstay. So long as its prosperity depends on the conditions existing in one foreign market, he contends that instability and uncertainty will exist. He maintains that it is more important to our farmers that one man should get employment in Ireland than that fifteen should get work in Britain, and that our permanent prosperity must be built up on the foundation of a proper balance between industry and agriculture. As a matter of fact, the economic policy of the present Free State Government aims at the same result by more gradual and less drastic methods than Mr. de Valera favours. But if any British Government were really prepared to tax Danish butter and bacon and Argentine beef, which is very doubtful, it would be worth our while to join in a general scheme of Imperial preference such as Mr. Bennett has suggested. The position of the Free State, as Mr. McGilligan pointed out to the Imperial Conference, is really unique. There is no other unit in the Commonwealth which imports from Great Britain or exports to Great Britain so high a percentage of the commodities it requires or the goods it produces. In manufactured goods, the imports of the Irish Free State from Great Britain are almost equal in value to those which the Irish Free State produces for itself at home. In fact, the Irish Free State is, among the members of the Commonwealth, the third largest consumer of British and Dominion goods; it is, among all the nations, the fifth largest purchaser in the markets of the United Kingdom. In the list of many important classes of goods exported from the United Kingdom, the Free State stands first among the whole world. On the other hand, the Free State is the largest Commonwealth supplier to Great Britain of meat,

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poultry and dairy produce together, and also of many kinds of fish of common consumption. The trade in live cattle between the Free State and Great Britain is the largest of its kind, both in quantity and value, between any two countries in the world. In view of our geographical position we must continue to play a supremely important part in the supply of food products for the British market.

From other points of view, too, our relations with Great Britain are of the closest character. The estimated amount of Irish capital invested in British industry exceeds ninety million pounds, or approximately twice the amount of British capital invested in Free State industries. It is obvious, therefore, that in more than one respect the present balance of advantage must be said to favour Great Britain. For instance, the cost to the revenue of the Irish Free State of the preferences at present accorded to Great Britain is almost five times the cost to Great Britain of the preferences accorded to Free State products. The United Kingdom, in fact, buys some two million pounds less from the Irish Free State than the Free State buys from her. Therefore, however exigent the Free State delegates may at times appear to be in political or constitutional questions arising out of Commonwealth relations, it is well to remember that this attitude is often dictated by domestic difficulties. There can be no doubt that the existing balance of economic advantage is in favour of Great Britain. As a purchaser of domestic, together with foreign, produce from the United Kingdom, the Irish Free State per person ranks at present absolutely the highest in the world. We have, therefore, everything to gain from a just and reasonable system of Commonwealth preference which will not prevent us from improving the existing disproportionate balance between our agricultural and industrial production. The recently published financial returns for the last six months seem to show that the existing tariffs, whilst they are producing revenue, are not reducing the imports of protected goods, because the customs duties, which were expected

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to show a decrease of £86,000 during the year, have in fact for the half-year just completed shown an increase of £46,000. Nevertheless, the general figures are highly satisfactory, showing an increase in revenue of £102,860 and a decrease in expenditure of £225,919. There have been increases from all sources of revenue, except excess profits tax, which has fallen from £73,000 to £26,000, and might well be repealed.

Dublin has just been through a miniature general election, owing to the three elections held under the new Greater Dublin Act\* to elect a city council, a Dunleary or coastal borough council, and a county council. This is the first election of a city council in Dublin since 1924, when three paid commissioners were appointed by the Government to supersede the old council, which was suppressed owing to its inefficiency and mismanagement. The new council, which is reduced from 80 to 35 members, will be responsible for a much larger area than the old, but has much smaller powers, a very large share of the management being under the control of a city manager. The system of government adopted is practically identical with that successfully inaugurated in Cork last year.† The first city manager is Mr. Sherlock, the existing Town Clerk of Dublin, and Mr. Hernon, one of the late city commissioners, is to be manager of the Dunleary borough. The most interesting feature of the election was the apathy of the electors and the complete *débâcle* of the Fianna Fail party. The Government refused to run party candidates, but a number of business men who went forward on a purely business ticket, under the title of the Constitutional Group, returned the largest number of candidates, securing 31 out of 50 seats. Fianna Fail, after loudly boasting that the result of this election would show what would happen to the Govern-

\* See THE ROUND TABLE, No. 75, June 1929, p. 608, and No. 79, June 1930, p. 597.

† For an account of that innovation see THE ROUND TABLE, No. 73, December 1928, p. 157, and No. 75, June 1929, p. 608.

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ment at the next general election, suffered an ignominious defeat, and was only able to secure the return of five out of fourteen candidates. The great majority of the candidates returned, although not officially Government party nominees, are supporters of its policy, but the election was fought on a restricted municipal franchise. Senator Alfred Byrne, a former member of the old Irish party, has been elected Lord Mayor of Dublin, and the new Council has begun its career in the usual noisy manner. The result of the election clearly indicates that, if left to themselves, the people object to the introduction of politics into municipal affairs, and that, as far as Dublin is concerned, Mr. de Valera will not set the Liffey on fire at the next election. There is also an Irish political adage that what Dublin says to-day Ireland will say to-morrow.

## II. ECONOMIC AND GENERAL

**I**N spite of very bad weather in August and September, which seriously injured both the hay crop and the harvest, and the general slump in agricultural prices, conditions in the Free State are relatively more normal than in most other European countries. This is probably due to the fact, so often deplored by our politicians, that the Free State is predominantly agricultural and pastoral, and so the reactions of the almost world-wide economic depression are slow to take effect here. There has not, in fact, been any serious increase in unemployment, and, as there is no dole, there is no inducement to become unemployed by artificial means. The world crisis has only touched us at two points so far, namely, in its effect on the Ford factory at Cork, which manufactures for the world market and has been virtually closed down since early summer owing to a lack of demand for its products, and, secondly, by the marked decrease in emigration. This last phenomenon is due to the increasing reluctance of the people them-

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selves to venture into the uncharted sea of American unemployment, and to the tightening of the regulations by the American consular officials, who are now refusing visas to would-be emigrants who cannot prove that they possess reasonable means with which to support themselves for some time after their arrival in the United States. So great is the decline, that no more than two visas a day are now being issued, where fifty were issued daily a year ago. This development is in keeping with the general trend of the emigration figures, which have been declining for several years. In 1925, the number of emigrants from Ireland was 30,302; this year it is likely to be under 15,000. In the past, these figures often rose to over 50,000 a year. The trade statistics also continue to tell a satisfactory story. Those for August, just published, show that for the twelve months period, September 1929 to August 1930, the adverse trade balance has declined by £3,812,636 when compared with the corresponding figures for the previous year, and a decline of £8,186,865 as compared with the figures for the year 1925-1926. It is of more than passing interest just now to note that our trade with the British Commonwealth during the last eight months is the most significant part of our total trade. The imports from Empire sources during that period amounted to £31,481,449, out of a total of £38,588,917, or 81.5 per cent. In the case of the exports, the percentage was nearly 91.3, the figures being £26,298,568, out of a total of £28,804,642. As regards agricultural imports, there is a decrease in cattle, horses, and other animals, also in butter and eggs, but the imports of bacon and fish have increased. In spite of the tariff, the value of the boots and shoes imported continues to increase. Live cattle constitute the outstanding item in our exports, and their value for the first eight months of this year has increased by nearly a million pounds. There is a marked increase, too, in the export of tractors and tractor parts, owing to the great activity of the Ford factory



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last spring. For the first eight months of this year 14,516 tractors, valued at £1,511,991, were exported, as compared with 1,976, valued at £266,872, for the corresponding period of 1929. The export of motor-car parts, also manufactured at Cork, shows an increase of £48,329. Nearly half the tractors exported go to the United States, the others principally to Australia, Canada, the Argentine, New Zealand, Japan, France and Germany. That our agricultural exports require careful regulation and supervision is proved by the fact that Australian, New Zealand, Dutch and Danish butter is still able to command better prices than our own does in the English market. There have also been complaints, not altogether well founded, about the quality of Irish eggs. The moral is that, like Denmark, we have to industrialise our agriculture, and to remember that what Denmark has accomplished has been done without import tariffs, with very little State assistance of any kind except education, and by allowing the farmer to take full advantage of the natural conditions of the country and to produce what pays him best. The bacon business, which ranks fourth amongst our industries, excluding agriculture, and which had a gross output of about five million pounds according to the 1926 census of production, has been hard hit by the enormously increased number of pig-killings in Denmark, where an average of 133,000 a week has been reached, as compared with about 80,000 a year ago. The total number of pigs bought by bacon curers in the Free State in 1929 was only 787,904, or the equivalent of six weeks of the present killings in Denmark. The price offered for pigs here has in consequence now reached a very low figure.

The most interesting scientific development in the Free State has been carried another step forward by the public tests of the new Drumm battery\* on the Great Southern Railway in August. The battery was used to drive a small experimental coach on the main railway line

\* See THE ROUND TABLE, No. 76, September 1929, p. 834.

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between Dublin and Hazlehead and back, a distance of about thirty miles. These tests show, apparently, that the battery per pound avoirdupois of cell is twice as powerful as any electric storage battery now in use, and from the point of view of consumption of current, from two to three times more economical than the system which takes current from a rail. The full battery of 77 cells weighs two and a half tons, and it is understood to be alkaline, with plates of silver oxide and zinc. The speed attained by the coach on which it was used reached 45 miles an hour in ten minutes, and a similar time was taken to charge the battery. The battery is, however, still obviously in a highly experimental stage, and until a complete train is built and tested over a period of years it would be foolish to claim that a revolution in transit has been attained. It is to be hoped that the Free State Government, which has so far courageously financed the experiments involved, will not hesitate to complete them.

The activities of the Electricity Supply Board continue unabated, and have been largely concentrated on developing the domestic side of the electrification scheme by illustrating the uses of electricity in the home, with special attention to cooking. Arrangements are also being made to furnish electric power to various industries in places where a supply of Shannon current is available. Already it is being used in such diverse concerns as, amongst others, corn milling, creameries, meat factories, baking, ice-cream manufacture, furniture making, ink making and stone cutting. Demonstrations of electric machinery and tools will soon be given throughout the country. The Post Office has just issued a striking special stamp in commemoration of the completion of the Shannon Power Scheme, which depicts the weir across the Shannon at O'Brien's Bridge, where the power canal begins.

In spite of all these developments, taxes in the Free State are by no means excessive as compared with other countries. The taxation per head of population, including

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both State and local taxes, is £9 3s. 6d., according to the latest available published statistics for 1927-28. The corresponding figures for 1926-27 were, in Norway £13 8s. 9d., in Sweden £12 13s. 2d., in New Zealand £16 2s. 5d., in Denmark £12 6s. 3d., and in Switzerland £8 3s. 3d. All these countries have similar economic conditions. Moreover, in the Free State an unusually large proportion of the total expenditure is upon social services and an abnormally small proportion on defence forces. One of our urgent and most difficult problems is the development of the districts on our western sea-board, where a stubborn soil and a stormy sea make it difficult for the peasantry to eke out an existence. Last year the Department of Fisheries initiated a kelp marketing scheme, which has proved a great success. During last season a sum of about £14,000 found its way into these districts as a direct result of this scheme, and it is to be hoped that its success will encourage further constructive work of the same kind.

The annual report of the Department of Education shows that progress in the attempt to revive the Irish language is extremely slow. Only about 25 per cent. of the teachers are really efficient, and a great proportion of these are naturally stationed in the Irish-speaking districts. These teachers have succeeded in making their pupils fluent speakers of Irish. Progress is naturally best in the infant classes, and the inspectors suggest that more attention should be paid to the classes immediately above the infant standard. The Government are publishing textbooks for the teaching of ordinary subjects in Irish, and are also offering substantial financial prizes for original literary work, in order to encourage young writers. With the possible exception of the late Canon Peter O'Leary, modern Irish has so far produced no writer of the first class.

The Horse Show was, as usual, in spite of indifferent weather, a great financial and social success. The Grand Prix international motor races, held during July in the

## Economic and General

Phoenix Park, were more successful than last year, and are likely now to become an annual event. Although the motor-car continues to increase in popularity (there is now one car for every hundred of the population), the horse continues to hold his own, and our horse population has increased by 36,000, as compared with seventy-eight years ago, although in the intervening years the numbers reached a much higher point.

Catholic Ireland has started to prepare for the Eucharistic Congress, which is to be held in Dublin, in the Phoenix Park, in 1932. This great devotional gathering is held every four years, and took place on the last two occasions in Sydney and Chicago respectively. It is likely to be a memorable occasion, because the Free State population is 95 per cent. Catholic, and because it will undoubtedly attract thousands of our world-scattered race to their native land. Big problems of transport, housing and feeding will arise, and it is estimated that during the Congress week Dublin's normal population of 400,000 will be increased to over a million. Over 100,000 visitors are expected from America alone. Arrangements are being made to house the pilgrims in hotels, schools, tents, barracks, ocean liners and private houses, and the work of organisation is already well advanced.

In the same year Cork proposes to hold an international exhibition, which it is hoped will attract many of our visitors to the capital of the south and its beautiful surroundings. We must also in that year have a general election, unless, as seems more than likely, the Government seize a favourable opportunity next year to submit their record and policy to the electors. At the moment it certainly seems that it would be a wise course for them to take.

The Irish Free State.

November 1930.

## CANADA

### I. THE GENERAL ELECTION

THE general election which was held in Canada on July 28 resulted in the decisive defeat of the Liberal Ministry of Mr. Mackenzie King and the bestowal upon the Conservatives of the effective mandate of a commanding majority in the House of Commons over any possible combination of opponents. In the new Parliament the final standing of the parties is as follows, the comparative figures for the previous election being given in a parallel column.

|                                              | 1930 | 1926 |
|----------------------------------------------|------|------|
| Conservatives .. .. .                        | 138  | 90   |
| Liberals (including Liberal Progressives) .. | 89   | 132  |
| Progressives .. .. .                         | 13   | 18   |
| Labourites .. .. .                           | 32   | 3    |
| Independents .. .. .                         | 2    | 2    |

The surprising feature of the election was not the defeat of the Liberals—whose political experts, at the close of the campaign, had been prepared for substantial losses though they hoped for a stalemate—but the size of the majority accorded to the Conservatives, whose gain of 48 seats exceeded their most roseate dreams. The Liberals, however, are deriving some comfort from the figures of the popular vote, which show that Conservative candidates polled a total of 1,909,955 votes, the Liberals secured 1,714,860, and the minor independent groups 274,180. So, although

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the Conservatives carried more than two-thirds of the 245 Federal seats, they just fell short of securing a popular majority.

There is, however, almost general agreement that the outcome of the election has two very satisfactory aspects. The possession of a clear majority emancipates the Conservative Ministry from the necessity of bargaining with minor groups and leaves them without an excuse for not carrying out their election pledges and declared policies. But an even happier development is the break-up of the famous Liberal *bloc* in Quebec, whose existence since the war has produced an unhealthy and artificial alignment in Canadian politics. It is all to the good that the Conservative party should be able to derive solid parliamentary support from Canada's greatest natural reservoir of conservatism, and it will enure in the end to the great benefit of liberalism in English-speaking Canada that the party can no longer be accused of being under the domination of Quebec. The casualties of the election included five Liberal Ministers, and there is particular regret, even among opponents, at the defeat of Mr. Dunning, the Minister of Finance, whose career of high promise will, it is hoped, only suffer a temporary interruption.

The factors which operated to produce the Conservative victory are various and not obscure. A government which had, ~~apart from~~ a brief intermission of a few months, been in office for nine years was bound to have suffered a substantial erosion of the popular support which had placed and kept it in power, and a swing towards conservatism would have been a normal development. But on this occasion it was accentuated by the economic depression which began with the great stock-market *débâcle* in October, 1929, and gathered momentum throughout the winter and spring. Since the Liberal Ministry had claimed credit for being an architect of national prosperity, it had also perforce to assume a large measure of responsibility and blame for the economic adversities which had befallen the

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country. Mr. King and his colleagues had hoped to make the Dunning budget the dominant issue of the election. It contained a comprehensive measure of tariff revision designed to effect a salutary chastisement upon the United States for its aggressive fiscal selfishness, and at the same time to stimulate inter-Imperial trade. Mr. Dunning stated the case for it with great ability and vigour, but in the end the Conservatives were able to make unemployment the major issue of the battle, and to obtain a sympathetic hearing for their argument that the feeble and vacillating tariff policy of the government was mainly responsible for the grave unemployment and other troubles; and that if the Conservatives were only armed with a mandate for a firmly protectionist policy, many of the country's difficulties would be solved. And they were helped by the ineptitude with which Mr. Mackenzie King and his colleagues handled this unemployment issue. At the outset of the campaign Mr. King took the line that there was practically no unemployment in Canada. Then, when confronted with the grim figures, he shifted his position and contended that, while there might be serious unemployment in Canada, the situation, in proportion to population, was better than in other countries. By the close of the campaign, Ministers had completely receded from the stand that unemployment was in no sense a concern of the Federal government, and had been compelled to promise that they would give every possible co-operation to provincial and municipal authorities for its relief. But the outcome showed that the voters had accepted the Conservative thesis about unemployment, and preferred to entrust them with the task of remedying it.

Again, the Dunning budget had many merits as an instrument for the stimulation of inter-Imperial trade. Its provisions were in consonance with the fiscal policy of the Liberal party since the days of Laurier, and it enabled the Liberals to sound a strong Imperial note. While this may have aroused disquietude in the minds of some

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Liberals—especially in Quebec—it undoubtedly attracted many independent and even Conservative voters. The Conservatives charged the Liberals, however, with an eleventh-hour conversion to a policy of tariff reprisals against the United States, and Imperial trade co-operation, and urged that if such a policy was necessary for the country's recovery to economic health, it was better to entrust its evolution to the Conservatives who had persistently advocated it. On the other hand, the Liberal strategy of sailing on the Imperialist tack probably drove Mr. Bennett further towards the position of champion of economic nationalism. Time and again in his speeches he declared that, while he yielded to nobody in his devotion to the Commonwealth, his primary concern was the interests of Canada, which must not be sacrificed either for Britain or New Zealand, or any other British country. It was predicted in the last issue of *THE ROUND TABLE*\* that this "Canada First" policy could scarcely fail to make a great appeal to the French-Canadian voters, and its success in this quarter was aided by the fact that the Conservative party had at last found a leader who could disclaim any responsibility for its policies of the war years. There had grown up, moreover, in French Canada a new generation of voters to whom the conscription issue meant little or nothing, and who were ready to vote upon the issues of the day and their merits. Indeed, there have been in recent years few healthier signs in Canadian politics than the refusal of the French-Canadian voters to be stampeded by the last-minute effort of *La Presse*, the great French-Canadian Liberal daily, to revive the conscription bogey by the publication of sensational despatches from London. The polls revealed that it could not have changed a single vote in Quebec, and it did considerable damage to the Liberal cause in other provinces.

But economic issues like unemployment and the tariff were by no means the only determining factors in the

\* See *THE ROUND TABLE*, No. 80, September 1930, p. 854.

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election. In the prairie provinces the anti-Catholic sentiment, which had been responsible for the emergence of a Canadian Ku Klux Klan organisation and the defeat of the Liberal provincial administration in Saskatchewan in June 1929, survived to operate strongly against the Liberal Government, which was accused of being under the thumb of Roman Catholic influences ; and one Minister declared that his first forebodings of defeat came when he saw a parade of five thousand embattled Klansmen in the streets of Regina. Meanwhile, some of the leaders of the Irish Catholic element in Canada had reached the conviction that it was the racial aggressiveness of the French-Canadian Catholics which was bringing the Roman Catholic religion into bad odour with Canadian Protestants, and that the termination of the supremacy of the Liberal *bloc* from Quebec at Ottawa would be in the best interests of their church. So it is now an open secret that in scores of constituencies the Irish Catholic vote, which had in all recent elections been predominantly Liberal, was quietly marshalled against the Government and turned the scale for the Conservatives in numerous seats. Now, the leaders of the Roman Catholic Church in Quebec could not fail to be apprised of these developments, and apparently the decision was reached that, since the desertion of the Irish Catholics must seal the fate of the Liberal Ministry, the time had come to place a strong garrison from Quebec in the councils of the Conservative party. So the success of the Conservative campaign in Quebec was undoubtedly hastened by the friendly benevolence of the local Catholic hierarchy. For the first time for nearly twenty years Conservative candidates in Quebec discovered themselves receiving real encouragement and practical assistance from a large number of Catholic clergy, and they also found their meetings well attended at places where a few years ago they could not collect a corporal's guard of supporters. They also found very effective ammunition in the dairying districts of Quebec in the heavy imports of cheap New

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Zealand butter, which had depressed local prices and caused great discontent. One defeated Liberal member complained after the election that Conservative orators who had toured the eastern townships of Quebec had made "a pound of New Zealand butter look as big as a house in the eyes of the Quebec farmers !" So a series of circumstances combined to work a remarkable change in Conservative fortunes in Quebec, and it was unexpected gains in that province, bringing its Conservative representation at Ottawa up to its highest level since the general election of 1891, which gave Mr. Bennett his commanding majority.

New Zealand butter also proved a sad stumbling block to Liberal candidates in Ontario and the western provinces, and contributed to the Conservative gains in these regions. Liberal Ministers endeavoured to make the question of Canada's representation at the Imperial Conference a leading issue, arguing that it would be against the interests both of Canada and the British Commonwealth to entrust it to Mr. Bennett, who was denouncing both increases in the British preference and the trade arrangements with Australia and New Zealand ; but only in one part of the country did this line of tactics meet with any success. It happened that not only were the trade arrangements with Australia and New Zealand popular with the business interests of the seaboard of British Columbia, but criticisms of the British preference were unpalatable to the large British-born element which resides in the province and has usually voted Conservative, and as a result the Conservatives—while victory was perching upon their banners everywhere else—lost all four seats in Vancouver City as well as the adjacent constituency of New Westminster, and were completely swept out of what was regarded as one of their safest strongholds. The Liberals had also the satisfaction of winning the first seat in Toronto which they had secured since 1895. These consolations, however, did little to mitigate the sting of the general defeat, and the event proved that the election had been held under

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conditions which made the Government's defeat almost inevitable. After the election was over, the *Manitoba Free Press*, analysing in an editorial the causes of the Liberal *débâcle*, declared that the manner in which Mr. Mackenzie King had allowed himself to be jockeyed by Mr. Bennett into accepting battle at a season and under conditions almost as unpropitious for success as could possibly be found, would be recorded in text-books on political strategy as a warning to future Prime Ministers.

Immediately the result of the polls was known, Mr. Mackenzie King tendered his resignation, and Mr. Bennett was entrusted with the task of forming a new Cabinet. The Conservative Ministry, which assumed office on September 8, is a presentable array of politicians, in which a good deal of new blood is blended with some ripe experience; and it had on the whole a very favourable reception from the country. It was counted greatly to Mr. Bennett's credit that he excluded certain *passés* veterans of his party who had been pressing their claims to office. Mr. Bennett's greatest problem concerned the Ministry of Finance, for which no suitable occupant had been elected to parliament, and he solved it temporarily by taking charge of the department himself in addition to the Ministry of External Affairs. The arrangement, however, is only temporary, and it is understood that he has hopes, after he returns from the Imperial Conference, of enlisting the services of a well-known Canadian banker for the post. Sir George Perley, who was a member of the Borden Ministry and served as High Commissioner during the war years, has entered the Ministry without a portfolio, and his long political experience will be a useful asset to it, while Mr. Bennett has drawn from the provincial field a valuable recruit in Mr. Edgar Rhodes, who was once Speaker of the House of Commons at Ottawa, but since 1924 has been Premier of Nova Scotia. Other prominent members of the new Ministry who have previously held office are Mr. Hugh Guthrie (Justice), Mr. H. H. Stevens

## The General Election

(Trade and Commerce), Dr. R. J. Manion (Railways) and Senator G. D. Robertson (Labour). With the merits of these statesmen the Canadian public is thoroughly familiar, but more interest attaches to Mr. Bennett's bold experiment of bringing into his Cabinet four members who have never before had any parliamentary experience. Two of these ministerial novices, M. Duranleau (Marine) and Mr. Dupré (Solicitor-General), hail from Quebec, and Mr. Bennett was very fortunate in finding that the fortunes of the polls had thrown up for him a number of members capable of providing French Canada with very creditable representation in a Conservative Ministry.

Having formed his Cabinet, Mr. Bennett proceeded to fulfil his election pledge of summoning a special session of parliament to deal with the unemployment situation as a national emergency, and, thanks to the co-operation of the Liberals, the new parliament met on September 8. It only sat for about a fortnight, but during that brief space the Government secured authority for a vote of twenty million dollars for public works designed to provide work for the unemployed during the winter. The Liberals offered no serious objection to this vote, and contented themselves with demanding certain safeguards against the wasteful application of the money, and its use as a form of political bribery. Mr. Bennett also fulfilled another election pledge by introducing a comprehensive measure of tariff revision, which substantially increased the existing duties on a long list of commodities, including textile goods, agricultural implements, electrical equipment, etc., and which aimed at providing certain Canadian key industries with more adequate protection than they have enjoyed for many years. The changes also made substantial inroads upon the British preferential rates; but Mr. Bennett defended his policy on the ground that it would provide additional work for at least thirty thousand people during the winter, and assist in the alleviation of unemployment. The Liberals, however, took strong exception to this move

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for higher protectionism, and argued that the changes were being conceived and carried out in unseemly haste, and would impose serious burdens upon, not only the consumers, but the great natural industries. Mr. Mackenzie King charged the Government with adopting "Star-Chamber" methods to change the tariff for the benefit of certain favoured industrial interests, and when he moved a condemnatory amendment, the Liberals had the almost solid support of the Progressives and Labourites. The Opposition groups could have held up the passage of the tariff measure long enough to have prevented Mr. Bennett attending the early sessions of the Imperial Conference, but they desisted from obstructionist tactics on receiving a pledge that all the tariff changes which were made at the special session would be submitted to the review of parliament when the regular session took place. So Mr. Bennett was able to secure prorogation on September 20, and to make arrangements to be present at the opening of the Conference on October 1. The new Ministry has undoubtedly manifested a zealous vigour in tackling the unemployment situation, but it remains to be seen whether its measures will bear the anticipated fruit.

## II. THE ST. LAWRENCE WATERWAY

TO advocates of the improvement of the St. Lawrence waterway, progress towards a completion of the scheme has been exasperatingly slow during the past two years.\* The situation has, however, been exceedingly complex, and blazing a pathway through the tangle of conflicting interests, political and economic, was almost certain to be a time-wasting process. The proposal includes the construction of a twenty-seven foot channel for navigation above Montreal and the development of

\* See THE ROUND TABLE, No. 72, September 1928, for a discussion of the situation at that time.

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almost five million horse-power of electrical energy between Montreal and Lake Ontario. This association of plans for both power and navigation adds immensely to the attractiveness of the whole scheme in the long run, but it has made the framing of a satisfactory solution much more difficult than it otherwise would have been. Several issues have been raised, the importance of which was not foreseen originally by either opponents or advocates of the project, *e.g.*, the question of how far Canada and the United States should co-operate in constructing the work, the problem of dividing costs, the relative merits of public and private ownership and distribution of power, and the rights of federal governments as opposed to provinces and States.

The question of Dominion and provincial rights forced itself into the foreground in 1928. In both Canada and the United States it has been generally recognised that the interests of inland navigation were constitutionally within the sphere of the federal government, while supervision of the development of hydro-electric power comes under the control of provinces and States. The international section of the river, capable of developing two million horse-power, has Ontario on one side and the State of New York on the other; the all-Canadian section, with about three million potential horse-power, runs through the province of Quebec. With determined opposition to the navigation scheme from Premier Taschereau of Quebec, and with an apathetic interest on the part of Ontario, it appeared in 1928 that the Dominion government could not safely move towards a treaty with the United States, unless it first reached an agreement with the two provinces on certain points touching the ownership and control of the waters. With the consent of the provinces it was decided, therefore, to submit a list of questions to the Supreme Court of Canada, and in September, 1928, the hearing took place, with an eminent array of legal talent on both sides. Ten questions in all were

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submitted. The Dominion government made sweeping claims to the ownership of the water in navigable rivers, while it admitted the right of the provinces to develop power from the surplus water not required for purposes of navigation—the Dominion, however, to be the judge as to how much water might be required for navigation at any time. During the hearing it became apparent that the questions were of such a nature as to make categorical answers impossible, and when the opinion of the Court was handed down in February 1929, the answers were so indefinite that they provided no settlement of the issues between the Dominion and the provinces. The general consensus of opinion was, in fact, that little progress had been made, and it appeared that the final solution of these difficult questions of jurisdiction and property could be framed, not by approaching the matter from the point of view of strict legal rights, but only by a meeting of the interested parties, at which a practical settlement, based probably on compromise, could be worked out.

Meanwhile, the efforts of certain groups of capitalists to obtain concessions for the development of hydro-electric power were reaching a climax. Power may be developed in three of the five sections of the river between Montreal and Lake Ontario, but of the three the Beauharnois section was the centre of interest. The development at the Lachine rapids immediately above Montreal, where about a million horse-power could be produced, will be very expensive. The two million horse-power of the international section will be divided between Ontario and the State of New York, and a treaty must therefore be made before the development can take place. Moreover, sentiment in Ontario is strongly in favour of the public ownership and distribution of power. It was plain, therefore, that the Beauharnois section, lying wholly within the province of Quebec, was the first great prize worth striving for. Two groups were especially interested, behind each of which were mobilised powerful industrial and

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financial supporters. The first had at its head Sir Herbert Holt and Mr. J. H. Gundy. The other was directed by Mr. R. O. Sweezey, who, in 1926, obtained control of the Beauharnois Light, Heat and Power Company, which claimed the right to the development of the power in the Beauharnois section. Rumours were rife with regard to the struggle that went on between these two groups. The stakes were high, especially as the charter would probably provide a precedent for further grants of water power later on. The question of providing a deepened channel for navigation was, to some extent at least, used as a pawn in the game of propaganda and discussion. Both sides offered to construct works for navigation in return for power rights, and at one point it was announced in the press that the Holt-Gundy group would be willing to present to the country, free of cost, a deep channel from Lake Ontario to Montreal in return for the right to develop the four million horse-power which is Canada's share of the potential energy of the river. The fight went on largely behind closed doors, however, and very little reliable information was given to the public.

The Beauharnois company gained the first victory when it obtained in 1928 from the government of Quebec a charter, good until 2003, for the diversion of 40,000 cubic feet of water per second from the river for the purpose of power development. The company pledged itself to construct a canal 27 feet deep and 600 feet wide at the bottom for purposes of navigation; it agreed not to export any of the power; and it is to pay an annual rental to the province of \$50,000 and an annual royalty of \$1.00 per horse-power. It plans to develop 200,000 horse-power by October 1932, and its maximum of 500,000 horse-power by October 1934. The Dominion government, if it takes over the ship canal, must provide the locks and other works necessary for navigation. The company, after its success at Quebec, applied for ratification of its charter by the Dominion government. On January 15, 1929, a public hearing was



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held at Ottawa, and there was powerful opposition to the company's request. Finally, however, on March 8, an Order-in-Council ratified the charter.

During the period when the request of the Beauharnois company was before the public, there was a very sharp difference of opinion as to the probable effect of the ratification of the charter on the St. Lawrence project. It was viewed with disfavour by most of the advocates of the deepening scheme, although the canal promised by the company was to conform to the specifications of the joint board of engineers appointed by Canada and the United States. Advocates of the deepening scheme felt, however, that to ratify the charter would be to commit Canada to a policy of dealing with the whole project piecemeal, and to a subordination of the interests of navigation to the rivalry as regards power. Friends of the Beauharnois proposal argued, on the other hand, that ratification of the charter would mean a definite beginning of the construction of a deep channel, and the government of Quebec, in spite of its previous opposition to the deepening scheme, would in this way eventually be brought to agree to it. A decisive factor in gaining ratification for the charter was apparently the attitude of Premier Ferguson of Ontario. The government and the Hydro-Electric Commission of Ontario agreed that the Commission would purchase a large block of power from the Beauharnois company at a price of \$15.00 per horse-power. Some two years earlier the Commission had approached the government at Ottawa with a plan for the development of power in the Ontario section of the river, but this proposal was allowed to rest in abeyance. Premier Ferguson was charged by some with a virtual betrayal of the principle of public ownership in Ontario, although he has always appeared friendly towards the Hydro-Electric Commission. Whatever his motives may have been, and there was a good deal of speculation regarding them, probably both he and Premier Taschereau were glad to be in agreement. The two

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provinces would thus present a solid front in the conference which was to take place with respect to the rights of the Dominion and provincial governments in the river.

On February 26, 1929, Mr. Mackenzie King announced in the House of Commons that he was endeavouring to arrange this conference, and the conversations finally took place in the first few weeks of the present year. In these conversations the Dominion government did not press the extreme claims which it had put forward at the Supreme Court hearing. It stated that it had no desire to go into the power business, and that it would be willing to accept whatever arrangements the individual provinces might care to make for the development of power, provided that the prior rights of navigation were respected. It appeared that a practical settlement of the difficult questions of jurisdiction and ownership would be possible on this basis. The details of a final decision were not worked out, however, before the precipitation of the general election. During the election campaign questions of tariff and unemployment overshadowed the St. Lawrence project, but Mr. Bennett committed himself, as Mr. King had previously done, to statements favourable to it. He did not make it clear whether he was willing to proceed with the plan of the joint board of engineers which assumes co-operation with the United States, or whether he was determined to have an all-Canadian scheme ; but Mr. Ferguson, who threw the full weight of his influence behind Mr. Bennett, reiterated his objections to the sharing of Canadian rights with the United States, and also expressed keen suspicion of the intention of Mr. King's Government to override provincial rights. Mr. Dunning, the Minister of Railways and Canals, said that the Liberal Government had acceded fully to the provincial demands in the conference which had taken place, but Mr. Ferguson denied that this was so.

Undoubtedly Mr. Ferguson's uncertain attitude towards the deepening scheme has been one of the most important influences in explaining the slow progress of the past two

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years. Leadership in favour of the project had to come from Ontario, since the maritime provinces and British Columbia were not specially affected, and the prairie provinces were more interested for the moment in the completion of the Hudson Bay route. Vigorous support from Ontario could have been mobilised by a Premier in as strong a political position as was Mr. Ferguson, and his failure to act has been a keen disappointment to advocates of the scheme; by some of them he has been denounced as its worst enemy. The *Manitoba Free Press* of Winnipeg, in an editorial on February 19, 1930, declared that "a great opportunity has been bungled and butchered," and that the interests of Ontario had been betrayed chiefly through the personal influence of Mr. Ferguson. It hazarded the opinion, however, that his motives were to embarrass the King Government and further the cause of the Conservative party at Ottawa. It may be that, now that the Conservative party is in power at Ottawa with a substantial majority, Mr. Ferguson will modify his tone with regard to provincial rights and co-operation with the United States. Although Mr. Bennett did not commit himself definitely as to how and when he would like to see the scheme completed, he at least went so far in his choice of a Cabinet as to appoint to the portfolio of railways and canals a vigorous advocate of the early completion of the work—Dr. R. J. Manion, who comes from the "twin cities" of Port Arthur and Fort William, at the head of Lake Superior, which are, of course, vitally interested in the project.

During the whole period since 1928 the government at Washington has been watching the situation with keen interest. In correspondence with Ottawa early in 1928 it expressed itself as willing to proceed with the framing of a treaty. Mr. Hoover has always been a strong advocate of the deepening scheme, and during the presidential election of 1928 this was urged in his favour, especially in the middle west, where the economic difficulties of the farmers were a serious danger to the Republican cause. He has

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always strongly favoured the St. Lawrence, rather than the so-called "all-American" route, from Lake Ontario to the Hudson river. This plan, although it would be extremely expensive, has had strong support from certain elements in the State of New York, and Mr. Hoover has indicated that he will support it if Canada refuses to proceed with the St. Lawrence project. Such being the case, it is not surprising that the government at Washington, after a long silence, once more raised the question of negotiating a treaty by sending an enquiry to Ottawa on September 2 last. Mr. Bennett replied that he was unable to take up the question immediately, but that on his return from the Imperial Conference in London he would turn his attention to it. It is not to be expected that the government of the United States will be willing to wait indefinitely for a favourable move by Canada. The likelihood is, therefore, that the next year will determine whether Canada is to proceed in the near future with the completion of the navigation project in co-operation with the United States, or whether she prefers to postpone action. In this case the deepening will probably in the course of time be carried through piecemeal as a Canadian enterprise in connection with power developments at various points.

Canada.

October 1930.

## AUSTRALIA

### I. THE FEDERAL CHRONICLE

ON August 8 the Federal Parliament was adjourned after a protracted and interesting session. The interest was partly due to the financial crisis which Australia is facing, and partly to the unusual political situation. And to intensify this interest there came, in mid-session, the dramatic affair of Mr. Theodore.

The general character of the Commonwealth parliamentary situation was dealt with in the last number of *THE ROUND TABLE*.<sup>\*</sup> Briefly, that position is that Mr. Scullin's Government has a majority of 17 over all other parties in a House of Representatives which contains 75 members; in the Senate it has only 7 supporters in a chamber of 36 members. The Senate has lost no time in applying the brake to government legislation. It has rejected the Commonwealth constitutional alterations and the Wheat Marketing Bill; it has shelved the Central Reserve Bank Bill, and it has compelled the Government to accept drastic amendment of the Arbitration Bill as a condition of allowing it to pass.

So determined and persistent a challenge by the Senate to a Government is new in Commonwealth history. Except in the Parliament of 1913 and in its successor after the break in the Labour party over conscription in 1916, the conditions which make it politically possible have not existed. In the former case the certain development of an unworkable position in Parliament led the Cook Government in 1914 to have recourse to a double dissolution as a means of ending the

<sup>\*</sup> *THE ROUND TABLE*, No. 80, September 1930, pp. 868-872.

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conflict. On the present occasion the challenge has not been taken up. The Government, in no difficulty in the House of Representatives, hindered but not wholly prevented in its policy, is not anxious to go to the country after only ten months of office, and there is a general realisation that the gravity of the financial position renders an election inopportune.

The Australian Senate was originally intended to represent the interest of the States as such, and to be a revising Chamber. There has been a disposition to hail its opposition to government legislation in this Parliament as a return to the second of these functions, for the Senate has never been a revising Chamber in the sense that the framers of the Constitution anticipated. The reason for this is that its members have been elected on strictly party lines. Hence the Government of the day has usually had a majority in both Chambers, and such amendments as the Senate has made in Bills have been mainly matters of phrasing and detail. It may be doubted whether the essentials of this situation have changed. The present Senate has amended and has rejected Bills from the other House, not because it has become suddenly conscious of its somewhat atrophied constitutional function as a revising chamber, but because it stands for a national policy fundamentally different from the policy of the Government. The situation is constitutionally anomalous and cannot be permanent.

The constitutional amendments proposed by the Ministry have already been discussed in these pages.<sup>\*</sup> The proposals of the Government to help the wheat farmers took shape in the Wheat Marketing Bill. Its main provisions were these. The Commonwealth and State Governments were to give to the growers guarantees of 4s. a bushel for 1930-31 wheat delivered at the nearest railway station. Any loss on the subsequent marketing of the wheat was to be borne by the guarantors. The farmers were to elect a majority of the members of the wheat boards which were

<sup>\*</sup> See *THE ROUND TABLE*, No. 80, September, 1930, p. 870.

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to be set up in each State. The State wheat boards were to send delegates to an Australian wheat board which was to have complete control over both overseas and inter-state marketing of wheat. Any profit made on such marketing was to be returned to the farmers, who were in any case not to receive a lower return than the 4s. a bushel which the Bill guaranteed for the 1930-31 crop. In return for this the next three harvests were to be marketed by the Australian wheat board. Thus the two main principles of the Bill were a guaranteed price for one season and a compulsory pool for three years. These were linked together. If the farmers wanted the guaranteed price they would have to accept the compulsory pool.

There is no doubt that a good case can be presented for giving assistance to the farmers. The fall in prices and the general burden of the tariff have hit the primary producer hard. But whether the kind of assistance promised by this Bill is the wisest course to take may be doubted. It is obvious that the guarantee must be paid in the long run by the taxpayer if the wheat is marketed at less than 4s. net per bushel. And this contingency appears probable. It has been calculated that the overseas sale of 144 million bushels at 4s. 10d. a bushel, with the prevailing rates of freight and exchange, would cost the guarantors something like £3,600,000. Since this calculation was made, prices have fallen further. No one knows what the world price of wheat will be when the Australian harvest of 1930-31 is marketed. Russia has re-entered the wheat market; Canada has an immense surplus; so has the United States, though the recently reported drought in the maize districts of the latter country may necessitate inroads upon the wheat surplus. And there was a very heavy carry-over from last year's crop in Australia. The producing countries are face to face with the fact that the supply of foodstuffs exceeds the present demand for them.

Apart from the financial risk, the idea of a compulsory pool was unpopular. It would cut out the competition

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of voluntary pools and individual merchants. And, on past experience, it would be likely to be expensively administered. One leading newspaper pilloried the proposal as an attempt "to entrench a phase of socialism into the economic structure of a nation which is supremely democratic and individualistic." As a description of a country which numbers compulsory arbitration, government railways, and the sugar bounty amongst its achievements, the description comprised in the last six words must be unique. The Bill would have pressed hardly on the finances of Western Australia, with her small local consumption and her relatively large export of wheat. A fall in world prices would have involved that State in vast losses on account of the guarantee.

Convinced by these and other arguments, the Senate defeated the motion for a second reading. The Minister for Markets in acknowledging the defeat of his measure has since said that it will be impossible to re-submit the Bill in time to make it operative for the coming season.

The farmers have reacted to the defeat of the Bill in different ways. Some of them appear to be content. Others are angry with the Senate. Meantime, as an interesting sidelight on the financial aspect of the Bill, it appears that the Government of New South Wales has sought to negotiate a guarantee to the growers of 3s. per bushel for the coming harvest by means of a State pool. But the best terms it could obtain from the Commonwealth Bank were a promise to advance 80 per cent. of the market value of the crop at the opening of the marketing season, this rate (f.o.b. Sydney) to be subject to handling charges amounting to 8d. per bushel. In Victoria, a government proposal for a State compulsory pool has failed to obtain the support of a sufficient majority of wheat growers to bring it into operation.\*

\* The complications and anxieties arising from pools, holding over, and government and banking guarantees, may be studied in the case of Canada. (See THE ROUND TABLE, No. 79, June, 1930, pp. 606-620.)

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The Scullin Government, having been elected on a pledge to retain compulsory arbitration, brought in a new Arbitration Bill. Readers of *THE ROUND TABLE* will remember that the Bruce Government carried a new Arbitration Act in 1928.\* This Act tried to do three things. It endeavoured to prevent the overlapping of Federal and State tribunals; it imposed heavy penalties upon organisations breaking awards; and it tried to further the principle of conciliation. The Scullin Government's Bill may be summed up as an attempt to support the first and third of these ideas, while abandoning the second. This is, of course, a very rough summary. Not unnaturally the amending Bill of 1930 leaned towards Labour. It enjoined greater preference to unionists. It eliminated the clauses of the 1904-28 Act which directed judges to take account of the economic position of an industry when they were making an award. It took away the power of the Court to cancel awards as a punishment for strikes and lock-outs. It retained the clauses of the Bruce Act providing for Conciliation Commissioners. But it gave them power to make awards and it forbade any appeal to the Arbitration or other Courts from a Commissioner's determinations.

Naturally such a Bill encountered much opposition, and the Government was wise enough to accept amendments even in the House of Representatives. The measure therefore came to the Senate in a slightly amended form. That Chamber passed the second reading and proceeded to a wholesale revision of the Bill in Committee. It was an entirely different measure by the time the Second House had finished with it. The Senator in charge of the Bill described the plight of the Government in the Senate as that of a "hopeless, helpless, well-meaning minority." On the return of the amended Bill the Government at first seemed inclined to challenge the Senate, but the matter ended in a joint conference of "managers" from each House at which a working compromise was threshed out.

\* *THE ROUND TABLE*, No. 72, September, 1928, pp. 870-3.

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The Ministry accepted 26 of the Senate's amendments, many of them being machinery clauses. Several modifications were agreed to, and compromises were reached on a number of questions.

In brief, the chief changes are these. Appeals are allowed from a Commissioner to the full Court of the Arbitration Court. The High Court of Australia is to determine finally matters involving constitutional questions. The clause enjoining preference to unionists is modified by the addition of the words "other things being equal," which words were part of the Bruce Act of 1928. The 1928 Act gave the Court power to order a secret ballot of any organisation upon any matter "of substantial importance" if ten members of the organisation requested it. The 1930 Bill repealed this clause. The Senate put it back again. The Conference agreed to leave to the Court the power of ordering a secret ballot. It further agreed to eliminate penalties for individual picketing, but imposed a penalty (reduced from £500 to £100) on organisations which penalised their own members for working in accordance with an award. The general effect of the changes would seem to be that the Bruce Act of 1928 has been modified in its penal aspects, while the area of conciliation has been widened. The Government, in presenting the amended Bill to the House of Representatives, made it clear that it did not meet their wishes. But they recommended it on the principle that the good should not be the enemy of the best.

During these Parliamentary conflicts the culmination of the affair of the Mungana leases had deprived the Government of its ablest member, Mr. E. G. Theodore, the Commonwealth Treasurer, formerly Premier of Queensland. For a long time disquieting stories have been current in Queensland about the purchase by a former Labour Government of certain mining leases at Mungana. As far back as October 1927, the deputy leader of the anti-Labour Opposition in Queensland asked the then Labour Premier, Mr. William McCormack, for an inquiry into this

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purchase. He alleged that grave suspicions rested on Mr. McCormack himself and on other members of the Government past and present in that they had "wrongfully used their public positions for the purpose of the acquirement of private gain." Mr. McCormack refused this demand for an inquiry more than once. When the Labour party was turned out of office in 1929 it was known that the new Government would institute an inquiry. This was delayed to allow the ex-Premier, Mr. McCormack, to go abroad for health reasons. On his return the Moore Government appointed a retired judge of the Supreme Court of New South Wales, Mr. Justice Campbell, as Royal Commissioner to conduct the inquiry. Mr. McCormack was summoned to give evidence, and forwarded a medical certificate. Early in the inquiry Mr. Theodore asked to be allowed to give evidence, but it was not convenient to hear him at that stage. Later, when summoned, he said that his duties as Treasurer prevented him from coming to Queensland, and gave no indication of his intention to make any effort to appear within a reasonable time. The inquiry was concluded without his evidence as well as without that of Mr. McCormack, and the Commissioner made his report, which included the following grave findings :—

Men who occupied high and responsible positions in the State betrayed, for personal gain, the trust reposed in them and acted corruptly and dishonestly. Theodore, McCormack, Reid (from whom the Mungana leases were bought), and Goddard (the general manager of the Chillagoe Smelters), were collectively and severally guilty of dishonest exploitation of the State in the sale to the State of the Mungana mines for £40,000.

It was established on unimpeachable evidence that Theodore received, promptly and regularly from time to time, one-half of McCormack's share of the fruits of the Mungana transaction.

There was only one reasonable conclusion. Theodore was a party from the beginning.

This report was published on Friday, July 4. On the next morning Mr. Theodore resigned his office as Treasurer.

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On July 8 he made a public statement from his place in the House of Representatives. It was a highly emotional pronouncement, denouncing the proceedings and attacking the Commissioner in violent terms. Then, in wiser vein, he ended :—

If I am guilty of a tithe of the things contained in the report, then I am not fit to be a member of this House. If I am not guilty then I have the right to clear my name from the tarnish upon it. I do not want any further Royal Commission. I ask for a fair trial, and I venture to say that that can only be afforded me by the Attorney-General of Queensland presenting an indictment against me.

There the matter rests for the present. The Queensland Government sought legal advice on the question of the institution of criminal or civil proceedings against the persons implicated. Criminal proceedings are unlikely in view of the restrictions on the admission of evidence in a prosecution, and even civil proceedings presented difficulties which the Government has now sought to remove by amendments of the Crown Remedies Act. Mr. Theodore expresses impatience at the postponement of the opportunity to vindicate himself before a jury. On the other hand, he has not availed himself of the initiative that lies with him for instituting proceedings for defamation against journals which make no secret of their desire to afford him the opportunity he claims. There has been little disposition on the part of political adversaries to make party capital out of the incident. Mr. Theodore had a reputation for grasp of affairs, and was credited with being a steadying influence in the Ministry, particularly in resistance to the inflation policy popular with the left wing of his party. There is among responsible persons also the consciousness that restraint in comment is proper so long as it appears probable that judicial proceedings are pending.

During the last session of the Commonwealth Parliament a Bill making provision for a Central Reserve Bank was passed by the House of Representatives. The important

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features of the Bill may be summarised as follows: (1) The Bank was to have an initial capital of £2,000,000 transferred from the Commonwealth Bank. (2) The Bank was to control the note issue and perform all the functions of a Central Bank. It was not to make advances against land or engage in ordinary trading operations. (3) All banks in Australia were to maintain cash reserves at the Bank of not less than 10 per cent. of their time deposits and 3 per cent. of their demand deposits. (4) The Bank was to be controlled by a Board of Directors consisting of the Governor (who was to be the manager), two Deputy-Governors, the Secretary to the Treasury and four other persons, all to be appointed by the Governor-General-in-Council. (5) The Bank was to hold reserves in gold or short-term securities amounting in the aggregate to not less than (a) 25 per cent. of notes issued; (b) 25 per cent. of deposits up to £20 million, and 50 per cent. of deposits above £20 million. Half of the legal minimum reserve was to be held in gold in Australia and half might be held in London. The Senate referred the Bill to a select committee which took evidence from banking experts and issued a progress report on August 5.

The Committee stated: (a) That witnesses were unanimous upon the need for a Central Bank in Australia "as a desirable adjunct to the financial system." (b) That with one exception the witnesses "were opposed to any drastic change during the present critical period." (c) That strong exception was taken to some features of the Bill, notably the method of appointing the Board and the powers of the Bank to make advances to Government and public bodies. The Committee took the view that the immediate establishment of a Central Reserve Bank would not serve a useful purpose at present, and that "nothing but harm could result from ill-considered action." It recommended that the time for presenting a final report be extended until "the second Thursday upon which the Senate meets after the forthcoming adjournment." The

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Senate concurred and the final report is accordingly to be considered next session.

The circumstances of the two months preceding his departure for the Imperial Conference imposed almost overwhelming burdens on the Prime Minister. He left Australia a very sick man; and without distinction of party the sympathy and good wishes of the Australian people attend him.

### II. PUBLIC FINANCE

THE difficult economic problems with which Australia is struggling as a result of the world depression have been already recorded in this review.\* Unfortunately for Australia the world crisis developed at a time when she was facing some serious problems of her own making. For a number of years she had been borrowing overseas for public works which had not increased productivity sufficiently to enable the country to meet the increasing interest charges without lowering the standard of living. More immediately serious, however, was the fact that the failure to earn interest, combined with the growing shortage of funds abroad available for investment, was making imperative a reduction in overseas borrowing. The Australian standard of living was to some extent maintained by the inflow of imports resulting from these borrowings, and there had grown up a class of workers who depended upon the expenditure of loan money for their livelihood. Thus the economic structure of the country had been partially built upon a foundation of loans, and a difficult period of readjustment was necessary to enable Australia to adapt herself to their cessation.

Naturally the financial difficulties and the depression had a disastrous effect upon Commonwealth and State budgets. Budgeting in Australia has always been unsatisfactory in

\* See THE ROUND TABLE, No. 80, September 1930, pp. 863-868.

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its methods and, in the last few years, in its results. In recent years money has been spent on loan works before it was raised from the public. The loan programme for each year was determined first and the Governments then sought to borrow the necessary funds. During the last few years they have been unable to borrow sufficient for this purpose by long-dated securities, but this fact did not cause them to restrict their expenditure to the funds actually available. The consequence was that the shortage had to be provided for by methods of temporary finance.

This, however, was not the only defect of Australian budgets. Before the war the erection of many public buildings was financed from revenue, but since the war such cautious methods of finance have been cast to the winds and these works financed from loan moneys. The consequent weakening in the budget position might be justified in a time of emergency, but the optimism of the Australian people has been so great that the period of unusual prosperity which has just passed was looked upon as the herald of an era in which the prosperity of the nation would permit this drift to be made good without difficulty. The canker spread to other branches of finance, and expenditure was relieved by the inadequate provision of depreciation, and even by the very dangerous expedient of capitalising interest. It is true that there were excuses—but there always are. Interest was capitalised mainly in connection with attempts to settle returned soldiers on the land, partly because the States hoped that the losses were temporary and partly because they thought that the Commonwealth might be induced to assume the liabilities.

Naturally this drift in Australian finance permitted the budgets to be apparently balanced with less taxation than was really required. Meanwhile the law of compound interest, deadly in its effect upon procrastinators, was accumulating a weighty burden for posterity to carry, that posterity of which so much was expected. Had the budgeting been more rigorous, and taxation collected when

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really required, it is highly probable that a voluntary hal would have been called to loan expenditure before circumstances forced it upon the Commonwealth. Even if Australia's luck had held good, she would have had difficulty in winning clear of her doubtful financing methods without some unpleasant consequences; but this was too much to expect. As it was, she weakened herself so greatly that she was in no condition to face the economic cataclysm that, in 1929, shook the world and strained the resources of the strongest nations. The economic storm which then burst formed danger zones in Australia, the Argentine and other countries producing raw materials. Wool, the main product of Australia, fell in price 45 per cent. between 1926 and 1930. Wheat, which was worth 6s. per bushel in 1926, was only worth 3s. per bushel in September 1930, while metal prices also collapsed. Falling prices brought to a head the growing dissatisfaction in London with regard to Australian securities. For some years London had been regarding the heavy Australian overseas borrowings, averaging about £30,000,000 per annum, with suspicion. Some fear was felt that the whole of this great sum could not be immediately made to earn interest, and, meanwhile, it was apparent that the country was loading itself with a great burden for interest and sinking fund which would tax its capacity to pay. In point of fact the burden of external interest charges was not so severe that it could not be comfortably carried. It is true that since 1919-20 increased borrowings and falling price levels had greatly increased the real burden, as measured by the external interest charges expressed as a percentage of the national income, but, nevertheless, in 1930 it was no greater than it was in 1908 and actually less than in 1901.\* However, the dislocation caused by the fall in the prices of exports, and the cessation of borrowing, made an abrupt readjustment of Australia's finances essential, and it was this which created most of the difficulties. While the value of exports fell by £45 million, from £144 million in 1928-29

\* See Dr. Benham, *The Prosperity of Australia*.



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to £99 million in 1929-30, external borrowings, which amounted to about £35 million in 1928-29, will probably be completely suspended for a few years except to fund floating debt. On this basis the value of imports which Australia can purchase abroad must be reduced from £144 million in 1928-29 to £63 or £62 million in 1930-31 after making due allowance for the increasing charges for interest.

As was to be expected, such a paralysing reduction in the income derived by Australia from abroad had disastrous effects upon Federal and State finances. The reduction in Federal revenue, due mainly to the fall in customs and excise receipts, was estimated at £10.5 million, which, with special charges of about £2 million, and the deficit of £1.5 million, left £14 million to be found by additional taxation or reduced expenditure. Some small economies had been made, principally in the Defence Department, but economies which involved a reduction in salaries, wages, pensions, or services other than defence, were not contemplated by the Government when it prepared its budget. Instead, the estimated shortage was to be made good by increased taxation, of which £5,700,000 was to be collected by means of new revenue duties under customs and excise, £5,000,000 by a sales tax of 2½ per cent., £1,000,000 by additional postage charges, and £850,000 by increased income tax rates, and £1,500,000 from a windfall of accumulated income arising from liquidations of ex-enemy properties, which should not, under ordinary circumstances, be reckoned as revenue.

In spite of the heavy reduction anticipated in Federal revenue, recent returns show that the estimates will not be realised, principally because insufficient allowance was made for the tremendous reduction in imports which will be forced upon the Commonwealth by the fall in the prices of her exports and the cessation of overseas borrowing. The receipts from the sales tax have been conservatively estimated and may result in more than the anticipated revenue, but will not produce sufficient to offset the shrink-

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age in customs and excise. A deficit of between £5 and £9 million is now seen to be probable, and the Federal Cabinet is trying to make up its divided mind how to meet the situation.

The budgets of the States for the year 1930-31 are not yet available, but it is known that, without economies or increased taxation, considerable deficits must be expected in most of them. Not only the Commonwealth but nearly all the States have had deficits for the last three years, and the depression will make the position during the current year more acute. Whereas in the case of the Commonwealth it is the shrinking revenue from customs and excise which is causing the embarrassment, in the States the decline in railway revenue is responsible for the major difficulties. The attempt to balance the Commonwealth budget was originally made on the basis of increased taxation, but when the budget is revised a reduction in expenditure is expected. The possibility of balancing budgets in the States by increased taxation alone is remote, and has been made more remote by the Federal budget; drastic reductions in expenditure have been foreshadowed and actually started in some States, the reductions proposed being in services, salaries and wages, though the rigidity of the Australian system of fixing wage rates by compulsory arbitration makes these variations difficult and slow—too slow to cope effectively with the rapidity with which economic conditions have been changing recently.

The budget position is difficult enough, but possibly the cash position is even more delicate. The deficits incurred in recent years by both Commonwealth and States have resulted in an accumulated deficit of about £22 million, largely unprovided for except by methods of temporary finance. As already indicated, the Commonwealth budget will need further action this year to avert a deficit. The States also have substantial budget problems, while, owing to the seasonal nature of tax receipts, there will be a considerable excess of expenditure over receipts during the

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early months of the year which will need to be met by methods of temporary finance. In addition to the budget deficits, loan expenditure in recent years has been in excess of amounts raised from the public. About £3 million of this excess has been financed locally by means of an unfunded floating debt, and £36 million in London by overdrafts and short Treasury Bills. All this money is practically at call and constitutes a very menacing feature of Australian public finance, the one alleviating factor being that of the £36 million borrowed in this way in London, £18 million is due to the Commonwealth Bank. The local money market has been strained to provide for the requirements of Governments in addition to meeting the very heavy demands of private industry, while the London money market has regarded Australian securities with such suspicion that the funding of the floating debt has been impracticable. Substantial deficits in the budgets, especially in the Commonwealth budget, complicate the position, and have created a fear that a way out might be attempted through a policy of inflation. Such a policy has been advocated in Labour circles, but it is not supported by the responsible leaders of the Federal Labour party, nor would the Commonwealth Bank countenance it. Rapid deflation is regarded as a safer course, but it is felt that hasty action in this direction would intensify the present depression. Official discussions are at present centred round a proposal for a stabilisation of the price level involving an increase in the exchange rates and a fall in real wages.

In order that the financial position of Australia in the London money market might be sufficiently improved to permit the raising of a funding loan, the Commonwealth Government requested the Bank of England to assist it by sending a representative to Australia who could advise the Governments how best to readjust the affairs of the nation to its altered economic condition. The representative sent by the Bank in response to this

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request was Sir Otto Niemeyer, who brought with him Professor T. E. Gregory and Mr. R. N. Kershaw. Sir Otto met the Loan Council on August 5, and gave the Treasurers of the Commonwealth and the States some very frank advice on budgets, debts and the economic situation generally. He told the Treasurers that they should jointly and severally undertake to balance their budgets in the financial year 1930-31, in which event he hoped that the London money market would be induced to look more favourably on Australian securities, and the funding of the floating debt thus be made possible. The meeting was adjourned to August 18 to give the Treasurers of the States an opportunity to gain the support of their respective Governments for the undertaking suggested by Sir Otto. To the meeting on August 18, which was enlarged by the attendance of the Premiers of those States who did not happen to be also their Treasurers, Sir Otto Niemeyer repeated his frank advice, and stressed the importance of a realisation of the fact that the balancing of the budgets was only the first step in economic readjustment. He pointed out that if the economic position of Australia was to be permanently restored, fundamental changes in the organisation of her affairs were essential. Australia would have to reduce her costs of production and adjust her price level to that prevailing in other parts of the world, even if the process meant the sacrificing of some of her high standards of living.

The outcome of the conference was that the Commonwealth and the States gave the undertaking suggested, though in the case of South Australia the position was considered to have been made so difficult by the pressure of the high protectionist policy of the Commonwealth on her primary industries, and a succession of adverse seasons, that the Commonwealth was induced to provide special assistance to enable the budget to be balanced and the undertaking given. It was also agreed that, if during any financial year there were indications of a failure of revenue to meet expenditure,

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immediate further steps were to be taken to ensure that the shortage would be made up. Resolutions were also carried providing that the balancing should be effected on such a basis as would be consistent with the repayment or conversion in Australia of existing internal debt maturing in the next few years ; that no further overseas loans are to be raised until after the overseas short-term indebtedness has been completely dealt with ; and that, as regards loans raised internally, they are to be restricted to works which will yield sufficient revenue to cover interest and sinking fund on the debt. It was also agreed that monthly statements should be published showing the budget revenue and expenditure, the position of the short-term debt, and the state of the loan account. Finally, it was decided that, in order to make these resolutions effective, a heavy reduction in both ordinary and loan expenditure would be necessary, involving substantial sacrifices on the part of all sections of the community.

In order that the above plan might achieve results, and not merely end in good intentions, a standing committee, consisting of the Treasurers of the Commonwealth and three of the States, was appointed to watch its operations. The task which lies ahead of this committee and the State Treasurers is one of the utmost difficulty, which is increased by the political unpopularity which must be incurred ; but upon its success depends the financial rehabilitation of Australia.

Meanwhile the Labour Governments of the Commonwealth, Victoria and South Australia are finding difficulty in giving effect to the resolutions of the conference. The support of the caucus for the necessary economies and taxes is not being readily acquired, while on August 29 the executive of the New South Wales branch of the Australian Labour party condemned the resolutions and recommended the abolition of the Loan Council. A reduction in rates of interest and in war debts due to the Imperial Government were the suggested remedies for the economic

## Public Finance

difficulties. A resolution in favour of the repudiation of war debts was recommended by a committee representative of the industrial and political wings of the Labour movement but was not endorsed by the executive, apparently partly because of the unfortunate political consequences which it was thought that such a step might have in the approaching State elections. The Australasian Council of Trade Unions, meeting in Melbourne on September 9, issued a manifesto to a similar effect, but likewise did not commit itself to a policy of repudiation. However, it proposed the raising of an additional £20 million for loan expenditure, presumably by means of inflation. On September 13 a special conference of the Victorian branch of the Australian Labour party vigorously criticised the Victorian Government, while the conference of the South Australian branch, held on September 15, did not refrain from interfering with some vital parts of the Government's policy. The events of the next few months will, perhaps, decide the debatable problem whether a Labour Government is the Ministry, the caucus, the Australian Labour party conferences or the Council of Trade Unions. There is recognition of the power of the caucus, but the power of the party conferences and the Council of Trade Unions is less definite, while there are indications that the Labour Governments may have the courage to circumvent resolutions carried by the extra-parliamentary bodies.\*

Australia,  
October 3, 1930.

\*The event has justified this statement. The Labour caucus having, among other things, demanded the postponement for a year of the redemption of £27 million of internal debt due in December, Mr. Lyons, the acting Commonwealth Treasurer, threatened to resign. Mr. Scullin has emphatically refused to sanction postponement, and the Loan Council has decided to issue a conversion loan to meet this obligation, Mr. Lang, who won the New South Wales election in October, alone dissenting ; he is now reported to have withdrawn from the Council. But, even if Labour splits, Mr. Scullin's position would be secure with the help of the Opposition.

## Discretionary Administration in the Union

### II. DISCRETIONARY ADMINISTRATION IN THE UNION

**B**AD times may have their compensations if they draw attention to the present state of parliamentary control over the money-bags. The origins and very being of Parliament lie in finance. This truth was well understood by the old Cape Parliament on which the Union Parliament is modelled. But for a long time past, an uneasy suspicion, growing now to a conviction, has been abroad that control of expenditure has been slipping out of parliamentary hands. From one point of view, this is simply to say that our Parliament shares the weakness of all such bodies, which must wrestle nowadays with a mass of business such as was never contemplated when their machinery and methods were perfected. But there is more in it than that. It cannot be repeated too often that though the machinery of the Union Parliament is based on that of the Cape, which in turn was borrowed from Westminster, the spirit which informs it is to a great and growing degree drawn from quite other sources. The Cape alone of the South African provinces had a long experience of British parliamentary methods. Natal's was short, on a small scale, and troubled by war and rebellion; the Transvaal's and Free State's were markedly different. Their Volksraad system made a clean cut between executive and legislature, except that elected Volksraad members found seats on the Executive Council. The Volksraad exercised but an intermittent control over the expenditure of money once voted, the executive had wide and practically unchecked powers. The Crown Colony regime that followed the fall of the Republics, from 1902-7, accustomed men still more to freedom of official action.

Since union, for a variety of reasons, Transvaal methods and traditions have tended to dominate South Africa. This is true of native policy; it is to a great extent true also of

## SOUTH AFRICA

### I. HARD TIMES

**L**ITTLE need be said of the depression. It is world-wide, and South Africa as a primary producer feels it acutely. Mealies, cattle, tobacco, wool, diamonds, everything is down except, possibly, specially favoured sugar and the gold that all the world desires. Indeed, a small gold premium, the first for some years past, has just been recorded, and the dependence of South Africa on its gold mines has been emphasised by the fact that during the past nine months a record has been reached in the number of their employees: 22,000 Europeans and 207,000 natives. But, generally speaking, stringency prevails in private and public affairs. The state of things is naturally reflected in the Union's budget. It provided for a net deficit for the year 1930-31 of £425,000; the figures for the first six months suggest that, even when a generous estimate has been made of the inflow of revenue during the second half of the year, the actual deficit will not be far short of £2,000,000. Income under every important head is far less than it was in the preceding year, and, to make matters worse, the increase of expenditure has already greatly exceeded the modest anticipation. The bulk of this increase is due to the needs of the provincial administrations, always our financial barometer.

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finance. There is no question here of imputing moral obliquity to members of either House, nor to any of the successive Ministries that have held office since 1910, still less to the civil service which deservedly enjoys a high reputation for probity. Nevertheless, successive reports by the Auditor-General show that all is not well in the matter of control; nor can much comfort be extracted from the parallel reports of the Committee on Public Accounts.\* That Committee has deprecated "the growing practice of adopting illegal courses in anticipation of legislation, which strikes at the root of parliamentary control." In face of that, it is useless for officials to explain that no Minister would sanction such an admittedly dangerous step "but in a particular instance where the law has not properly conveyed the mind of Parliament." For, surely, it is not for Ministers or officials to decide how much of the law they shall or shall not carry out, still less to presume to interpret to the electorate the mind of Parliament, especially while Parliament itself is sitting, as was the fact on one notable occasion. Again, the transfer of amounts within the same vote from one sub-head to another is very freely employed with only *ex post facto* sanction and often for considerable sums, and the Treasury frankly admits that the size of the surplus often determines whether capital expenditure shall be charged to loan or to revenue account.

This is a land in which regulations framed in accordance with skeleton Acts already bulk larger than the statute law. The Auditor-General laments a growing tendency (the disquieting fact is that so many of these things seem to be growing) for officials who hold powers delegated to them by Parliament to delegate these powers to subordinates often with authority to depart from their own regulations "in exceptional circumstances," even to the extent of destroying the sound rule that regulations must be uniform and apply

\* *Vide* S.C. 1b of 1926, pp. xxii-xxiii and 305-9; S.C. 2 of 1930, pp. 19-20 and xxviii; U.G. 44 of 1929, pp. 40-41.

## Discretionary Administration in the Union

to all the members of a class. Such departures may be, as some officials plead, not a question of law but of "sensible administration." That has always been the plea of the permanent official anxious to get on with the job and impatient of inexperienced control. But it is a highly dangerous plea, even when to it is added the reminder that "small matters only are involved." The best of institutions unchecked degenerate, and, if human experience counts for anything south of the equator, it is safe to say that sensible administration in contravention of parliamentary law and practice will end with bureaucratic oppression. The road may start at Pretoria, but it leads to Byzantium.

The root of the trouble lies in the slack financial tradition which is widely diffused through Parliament and its electorate. The Auditor-General complains that for years past the Committee on Public Accounts has never completed the discussion of his full and courageous reports. It is also noteworthy that the Committee as a rule only presents its comments on those reports at the fag-end of the session, and that Parliament rarely does more than deal with isolated points that have a party, or even personal, rather than a constitutional significance. Admittedly the Mother of Parliaments does not discuss the reports of its committee so fully as it ought; but there the chairman of the committee is always a member of the Opposition, and a resolution of the committee passed in two successive sessions is by custom accepted as binding on the Treasury watchdog. In the Union both these admirable safeguards are lacking, and leading departments even decline to consider as binding the opinions of the Law Advisers.

This free and easy, almost personal, method of dispensing the loaves and fishes is in keeping with the inveterate and, in many ways, disarming South African habit of regarding every case as a special case; but it leads to the demand for sympathetic administration which is death to systematic and even-handed administration. Perhaps it is this which partly explains the recent statement of the chairman of a

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commission which is inquiring into our old age pensions, that the expenditure thereon has exceeded the official estimates by half a million.

The tendencies towards discretionary government in place of the parliamentary rule of law displayed by our national administration are all the more dangerous because the vast majority of the inhabitants of the Union are already under a growing weight of official control. Enough has been said in these pages to show that the general trend of native legislation since the Union of 1910, as touching land, labour, urban residence and the rest, has been to put the mass of the Bantu of all ranks, classes and conditions more and more at the mercy of officials and less and less under the protection of the Common Law. The major Bills announced in 1926,\* notably that for the destruction of the Cape native franchise, still await enactment, though the grant of the vote to European women almost certainly brings the destruction of that franchise nearer. Two new laws will serve to show the tendency. By the Native Administration Act of 1927 all Bantu outside the Cape Province were put under the Governor-General, that is, of course, the Ministry of the moment. This authority has been clothed with all the powers that the Governor of Natal used to have under the peculiar Natal system which was based on the militarised Zulu law, in the mistaken belief that that was typical of Bantu law generally. But the essential point is this. The Governor-General may, if he so desire, exempt a native from this control, but he may also cancel that exemption without any cause shown. Further, under the Riotous Assemblies Act of 1929, as has been explained previously,† the Minister of Justice is given wide and very inadequately checked powers over freedom of speech, publication movement and public meeting. Avowedly this measure is intended to deal with native agitators among the Bantu.

\* THE ROUND TABLE, Nos. 62, 66, 75, 78. March 1926-March 1930.

† THE ROUND TABLE, No. 78, 79, March and June 1930.

## Party Strains and Stresses

But all this kind of thing is dangerous to liberty. It cannot stop at the Bantu, especially as no such limitation is laid down in the Act. As Lincoln remarked on a famous occasion, you cannot have half society bound and the other half free. *De nobis fabula narratur.*

Let no one say that the substitution of favour for right cannot conceivably be applied to Europeans in South Africa. The sufficient answer is that it was so applied regularly and not so very long ago. In the later 'nineties, in default of an accessible franchise open to all comers on equal terms, the Transvaal used to give the vote to selected and trustworthy Uitlanders. And, in time of crisis, it began to take back what it had given. Away in the 'thirties, a Secretary of State reminded an over-zealous Cape Governor that British subjects must not be deported in time of peace save after trial or by Act of Parliament; in 1914 General Smuts illegally deported nine Labour leaders and barely got his Act of Indemnity; to-day Parliament cheerfully puts wide powers of deportation into the hands of a Minister and, by making those powers especially potent against those who were not born in South Africa, it has revived something of the old Uitlander idea. Meanwhile, the Minister's powers have not remained a dead letter. Well-known native spokesmen have been put to the ban as far as certain areas are concerned; and now, in September, the general secretary of the Bantu trade union, the I.C.U., has been banished for a year to northern Natal, in spite of a request by the Mayor of Durban and other prominent citizens that the order might be suspended.

### III. PARTY STRAINS AND STRESSES

STRESS of bad times and the eternal native problem are sending a swirl of cross-currents trailing across our political life. Native questions are acting as a bar to the consolidation of the forces of Labour. These forces are

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sadly split by the party quarrel of 1928\* and by the secular jealousies of North and South. In the Cape, many trade unions either admit non-Europeans or recognise non-European unions affiliated to their own. In the north the mass of white labour opinion has hitherto countenanced nothing of the kind. In October, a Trade Union Congress held at Cape Town decided by a large majority to form a national central body, manned by representatives of the existing T.U.C. and the Cape Federation of Labour. A minority of southerners declined to go beyond union on a provincial basis for fear of the northerners' attitude on the colour question, and some of them have since formed an Independent Labour party on a polychrome basis. It remains to be seen how the scheme will be welcomed in the north as a whole, but a clear indication of how a large section there will view it may be gathered from the remarks of the chairman of the Organisation of Workers at Pretoria. He obviously spoke for the numerous semi-skilled and unskilled Afrikanders who are being forced off the farms into the towns. And it came to this: that all would be well if the proposed institution dropped the "unadulterated socialistic objectives" taught by imported Labour leaders who did not understand the country; made its aims national rather than international, and took due regard of the native problem, due regard being the maintenance of white supremacy, "no coquetting with Communism in the native kraals, and no political contact on terms of equality with the native."

If the above can be taken as at all a representative statement of northern opinion, the prospects of Labour solidarity are not encouraging. There are also indications that the call of nationalism and the actions of certain Ministers may have a solvent effect on such solidarity as remains. The elections of 1929 gave the Nationalist party a clear majority over all others for the first time. Two Labour Ministers still retain their portfolios, but it has long been

\* THE ROUND TABLE, No. 72, September 1928, p. 88f.

## Party Strains and Stresses

clear that Labour has much less influence than it had before the elections. From time to time rank and file Afrikanders have asked why the Pact should continue. Recently, the results of trouble arising on the State-owned railways suggest that certain Ministers are asking themselves the same question.

In face of a growing deficit, the railway administration achieved substantial economies. It then proposed to go further and announced far-reaching "cuts" in allowances and privileges. It held out against the pressure of the accredited conciliation machinery and the railwaymen's unions on the arguable grounds of national necessity and business principles. But, then, twice in quick succession, at Pretoria and Johannesburg, the Minister of Railways and one or two of his colleagues summoned conferences of such railwaymen as were also members of the local committees of Nationalist party branches. On the second occasion they gave way. Cuts there are, but they fall almost without exception on the higher salaried ranks and not on the daily-paid workers. The inference can hardly be evaded, all the more as the Minister of Justice, speaking at Vrededorp, traditionally the refuge for the poorer Afrikanders of the Rand, declared that if any trade unions interfered with his ban on native Labour leaders, their Afrikaans-speaking members would break away and form unions of their own. The reply has come promptly. The miners are a powerful force in the world of Labour, and their wages are still more or less the standard by which European wages are set throughout the Union. They are alarmed lest, on the analogy of early commissions, the commission which is now investigating the low grade mines propose a reduction in their emoluments. The executive of the section of the Labour party which follows Colonel Creswell, who is still a member of the Cabinet, has given fair warning that, since the Government has given a sinister lead to big business by its treatment of the railwaymen and civil servants, it will denounce the Pact

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unless a straightforward statement of wage policy is forthcoming.

To balance these internal strains within the Pact, Nationalist leaders are holding out the hand of friendship to Natal. For good and sufficient reasons the republican tradition is very strong among Afrikaners, especially in the ex-republics, the north-eastern Cape Province and northern Natal. But the rest of Natal has always prided itself on being British and indeed imperialist. Not that either sentiment has deterred it from defying His Majesty's Government on occasion: nevertheless, however strong the economic pull of the Transvaal may have been, Natal has resented the risk of Afrikanerisation to which she has felt herself exposed by the loose form of Union practically imposed upon her in 1910, and by what she has regarded as a deliberate attempt by the present Government to flood her police, railway and civil service with Afrikaners. That fear has apparently been overcome by a greater fear. Remembering the racial riots in Durban a few months previously, none were more eager than the Natal South African party men to pass the Riotous Assemblies Bill during the recent session.

Meanwhile, for some time past, a republican group and a Calvinistic bond of a fundamentalist character have been gaining prominence, both drawing their main strength from the Free State. After the departure of General Hertzog and two of his colleagues to attend the Imperial Conference, republican activities were such that some of the remaining Ministers had reason to fear a split in their party's ranks. The republicans have now stated that there is no fear of that. They are satisfied that, under the 1926 declaration, the Union is as free as it can wish to be, and that, provided they can be sure that South Africa will not be drawn into any of Great Britain's wars, they are prepared to wait till the time shall be ripe for a republic, merely keeping the idea alive and taking courage from the fact that they have recently discovered English-speaking

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republicans in South Africa. Looking at the history of English-speaking republicanism, there is perhaps not much cause for surprise in that; but this assurance, coupled with the studious moderation of our Prime Minister in London, should reassure any on either side of the water who fear that the Union is contemplating speedy secession.

Helped by bad times again, the national idea is spreading rapidly among the English-speaking section, or rather the very real South Africanism that was already there is being strengthened. With hardly a questioning voice, and that on purely economic grounds, even those newspapers which have hitherto been suspected of latent imperialism are supporting a patriotic drive in favour of South African-made goods. It is a step which is naturally pleasing to Nationalists, who have always held these views. It bodes as ill for any scheme of Empire free trade as does Mr. Bennett's triumphant toboggan-ride to Ottawa on a slide greased with New Zealand butter, but it is worth recording as an additional proof of the growing solidarity between the two great sections of our European population. And industrialism is very strong in coastal Natal. Hence Dr. D. F. Malan, our acting Prime Minister, was talking to a sympathetic audience, and to a still larger audience in the background more than half-inclined to be sympathetic, when, at a Nationalist party conference held in Natal, he pleaded that the policy of Afrikaners must be to make Natalians feel as much at home in the Union as the scattered British already were in the Free State.

South Africa.

■ October 1930.



## NEW ZEALAND

### I. DOMESTIC POLITICS

#### (a) *Party Relations*

SIR JOSEPH WARD did not long survive retirement. On May 15 he resigned; on July 8 he was dead. There is no need to enlarge on the brief review of his more than forty years of almost continuous public service which we have already given,\* but a word may be added with regard to the position in which the last phase of his career has left New Zealand politics. When Sir Joseph returned to the fighting line on the eve of the general election in 1928, his personality and reputation were strong enough to enable him, although already a very sick man, to inspire the remnants of his party with new life and hope, and with the aid of Labour to defeat the Reform Government. But with a party of 28, afterwards reduced to 26, in a House of 80 members, he had not the material with which to make his Government independent of outside support, and it was almost inevitable that he should look for it to the party which had put him in power.

This dependance of a Government of moderate views upon a party of extremists, which holds the balance of power, has introduced into our politics an element of insecurity and insincerity from which they had long been free, and under Mr. Forbes the position has unfortunately become worse instead of better. A more conventional and less imaginative and adventurous type of politician than

\* See THE ROUND TABLE, No. 80, September 1930, p. 899.

## Domestic Politics

his predecessor, Mr. Forbes has elected to remain in bondage to Labour rather than to seek an understanding with the Reform party, though his political differences with the latter are comparatively slight. Whether consciously or unconsciously, his attitude has been one of complaisance to Labour and of distrust and unfriendliness to the party led by Mr. Coates. The one attempt which he has made to seek the Reform party's co-operation nearly ended in disaster, though possibly not entirely through his own fault.

As attendance at the Imperial Conference required that the Prime Minister should leave New Zealand before the end of the second month of an exceptionally crowded session, it was obviously necessary for him to make some arrangement with the other parties about the conduct of business. This would, of course, have been best done at the very beginning of the session, but it was not till August 8, when six weeks had passed with very little accomplished, and the Opposition had not improved the position by two motions of no confidence, that the Prime Minister made a move. He announced that he had conferred with the leader of the Opposition and the leader of the Labour party; that they had agreed to help him in expediting the most important business before he left, and that non-contentious matters would be dealt with after his departure. But on August 14, after nine hours spent over the short title of the Customs Acts Amendment Bill and as many more on the second reading, the Prime Minister's patience gave way under what he regarded as "deliberate and arranged" obstruction.

He had nothing to say in regard to the treatment he had received from the leader of the Labour party, who had met him in every way possible. . . . In view of the delaying tactics that had been adopted, he had stopped the making of further arrangements for his departure. The cheap sneers that had been thrown at him about the matter had clearly indicated that his critics did not view it from his angle; and, further, the promise that the business of the House would be facilitated by the Opposition as much as possible had been kept as lightly as it had been given.

## New Zealand

Few subjects are more productive of prolonged and excited controversy than tariff changes of the important kind proposed by this Bill, and it seems clear that on this occasion some members of the Opposition had got out of hand and given the Prime Minister just cause for complaint. But Mr. Coates had certainly not been guilty of any breach of faith, and if he had been it is difficult to imagine anything more absurdly maladroit than thus publicly to charge him with a breach of an honourable understanding, without first giving him an opportunity of a private explanation. Had the leader of the Opposition shown in his retort the indignation that he naturally might have done under the circumstances, the understanding would have been at an end, and the Prime Minister would have had to stay to fight it out. But a soft answer averted this disaster, and the Prime Minister caught his steamer. This happy ending deprives the incident of any importance except as an illustration of the readiness of the two principal parties to misunderstand one another, and the tendency of the United party, ever since Labour put it into office, to look to Labour for support, and to ignore its politically far closer affinities with the Reform party, a tendency which was also brought out at the Invercargill by-election necessitated by Sir Joseph Ward's death. The United party candidate, Sir Joseph's son, included "co-operation with Labour," and "no fusion with Reform" among his "seventeen points," and, more significant still, there was no Labour candidate in the field against him.

### (b) *Tariff Changes*

On July 22 Mr. Forbes sprung a surprise upon the House of Representatives and the country. He introduced, in advance of the budget, a series of tariff resolutions which were estimated to produce a revenue of about £800,000. He was compelled to take this step because he had talked too freely about his needs and put importers on the alert. It was, therefore, necessary to forestall the clearances

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that would otherwise have been made on the eve of the budget. The most drastic of these resolutions, and the one which excited by far the fiercest opposition, was the proposal to raise more than half the new revenue by an increase in the petrol tax from 4d. to 7d. a gallon. Last year this tax produced about £1,000,000. Swollen by the 5 per cent. surtax, to which we will return on a later page, this addition was estimated to produce £450,000 during the current year and £650,000 in a full year. The outcry was intensified by the claim that the new tax represented "a raid upon the Highways Fund" because, instead of its proceeds being completely allocated to that fund, like the existing tax, £316,000 of the total was to go into the Consolidated Fund. On August 14, when the Customs Bill was in committee, the Prime Minister agreed, in spite of strong Labour protests, to reduce the proposed increase from 3d. to 2d. per gallon, but in doing so he stated that the alteration would prevent his carrying out his original intention of allocating £134,000 to roads in the back blocks.

The rest of the customs taxation, amounting to £350,000, included no large or highly controversial items, but Mr. Forbes quite unnecessarily complicated his task by taking the opportunity, as he mildly expressed it, "to make some desirable amendments in the tariff from the protection and preference points of view." There were increases in the duties on tobacco, cigarettes, New Zealand brewed beer, and cinematograph films and small fruit. There was also a wide extension of the principle of British preference, the increase in a large number of cases amounting to a uniform 5 per cent. *ad valorem*. At the same time the 2 per cent. primage duty on all imported goods was abolished in favour of a surtax which applied to dutiable imports only, and in most cases was fixed at nine-fortieths of the total duty otherwise payable.

In view of the customs barriers which are being erected in many countries of the world against Empire products (said Mr. Forbes) it is considered that New Zealand should so arrange its tariff policy

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as to be able to meet the altered conditions. . . . During recent years there has been a decrease in the proportion of British-made goods imported into the Dominion, and it is proposed to make increases in the preference on 158 items of the tariff. The total number of items is 449, and the number of items upon which preference is granted is 295. Hence the Government proposes to increase the rate on about one-half of the items on which preference is now accorded.

The combined effect of the surtax and of the additional 5 per cent. duty imposed on foreign goods is shown in the following table.

| <i>Present Rate (including primage).</i>            | <i>New rates.</i>                                    |
|-----------------------------------------------------|------------------------------------------------------|
| 22 per cent. under the British Preferential Tariff. | 24½ per cent. under the British Preferential Tariff. |
| 42 per cent. under the General Tariff.              | 55½ per cent. under the General Tariff.              |
| 27 per cent. under the British Preferential Tariff. | 30½ per cent. under the British Preferential Tariff. |
| 47 per cent. under the General Tariff.              | 61½ per cent. under the General Tariff.              |

Another of the Minister's tables showed the effect of the tariff changes on the preference given to British motor-vehicles.

|                                                    | Old Rate<br>(including<br>primage). | New Rate<br>(including<br>surtax). |
|----------------------------------------------------|-------------------------------------|------------------------------------|
| Motor - vehicle chassis, including trucks—         |                                     |                                    |
| British Preferential Tariff ..                     | 12 per cent.                        | 12½ per cent.                      |
| General Tariff .. ..                               | 37 per cent.                        | 49 per cent.                       |
| Motor passenger-cars, not exceeding £200 in value— |                                     |                                    |
| British Preferential Tariff ..                     | 22 per cent.                        | 26 per cent.                       |
| General Tariff .. ..                               | 52 per cent.                        | 68·9 per cent.                     |

Although the British preference shown in these tables ranges from 30½ to 42·9 per cent., it should be noted that the tariff barrier against British goods ranges from 12½ to

\* The "24·8 per cent." in the published figures is obviously incorrect.

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30½ per cent. In the case of apparel and hosiery the additional protection given to the local manufacturer amounts to about 6½ per cent. against British-made goods and to 14½ per cent. against foreign goods. The British preference has thus been increased by 7½ per cent., but the duty on the British article has at the same time been increased from 27 to 33½ per cent. This is an extreme example of the way in which a wide extension of preference to British goods, when accompanied by an increase in the duties against them, may be found in practice not to favour the "closer Empire trade," which Mr. Forbes desires to promote.

It is indeed to be regretted that this aspect of the tariff changes, and—what is locally of greater interest—the merits of the avowedly protective duties, and the risk that the surtax, though intended as a temporary expedient, may bring into being vested interests which will tend to make it permanent, were not submitted to the usual inquiry before the changes were enacted. In view of the haste and lack of preparation with which Mr. Forbes, who is but an amateur in such matters, rushed into this highly complicated and far-reaching business, it must be admitted that the courage with which he has been justly credited bears some resemblance to that of a bull in a china-shop.

This seems a fitting point at which to refer to the drastic action taken by the Government with regard to our trade relations with Canada just before the Prime Minister's departure.

On October 1, 1925, the benefits of a trade agreement which Australia had made with Canada were extended to New Zealand, and the greatest of them was the reduction of the duty on butter from 3 cents a pound—which was Canada's British preferential tariff rate at that time—to 1 cent a pound. The effect of this change was that our exports of butter to Canada, which were valued at £340,600 in 1924, increased in 1928 and 1929 to £1,566,000 and £2,708,000 respectively. At the same time the balance

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of trade, though still strongly in favour of Canada, had fallen from £3,209,000 in 1924 to an average of £1,127,000 in 1928 and 1929.

Last April, however, our Government was informed by the Government of Canada that the agreement could not be extended beyond October, though Canada's British preferential rates would be granted to New Zealand goods in return for a continuance of New Zealand's grant of British preferential rates to Canadian goods. In May the Canadian Parliament increased the British preferential rate on butter to a minimum of 4 cents a pound, which was the rate under the general tariff in April. The negotiations which the New Zealand Government had opened to secure the continuance of the 1 per cent. duty until a new agreement could be arranged were, moreover, suspended by the general election in Canada, immediately after which the new Canadian Government informed our Government that they could not extend the Australian agreement rates to New Zealand beyond October, though they were willing to negotiate for a new agreement.

After setting out the facts in a statement to the House on August 21, the Prime Minister wound up his speech with the following words.

The Government is, as a general rule, averse to a policy of tariff retaliation, especially with respect to a sister Dominion, but it is felt that the matter is of such moment to New Zealand, and especially to the dairy industry, that some action must be taken. It has therefore been decided that Canadian motor vehicles and accessories are to be placed on the general tariff in force in April last. An Order-in-Council bringing the new duties into force will be gazetted to-day.\* The Government is quite willing, pending the completion of a direct trade agreement, to replace Canadian motor vehicles on the British preferential tariff, provided that the Canadian Government will similarly continue to grant to our products the rates fixed by the Australian-Canadian agreement. As I have already informed

\* The effect of this change was to increase the duty on Canadian cars from 26 to 50 per cent. The rate on American and all other foreign cars is 68·2 per cent. In 1929 the value of the cars imported from Canada was £1,574,000 out of a total of £4,279,000.

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the House, I propose to discuss this matter with the Government of Canada when passing through that Dominion on my way to the Imperial Conference.

Before Mr. Forbes was able, however, to open his negotiations in person, Canada had already replied in kind. He seems to have reached Ottawa the very day after the Canadian Parliament had approved Mr. Bennett's budget proposal to increase the British preferential rate on butter to 8 cents a pound, and there the matter will have to rest until the two Prime Ministers can find time to discuss a settlement during or after the Imperial Conference.

In the meantime the practical closing of a market which had been taking 20 per cent. of our most valuable export is another severe blow to our already badly hit farmers, though if it had to come at all it was fortunate that the blow fell on the eve of the Imperial Conference. To those who are urging Britain to abandon free trade so that she may be able to give further preferences to the Dominions, the incident will suggest that even with high tariffs and goodwill on both sides satisfactory preferences may not be easy to arrange. In New Zealand itself the experience may moderate the pride which we are accustomed to feel when we grant British preferences by increasing the duties against the foreigner. "The painful side of the preference joke is brought home to us" this time, says the *Evening Post* on September 18, in an article entitled "Prohibitory Preference."

New Zealand butter (it continues) will have an advantage of 50 per cent. over the most favoured of its competitors, but of what advantage will that be if the way is barred for both? If the 2d. that was to have been imposed under the Dunning tariff was regarded as likely to be a dangerous blow, the doubling of it may well be fatal. Hitting the foreigner harder will not soften the blow. A preference that prohibits is a cruel boon.

### (c) *The Budget*

Mr. Forbes, who is Minister of Finance as well as Prime Minister, brought in his first budget on July 24. As

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already mentioned\*, he stated in May that although the year 1929-30 had closed with a surplus of £148,979 there was a deficit of £3,000,000 in prospect for the current year. The principal difficulties of the past year and the greater difficulties to come were put down by the Minister to the effect of the world-wide slump upon our export trade.

Returns of overseas trade (he said) showed a decline in the value of exports, compared with that of the previous financial year, of over £8,000,000, while imports increased by over £4,000,000. The visible balance of trade for 1929-30 was, therefore, over £12,000,000 less favourable to the Dominion than for 1928-29. This reduction in the value of our exports is due almost entirely to the lower prices received. The declared value of butter, for instance, the principal export for the year, declined 8·5 per cent., whereas the reduction in quantity was only 0·4 per cent.; and wool, the second in order of exports, declined by nearly £5,000,000, a fall of 32 per cent. in value although a reduction in quantity of only 5 per cent.

While the primary industries, which provide about 99 per cent. of our exports and are the mainstay of our prosperity, are thus grievously depressed, a rise in the exchange rates due in part to the adverse balance of trade, but "more especially," the Minister considers, "to the economic conditions obtaining in Australia," has embarrassed the importer and increased the cost of all imported goods. The call for economy, public and private, is urgent.

From the point of view of the public accounts (says Mr. Forbes), the Government is faced with reduced revenue from both customs and land and income tax, and, in fact, from all heads of revenue, during the ensuing year, while, on the other hand, debt charges, pensions, and other statutory payments of a rigid nature will result in additional expenditure. Moreover, the railways have now become a liability on the Consolidated Fund, and will require financial assistance to enable them to carry on.

The revenue for the past year was £25,349,861, of which £8,837,335 was contributed by direct, and £10,636,780 by indirect taxation. The customs revenue showed an increase

\* See THE ROUND TABLE, No. 80, September 1930, p. 905.

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of £942,794 over that of the previous year and an increase of £497,046 over the estimate—a result due to an unexpectedly large rise in the imports which carried them more than £4,000,000 beyond the figure of 1928-29. The land and income tax receipts amounted to £5,040,675, which exceeded the estimate by £147,675—almost the exact amount of the surplus. Of this total £94,000 was contributed by the change made in the assessment of farming incomes last year. On the debit side the net expenditure was £25,200,882. Compared with the £24,176,928 spent in the previous year, this amount shows an increase of £1,023,954, which is made up of £983,008 in permanent appropriations, and £40,946 in annual appropriations. "The modest increase in the latter," Mr. Forbes naïvely remarks, "is evidence of the very successful efforts made by the Government to keep departmental expenditure down to a minimum."

Turning to the current year, Mr. Forbes estimates that the two sources of revenue which exceeded the estimates last year will be seriously diminished. Imports, which last year showed an increase of £4,000,000, are expected to suffer a shrinkage of £5,000,000, and, as the luxury items on which the duties are highest will be most affected, the customs revenue will suffer a more than proportionate decline. It is also expected that there will be a substantial falling-off in the yield of land and income tax, and that last year's heavy loss of £1,211,269 on the railways will be slightly increased. The estimated effect of these and other changes were thus summarised by Mr. Forbes:

| <i>Decreases in revenue—</i> | <i>£</i>  | <i>Increases in expenditure £</i> |
|------------------------------|-----------|-----------------------------------|
| Customs .. .. .              | 1,150,000 | Debit charges .. 315,000          |
| Interest on railway capital  | 1,230,000 | Pensions and other                |
| Land and income tax ..       | 300,000   | fixed items .. 100,000            |
| Items other than taxation    | 150,000   |                                   |
|                              | <hr/>     | <hr/>                             |
|                              | 2,830,000 | 415,000                           |
|                              | <hr/>     | <hr/>                             |

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After deducting last year's surplus of £150,000, the prospective budget shortage will therefore be £3,095,000. Faced with this position, the Minister of Finance remarks that "reductions in expenditure are the only alternative to heavy increases in taxation" though he then proceeds to dismiss the most obvious and salutary form of economy with an innocent but quite unjustified assurance:

Needless to say (he continues) the Government is anxious to avoid increasing taxation as much as possible, and, on becoming apprised of the position, immediately proceeded to review carefully the expenditure. Steps were taken to obtain the greatest possible economy in administration, but, as this is a matter that has already received considerable attention, there is no possibility of making very large savings in that way.

The various "reductions in expenditure and adjustments" by which it was proposed to account for about half the budget shortage which amounts in all to £1,684,000 may be summarized as follows:—

|                                                               | £       |                                    | £       |
|---------------------------------------------------------------|---------|------------------------------------|---------|
| Subsidies to local authorities, railways, etc.                | 645,000 | Reduction in Defence vote .. ..    | 180,000 |
| Railways—reduction in expenditure and increased revenue .. .. | 450,000 | Reduction in other annual votes .. | 208,000 |
|                                                               |         | Miscellaneous .. ..                | 201,000 |

Allowing £250,000 for supplementary estimates and contingencies, the Minister had thus accounted for about half the proposed shortage, leaving approximately £1,660,000 to be found by additional taxation. About half of this amount has been provided by the series of tariff resolutions already discussed. On the side of direct taxation a 10 per cent. increase in the income tax is the most drastic proposal. The land tax is increased by the withdrawal of certain concessions, and in place of the special land tax imposed on farmers last year, those owning or occupying land of an unimproved value of £7,500 or more are to be assessed for income tax on farming as well as on other income.

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The totalisator duty is increased from 2½ to 5 per cent.; the estate duty on the amount by which the final balance of a deceased person's estate exceeds £100,000 is increased 10 per cent.; there is to be a similar addition to the stamp duties on all instruments presented for stamping; and the taxes on sound films, amusements, banknotes and a number of other things are also increased.

Of the contributions from these various sources by far the largest will be provided by the increased income tax. Its total yield is estimated at £3,960,000, which, compared with the £3,533,764 collected last year, indicates an increase of £426,000; but, by reason of adjustments which the Minister did not assess, the actual increase may be considerably larger. To this increase there has been no very strong objection except on the ground that with genuine economies it might have been much smaller, and it is a remarkable fact that even with this substantial addition, the estimated yield of the income tax for 1930-31 is less than half that of the customs, though ten years ago the two were nearly equal. The figures are as follows:—

|                       | Income Tax | Customs Duties |
|-----------------------|------------|----------------|
| 1920-21 .. ..         | £8,248,945 | £8,408,726     |
| 1930-31 (estimate) .. | £3,960,000 | £8,530,000     |

Even if the proceeds of £1,240,000 from the land tax are included, direct taxation with an aggregate of £5,020,000 falls more than £3,000,000 short of the estimated proceeds of the customs.

### (d) Unemployment.

Next in importance to the budget among the urgent problems which it was impossible to postpone was unemployment. Ministers had had little to say about the valuable report of the Unemployment Committee\*, and there was a general expectation that they would prefer a temporising policy. But the Bill which actually came up for

\* See THE ROUND TABLE, No. 79, June 1930, pp. 668-672.

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its second reading in the House of Representatives on July 17 and was passed by the Legislative Council unamended on September 26, was based to a large extent on the recommendations of the Committee. These were the creation of a permanent board to deal with problems of unemployment, the establishment of a special fund for the purposes of the board, the financing of the fund partly from a flat individual tax on all adults, partly from a flat penny in the pound on all incomes exceeding £300, and partly from the Consolidated Fund, and lastly the payment of sustenance allowances out of the fund to contributors during unemployment. All these recommendations of the Committee were accepted in principle, but with some vital alterations for the worse in the proposed application of the last two.

The unemployment levy proposed by the Bill was a tax of 30s. a year to be paid by every male of 20 years or upwards. The maximum of the sustenance allowance was fixed at 21s. a week for a contributor, 17s. 6d. a week for his wife or other person in charge of his home, and 4s. a week for each of his children. Both of these provisions were strongly opposed, the first by Labour and the second by the Reform party, but, fortunately for the Government, the support of the Reformers in the first case and of Labour in the second gave them comfortable majorities in both cases. Labour's objection to the flat rate of 30s. a head, as expressed by Mr. H. E. Holland, the parliamentary leader of the party, was that the man who had an income of 30s. a week and the man who had £30 a week would pay the same amount. But the Bill provides for the payment from the Consolidated Fund into the Unemployment Fund of a subsidy equal to one-half of the expenditure out of that fund, which means that the £30 a-week man will be paying heavily through the income tax towards one-half of the expenditure. And as the 30s. levy is only estimated to produce about £500,000, and the Government's expenditure on unemployment last year exceeded £1,400,000, something more

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than a pound for pound subsidy will evidently be needed. What thus appears to be a residuary liability on the Consolidated Fund marks a very dangerous departure from the Unemployment Committee's proposal to limit that fund's liability strictly to one-third of the board's total expenditure.

The Opposition's objection to the sustenance provision, that it is as bad as the "dole" or even worse, is met to some extent by the very feature which Labour condemns. The universality of the 30s. levy is intended to impress the contributors with a sense of responsibility which would be lacking if sustenance were drawn as of right from the Consolidated Fund, to which most of the recipients would have made no direct contribution at all. But this provision does not deprive the Unemployment Bill of the character of a great and risky experiment, which must depend for its success almost entirely upon the quality of the administration. The Government, and especially Mr. S. G. Smith, the Minister of Labour, are entitled to great credit for the courage with which they have faced the position and dared the wrath of the Labour party in their endeavour to provide a more businesslike substitute for the slipshod and hand-to-mouth procedure which has hitherto prevailed. It will now be for the Unemployment Board, of which the Minister (in violation of the Committee's unanimous recommendation that it should be non-political) will be *ex officio* Chairman, to determine whether it will confirm the priority which the Bill gives to its remedial functions of arranging with the employers for the employment of the unemployed and promoting the growth of our primary and secondary industries, or whether it will become a Dominion-wide charitable aid board and allow sustenance to degenerate into a dole.

At the very outset the board will be confronted with a problem which the Government has not yet dared to face, viz., whether the award rate of 14s. a day, which was applied by the Ward Government to relief works in place

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of the 9s. for single men and 12s. for married men previously paid, can possibly be maintained, or whether a reasonable attempt will be made to ensure that these workers, like others, shall give value for their money. On one side the Alliance of Labour, which, though by no means so comprehensive as its title suggests, includes nevertheless some of the largest and most militant of the unions, denounces the Unemployment Bill as providing for "the conscription of labour at scab wage rates"\* and threatens through a deputation to the Prime Minister "to ask our members not to assist in carrying it out"†. On the other side are the still more unpleasant facts that the number of registered unemployed which averaged 2,975 in 1929 was 6,099 in the last week of September, 1930; that the expenditure of the Government on relief works increased from £802,710 in 1928-29 to £1,415,592 in 1929-30; and that neither locally nor externally does the economic outlook show any sign of improvement.

### (c) Defence

The blow which the Government was reported by us last September‡ to be preparing against our Territorial system was delivered in three instalments. Replying to a question in the House of Representatives on July 16, Mr. J. G. Cobbe, Minister of Defence, admitted that the compulsory military training, except in the case of junior school cadets, had been temporarily suspended, but declined to take the House any further into his confidence. On July 24 Mr. Forbes introduced his budget, which showed that the military defence vote was to be reduced by about £180,000, or 40 per cent., but concealed the most startling change in our defence policy since the war in two incredibly inadequate sentences:—

In the case of defence, the amount allowed, £275,000, will mean a general suspension of the compulsory military training and some

\* *New Zealand Worker*, September 10.

† *The Evening Post*, August 26.

‡ See THE ROUND TABLE, No. 80, September 1930, p. 911.

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reduction in the staff personnel. The dispensing with the service of members of the staff is much regretted, especially in view of the unemployment difficulties, but if there is to be a suspension of operations the work will not be there for them to do.

The attitude of the Government was fully revealed when on August 15 the Minister of Defence moved the second reading of the Defence (Temporary) Amendment Bill. This Bill proposed to suspend the compulsory provisions of the Defence Act of 1909, contemplating a system of volunteers instead.

Other provisions limited the duration of the measure to one year. The three reasons given by the Minister for the Bill were, first, the altered public sentiment in respect of military training and military forces; secondly, the large number of trained men already available; and, thirdly and chiefly, the pressing necessity for national economy. He showed that the total cost of the Defence services was about £1,000,000; that, including the estimates for the naval and air forces, there would be a total saving exceeding £291,000 on the average expenditure of the last five years; and that nobody could justify "an annual expenditure amounting to more than £1,000,000 on what we call 'defence,' but which is really a system for the training and equipment of a military force for active service should certain conditions arise which, we hope, never will." This astonishing distinction between "what we call 'defence'" and what is apparently the really aggressive intent of our preparations for service abroad is a novelty in the mouth of a New Zealand Minister of Defence. Mr. Cobbe did not shrink from the full pacifist conclusion when he said: "It is difficult to understand the logic of those who argue that preparedness for war promotes peace." Mr. Downie Stewart's just comment on an argument "which rendered the whole of the Territorial force unnecessary," was that "no man should hold the position of Minister of Defence if that is his view." Such a man had certainly no right to hold that position in the Cabinet of a party which pledged



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itself at the last general election to the "maintenance of the Territorial system."

For the Minister to use the old fallacy that if you prepared for war you would get war (said Mr. Stewart), and that was why he was dispensing with the defence system—at all events for twelve months—seemed to be an extraordinary attitude for a Minister of Defence. If the British Navy were regarded as a cause of war, where should we be? The British Navy has stopped one hundred wars for every one it has taken part in.

It is indeed the perfect confidence of the Dominions in the ability of the Navy to continue its rôle of preventing wars that deprives them of the incentive to provide for their own defence, which complete independence would supply. The same confidence enables our pacifists to indulge their weakness for beautiful gestures with a sense of perfect security. Even Labour's sense of comradeship appears unable to see that an evasion of our own responsibilities which at the same time increases the grossly disproportionate share of the common burden already borne by the taxpayers of Great Britain is not a noble idealism, but a detestable meanness. It is but fair to say that Mr. W. A. Veitch, Minister of Railways, the only other speaker on behalf of the Government, did not imitate the parochialism and pacifism of his colleague, but recognised in defence a duty which we owe just as much to the Empire as to ourselves. His advocacy of the Bill was, however, ruined by the impossible contention that its object is "to test out the principle of volunteering." Neither the Minister of Defence nor any of his colleagues has submitted any scheme of volunteering or evinced any ambition to provide one. The Minister has left the needs of the next twelve months unprovided for and has declined to say what was to happen afterwards.

In the House, the Defence Bill was put through all its stages on August 15. The only division was carried by the Government, with the help of Labour, by 32 votes to 17. But on August 22 the Legislative Council rejected the

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Bill, carrying, by 17 votes to 9, Sir James Allen's motion that it be read a second time on that day six months. The rejection of the Bill does not, however, restore the training camps, over which the Government has complete control under the Act of 1909. When the defence estimates were before the House on September 30, both the Opposition and the Labour party tried to ascertain the intentions of the Government regarding men who were still anxious to continue their training, but they had little success. The Minister of Defence said :—

That under the law as it stood at present there was nothing to hinder anybody from training, but they could not go into camp. No allocation had been made for expenses, although it might be possible for the Department to make advances of uniforms, rifles, ammunition and so on.

But a more definite statement was promised before the end of the session.

## II. THE IMPERIAL CONFERENCE

ON August 11 the Prime Minister, who in his treatment of the question of military defence seemed to have entirely overlooked the fact that it was essentially an Imperial problem, made a much better impression by his carefully prepared statement on the agenda of the Imperial Conference. Just as Mr. Coates had stated four years ago that New Zealand had "no carping criticism" to bring before the Conference, so Mr. Forbes affirmed the Dominion's full satisfaction with the present position.

I wish (he said) 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 no complaints and no demands, and we shall enter this Conference as the representatives of New Zealand have entered

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previous Conferences, with the utmost spirit of goodwill to the Mother Country and to our sister Dominions, and with an earnest desire to bear our share in any measure that will serve the common welfare. . . . 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.

And just as Mr. Coates had concurred in the Dominion status resolutions in 1926, though New Zealand would have much preferred to leave well alone, so his successor proposed, perhaps a little too hastily, to accept the recommendations of the Experts' Conference of 1929 as undesired but inevitable corollaries of those resolutions.

Whether we may approve of them or disapprove of them (said Mr. Forbes), we are forced to the conclusion that they flow naturally from the decisions of the 1926 Conference, and that we could not now, if we wished, alter the position that has developed. If at the forthcoming Conference, therefore, it should appear—and I have little doubt that it will appear—that the recommendations of the report meet with the common acceptance of His Majesty's and other Governments, then New Zealand will not dissent.

But Mr. Forbes made it perfectly clear that acquiescence in the adoption of the recommendations for the sake of peace did not mean exploiting them to the full when adopted.

Indeed, in one respect (he said) the New Zealand Government are definitely averse from carrying into effect the full implications of the report. We do not wish to make any alteration in the present powers in regard to New Zealand legislation that would adversely affect the very high standing of New Zealand credit on the London market, and whatever the event we shall carefully safeguard the position in this respect.

On foreign policy the Prime Minister had nothing to say, and on naval policy very little. He recognised that "our safety, of course, depends very largely, if not entirely, upon the British Navy," but followed this statement up by a still stronger one recognising our dependence, with a strange resumption of the parochial standpoint.

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Our prosperity in New Zealand, and indeed our safety, depend almost entirely on the prosperity and the safety of the United Kingdom, and it is unfortunately a fact that the United Kingdom is not able to adopt the detached attitude with regard to international affairs that our more fortunate position enables us to take.

But on one important point in which a falling off had been feared the Prime Minister stuck to the policy of his late chief and the Reform party leaders. The apprehension that the same combination of the need for economy and pressure from the Labour party which had paralysed our military defence might strike at our contribution to the Singapore base, was decisively dismissed.

The Government, and I think the people of New Zealand (said Mr. Forbes) have been impressed with the necessity for a base in the Pacific from which the British fleet could operate should the occasion unhappily arise. We have shown the importance that we attach to this question by a substantial annual contribution towards the cost of the base of £125,000 per annum, with a maximum of £1,000,000, and we have in no wise altered our opinion in that respect.

The outstanding feature of the debate that followed was the strong protest made by Mr. Coates, the leader of the Opposition, against the acceptance of the recommendations made by the Committee of Experts in regard to shipping and extra-territorial rights. His contention was that the Committee had overlooked the distinction drawn by the Balfour Report between equality of status and equality of function, and treated as determined by the Imperial Conference of 1926 a point which it had purposely left open, and he spoke with the authority of a member of that Conference.

Whereas we—that is, the Imperial Conference (said Mr. Coates)—directed them to examine and propose the limits which unity of Empire demanded should be set to make the doctrine of "equality of status" workable, they have told us that the "equality" doctrine is, as they understand, the overruling principle, and, therefore, no limitations should be imposed. That was not the object of referring these important questions to the Committee of Experts; it was for

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them to state the limitations that were necessary in order that we might avoid conflict. We asked them to make the doctrine of "equality" workable by limitation, and they have now reported in the document I have before me to the effect that having laid down the doctrine of "equal status" there must be no limitation of that status—that is, they say that "equality of status" does not mean limitation, it does not mean investigating, it does not mean setting down how far this Dominion or that Dominion can move in the direction of legislation and to what extent it should go; they simply recommend the repeal of the Colonial Laws Validity Act. . . .

The matter of limitation was not decided by the Conference of 1926; it is still open. As limitation was not decided at that Conference, the Experts' Report will be before the Conference of 1930, and it is for that Conference to say whether or not the Committee of Experts should be asked to reconsider what dangers lie in the repeal of the Colonial Laws Validity Act, and what result will follow the repeal of that Act.

It is consoling to know that there were some lengths to which even the Imperial Conference of 1926 was not prepared to go in its apparent anxiety to get rid of everything which might be mistaken for a bond or a link of Empire, and that the Committee of Experts was in error in assuming that the Conference desired the repeal of the Colonial Laws Validity Act. To give every Dominion unlimited power of extra-territorial legislation over its own citizens and all other British subjects in all parts of the world, including Britain and the other Dominions, would plainly be absurd and might easily be dangerous. Mr. Forbes desires no such powers for New Zealand, and he would doubtless be glad to press for a correction of the unfortunate conclusion to which the experts have apparently been led by a misunderstanding of their instructions.

New Zealand.

October 7, 1930.

## THE IMPERIAL CONFERENCE

### ABSTRACT OF OFFICIAL SUMMARY

(Partly based on the abstract in *The Times of November 15*)

#### I. CONSTITUTIONAL AND POLITICAL MATTERS

##### INTER-IMPERIAL RELATIONS\*

The Conference on the Operation of Dominion Legislation in 1929, whose report was approved subject to the Imperial Conference's own conclusions, recommended a draft clause for inclusion in the Statute proposed to be passed by the Imperial Parliament. At the present Conference this draft clause was adopted, with the addition of certain words. The clause reads as follows, the added words appear in italics:

"No Act of Parliament of the United Kingdom passed after the commencement of this Act shall extend, or be deemed to extend, to a Dominion *as part of the law in force in that Dominion*, unless it is expressly declared in that Act that that Dominion has requested, and consented to, the enactment thereof."

The Delegates from some of the Dominions were apprehensive lest the acceptance of this amendment might imply the recognition of a right of the Parliament of the United Kingdom to legislate in relation to a Dominion (otherwise than at the request and with the consent of the Dominion) in a manner which, if the legislation had been enacted in relation to a foreign State, would be inconsistent with the principles of international comity. It was agreed that the clause as amended did not imply, and was not to be construed as implying, the recognition of any such right. The Conference agreed and recommended that December 1, 1931, should be the date as from which the proposed Statute should become operative.

Below are some of the clauses recommended in the proposed legislation:—

"The Parliament of a Dominion has full power to make laws having extra-territorial operation.

"The Colonial Laws Validity Act, 1865, shall not apply to any law made after the commencement of this Act by the Parliament of a Dominion.

"No law and no provision of any law made after the commencement of this Act by the Parliament of a Dominion shall be void or inoperative on the ground that it is repugnant to the law of England, or to the provisions of any existing or future Act of Parliament of the United Kingdom, or to any order, rule or regulation made under any such Act, and the powers of the Parliament of a Dominion shall include the power to repeal or amend any such Act, order, rule or regulation, in so far as the same is part of the law of the Dominion."

Then follow clauses to prevent future Acts of Parliament of the United Kingdom extending to a Dominion as part of its law without its previous consent; to prevent power being given to alter the constitution of Au-

\* The Committee which dealt with this subject was presided over by Lord Sankey, the Lord Chancellor.

## The Imperial Conference

stralia or New Zealand otherwise than in accordance with the existing law, or any encroachment on State rights in Australia; (a clause to meet certain objections from the Canadian provinces will be drafted later when their representations have been considered); to alter the Merchant Shipping and Admiralty Acts in accordance with the recommendations of the Dominion Legislation Conference; and to prevent the new Act extending to New Zealand until its Parliament adopts it.

In accordance with the above and other recommendations the following recital was agreed upon :—

“And whereas it is meet and proper to set out by way of preamble to this Act, that inasmuch as the Crown is the symbol of the free association of the Members of the British Commonwealth of Nations, and as they are united by a common allegiance to the Crown, it would be in accord with the established constitutional position of all the Members of the Commonwealth in relation to one another that any alteration in the law touching the Succession to the Throne or the Royal Style and Titles shall hereafter require the assent as well of the Parliaments of all the Dominions as of the Parliament of the United Kingdom.”

Further conclusions follow affirming paragraphs 73 to 78 inclusive of the Dominion Legislation Conference on nationality (to maintain the common status.) As regards the nationality of married women, unanimous agreement being out of the question, no recommendation was made for the substantive amendment of the law, but as all the members of the Commonwealth represented at the Hague Conference signed the Nationality Convention, they will presumably introduce legislation to give effect to it.

### COMMONWEALTH TRIBUNAL

Different methods for providing machinery for the solution of disputes which may arise between members of the British Commonwealth were explored, and it was agreed, in order to avoid too much rigidity, not to recommend the constitution of a permanent court, but to seek a solution along the lines of *ad hoc* arbitration proceedings. The Conference thought that this method might be more fruitful than any other in securing the confidence of the Commonwealth.

It was decided to recommend the adoption of a voluntary system, and that the Tribunal should be constituted *ad hoc* in the case of each dispute to be settled, and should consist of five members, two appointed by each of the disputants, and the chairman.\*

Then follow the adopted recommendations of the Dominion Legislation Conference on merchant shipping legislation (to promote concerted action). A draft agreement circulated from the United Kingdom was approved.

### POSITION OF GOVERNORS-GENERAL

The Conference came to the conclusion that the following statements in regard to the appointment of Governors-General would seem to flow naturally from their new position as representatives of the King only :—

“The parties interested in the appointment of a Governor-General of a

\* The Dominions, except the Irish Free State, when they signed the Optional Clause (the World Court), made a reservation of disputes between any of the units of the British Commonwealth.

## The Imperial Conference

Dominion are his Majesty the King, whose representative he is, and the Dominion concerned.

“The constitutional practice that his Majesty acts on the advice of responsible Ministers applies also in this instance.

“The Ministers who tender and are responsible for such advice are his Majesty’s Ministers in the Dominion concerned.

“The Ministers concerned tender their formal advice after informal consultation with his Majesty.

“The channel of communication between his Majesty and the Government of any Dominion is a matter solely concerning his Majesty and such Government. His Majesty’s Government in the United Kingdom have expressed their willingness to continue to act in relation to any of his Majesty’s Governments in any manner in which that Government may desire.

“The manner in which the instrument containing the Governor-General’s appointment should reflect the principles set forth above is a matter in regard to which his Majesty is advised by his Ministers in the Dominion concerned.”

### STATUS OF HIGH COMMISSIONERS

On this question the Imperial Government intimated that they were prepared to recommend that the Dominion High Commissioners should on all ceremonial occasions (other than those when Ministers of the Crown from the respective Dominions were present) rank immediately after Secretaries of State.

### COMMUNICATION AND CONSULTATION IN RELATION TO FOREIGN AFFAIRS.

Former Imperial Conferences had already agreed (1) that any of H.M. Governments should inform the rest when engaged in any negotiations that might interest them, so as to give them an opportunity of giving their views; (2) that any such Government should express its views promptly; (3) that no such Government should take steps involving the others in any active obligation without their definite assent. The Conference strongly endorsed these decisions and emphasised the special need (i) of informing the other Governments of treaty negotiations; (ii) of promptness in forwarding views. Otherwise, the negotiating Government may assume that there is no objection.

### COMMUNICATION BETWEEN DOMINION GOVERNMENTS AND FOREIGN GOVERNMENTS

Dominion Governments are to be allowed to communicate direct with British Ambassadors or Ministers on matters of general and political concern, where there is no Dominion diplomatic agent. The Ambassador should, however, wait for a wire from the Foreign Office. In other matters, including commercial transactions, direct communication is advised between Dominion Governments and H.M. Ambassadors and Ministers, though Dominion Governments may use other appropriate channels of communication if they prefer them.

### ARBITRATION AND DISARMAMENT

(a) *Formal Measures for the Preservation of Peace.*

India and all the Dominions except South Africa will recommend accession

## The Imperial Conference

to the General Act for the Pacific Settlement of International Disputes\* on the same conditions as to the Optional Clause (great importance was attached by some Dominions to matters such as immigration, within their domestic jurisdiction). South Africa asked for more time to study the General Act. The proposals to bring the Pact of Paris and the Covenant of the League into line,† and the amendments to the Covenant drafted by the sub-committee of the first Committee at the Eleventh Assembly, were approved, the amendments in both cases to be subject to the coming into force of a general reduction and limitation of armaments treaty.‡

### (b) Measures for Reduction and Limitation of Armaments.

The Conference emphasised the need for general disarmament, and the early convocation of the General Disarmament Conference. It approved of the principles underlying the draft convention drawn up by the Preparatory Commission.

### THE ANTARCTIC

International action to restrict whaling was considered necessary.

### DEFENCE

Pressure of work, the Report explains, rendered it impossible to arrange any plenary discussions on Imperial Defence. At an early stage of the Conference, however, arrangements were made for the Chiefs of Staff of the three Services in the United Kingdom and representatives of the Services of the Dominions and India to meet together and discuss matters of common interest. The existing arrangements for consultation and co-operation (including questions of general defence such as the supply of war material and the co-ordination of defensive arrangements as well as the staff arrangements of the respective services), which have grown up as the result of past Imperial Conferences, were reviewed, and, where necessary, recommendations were submitted for their improvement in matters of detail.

In addition, meetings took place at the Admiralty, War Office, and Air Ministry at which questions of naval, military, and air defence respectively were examined from a more technical point of view.

### SINGAPORE

As a result of discussion between representatives of the United Kingdom, the Commonwealth of Australia, and New Zealand, it was recommended that the present policy of the ultimate establishment of a defended naval base at Singapore should be maintained, and that the Jackson contract should be continued. It was, however, also recommended that, apart from the latter expenditure and such as will be required for the completion of the air base on the scale at present contemplated, the remaining expenditure, *i.e.*, that required for completing the equipment of the docks and for defence works,

\* Accession to the General Act (Geneva, September 26, 1928) pledges signatories to submit every type of dispute, non-justiciable as well as justiciable, to peaceful settlement as therein provided (justiciable to the Permanent Court at the Hague). Belgium, Finland and Luxemburg, and six other countries have already signed. The British Commonwealth nations deferred action till the Imperial Conference. The main condition attached to signature of the Optional Clause was the reservation, except by the Irish Free State, of domestic disputes.

† See THE ROUND TABLE, No. 79, June 1930, pp. 468-73.

‡ On this question, see THE ROUND TABLE, No. 79, June 1930, p. 468.

## The Imperial Conference

should be postponed for the next five years, when the matter could be again reviewed in the light of relevant conditions then prevailing.

### WAR GRAVES COMMISSION

Certain proposals for the extension of the Commission's powers were agreed to.

### II. ECONOMIC QUESTIONS

The Report states that all parts of the Commonwealth were united in a desire that all practicable steps should be taken to promote and develop inter-Imperial trade. The following statement of policy was made by the Government of the United Kingdom :—

"His Majesty's Government of the United Kingdom, believing that the development of inter-Imperial markets is of the utmost importance to the Commonwealth, has declared that the interests of the United Kingdom preclude an economic policy which would injure its foreign trade or add to the burdens of the people; but that their fiscal policy does not preclude marketing propaganda and organisation which will secure valuable opportunities for the consumption of Dominion products in the United Kingdom."

The Government suggested that the Empire Governments should present reports to a Conference which might be held next year on methods of economic co-operation within the Empire.

"In the meantime his Majesty's Government in the United Kingdom have declared that the existing preferential margins accorded by the United Kingdom to other parts of the Empire will not be reduced for a period of three years or pending the outcome of the suggested Conference, subject to the rights of the United Kingdom Parliament to fix the Budget from year to year.

"His Majesty's Government in the United Kingdom agree to reconstitute the Empire Marketing Board as a body with a fixed minimum annual income, with a provision enabling it to receive such other contributions from public or private sources as it may be willing to accept, for the purpose of furthering the marketing of Empire products.

"His Majesty's Government in the United Kingdom agree to the reconstitution of the Imperial Economic Committee on the lines recommended by the Committee of the Conference on Economic Co-operation."

In view of the above statement made by the representatives of the Government in the United Kingdom, the representatives of the Government in the Union of South Africa made the following statement :—

"The Government of the Union of South Africa declare that the existing preferential margins accorded by South Africa to the United Kingdom will not be reduced for a period of three years or during such shorter period as the existing preferential margins accorded to South Africa by the United Kingdom may remain in force."

Subsequently the Imperial Government intimated that they were opposed to any policy involving duties on foodstuffs or raw material. They suggested such methods as quotas, import boards, bulk purchase, direct exchange of commodities, and the promotion of agreements between industrialists and improved machinery for inter-communal consultation in economic matters.

## The Imperial Conference

"During these discussions," says the Report, "it became apparent that the Governments of the wheat-exporting Dominions (Canada and Australia) attach special importance to increasing the sales of their wheat in the United Kingdom," and thereupon an informal committee, representing the United Kingdom, Canada and Australia, was set up to explore the wheat situation. This committee was later reconstituted as the "Committee on Economic Co-operation" under the chairmanship of Mr. William Graham. Representatives of New Zealand, South Africa, Irish Free State, Newfoundland, and India were added.

The Report, setting out in detail the work of this Committee on Economic Co-operation, explains the scheme of a quota for Dominion wheat milled in the United Kingdom. The Report says that the Imperial Government undertook to examine carefully the report of the Committee on Economic Co-operation on this question and also to consult the Governments of the wheat-growing Dominions and of India. The Committee's report says:—

"The object of a quota for Dominion wheat would be to secure that a guaranteed and, if possible, increasing proportion of the total quantity of wheat milled in the United Kingdom was of Empire growth. It was stated on behalf of the United Kingdom delegation that no price guarantee could be given for Dominion wheat and that the suggestion was confined to securing the guaranteed share of the import requirements at world prices. We were informed that a quota scheme for United Kingdom wheat had been under examination for some months, and that the machinery and procedure had been discussed in detail with the trade organisations concerned.

"We have had prepared the outline of a similar scheme applicable to Dominion wheat. The essence of this scheme is that certificates shall be issued by his Majesty's Customs in the United Kingdom in respect of all imported wheat passed through the Customs which they are satisfied is of Dominion growth. Wheat millers would be required to produce evidence of purchase (including the surrender of Dominion wheat certificates issued by the Customs) of the prescribed minimum quota. The certificates would be transferable, in the same way as other contract documents, and divisible, and, in order to save unnecessary transport, would not necessarily remain attached to the wheat or flour in respect of which they were issued. In the event of undesirable results following on the transfer of certificates, the situation would require to be dealt with by the authority in charge. The scheme would have to be elaborated in greater detail before the plan could be embodied in legislation or put into operation, and for this purpose consultation with the trade interests concerned might be necessary.

"We assume that a quota scheme for wheat of Dominion growth would not be introduced without the introduction also of a quota scheme to absorb the whole of the wheat of millable quality grown in the United Kingdom. While it is not within our competence to discuss the details of a quota for United Kingdom wheat, some members of the Committee feel that such a quota might react on a Dominion scheme. Thus it was suggested that, in so far as a quota for United Kingdom wheat had the effect of raising its price, the result might be that the price obtainable for imported, including the Dominion, wheat might tend to be depressed. Again, if the United

## The Imperial Conference

Kingdom quota scheme stimulated the production of wheat in the United Kingdom, the requirements of imported wheat would be reduced. On the other hand, it was suggested that any increase in the price of United Kingdom wheat must fall not on the importer of wheat but on the consumer of flour, that any increase in the United Kingdom supply could not exceed 5 per cent. of the total requirements of millers, and that such an increase would be effected at the expense of foreign wheat and not of Dominion wheat, if a quota for Dominion wheat were in force.

"We next considered what would be the advantages to the wheat-exporting Dominions of the quota scheme. The total exports of wheat from the Dominions greatly exceed the total imports from all sources into the United Kingdom, and it follows that, provided there is free competition in the United Kingdom market among Dominion exporters, the price of Dominion wheat in the United Kingdom could not be raised appreciably above the world price, since, as the United Kingdom price tended to rise, shipments to Continental ports would be diverted to ports in the United Kingdom. Wheat importers in the United Kingdom are further protected by the present arrangements whereby the whole of the exportable surplus of the Dominions, whether consigned to the United Kingdom or not, is available and identifiable for the purpose of the quota by documents of origin or grade certificates or otherwise. There is no suggestion of any interference with these arrangements. Further, the Parliament of the United Kingdom might also introduce legislative safeguards designed to prevent any undue inflation of prices.

"We also considered whether a quota for Dominion wheat in the United Kingdom would tend to reduce the price which the Dominions obtained for their wheat in foreign markets. The effect of the quota would be to divert a certain amount of foreign wheat from the United Kingdom market to the Continental market, but, on the other hand, the same quantity of Dominion wheat would be diverted from the Continent to the United Kingdom. We see no reason therefore to suppose that the effect of the quota would be appreciably to reduce the price for wheat on the Continent. It is pointed out that the displacement of foreign wheat on the United Kingdom market would lessen the quantity of Dominion wheat for which foreign markets would be required, thus maintaining price equilibrium."

The marked increase in the exports of Russian wheat compared with 1929, most of it shipped "on consignment" to sell for what it would fetch, was noted. Far more wheat from Russia is anticipated in future years. Russian wheat competes directly with Canadian wheat and is likely to cut into its market just as Argentine wheat competes with Australian. Therefore a quota securing to Dominion wheat a guaranteed market for more wheat than had come in recent years, would be *pro tanto* beneficial. The quota proposed is to be a guaranteed minimum, leaving it open, however, to the Dominions to compete equally with the foreigner for the rest of the supply, apart from that reserved for the United Kingdom wheat. A separate quota could not be given to each Dominion, being administratively impracticable.

As regards imported flour, United Kingdom millers would rightly complain if they are restricted by a quota scheme, yet flour can be imported as freely as to-day. The average imports of wheat meal or flour are to-day

## The Imperial Conference

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## The Imperial Conference

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As regards imported flour, United Kingdom millers would rightly complain if they are restricted by a quota scheme, yet flour can be imported as freely as to-day. The average imports of wheat meal or flour are to-day

## The Imperial Conference

about 10 million cwt. a year. The proposal is that the importers of Dominion flour should have to take up the quota of United Kingdom wheat certificates, while the importers of foreign flour would also have to take up the quota of Dominion wheat or wheat flour certificates. As imports of Dominion flour at present exceed considerably imports of foreign flour, this is no hardship to the foreigner. Nor, as regards imported Dominion wheat flour, would the need of obtaining United Kingdom wheat certificates interfere with trade in special kinds, as importers could, without undue difficulty, obtain necessary certificates, probably through the London Corn Exchange, or in the country markets for United Kingdom wheat. There would have to be legislation to protect the divergent interests of millers and flour importers, and to prevent any action being taken to prejudice the important trade in Dominion flour. Arrangements in connection with imported flour would probably have to be planned in consultation with the trade interests concerned.

### QUOTAS FOR COMMODITIES OTHER THAN WHEAT, IMPORT BOARDS, BULK PURCHASE SCHEMES, AND ORGANISATION OF CHANNELS OF TRADE

These matters were all referred to sub-committees. Their reports appear in the appendices to the official summary.

### IMPERIAL SHIPPING COMMITTEE AND IMPERIAL ECONOMIC COMMITTEE

The Conference considered the proposed Shipping Committee should be maintained, and be responsible to the Imperial Conference Governments, and that civil aviation should be represented on it. Appreciation of the work of the Imperial Economic Committee is expressed and a reference laid down.

### EMPIRE MARKETING BOARD

The Committee on Economic Co-operation recommended the following resolutions with regard to the work of the Empire Marketing Board :—

" I.—The Conference, having surveyed the work of the Empire Marketing Board, is satisfied that it is valuable to the Commonwealth as a whole, and recommends its continuance and its extension in certain directions, notably in the spheres of market intelligence, statistical surveys, and market promotion.

" II.—The Conference takes note of the Empire Marketing Board's programme of research, involving commitments approaching £2,000,000 from the Empire Marketing Fund, as well as independent contributions by so many Empire Governments. It finds that programme in accord both with the Resolution of the Imperial Conference of 1926 and the policy adopted by the Imperial Agricultural Research Conference of 1927.

" III.—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, and notes as an example of special promise the recognition and extension of the Onderstepoort Veterinary Research Station as an Empire centre of research in the field of animal health.

" IV.—The Conference also welcomes the facilities provided by the Board for enabling scientific workers to visit different parts of the Empire.

" V.—The Conference is of opinion that if effective advantage is to be

## The Imperial Conference

taken of the opportunities for co-operative action within the British Commonwealth open to the Board :—

" (1) The limitation of the Empire Marketing Fund to marketing in the United Kingdom should be removed.

" (2) While the amount of its contribution must remain wholly within the discretion of the Parliament of the United Kingdom it should be recognised that the efficiency of the Board's work and its opportunities for effective planning depend upon a minimum annual income being assured to the Board over a reasonable period.

" (3) The Board should, therefore, be constituted as a body with a fixed minimum annual income, with a provision enabling it to receive such other contributions from public or private sources as it may be willing to accept, for the purpose of furthering the marketing of Empire products. (The representatives of the Union of South Africa considered that the Fund was and should remain the concern solely of the Government of the United Kingdom and could not, therefore, agree to paragraph (3) of Resolution V.)"

### STANDARDISATION

The Conference recommended the co-ordination of industrial standardisation under a central body in each country, to which support should be given by the Governments. It urged closer co-operation between these standardising bodies in order to develop further standardisation and the establishment, so far as was practicable, of uniform standard specifications. Stress was laid upon the importance of simplification by means of the reduction of unnecessary types, sizes, etc., of everyday commodities. The Conference also recommended the adoption of marks or brands for the various standardising bodies.

### EMPIRE BROADCASTING

A Committee on Imperial Communications (other than transport) recommended the establishment of an Empire Broadcasting Service, and urged the desirability of encouraging broadcasting organisations in the various parts of the Commonwealth to arrange for the reciprocal broadcasting of programmes and events of special interest where suitable means of long-distance transmission were available.

### CIVIL AVIATION

Many questions under this head were discussed. The Conference expressed the hope that the next stage in the development of Empire air communication, by the opening in 1931 of the regular Imperial Air Service between England and South Africa, would be followed at an early date by an extension of the regular weekly air service between England and India as far as Australia. It was recommended that preference should be given to the carriage of air mails to Empire air routes when the facilities which exist offer equal advantages to air routes by foreign services. The opinion was expressed that civil aviation should be represented on the Imperial Shipping Committee.

### OVERSEA SETTLEMENT

The subject of oversea settlement was examined by a committee whose report to the Conference was approved. On this report the Conference passed



## The Imperial Conference

a resolution expressing the opinion that the problem of the better distribution of the white population of the British Commonwealth would continue to be a question of paramount importance. Its successful solution, said the resolution, depended upon the availability of adequate markets for Empire products and of sufficient capital to develop its resources. "The Conference recognises that the economic difficulties of the present time are such as to render impracticable any considerable flow of migrants from the United Kingdom to the Dominions, but it has every confidence in the future and recommends that the problem of oversea settlement should continue to receive the most careful consideration, and that the Governments concerned should adopt such measures as may be found best calculated to secure the object in view as and when economic conditions permit."

Other questions dealt with by the Conference concern forestry, research, cotton growing, petroleum production, an oversea mechanical transport council, a conference of statisticians, steamship services, double income-tax relief, reciprocity in old-age pensions, and educational films.

The bulk of the Report consists of its appendices, which contain the opening and concluding speeches, the report of the Committee on War Graves, the report of the Committee on Economic Co-operation, and the reports of committees on Imperial Communications, Civil Aviation, Oversea Settlement, Forestry, Research, and General Economic Questions.

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# THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF  
THE BRITISH COMMONWEALTH

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## INDIA : CONSTITUTION OR CHAOS

*“It may be that, having become instructed in European knowledge, they may in some future age demand European institutions. Whether such a day will come I know not. Whenever it comes it will be the proudest day in English history.”—MACAULAY, in the House of Commons, 1833.*

### I. A FRESH START

THE Indian Round Table Conference has opened a new epoch in the history both of India herself and of the relations between India and Great Britain. It is difficult, indeed, for us to realise how fundamentally the whole position has been changed by the work of the ten weeks which elapsed between the formal opening of the Conference on November 12 and its formal closing on January 19. For the first time a delegation of some eighty Indians, representing all races and religions and classes in India (though not the Congress party) sat round a table with a delegation representing all parties and both Houses of the British Parliament to discuss, on a basis of complete equality and with nothing excluded from the purview of the Conference, what the future of Indian government should be. For the first time Indian Princes and their Diwans sat round a table with the representatives of all classes in British India, also on terms of complete equality, and agreed together that the basis of the new constitution should be the inclusion of all-India within a single federal constitution under which responsibility both for central and local government should rest, subject to certain limitations, in Indian hands. For the first time the representatives of Great Britain declared

## India: Constitution or Chaos

that the time has come for the primary responsibility for Indian government to pass from British to Indian shoulders, provided that a constitution can be drawn up and accepted which would do justice to the minorities in India and which could reasonably be expected to give stable government to a united India, and, subject to certain safeguards and reserved powers for which Great Britain will remain responsible, in the interests no less of India than of Great Britain, during the period of transition.

Whatever the future may bring forth, it will be impossible to undo the fundamental work thus done by the Round Table Conference. It has started India and Great Britain on a new road from which there can be no turning back.

Hitherto most of the energies of Indian politicians have been devoted to getting rid of British control, an anomaly in the modern nationalist and democratic world, which they felt both humiliating in itself and incompatible with their own political, social and economic advancement. From now onwards the problem before them is the practical one, first of framing and then of working a constitution which will enable the races and religions, the Princes and peoples of India to govern themselves on just and constitutional lines. For the unanimous declaration of the British delegation, Conservative no less than Liberal and Labour, inside Parliament and outside, is that, provided a workable constitution can be framed, responsibility for Indian government shall pass to Indian control in the centre as well as in the provinces, subject only to safeguards in the interest of justice to minorities and of stable government itself.

How definite these statements of principle are may be seen from the following quotations. In the Report of the Federal Relations Committee it is stated that its proposals have been drawn up

on the basic assumption that the constitution will recognise the principle that, subject to certain special provisions more particularly specified hereafter, the responsibility for the Federal Government of India will in future rest upon Indians themselves.

## A Fresh Start

In the same report it is further stated that "the proper method of giving effect to this principle" is for the Governor-General

to appoint as his Ministers those persons who command the confidence of the Legislature, and the Governor-General, in complying with this direction, will, of course, follow the convention firmly established in constitutional practice throughout the British Commonwealth of inviting one Minister to form a Government and requesting him to submit a list of his proposed colleagues.

Similarly, the Prime Minister, in his formal declaration of policy\* stated that

The view of His Majesty's Government is that responsibility for the government of India should be placed upon Legislatures, Central and Provincial, with such provisions as may be necessary to guarantee, during a period of transition, the observance of certain obligations and to meet other special circumstances, and also with such guarantees as are required by minorities to protect their political liberties and rights. In such statutory safeguards as may be made for meeting the needs of the transitional period, it will be a primary concern of His Majesty's Government to see that the reserved powers are so framed and exercised as not to prejudice the advance of India through the new constitution to full responsibility for her own government.

The centre of gravity of the discussion has thus been transferred by the Round Table Conference from London back to India. It is agreed in principle that the period of British responsibility for Indian government ought to end. Subject to certain safeguards, inevitable in so gigantic an experiment, responsibility is to pass to Indian hands. The vital question to-day is whether Indians can agree upon the constitution under which their government shall in future be conducted. For there can be no doubt that, if they succeed in reaching agreement on a constitution which is at once workable and just to minorities, the British Parliament will enact it, as it did in the case of the constitutions drawn up by the other Dominions.

\* See the Appendix for the full text.

## India : Constitution or Chaos

### II. THE REAL ALTERNATIVES

THERE is little doubt that the completeness with which the Round Table Conference and afterwards the mass of British public opinion accepted the principle that Indians should in future, subject to safeguards, be responsible for their own government both in the centre and the provinces came with a shock of surprise and dismay to those who have been familiar with the India of the past, in which the whole effective responsibility for Indian government has rested in British hands. It seemed so reckless and gigantic a move forward in a continent containing as many people as Europe without Russia, and divided within itself as Europe is divided. It seemed all the more dangerous in face of the recommendation of the Simon Commission that strong government should be maintained at the centre while full responsibility was being introduced in the provinces, and even of the more "advanced" proposal of the Government of India that in the next period there should be a kind of irresponsible executive "dualism" at the centre.

But there is no doubt that, except in certain relatively narrow circles, the discussions of the Conference convinced, not only the British members, but public opinion outside, that the time had come when, in India, as in Canada, South Africa, Ireland and elsewhere, a definite and irrevocable breach must be made with the old type of empire, that India must follow in the footsteps of the other Dominions and be free to work out her future by constitutional means in her own way. People came to this conclusion, not only because it was right in itself and the only course consistent with the new British Commonwealth, but because it was the only way of avoiding, both for India and Great Britain, the disasters of the American revolutionary era. Some have believed that the transition to responsibility could come gradually, piecemeal and almost imperceptibly. There is no evidence in

### The Real Alternatives

history to justify this belief. The transfer of governmental power from one set of hands to another is a tremendous event, and it takes place, not imperceptibly, but either by war and violent revolution or by definite constitutional action. The most important decision of the Round Table Conference was that the time for a constitutional revolution had arrived. Why was this so?

At the time when the old British raj was built up, government in India was exclusively the concern of hereditary or military autocrats. Whether government was in the hands of the declining Moghul Emperor, or of ancient dynasties, or new rulers escaping from his authority, or of powers, such as the Mahrattas or the Sikhs, which raised themselves from among the ruins of the Empire, its basis was always the same, military power reinforced by hereditary or religious sanction. Nowhere had it any popular or democratic character. The will of the autocrat was absolute, and public opinion in the modern sense had almost no instrument of expression nor any effective sway.

Amid all these rulers, first the East India Company, and then the British Government, possessed of the scientific knowledge and methods of the West, were incomparably the most powerful. It was almost inevitable that, once the Company undertook the diwanship of Bengal in 1773, it should gradually assert its paramount power over all the rulers of the land as the only method of securing peace and order in India, or stable conditions for trade. And, having taken over government directly, or asserted suzerainty over the Princes, the British power proceeded gradually to create a bureaucratic government which has, in fact, become one of the wonders of the world—a government which history will class with that of Rome herself—efficient, impartial, just, inspired by standards of loyalty and responsibility unknown in a democratic age.

So long as the old structure of Indian thought and society continued, India, save for a few patriots, was content. Government was not the concern of the people

## India : Constitution or Chaos

but of the Princes and the gods. Great Britain had proved herself the strongest among the rulers who were for ever competing among themselves for power and prestige, and therefore ruled as of right divine. To the mass of the people it mattered little who was ruler; the life of the countryside, the eternal rotation of ploughing and reaping, birth, maturity and death, the ritual of caste and religion, went on unchanging and unchanged. Good rulers kept taxes low and avoided war; bad rulers brought poverty in their train. In so far as the British raj brought the end of war and kept taxes low, it was acquiesced in as the agent, on the whole, of a beneficent providence.

But, for some decades now, that point of view has been changing. India has been following, at first slowly, but lately with startling speed, in the footsteps of the rest of the world. Macaulay opened the sluiceways of Western education in 1835. To-day there are 84,000 students in the fifteen chief universities of India, and 2,500 high schools with 770,000 students on their books,\* apart altogether from those who go to Great Britain, or America, or Europe for learning. Indian industry is growing with enormous rapidity. Railways and motors have brought Indian agriculture and Indian commerce within the influence of world prices. The restless determination of the modern world that law and government should reflect national opinion, and that economic life should somehow be brought under conscious control, and that poverty, inequality and the blighting effects of climate, weather, and geography, should be removed, mitigated or destroyed, is actively at work in India also. There is hardly a village which is not now reached by the vernacular press preaching a discontent, not always divine, or which has not had a returned soldier telling about the outside world, of Asiatic nations which have emancipated themselves from white domination, of the weaknesses and difficulties of Great Britain herself.

The old India has gone, or is rapidly going, and with

\* *The Times*, February 7, 1931.

## The Real Alternatives

it the old British raj is inevitably going also. Indian life and society are seething with the same forces, the same hopes and aspirations, the same discontents as Europe and Asia and America since the war. The old form of government through a bureaucracy, efficient but detached from the new life stirring among the people, is as inadequate for modern India as it has proved to be for Great Britain, Europe and America. The Civil Service—already in course of rapid Indianisation—can be preserved, but the ultimate decision in determining the policy to which it is to give effect must now rest with a body amenable, in constitutional ways, to Indian opinion. Not only is such a step right in itself and the logical result of the Pronouncement of 1917, and of British institutions themselves, it is the only way of avoiding in India government by repression, which, when it is continued by an alien Power against the consent of the governed, never has lasted and never can last in the modern world.

The alternatives which lie before India to-day are chaos or constitutionalism. Despite Mr. Winston Churchill and his friends, the third policy, of trying to maintain the old British raj through the resolute determination of a British Government to govern India, whatever the cost, is an alternative no longer. The consent of all classes in India—Princes no less than British Indians—to such a solution has clearly been withdrawn, and British public opinion, in the light of the history of the rest of the Empire since the beginning of the century, and of the ideals for which it fought during the war, would simply refuse to be a party to the continued repression and bloodshed by which the old British raj could alone now be maintained. The Round Table Conference was certainly right in thinking that the one hope for the future was to place the responsibility for Indian government, subject to safeguards and reserves in the transition period, as far as was practicable, on Indian shoulders under a sane and well-balanced constitution.

## India : Constitution or Chaos

It is perfectly true that, without faith and co-operation on both sides, the attempt to create a self-governing constitutional India may fail. The task is the most gigantic to which two peoples have ever consciously set their hands. There are forces of violence, of communalism or parochialism, of race, of suspicion and ignorance and distrust, both in India and in England, which will certainly work, not to build, but to disintegrate and destroy. The overthrow of the democratic regime in Russia by the Bolsheviks and the destruction of parliamentarianism in China by militarists and party discord, may still be repeated in India. It is said that the responsible politicians will be swept aside by the extremists and that minorities like the Moslems and the Sikhs, States like Afghanistan or Nepal, communist and terrorising groups, will sweep the inefficient executives and legislatures aside. It is certainly possible that the attempt to create a workmanlike federal constitution may break down and that India may break up, first into a Moslem and a Hindu India, and later into a number of national States, as Europe did after the Renaissance and the Reformation. None the less, to proceed along the line of constitutional self-government is the only possible or hopeful way forward to-day. Moreover, the forces which are making for success are far more powerful than is always realised. For a century India has been accustomed to constitutional and legal procedure: the habit of order is strong, as are the Civil Service and the Police; the doctrine of non-violence makes a widespread appeal; and behind all, during the period of transition, stand the army and authority of Great Britain, which, even if she is now ready to transfer responsibility for government to Indian hands, is certainly not yet ready to see the hopes of peaceful constitutional self-government destroyed by an organised military violence which she is still perfectly able to control.

What, it may be asked, about the alternative proposed

## The Real Alternatives

by the Simon Commission? The work of the Simon Commission proved invaluable to the Conference—a mine of accurate fact and wise advice. But its proposals for the centre were out of date from the start. Not only had they been rejected by all the more responsible and co-operating elements of Indian opinion, but the Princes have made the transfer of responsibility at the centre the condition of their entering the federation. Moreover, it is very doubtful if the Simon proposals would have worked in practice. The irrevocable step was taken when the function of legislation was entrusted to legislatures in which a majority was elected by Indian constituencies. For the last ten years, government has been carried on by precarious and not always very healthy lobby manoeuvres by irresponsible executives assisted by official blocs, certification, etc. The Simon Commission proposed that, while full responsible government should be given to the provinces, the numbers of the central Assembly should be increased from 145 (105 elected) to from 250 to 280 (with only 12 nominated officials), though the members should be elected by the provincial legislatures and not directly by constituencies. While the type of member returned by the provincial legislatures under such a system might be more experienced, it is certain that, in the temper of modern India, the immense majority of the central Assembly, returned as they would have been by bodies themselves fully responsible for provincial government, would have gone into permanent obstruction against an irremovable executive responsible to the Secretary of State and Parliament alone. The central Government would, in practice, have only been able to function by the habitual use of powers of certification—a system which would have provided neither a strong central government nor political peace in India.

The more liberal form of “dualism” suggested by the Government of India might have been somewhat more workable. But, as the Round Table Conference realised,

## India : Constitution or Chaos

once the Princes\* had declared that they were only prepared to join an Indian federation if that federation were given responsibility at the centre, the only working alternative to resisting federation and government by certification in defiance of a hostile legislature or by suspending the Legislative Assembly altogether, was to entrust government (except in the reserved sphere) to an executive which itself commanded a majority of the federal legislature. There is, in fact, as all British experience has shown, no half-way house between an irresponsible executive and an executive which can govern because it can command the confidence of a majority of the legislature to which it is responsible.

Immense, therefore, as are the risks and difficulties which lie ahead, the risk that whole sections of the Indian people may be stampeded by suspicion and propaganda into a merely negative non-co-operation, the difficulty of creating in a vast sub-continent like India the conventions and habits of mind which will make it possible for a stable government to be derived from a still largely illiterate population, the difficulty of creating a political party system in a country in which minorities claim separate and special representation, there is, in practice, no alternative to following the trail clearly and courageously blazed by the Round Table Conference. It is that road or chaos.

\* Thus the Maharajah of Bikaner said : "The Princes have made it clear that they cannot federate with the present Government of India, and we are not going to make any sacrifices and delegate any of our sovereign powers unless and until we can share them honourably and fully with British India in the federal executive and legislature." The Maharajah of Bhopal—the other principal Princes' delegate—similarly said : "We have made it clear that we can only federate with a self-governing and federated British India and that if British India is not self-governed, any federation with the present Government of India will, it is evident, be to our own disadvantage."

## The Round Table Conference Proposals

### III. THE ROUND TABLE CONFERENCE PROPOSALS

EXCEPT for the two fundamentals that the new constitution for India should be a federation comprising all India and that, subject to certain safeguards, responsibility both in the provincial and federal spheres should rest on Indian shoulders if a workable constitution can be contrived, the conclusions of the Round Table Conference are largely provisional. The task which confronted it was unique. No earlier body of constitution builders has ever had so immense and complicated a problem to solve. In the very nature of things a constitution which is to include within its orbit over 300,000,000 people speaking different languages and of very different racial and religious character, which has to find room for the democratically governed provinces of British India, and for the autocratically governed States of Indian India, which has to give special representation to minorities, large and small, and other guarantees that the majority will not abuse its power, must contain anomalies and compromises of every kind. Nor will a constitution of such a kind work unless public opinion is satisfied that the anomalies are necessary and that no preferable alternative is possible.

The Round Table Conference, therefore, wisely confined itself to tabling its proposals in outline in the faith that further discussion in India and Great Britain might produce something better, or that, failing improved proposals, Indian opinion would rally to work the scheme—*anomalous as it necessarily is in parts—as the only real alternative to the break up of India herself or her gradual movement towards a Chinese chaos or a Russian despotism.*

We can now consider in a little more detail the outline of that federal constitution which the Round Table Conference proposed as the alternative to the old British raj.



## India : Constitution or Chaos

### (a) *Federal India*

The foundation of the whole structure proposed by the Round Table Conference was that the division which has existed hitherto between what may be called British India, *i.e.* that two-thirds of India which contains three-quarters of the population governed under the Government of India Act (1920), and Indian India, *i.e.* the balance which is under the direct rule of 562 Indian Princes and Chiefs\* over whom the Crown exercises a general paramountcy loosely defined in most cases in treaties and sanads, should be ended, and that in future there should be a single Indian federal State. It has been alleged that the main reason for this decision was the desire of Great Britain that the central legislature and executive should be stabilised by the presence of the conservative element represented by the Princes before she transferred any measure of responsibility at the centre. It is perfectly true that the representatives of the Indian States can be relied upon to resist both revolution and secession from the Empire, and as such they will be an element making for constitutional stability. But the decisive reason for basing the constitution on the federation of all India was the conviction driven home to the Princes, British Indians and British representatives alike, that to launch British India on responsible government without bringing Indian India within the constitution would be to set in motion forces which, in time, would inevitably rend India into fragments. The adjustment of the relations between autocratic Indian India and democratic British India will not be easy, and no one can yet say whether the traditional system of Indian India or the modern Western methods of British India will prove the stronger and more appropriate to Indian conditions, or whether there may not evolve some compromise between the two. But it is certain that the right way is to adjust the ever present difficulties over

\* Cmd. 3,568, vol. I, p. 83.

## The Round Table Conference Proposals

tariffs, railways, transportation, and economic and political and social development by constitutional methods within a single federation, and not by angry negotiation between an advancing British India and some 560 separate Indian States only constitutionally linked to British India by the nexus of the Crown.

The units, therefore, of the new federation are to be the provinces of British India (excluding Burma) on the one side, and the individual sovereign Indian States on the other side. The number of the federating British Indian provinces, however, will probably be raised from the existing eight (Bengal, Madras, Bombay, United Provinces, Punjab, Bihar and Orissa, Central Provinces and Assam) to ten by the creation of two new autonomous provinces, the North West Frontier Province\* and Sind, and possibly later to an even larger number through the establishment of new provinces carved out of older provinces on a linguistic basis (*e.g.* Oriya speaking). As regards the States, it was recognised that while the larger Indian States such as Hyderabad (12,500,000 inhabitants), Mysore (6,000,000 inhabitants), Baroda, etc., would be represented in the federal legislature in their own right, the smaller States would have to be grouped for the purpose, though every State would have to adhere to the federation by a separate sovereign act of its own. There are to-day 108 States which are represented in their own right in the Chamber of Princes, 127 which are represented by 12 delegates chosen among themselves, and 327 smaller units which have no representation at all.† The exact distribution of seats among these States will depend partly on the number of seats available for Indian India in the Senate and House of Assembly, and partly on the relative size and importance of the States themselves. On this question no proposals were made.

Broadly speaking, the new federation can only be brought

\*The North West Frontier Province is at present not a province proper, but a territory governed directly by the Government of India. See p. 351.

† Cmd. 3,568, vol. I, p. 83.

## India : Constitution or Chaos

into being by an Act of the Imperial Parliament after the surrender to it by the Indian States of those powers which are in future to be exercised by the new federal government.

The question of the division of powers between federal and local governments—always a difficult question—is doubly difficult in India. British India has always had a highly centralised system of government. In fact all power has been derived from the Viceroy acting for the British Crown, and it was only at the time of the Montagu-Chelmsford Reforms of 1920 that the process of provincial devolution was seriously begun. Indian India, on the other hand, has been almost entirely de-centralised. Each State, except that its external relations have been controlled by the Crown, and that the Government of India has maintained a political resident to prevent gross misrule on the part of the autocrat, has been entirely independent both of British India and of every other State. The Indian States are naturally only willing to surrender to the federation as much of their sovereign powers as is necessary to bring an effective federation into being. British Indians, on the other hand, are clearly not willing to break up the unity which now exists in British India over large fields of legislation and administration by conferring on the provinces anything like the measure of sovereign independence which the Indian States will insist upon, at any rate, in the early years of the federation.

At one time it seemed that it might be necessary to create what may be described as a three-decked federation—*i.e.* a structure containing provinces and States as the lowest tier, a central legislature for British India dealing with matters which are the common concern of the provinces, but not of the whole of India, as an intermediate tier, and a federal body for all India dealing with those subjects which are the common concern of all-India—*i.e.* of British India and Indian States alike, as the top tier. Examination, however, proved that such a system would,

## The Round Table Conference Proposals

in practice, be unworkable. It would either involve two executives acting more or less in the same sphere of government—*e.g.* peace and tranquillity—or alternatively a single executive responsible to two bodies representing different areas and constituents. Nor, in practice, did the sphere of central subjects, common to British India but not to all-India, prove to be as large as at one time seemed probable. It was recognised that if India was to keep her unity on a constitutional basis it was essential to make room for a considerable measure of provincial diversity. While uniformity for all India was essential in certain things, individuality in the provinces in others was not only desirable for communal reasons, but was inevitable in a rapidly developing country in which power was steadily passing to electorates differing largely in race, language, temperament and tradition. Closer analysis proved that the only important subjects common to British India which the Princes were not willing to relinquish to the control of the federal legislature were civil and criminal law. Even here it was obvious that the tendency must be for Indian India more and more to adopt the standards of the civil and criminal law of British India, and that this anomaly, like others, would tend to remedy itself as the federal spirit and practice developed both in the States and the provinces.

Accordingly the final decision was in favour of a federal constitution of the ordinary type, in which the Senate or Upper House would represent the federating units—States and provinces—as such, and the Legislative Assembly or Lower House would represent the nation as a whole, subject to some system being devised, probably of an “in and out” kind, whereby the representatives of the Indian States would not vote on legislation affecting British India alone. The difficulty of drawing any exact line between British Indian and all-Indian subjects when they are before a single legislature is obviously considerable, for the one shades imperceptibly into the other. But the greatest

## India : Constitution or Chaos

difficulty of all—the difficulty which destroyed Gladstone's Home Rule Bill of 1893—can be overcome by providing that a vote of no-confidence shall only involve the fall of the executive if it is passed by a specified majority with the representatives of all-India present.

As regards the federal franchise no decision was reached. It was generally agreed that the Senate should be small in number—between 100 and 150—and should be elected by the provincial legislatures and the Princes respectively, though whether each province should have an equal representation or a number more in proportion to its population was not settled.\* But the constitution of the Legislative Assembly proved more difficult. The population of all-India (excluding Burma) is a little over 300,000,000. Any system of direct election on an adult franchise basis—especially with separate communal electorates—would involve not only constituencies of the enormous areas already existing to-day,† but an impossible number of voters per member. The number recommended for the Lower House was between 250 and 300. Taking the latter figure and assuming that half the population is under age, the average electorate per member would be 1,000,000 (or if the House were to consist of 600 members, an unwieldy number, it would be 500,000). Assuming, therefore, as the Provincial Franchise Committee assumed, that the ultimate goal is manhood suffrage, it seems clear that direct election will be an impossible system as the electorate increases, even though it may be possible to preserve it for a time if the existing very restricted franchise for the central

\* See table on p. 273 for population of the provinces.

† "The rural constituencies returning a single member to the Assembly are nowhere less than 6,000 square miles in area. . . . The rest range between the latter figure (7,000) and 62,000 square miles with populations reaching in individual cases to as much as 6,000,000. The three Mahomedan rural constituencies in the Madras Presidency, each returning a single member, cover 10,000, 48,000 and 83,000 square miles—i.e., they are about half as large again as Wales, Scotland and England respectively." (Cmd. 3,568, vol. I, p. 221.)

## The Round Table Conference Proposals

legislature\* is not markedly altered. As an alternative, various systems of indirect election were proposed—i.e., by village panchayats, by electoral colleges, by primary electors electing secondary electors, and so forth. But no conclusion was reached. The decision was postponed until British and Indian opinion could declare itself on the subject.

Finally there was the difficult question of the relative representation of British India and Indian India in the legislature. The Princes, as they were required to surrender their present-day sovereignty, were inclined to ask for a position of equality in the new federation, or at least in the senate. But it was obvious that British India could not agree to units which contain only a third of the area and a quarter of the population of the whole of India (including Burma) being given so much "weightage" in the federation even if their representatives withdrew when purely British Indian matters were being voted upon. Here also no conclusion was reached; but a compromise on the basis that the Princes will have, say, 40 per cent. of the representation in the Senate and representation in proportion to the population of their States, or a little over (say, 30 per cent.) in the Legislative Assembly, would appear not to be unlikely.

### (b) *The Provinces and the Federation*

It is not generally realised, either in India or in Great Britain, both of which have lived under a highly centralised and unitary form of government, how profoundly the adoption of the federal principle will affect India and how important it is as a contribution to internal stability and peace. The essence of the old system of government in India, as of all unitary systems, was that it was the central authority which was ultimately responsible for law and

\* The existing electorate (including Burma) is 1,128,331 for the Legislative Assembly, and 32,126 (of which Burma provided 15,555) for the Council of State. The population of British India is 240,000,000. (Cmd. 3,568, vol. I, p. 222.)

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order, and for governmental action everywhere, because its will, whether in legislation or administration, could in the last resort be made to prevail as against that of local or provincial governments. The essence of the federal system is that the powers of government are divided so that provincial and federal governments are responsible only in their own spheres, and that neither has the right or the power to act or intervene in the sphere allotted to the other. Experience elsewhere shows that the federal system is a stable system of government precisely because it distributes the responsibility for government and does not overload the central authority.

The adoption of the federal principle in India—inevitable, because it is the only condition upon which the Indian States will join with British India, and because, as we shall see, it is a necessary element in the settlement of the communal problem—will have several very far-reaching effects. It will mean that the federal government will begin for the first time to exercise authority directly over the inhabitants of the whole of India, including the Indian States. It will mean that the provinces will be free from federal supervision within their own spheres. And it will mean that the federal government will have no primary responsibility for law and order in the provinces—for that will be a provincial concern—but only for disorder affecting more than one province or for the peace and tranquillity of the realm as a whole. During the transitional period the ultimate responsibility both for safeguarding law and order in the provinces and for maintaining the peace and tranquillity of the realm as a whole, if an emergency arises, will rest upon the Viceroy and the Governors, because they will be responsible for the use of the army. But in any case it seems probable that the federal government will have to develop some federal police agencies of its own in order to ensure that federal legislation is obeyed or to deal with matters involving the tranquillity of the realm which affect more than one province; for no central government can

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rely upon a provincial government responsible not to itself but to another electorate to give effect to its legislation or policy.

The successful working of a federal system, however, depends largely upon whether the line between federal and provincial powers is judiciously drawn. The division provisionally drawn by the Round Table Conference roughly corresponds with the one at present prescribed in the devolution rules of the Government of India (and, indeed, with the usual division under federal institutions). There is nothing unusual about it except that in many cases the actual exercise of federal functions is entrusted to State governments on condition that they administer them in accordance with legislation and policy determined by the federal authority. This, however, will probably prove to be a transitional anomaly.

Another condition of success is that the legislatures themselves should be wisely constituted. Some comment has already been made upon the proposals for the federal senate and assembly. But the Conference gave far less thought to the question of how the provincial legislatures and executives should be formed. The Franchise Committee committed itself to the view that adult suffrage was the goal to be aimed at. It further recommended that the electorate for the new provincial legislatures should be enlarged to between 10 per cent. and 25 per cent. of the adult population—though the percentage of literacy is still only 13·9 for males and 2·1 for females throughout India as a whole. It further went on to recommend unicameral legislatures (with executives dismissable by majority vote) in all provinces except Bengal, the United Provinces and Bihar and Orissa, where it recognised that a double chamber system might be preferred.

It requires no great knowledge of recent history to realise that a provincial structure of this kind may well produce deplorably weak and unstable governments considering that some of the provinces contain as many

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as 50,000,000 inhabitants. Experience all over the world in the last few decades seems to prove that the weakness of the ordinary parliamentary system lies in its frequent failure to maintain sufficient strength and stability in the executive when the legislature itself is divided into groups, and that the number of groups tends to increase with more democratic methods of election. A legislature divided into groups tends to become pre-occupied with the business of making and unmaking governments instead of with the normal function of legislation—with the ultimate result that parliamentary rule is replaced by dictatorship as the only method of obtaining stable and continuous government. This has happened in Italy, Spain, Jugoslavia, Poland, Hungary and Greece since the war and is not far from happening in Germany to-day. Because of the minority question the provincial legislatures in India, like the central legislature, are, in most cases, certain to be broken up into groups. It is of the utmost importance, therefore, that the provincial constitutions should be such as to give as much inherent stability into the government and its legislation as possible—far more than seems possible when it can be dismissed at any time by a transient majority representing groups in a single chamber elected by a largely illiterate electorate. Various methods have been suggested. One is that all the provinces should have a second chamber elected on a higher franchise and with an age qualification, a system which has been adopted in several European constitutions, and that a vote of no confidence should in no case be effective unless it has passed both houses, if necessary sitting together. Another is that no vote of lack of confidence should be valid unless the majority against the government is, say, 66 per cent. of the house. It is not easy, however, to devise any method which will be effective without opening the way to political evils of other kinds. But the problem of creating reasonable stability in the case of the executive is one which confronts almost all countries which have adopted parliamentary

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constitutions with a wide franchise and the group system. Perhaps the constitution builders of India will find the solution without going as far as the American and Swiss constitutions which make the executive wholly irremovable by the legislature for a statutory period.

### (c) *The Minority Problems*

The minority problem, of which so much was heard in the press during the London Conference, is much more than a question of the precise number of seats which Hindus and Moslems should have in the legislatures. It goes to the root of the problem of Swaraj, once the principle that Indians should be responsible for their own government has been conceded. There are minorities of many kinds in India. According to the census of 1921 there is a Moslem minority of 68,700,000 as against a Hindu majority of 216,700,000 in all India. But in four provinces, the Punjab, Bengal, and the two proposed new provinces of Sind and the North West Frontier Province, the Hindus are in a minority and the Moslems are in a majority. The reason, indeed, for creating these new provinces is largely in order to give the Moslems predominance in four provinces as against the Hindu predominance in the other six and in India as a whole. Again, in the Punjab the Sikhs, who ruled it before 1849, only number 2,294,000 as against 11,444,000 Moslems and 6,579,000 Hindus. Yet the Sikhs belong to a reformed type of Hinduism. Are they, for communal purposes, to be treated as Hindus or as a separate community of their own?

Then there are the depressed classes—perhaps the most serious stain on Hinduism—some 60,000,000 people, excluded by religious sanction from almost all social intercourse with their fellow men, outcasts upon the earth. They, too, ask for Swaraj for India, provided that they can obtain separate communal representation in the legislatures, because they believe that they will be able to do

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more for their own uplift through the franchise than Great Britain has, in fact, been able to do for them in a century of the British raj.

There are also the Indian Christians, a scattered community of 4,494,000; the Europeans who number 176,000 are mainly centred in the big cities, and represent great businesses and an immense energy and capital invested in India; the Anglo-Indians, half Indian half British, the mainstay of the railway and other government services, who number 113,000; the Parsees, so strong in Bombay, who number 102,000, etc., etc. All are afraid of what confident and arrogant majorities may do in a country in which caste and religious loyalties are stronger than patriotism or social solidarity, and which has had no experience of the tolerance and respect for individuality and justice which are essential for the successful working of democracy. Practically all the minorities support the demand for Swaraj, but only on condition that they are guaranteed separate representation in the provincial legislatures so that they can at least make certain that their claims and interests are heard and not forgotten.

Yet to accept these minority claims is, in large degree, to deny both nationalism and democratic theory. The essence of nationalism is that citizenship takes precedence of every other kind of loyalty so far as politics are concerned. The essence of democratic theory is that parties are formed and elections are fought on political programmes and policies. The grouping of voters according to race or religion or special interests, so that an election must result in returning the members elected as Hindus, Moslems, Sikhs, Depressed Classes, Europeans, etc., renders nugatory the operation of ordinary political democratic life, especially if the communal principle is applied to the executive and the services, so that each minority can claim separate representation in the Cabinet, the Civil Service, the Army, on the Bench, and so forth, on the ground not of competence but of race, religion, or caste.

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On the other hand, rejection of the communal principle would almost certainly mean the splitting up of India into a number of separate and mutually hostile States. Religious and racial differences are facts of immense power which simply cannot be ignored. Attempts to ignore the strength of communalism in the Home Rule movement in Ireland led to the partition of that small island into two separate States. It is the function of statesmanship to find the best compromise between nationalism and communalism which is practicable at the moment, and leave time to do its healing and unifying work.

The problem of India to-day is not dissimilar in fundamentals from that of Europe in the last few centuries. India is moving towards democracy, and as the unifying power of the British raj disappears, the racial, linguistic, religious and other differences which have lain dormant begin to show themselves in the struggle for political power. The revival of communalism in India since the 1920 reforms is an example of this process. These same communal forces in Europe gradually destroyed the unity once given to it by Rome, the Holy Roman Empire and the Roman Catholic Church, and eventually broke it up into twenty-six national States, each so intensely and nationally self-conscious that losing all sense of their common European nationalism they armed themselves in fear and hatred of their neighbours, and from time to time plunged into fratricidal war. The problem in India is to find the right balance between communalism and nationalism, so that minorities may feel security and have an opportunity of reasonable self-expression, and yet remain loyal, co-operating members of one Indian nation embracing them all. To press either minority rights or national uniformity too far would be to smash the structure of Indian constitutional unity before it has had time to come into being.

In London no actual solution was reached, though the problem was thoroughly discussed, and at one moment only the question of the number of seats to be allotted to

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the Sikhs in the Punjab Legislature divided the parties so far as the distribution of seats in the provincial legislatures was concerned. The broad basis was to be that two new provinces, the North West Frontier Province and Sind, were to be created in which the Moslems would have an assured majority, that the Moslems were to have half the total number of seats in the Punjab and a majority over the Hindus, but not over Hindu and other minority representatives together, in Bengal, and that in all provinces containing small Hindu, Moslem and other minorities "weightage" was to be given in representation to compensate for their lack of numbers. No agreement, however, was reached, nor was any plan even discussed in detail, as to minority representation in the federal house, because neither the number of seats nor their distribution between the Indian States and the provinces had been settled. The effect, moreover, of the entry of the Princes into the federation on the general Hindu-Moslem balance was not clearly seen. The complexity of the whole problem can be realised from the summary of population taken from the Simon Commission's report, which is printed at the end of this article.\*

### (d) *Safeguards*

Indian extremist opinion is likely to criticise the safeguards and reservations left in the hands of the Viceroy and the Governors as an undue derogation from Swaraj. But from what has been said in the foregoing pages it is evident that people who look at the problem of bringing Swaraj into being from the practical point of view, will agree that the safeguards proposed will really be a help rather than a hindrance in carrying through so gigantic and unique an experiment as the introduction of responsible self-government in a country as large and divided as Europe. The real menace to the development of self-government in India is no longer the British Government. British public opinion has clearly made up its mind that

\* See the Appendix.

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the Indian constitution must now develop along the same lines as the Dominion constitutions. The real menace is either that Indians will be unable to accept practical solutions of the many constitutional problems which have still to be solved before a constitution can come into being, or that groups or minorities will try to resort to force in India, as they have in China and many other parts of the world, and destroy all possibility of constitutional unity and growth by reducing the country to chaos. The existence of safeguarding powers in the hands of the Viceroy is the best security which could be devised that Swaraj will not be rendered impossible by anarchy or militarism during the difficult period of transition. For it is a condition of constitutional self-government in any country that the structure of orderly government should itself remain in being.

What then are the safeguards proposed and are they likely to be inadequate? They fall under three broad heads. In the first place there are the powers which, under practically all constitutions, are vested in the head of the State to deal with emergencies when the ordinary processes of constitutional government have broken down or are in danger of breaking down. Though extreme nationalist sentiment may dislike these powers being exercised for the present by a Viceroy or Governors who are appointed by and responsible to the British Government, there is no real dispute that the safeguarding powers themselves must be there.

In the second place there are safeguards for the fundamental political compromises, embodied in the constitution, affecting the parties to the federation, *e.g.* minorities, or imposing other special obligations, or guaranteeing individual rights. If the constitution is to come into being at all it will be necessary for some such safeguards to be created to prevent these fundamental rights and agreements from being disregarded, and the enforcement of these safeguards will be partly entrusted to a Supreme Court and partly (in order to prevent discrimination in actual practice)

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to the Crown acting through the Viceroy and the Governors.

Finally there are what may be called the safeguards necessary in the period of transition. The most important of these is that during this period, foreign policy, the control of the army, which will comprise an agreed military budget not subject to the vote of the legislature, and dynastic and political relations with the Princes in the non-federal sphere, will be reserved to the Viceroy. Everything connected with these subjects will be open to discussion, within reasonable limits, by the Assembly and certainly by the Cabinet. But the responsibility for final decision in these matters will rest with the Viceroy and the executive councillors responsible to him who are charged with the work of administration. The compelling reason for the arrangement about the army is that the vast majority of the officers of the Indian army are British, and that, however rapidly the process of Indianisation may proceed, it must take many years before the Indian army can be completely, or even mainly, officered by Indians, unless its efficiency, and that even more delicate plant, its morale, are to be destroyed. No army can maintain its discipline except under rigid central control, and pending the Indianisation of the Indian army in such a way as not to destroy efficiency and the development of a stable responsible federal executive, it is obvious that the control of the army and of the defence of the country, and therefore of its external policy, must rest with the Viceroy. A hardly less compelling reason is that there is little chance of India passing successfully from an autocratic to a responsible system of government, considering her size and the complexity of her internal problems, unless Great Britain, during the period of transition, is able to guarantee effectively both security to minorities and internal peace, in the sense that the unity and order of the country will not be destroyed by organised military violence, either from within or without, as in China. A successful

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transition to constitutional Swaraj in India depends upon there being an army, independent of internal disputes, efficient and strong enough to deal rapidly either with "tuchuns" or attempts at racial or territorial terrorism, secession or rebellion, and for the present the existence of such an army can only be assured by Great Britain, acting through and with the advice of the Viceroy and Governors, themselves in touch with Indian Ministries responsible for the day to day administration of the country.

At the same time the Round Table Conference recognised that the full status of Indian nationhood required the development as rapidly as possible of an Indian army controlled by the federal Indian Government. Accordingly an Indian Sandhurst for the training of Indian military and air officers will be created as soon as possible and the present rate of Indianisation, which is very slow, will be "substantially" increased. It also recognised the force of the Indian claim that the present cost of defence is unduly high (55 crores a year, which is 60 per cent. of the total central revenue) and ought, if possible, to be reduced so as to leave more money for nation-building. The Indian case is that there is no serious external military menace to India to-day, that there is no need for a British army of 60,000 men in addition to an Indian army of 150,000, especially as every British soldier costs nearly four times as much as an Indian soldier\* and that under a responsible system in which the loyalty of the people to a national Indian Government would be assured, both the internal and external security of the country could be maintained at much less cost. An early enquiry will be made into these questions, but the final solution will probably have to wait until the responsible federal government proposed by the Conference has come into being. For the question of the size and composition of the army depends not only on the state of foreign relations with Afghanistan, Russia and

\* Cmd. 3,568, vol. I, p. 94.



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China, but on frontier relations with the turbulent hill tribes,\* and whether there is still communal or racial tension or civil disobedience in the country. Responsibility will lessen nationalist sedition but it may increase other difficulties. The right people to come to conclusions as to the size and character of the army needed for Indian security are the Viceroy and his responsible Ministers sitting round a table and discussing the problem together.

The other principal safeguards during the transition period relate to finance. This problem falls into three parts. The first relates to safeguards for loans (80 per cent. of which represent reproductive assets) and other financial obligations already entered into by the Government of India, and guarantees against economic discrimination on the ground of race, colour, or religion. The second relates to the period before responsibility for Indian finance and credit actually passes into Indian hands. For unless adequate safeguards are maintained, Indian credit and finance will be ruined before the federal legislature can take over the responsibility; such is the sensitiveness of the international financial and commercial structure of to-day. The third relates to those ultimate emergency powers, corresponding to his military powers, which the head of the State must possess in the event of a financial situation arising through political action which threatens the stability and peace of the country. Subject to these temporary safeguards, however, it was agreed that full control over Indian financial, tariff and commercial policy should pass to Indian hands.

The safeguards relating to finance constitute perhaps the most difficult and delicate of all the problems which have still to be worked out. There is no doubt, on the one hand, that Indian opinion is convinced that in the past Indian prosperity has been sacrificed to British interests. There is equally no doubt that British commercial opinion is afraid of unfair discrimination against its rights and trade by a nationalist administration. We cannot attempt to

\* See an article on the recent frontier disturbances on p. 351

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judge whether there is substance in these opinions. What is certain is that reckless handling of currency, exchange, or loan questions, or even the fear that a change of system may involve a risk of mishandling, may bring the whole edifice of Indian credit and finance to the ground. The problem of getting the facts in perspective and of effecting the transition, including the creation of a Central Reserve Bank, without disaster is one of extraordinary difficulty. No doubt time and experience will convince Indians, as it is convincing other peoples, that economic troubles are not primarily due to the simple and sinister political causes to which they now attribute them. The real problem is how to give India freedom to learn by responsibility and experience without precipitating the ruin of the economic structure itself in the process.

Finally, there are the safeguards for the services discussed in Sub-Committee Report No. VIII. Fortunately there was a general recognition in the Conference that the success of responsible government would depend largely on maintaining, through Civil Service commissions and otherwise, the efficiency, integrity, and security of the Civil and Police Services, and safeguards for these will be provided by statutory Civil Service commissions and other provisions embodied in the constitution.

## IV. CONCLUSION

WE shall not attempt to anticipate the criticisms of the proposals of the Round Table Conference which will come from India. The primary difficulty in India will probably be to secure the abandonment of the campaign for immediate independence by non-violent civil disobedience—a method which seems to promise the millennium if only its adherents are heroic and self-sacrificing enough—and the co-operation of all elements in the far more difficult, laborious and less exciting task of agreeing upon a constitution which will actually enable Indians to become respon-

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sible for their own government. Yet, that is the real test of Swaraj. Whatever the precise status of India, the primary necessity is to draw up a practical federal constitution and to obtain the assent of the main elements of Indian opinion to it. Can India, like Ireland, develop the statesmanship which will recognise this : can she agree to accept a constitution and work it successfully ? On the answer by Indians themselves to that question will depend whether India is to be a self-governing constitutional unit or not.

But there are two criticisms which are certain to be made from Great Britain which it is worth while to consider for a moment.

The first is the general query, "is it really practical politics to launch India with all her internal divisions on the sea of self-government with the ordinary parliamentary system, and that at a time when this system is beginning to prove itself inadequate elsewhere ?"

The answer is that the exact nature of the Indian constitution has still to be determined, but that it is already certain that it will not be a constitution of the ordinary parliamentary kind. It will, in the first place, be a fairly rigid federal structure. In the second place, its legislatures and executives will almost certainly be largely composed of the representatives of highly organised interests, State, communal, minority, commercial and otherwise, who will be interested in stability and good government rather than in wild projects of revolutionary reform. In the third place, the safeguards, while not designed to prevent responsible Indian opinion from being the controlling power behind Indian government, will still be an immensely stabilising force as against the perversion of government by reckless and irresponsible forces. What the ultimate form of the constitution will be no one can at present predict. The next stage depends upon India herself, the final stage upon the British Parliament.

The second criticism will be that the system of dualism

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proposed, whereby the Viceroy is responsible for foreign policy, for the army—and therefore ultimately for internal peace and tranquillity—and for dealing with the Princes, while a Ministry dependent on elected legislatures is responsible for all other ordinary government, cannot possibly work. It will be said that what is needed in India above everything else during the forthcoming period of transition is a strong central executive, and that the proposals of the Round Table Conference are bound to lead to hopeless division and weakness. But the answer is that dualism is inherent in the situation. As Mr. Jinnah observed at the Conference : "Great Britain to-day can neither govern India nor get out." It is equally true to say that India to-day can only govern herself as a united people with the co-operation of Great Britain. Granted, then, that dualism in some form there must be, is it possible to contrive any better system than that now proposed, whereby the limits of the responsibility of the two sides are defined as accurately as possible, and each is given the power necessary to enable it to discharge its own responsibility ; in which differences of opinion in that debatable sphere, in which responsibility must be shared and co-operation is essential for strength and efficiency, are worked out in the privacy of the Viceroy's cabinet and not by irresponsible criticism on the floor of a hostile legislature countered by certification ?

It is impossible any longer for Great Britain to refuse to India what she has successively agreed to in all the Dominions, the right to be responsible for her own government. It is equally impossible for India at the moment to govern herself by herself. The system of confronting an irresponsible legislature by an irremovable executive has broken down. What is there left but dualism (or dyarchy) in some form ? And experience has shown, especially in Madras, that where the responsible Ministers command a majority in the legislature, where the principle of the joint responsibility of the Cabinet is preserved, and where there is loyal, confident and responsible co-operation

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between the Governor and his Ministers, the dual system can work very well.

In any event there is no practical alternative to proceeding along the lines roughly mapped out by the Round Table Conference. For, in a difficult and dangerous situation, the road of responsibility, with safeguards, is the only road which may lead India past the Scylla of chaos and dismemberment on the one side, and the Charybdis of military and party despotism on the other side to constitutional self-government. And it is the only road by which it is now possible to win over India to contentment as a Dominion—an equal partner within the charmed circle of the British Commonwealth of Nations.

## APPENDIX

### I. THE PRIME MINISTER'S DECLARATION

The view of His Majesty's Government is that responsibility for the government of India should be placed upon Legislatures, Central and Provincial, with such provisions as may be necessary to guarantee during a period of transition the observance of certain obligations, and to meet other special circumstances; and also with such guarantees as are required by minorities to protect their political liberties and rights. In such statutory safeguards as may be made for meeting the needs of the transitional period, it will be a primary concern of His Majesty's Government to see that the reserved powers are so framed and exercised as not to prejudice the advance of India through the new Constitution to full responsibility for her own government.

His Majesty's Government, while making this declaration, is aware that some of the conditions which are essential to the working of such a Constitution as is contemplated have not been finally settled, but it believes that as the result of the work done here they have been brought to a point which encourages the hope that further negotiations, after this declaration, will be successful.

His Majesty's Government has taken note of the fact that the deliberations of the Conference have proceeded on the basis, accepted by all parties, that the Central Government should be a Federation of All-India, embracing both the Indian States and British India in a bicameral Legislature. The precise form and structure of the new Federal Government must be determined after further discussion with the Princes and representatives of British India. The range of subjects to be committed to it will also require further discussion, because the Federal Government will have authority only in such matters concerning the States as will be ceded by their rulers

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in agreement made by them on entering into Federation. The connection of the States with the Federation will remain subject to the basic principle that in regard to all matters not ceded by them to the Federation their relations will be with the Crown acting through the agency of the Viceroy.

With a Legislature constituted on a federal basis His Majesty's Government will be prepared to recognise the principle of the responsibility of the Executive to the Legislature. Under existing conditions the subjects of defence and external affairs will be reserved to the Governor-General, and arrangements will be made to place in his hands the powers necessary for the administration of those subjects. Moreover, as the Governor-General must, as a last resort, be able in an emergency to maintain the tranquillity of the State, and must similarly be responsible for the observance of the constitutional rights of minorities, he must be granted the necessary powers for those purposes.

As regards finance, the transfer of financial responsibility must necessarily be subject to such conditions as will ensure the fulfilment of the obligations incurred under the authority of the Secretary of State and the maintenance unimpaired of the financial stability and credit of India. The report of the Federal Structure Sub-Committee indicates some ways of dealing with this subject, including a reserve bank, the service of loans, and exchange policy, which in the view of His Majesty's Government will have to be provided for somehow in the new Constitution. It is of vital interest to all parties in India to accept these provisions to maintain financial confidence. Subject to these provisions the Indian Government would have full financial responsibility for the methods of raising revenue and for the control of expenditure on non-reserved services.

This will mean that under existing conditions the Central Legislature and Executive will have some features of dualism which will have to be fitted into the constitutional structure. The provision of reserved powers is necessary in the circumstances, and some such reservation has, indeed, been incidental to the development of most free Constitutions. But every care must be taken to prevent conditions arising which will necessitate their use. It is, for instance, undesirable that Ministers should trust to the special powers of the Governor-General as a means of avoiding responsibilities which are properly their own, thus defeating the development of responsible government by bringing into use powers meant to lie in reserve and in the background. Let there be no mistake about that.

The Governors' Provinces will be constituted on a basis of full responsibility. Their Ministries will be taken from the Legislature and will be jointly responsible to it. The range of provincial subjects will be so defined as to give them the greatest possible measure of self-government. The authority of the Federal Government will be limited to provisions required to secure its administration of Federal subjects and so discharge its responsibility for subjects defined in the Constitution as of All-India concern. There will be reserved to the Governor only that minimum of special powers which is required in order to secure, in exceptional circumstances, the preservation of tranquility and to guarantee the maintenance of rights provided by statute for the public services and minorities.

Finally, His Majesty's Government considers that the institution in the Provinces of responsible government requires both that the Legislatures

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should be enlarged and that they should be based on a more liberal franchise. In framing the Constitution His Majesty's Government considers that it will be its duty to insert provisions guaranteeing to the various minorities, in addition to political representation, that the differences of religion, race, sect or caste shall not in themselves constitute civic disabilities.

In the opinion of His Majesty's Government it is the duty of the communities to come to an agreement among themselves on the points raised by the Minorities Sub-Committee but not settled there. During the continuing negotiations such an agreement ought to be reached, and the Government will continue to render what good offices it can to help to secure that end, as it is anxious not only that no delay should take place in putting the new Constitution into operation, but that it should start with the goodwill and confidence of all the communities concerned.

The various sub-committees which have been studying the more important principles of a Constitution which would meet Indian conditions have surveyed a considerable part of the structure in detail, and the still unsettled points have been advanced a good way to an agreement. His Majesty's Government, however, in view of the character of the Conference and of the limited time at its disposal in London, has deemed it advisable to suspend its work at this point, so that Indian opinion may be consulted upon the work done and expedients considered for overcoming the difficulties which have been raised.

His Majesty's Government will consider without delay a plan by which our co-operation may be continued so that the results of our completed work may be seen in a new Indian Constitution. If, in the meantime, there is a response to the Viceroy's appeal to those engaged at present in civil disobedience, and others wish to co-operate on the general lines of this declaration, steps will be taken to enlist their services.

## Appendix

II. AREA AND POPULATION OF INDIA (1921 CENSUS). (Figures to nearest thousand.)

| —                                         | Area in square miles. | Total population. | Hindus.     | Sikhs.    | Parsis. | Mohamedans. | Christians.                  |               |           | Tribal religions enumerated by religion. | Not enumerated by religion. |
|-------------------------------------------|-----------------------|-------------------|-------------|-----------|---------|-------------|------------------------------|---------------|-----------|------------------------------------------|-----------------------------|
|                                           |                       |                   |             |           |         |             | European (and allied races). | Anglo-Indian. | Indian.   |                                          |                             |
| India (total) .. ..                       | 1,805,000             | 318,942,000       | 216,735,000 | 3,239,000 | 102,000 | 68,735,000  | 176,000                      | 113,000       | 4,464,000 | 9,775,000                                | 2,814,000                   |
| British India (total) ..                  | 1,041,000             | 246,498,000       | 163,112,000 | 2,366,000 | 88,000  | 59,195,000  | 151,000                      | 96,000        | 2,753,000 | 6,737,000                                | 43,000                      |
| Assam .. ..                               | 49,000                | 7,458,000         | 4,130,000   | 1,000     | —       | 2,202,000   | 3,000                        | —             | 114,000   | 992,000                                  | —                           |
| Bengal .. ..                              | 77,000                | 46,696,000        | 20,207,000  | 2,000     | 1,000   | 25,211,000  | 23,000                       | 22,000        | 102,000   | 846,000                                  | —                           |
| Bihar and Orissa .. ..                    | 83,000                | 34,002,000        | 28,166,000  | 1,000     | —       | 3,695,000   | 6,000                        | 4,000         | 247,000   | 1,881,000                                | —                           |
| Bombay .. ..                              | 124,000               | 19,348,000        | 14,816,000  | 8,000     | 83,000  | 3,820,000   | 33,000                       | 10,000        | 221,000   | 123,000                                  | —                           |
| Central Provinces (including Berar) .. .. | 100,000               | 13,913,000        | 11,622,000  | 2,000     | 2,000   | 564,000     | 6,000                        | 3,000         | 32,000    | 1,614,000                                | —                           |
| Madras .. ..                              | 142,000               | 42,319,000        | 37,511,000  | —         | 1,000   | 2,840,000   | 11,000                       | 23,000        | 1,327,000 | 578,000                                  | —                           |
| Punjab .. ..                              | 100,000               | 20,685,000        | 6,579,000   | 2,294,000 | —       | 11,444,000  | 21,000                       | 4,000         | 303,000   | —                                        | —                           |
| United Provinces .. ..                    | 106,000               | 45,376,000        | 38,610,000  | 14,000    | 1,000   | 6,481,000   | 25,000                       | 9,000         | 166,000   | —                                        | —                           |
| North-West Frontier Province              | 13,000                | 2,251,000         | 150,000     | 28,000    | —       | 2,063,000   | 8,000                        | —             | 2,000     | —                                        | —                           |
| Baluchistan .. ..                         | 9,000                 | 128,000           | 9,000       | 1,000     | —       | 118,000     | —                            | —             | —         | —                                        | —                           |
| Indian States (total) ..                  | 701,000               | 70,192,000        | 53,152,000  | 867,000   | 13,000  | 9,272,000   | 16,000                       | 17,000        | 1,710,000 | 3,037,000                                | 860,000                     |
| Tribal Areas and Agency Territories .. .. | 63,000                | 2,252,000         | 51,000      | 12,000    | —       | 268,000     | 8,000                        | —             | 2,000     | —                                        | 1,911,000                   |

## RUSSIAN REALITIES

ON Sunday I rose early and went to a village some ten versts away. I had been invited to come by the young folk, who had arranged a party for the evening, and by some of the older people, who insisted that they, too, were deserving of the notice of their American countryman. I knew this village almost as well as my own, for it was perched on the bank of a fine river, where, as a boy, I had often gone fishing and swimming. Besides, I had many friends there. It was one of the largest villages in the whole countryside, though as primitive and desolate as my own, or, indeed, as any of the others, with its thatched roofs and barns, its unpaved street, and its quota of surly dogs. Also, it had a *kolhoz*.\*

I called on several members of the *kolhoz* whom I happened to know, and then I went on to see some old friends of my family. Finally, I finished up at the house of a woman called Palahya, who had several times asked me to come and look at the embroideries of her eldest daughter, Malanya; a little woman, with puffy cheeks and large grey eyes, noted for her kindness. The living-room was swept and clean, and unencumbered by the innumerable objects which clutter up Russian peasant homes in these parts. Even the *polati*—the platform which serves as a bed—was free from straw ticks, hemp cloth and cast-off garments.

When I reached the house, the husband, a man of about forty, with a wavy moustache, was just starting off for

\* Collective farm.

## Russian Realities

town with some sacks of old potatoes and several live chickens. Townspeople, he said, were giving good prices for food, and sometimes you could get dishes, clocks, clothes and even wine in exchange. One winter a man gave him a bottle of red wine for ten eggs; it was the first time that he or his family had ever tasted wine. They liked it, too, even his wife did, though she loathed vodka, and would not let him touch it. Perhaps there would be a chance of finding another bottle in the market. With the feast of Trinity coming on, wine would be welcome, and so on, and so on.

He drove off, and Palahya showed me into the little, dark room at the back of the house where peasants store their possessions, especially their best clothes. She undid a huge, home-made trunk, and, with the door open to let in the daylight, she unfolded a mass of towels, sheets, tablecloths and blankets, all gorgeously embroidered, and all, she proudly boasted, the work of Malanya. "It is her dowry," she remarked almost in a whisper. "Not a girl in the village has as fine a one as my daughter, and she is adding to it all the time." With lingering fondness, she folded up the things and packed them neatly back into the trunk. As she did so she kept up a flow of chatter. "The Lord only knows," she murmured confidently, "why the girl won't marry. I have argued and quarrelled and fought with her, and so has her father, but she won't budge. She says that there is plenty of time. Suitors have been coming from all round, but she won't even look at them—nice well-to-do men, too—and she no longer so young as she once was. She was twenty, three weeks before last Easter."

"Come, that's young enough," I ventured to suggest. "She can quite well wait another five years."

Had I pronounced a curse I could not have shocked the mother more profoundly. "God forbid," she hastily replied. "Why, my dear, I'd rather die than see my daughter remain unmarried for another five years. Peasants

## Russian Realities

have to marry young to have children and get on in the world."

We went back to the living-room, and soon Malanya herself and two friends came in. In their soft-leather shoes and their Sunday dresses, these village girls were hardly distinguishable from town girls. Malanya herself, full-breasted, ruddy-faced, with a wealth of soft brown hair and large blue eyes, and an authoritative air with her, easily deserved her reputation of being an uncommonly pretty lass.

"Well, will you take her with you to America?" said the mother in fun.

"Would she come?" I asked, catching Malanya's eye and watching the blush steal over her cheeks.

"Certainly we would," cried one of the friends. "We'd all come if we had the chance, either to work or to get married, or to do anything," and the three put their heads together to hide their embarrassment and giggled with delight.

"Do they go for the kulaks in America?" asked Malanya.

"No," I replied.

"All the better," said one of the other girls, and they again started giggling.

"If you marry a rich man in this country," continued Malanya with that assured manner which lent her such distinction without in the least detracting from her girlish naïveté, "you may be treated as a kulak yourself and banished to Siberia or Kotlas."\*

"Nobody wants to marry a rich man nowadays," added one of the friends.

"Nor a poor one either, for that matter," retorted Malanya, and again the three put their heads together in a fit of uproarious mirth.

"There now," said the mother, "you have heard what they say." And shaking her head in distress she turned

\* In the old province of Vologda in the far north.

## Russian Realities

upon the girls and, in a rising crescendo, "Whom then do you want to marry?" she cried. "You are afraid of a rich man, you don't want a poor man. Who else is left? Do you expect always to remain young and attractive? You forget that there are other girls growing up who will be younger and prettier than you. They will receive all the attentions, and the men will not even look at you. You will soon be left out in the cold, a disgrace to yourselves and your families, and there will be nobody to court you except some grouchy old widower. And then what will you say?"

Once upon a time such reproaches from her mother would have crushed a girl; but now—

"In that case we'll go to town and work in the factories," said one of the girls. An innocent enough reply, yet to me it was pregnant with meaning. In the old days these girls were so timid and fearful of the outside world. They shrank from the very thought of the city. The bazaars in their own little market town, where they could feast their eyes on flashy shawls and ginger cakes and white bread and trinkets, were the limit of their travels. And now here was this Malanya and her friends looking to the city as a place of deliverance.

"I want to go to town, anyway," cried Malanya again, "I am sick of mud and dullness."

"The kolhoz is the place where you'll end up, my dear, as we all shall," exclaimed her mother.

"If they build a nice one, the kind the organiser told us about, with a club-house, movie pictures, a park, an orchestra and a theatre, we'll go of our own accord," said one of the girls.

"Yes," sobbed the mother, "and then you'll all be in mobs, working and eating together, going to the fields and coming back together, and meanwhile the men here will play round with other girls, and there will be all kinds of temptations and faithlessness."

"Then we'll play round with other men," retorted one of the friends.

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"It may be better so," remarked Malanya nonchalantly, and the three again set off giggling. But this show of sophistication, a new thing in itself and purely the result of the Revolution, was too much for the mother.

"Nu,"\* she shouted, stamping her foot, "mind that tongue of yours, you naughty thing, or——Remember, I am still strong, stronger than you are."

But Malanya showed no concern at the threat.

An old woman in shoes and a homespun woollen coat and a bright kerchief wrapped turbanlike round her head came in, the grandmother of one of Malanya's friends, who lived just opposite. She shook hands all round and instantly plunged into the conversation.

"Nowadays," she exclaimed, "people need nothing—neither money, God, faith, devil, husbands, nor wives."

"How advanced you are getting, grandma!" remarked her granddaughter.

"Advanced rubbish," replied the old woman indignantly, "here is our countryman from America. Let him decide. Would any girl in the old days, after giving birth to a bastard or with one in her belly, have gone about with the other girls in the village to dances and spinning parties? She'd have buried her face for shame first. And now look at Matrena playing about in her condition as if nothing were going to happen."

"And remember Boris," added Malanya's mother.

"Yes, Boris," repeated the old woman. "That is another case for you. He went off one day to some village or other, and came home with a pretty wench, took her into the barn to sleep, and next morning he told everybody that she was his wife. He did not even go to the Soviet to get registered. That's why I said that people nowadays need nothing—neither wealth, church, nor virtue, nothing, nothing at all."

The girls seemed quite unimpressed. As before they exchanged amused glances at the complaints of their elders.

\* Well!

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Presently two men came in, one a neighbour of Palahya's, an elderly muzhik with a greyish beard and heavy boots, the other, his son-in-law, a much younger man, clean shaven, well-dressed and of an earnest demeanour.

"He's a Baptist," said the older man solemnly, "and he wants to ask you about the Baptists in America."

The younger man at once started plying me with questions. He had heard that there were millions of Baptists in America, and he would so much like to know something of their life and their manner of worship. Did they have to register their services at a government office like Baptists in Russia? Were they forbidden to proselytise or to have schools, or to form their own co-operatives, and were their children, even when they worked the land with their own hands, deprived of citizenship? Did they believe in alcohol and smoking and in going into the army and in fighting wars?

Then he went on to tell us the story of his own conversion. He had been Orthodox, and, like all the Orthodox, he had since the Revolution been weakening in his faith. Once at a fair two men got drunk and started fighting, and one cracked an empty bottle over the other's head, knocking him unconscious, so that the police came and took him away to the hospital. A crowd gathered and the people began talking about the fight, an elderly woman arguing that if these men had had God in their hearts they would never have fought, for they would not have touched liquor. It was only infidels, she insisted, who had no respect for their own bodies and souls, and debased them with drink. She explained that she was a Baptist, and talked about her faith. Baptists, she said, were not like Orthodox people—they knew what they believed and why they believed, and they never did anything for which they could not give a reason. Did an Orthodox Christian, she asked, know why every Wednesday and Friday he had to do without meat, milk and even eggs? Did he know why the priest spat and blew at the devil when there was a

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christening? Did he know why he kept so many holidays, sometimes three days or even more at a stretch, or what he was celebrating when he soused himself in drink? Orthodox people just did things, without knowing why they did them; but Baptists were different. They reasoned about everything. Well, this woman set him off thinking with the result that, some time after, he himself became a convert to the Baptist faith, and now he knew that real religion meant cleanliness, kindness to all living things, simple worship anywhere, in a house, in the open fields or even in a barn, industry, humility, abstaining from resistance and violence, no wars, no bloodshed, and the brotherhood of all peoples and all classes the world over. That was real religion.

"Good people these Baptists," remarked the old woman. "They never offend anybody."

"And why should we offend anyone?" cried the man. "Didn't the Lord say 'Love thy neighbour as thyself'?"

He invited me to come to the meeting with him. Yes, they met every Sunday in one or other of their houses and the Soviets left them alone, though often enough Young Communists would come and argue with them. Akh! if only the Soviets would let them make converts! What real light they would bring to people—God's own light which warms the heart and rejoices the spirit and alone brings contentment and happiness!

When one listens to a Russian Protestant like this earnest young man it is easy to understand why the Russian revolutionaries have changed their attitude toward the Protestant sects from one of benevolent patronage to implacable hostility. These people are filled with a passionate zeal, and they mean to abide by the tenets of their faith in their own way, which is utterly subversive of the basic tenets of the Revolution. They deny, for instance, the class struggle, the unforgivable sin in Soviet land. Therefore they renounce all hatred, of the kulak, of the

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private entrepreneur, of the *lishenetz*\* and of all others who are out of tune with the existing scheme of things. Besides, they abjure the use of violence and war even against the enemies of the proletariat, and they hold out hopes of an inner peace which is incompatible with the spirit of militancy that the Revolution exacts.

Later on, I sallied out for a walk. The village was now humming with life. Young and old were outside in the street, sitting in groups on logs or planks in front of their houses, or sauntering up and down at their leisure. Boys and girls, in freshly greased boots and bright Sunday clothes, were strolling along in pairs or parties, their arms round one another's waists, gaily chattering and laughing and now and then breaking into song. A holiday spirit hovered over the village. Unlike Moscow or other towns, Sunday then still had a meaning here.

I was stopped by a number of peasants who had collected in front of the blacksmith's, where there was a pile of logs which made excellent seats. They invited me to "tell them about things"—of life in other lands, prices, goods, collectives, *tehnika*†—everything. There were kolhozniks (members of the local kolhoz) among them, and a couple of them were wearing brand new rubbers which glistened in the sun. As there was no mud they obviously wore them for show. My presence soon attracted people, as any foreigner's does in a Russian village, and groups, almost crowds, gathered round me. It might have been a mass meeting. Taking advantage of the occasion I shifted the subject to that of their own local conditions, in the hope that I might have a chance of hearing what the peasant really thinks, be he *bedniak*,‡ *seredniak*,§ or an actual or suspected kulak, if there were any about, and of course the kolhoznik. Here they were, all ready to hand, with ample time at their disposal and in a talkative mood.

\* A person deprived of Soviet citizenship.

† Industrial development. ‡ Poor man.

§ A peasant who does all his work with his own hands and is neither a *bedniak* nor a kulak.



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"We are all in the dark nowadays," said a tall bony man with a pointed greyish beard.

"Waiting for light and not getting any," chimed in another, an old man leaning on a staff, with his hat so low over his eyes that you could hardly see them.

"*Nichevo*,\* it will come, this light," broke in a kolhoznik, a tall youth in a blouse with a collar and tie and rubbers.

His words were greeted with a loud laugh in which he heartily joined himself.

"You should have been here last winter, countryman of ours," cried another, a tall vigorous fellow, with bristling sandy moustaches and shrewd grey eyes, one of two brothers who ran the town windmill.

"Aye, there was excitement if you like," exclaimed several voices at the same time.

"And it is not over yet," someone added.

"No, indeed," cried another man.

"One thing at least we have now learned," said the old man with the staff, "and that is not to keep more than one cow or horse and at most only two pigs and a few sheep."

"Quite right, quite right," repeated the chorus, and there was something inhumanly bitter and hopeless underlying the gravity of their manner.

"They have taught us a lesson, one that we shall not soon forget."

The presence of the kolhozniks who are supposed to be, and often are, the local eyes and ears of the government, as well as its voice, did not in the least deter these peasants from speaking their minds without any show of reserve. As I listened to this resolve to keep only a single cow, one horse, two pigs and a few sheep, I realised why the Kremlin wants to collectivise the land in the shortest possible space of time. For, unless something happens to break this resolve, the production of meat and milk will be limited, and many urgently needed commodities will

\* Never mind, or don't be disturbed.

## Russian Realities

not be forthcoming for the outside market. The muzhik was on strike, and said so quite openly.

The discussion continued.

"A party of those special constables\* paid me a visit the other day," began a little man with a fuzzy brown beard and a toothless mouth. "After a look round off they went. And then, what do you think? One of them came back to find out if I was a kulak. I have an old straw cutter with which I have been earning ten or fifteen miserable roubles a year; well—I was charged with being an exploiter. It is a rusty old thing, this cutter; I have had it for at least fifteen years. So when the constable suggested that I was making money out of people, I laughed and told him that he could have the whole machine for the price of the iron in it. But the matter did not end there. 'How many cows have you got?' was the next question. 'One,' said I. 'Let me see it,' he snapped back. 'Very well,' I replied. So down we went to the barn, and as we were walking there I said to myself, 'what on earth will he say when he sees the young heifer? Will he call her a cow and confiscate her on the ground that I have lied to him?' But I kept cool. When we reached the cowhouse sure enough he at once exclaimed: 'Why, there are two cows!' 'No,' said I, 'there is only one, the other is a heifer not yet two years old.' 'But she is with calf,' he cried. 'She certainly is,' I admitted. 'Then she is a cow, isn't she?' said he. 'Not yet,' said I, 'and she won't be one until she's had her calf.' 'And when will that be?' he asked. 'I am sure I don't know,' I protested, 'I was not at the pasture when she was served.' No more was said, but he looked and looked at that heifer. Then my old woman came in, and, father, you should just have heard what she had to say to him—Lord, how she talked! She called him names, she scolded him, she told him that he ought to be ashamed of himself for annoying poor hard-working people, and when he tried to answer

\* Members of a voluntary group sent out on some special mission by Soviets or the Communist party.

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she wouldn't hear a word. Once she actually spat at him. I was fairly scared. But he did absolutely nothing, nothing at all. Every time he opened his mouth she shouted him down, so he just had to listen.

"There's a *baba*\* for you," was the enthusiastic comment of the crowd. "But I was frightened all the same," continued the little man, "and all that night I couldn't sleep for wondering whether they would come back and confiscate the heifer and everything I had. But my baba said that if they came she would break their heads with a faggot. Through God's mercy they didn't come, or she might have done something desperate."

"Yes, with you it went no further than fright," said the old man with the staff, but Demyan across the way there, you know what they did to him!"

At the mention of the name a murmur of pity surged through the crowd and several of the peasants shook their heads.

"Think of it," continued the old man, "he lives with his wife and a sister-in-law who is stone blind and quite helpless. But for his support she would have died long ago; he has been like a father to the poor thing. Yet they pronounced him a kulak and stripped him of everything he had. First they assessed his share of the bread levy at three hundred poods, though he never raised as much rye in his life. But they demanded it on purpose so as to have an excuse for confiscating his possessions, which they did, cleaning him out for good and all. They took his eighteen-year-old horse, his yearling, his one cow, his four pigs and all the oats and unthrashed grain in his barn. Finally they sent Demyan himself to gaol for three weeks. As a favour they let him keep three and a half poods of rye, no more. They even took away the timber with which he meant to repair his house and barns."

"And who was to blame? Why, the committee of the poor in this very village," said a voice, and all eyes were

\* Woman

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turned in the direction of the group of kolhozniks. The latter, however, seemed quite unruffled. They went on talking among themselves, and one of them laughed outright.

"Why didn't they think of the blind girl, brother?" asked someone.

"He has since been going round the government offices trying to get his case reviewed, and his property and rights as a citizen restored; but nothing has come of his efforts."

"Little they care for people's feelings. Human beings are nothing to them—nothing."

The kolhoznik, who had laughed, a man of about thirty, with blue eyes and an uncombed black moustache, turned to me.

"They tell you everything except the real reason why Demyan was dekulakized," said he. "He hired outside labour, not merely on occasions when the law allows it, but for the purposes of exploitation, and he did some trading too."

There was a loud laugh. It was clear what the crowd thought of the kolhoznik's reply.

"Laugh away," he cried, rather irritably, "that's all you can do anyway, laugh and complain."

"Thank God at all events that we can still laugh, even if we can't talk freely," remarked the old man again.

At this the kolhoznik fairly lost his temper.

"You old fool," he shouted, "who put a gag in your mouth? As though anybody could ever stop you talking," and turning to me he continued, "It is a good thing that you are here to see for yourself how they twist things . . . They talk and talk and talk, yet they have the impudence to say that they are not allowed to talk. What a people!"

"You know what happened last winter?" someone yelled.

"Well, what did happen?" shouted back the kolhoznik.

"We dared not speak at meetings. If we said anything that the organisers didn't like, they abused us, called us kulaks, and even threatened to put us in prison."

## Russian Realities

"We let the women do the talking," cried a voice from the back of the crowd.

"They did that in every village, just let the women talk."

"And how they did talk!"

"They went on day and night. The organisers had not a chance."

"If the organiser tried to stop them they made such a din that he had to call off the meeting."

"What is there to be proud of in that?" broke in another kolhoznik.

"Plenty of reason for us," screamed a middle-aged woman with a baby. "Our men folk," she complained to me, "had cold feet, so we decided that we'd do something on our own account, and many of us came with our babies on purpose, because we knew that the laws about women with babies would prevent their touching us."

"Are you utterly without shame?" broke in another kolhoznik. "There was only one constable of that kind here. Yet you talk as if they were all the same. He was a *peregibstichik*,\* he went beyond his instructions."

"That may be so, but in other villages they were often all of them scoundrels," shouted another woman at the top of her voice. "I have a son in S—and I know what the idiots did over there, and nobody attempted to interfere with them."

"But they had no right to do it," explained the kolhoznik with the unkempt moustache. "If you tell a story you ought to tell the whole story, and you know that some of those fellows who behaved so badly are now in gaol."

Feeling was now rising fast between the kolhozniks and their opponents. One thing was quite evident. The village was divided, not into bedniaks and seredniaks on the one side and the well-to-do on the other, but into kolhozniks and non-kolhozniks. The kolhozniks were "they" and the individualists were "we." This was certainly not the sort of split which the revolutionaries wanted to promote

\* One who committed excesses.

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in the village—anything but, for it clove into warring factions the very forces that were supposed to amalgamate and jointly constitute the *opora* (the support) of the Revolution. But the mass of the villagers only saw in the kolhoz the power which had taken away their best pastures from them, had at one time even menaced them with the confiscation of their gardens, and, above all, had threatened to swallow them up themselves.

Presently a tall man with a ruddy face and a military bearing came up.

"Here is another liquidated kulak," someone exclaimed. "Nu, Nikolai, tell our countryman what they did to you."

"Nu," replied Nikolai with a wave of his hand, "that's an old story now, not worth repeating."

"Tell it, tell it, don't be afraid," several voices urged. Nikolai frowned.

"Last year," he began, "I thought of joining the kolhoz, but my wife threatened to kill herself if I did, so I did not. Well, you see me as I stand here? That's how they left me. Everything else they took away, except three poods of grain and a few sacks of potatoes which they allowed me to keep as a favour."

"The finest pair of horses in the village," a peasant close to me remarked, "three cows, ten sheep, twenty hens, a wagon, ploughs, they stripped him of everything, and of course they drove him out of his own house, and in freezing weather, too. Merciless."

"And we all know Nikolai," added the old man again. "Nobody in this village worked so hard or so honestly as he did. Ever since he was a little boy he has been the same. If on the way to his fields with a load of manure a piece were to fall off, he would go back and pick it up with his own hands, every bit of it and put it on the cart again. It was the same if any whisps fell off a load of hay, he would rake up every shred and put it back. He never left the smallest or the greenest potato in the field. Nothing was ever wasted in his house, that's the kind of man he was."

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"Yes," said another man, "he ate and slept too little, was out in all kinds of weather, and never tumbled as some of us do. He never indeed allowed himself the slightest luxury. Copeck upon copeck he put away, rouble upon rouble—all his neighbours will bear me out—and when he went to town he would not even permit himself the treat of a herring or an *abaranok*\*—there is thrift for you!"

"It is all true, every word of it," cried several voices.

"If we had only known what was coming," said someone, "we would never have bothered to work and save to build up a respectable home. We'd just have loafed so that we might remain paupers, and then instead of things being taken away from us they'd be given to us. It is wonderful to be a pauper nowadays. You get everything for nothing, you pay no taxes, and you are the big *shishka*† in the village. But a man like Nikolai who has slaved and saved all his life now has to pay the penalty."

"Why then did he live like that?" came an indignant query from the fringe of the crowd. The entire assemblage turned to see who it was. "I don't know this Nikolai," continued the speaker, a young man in the early twenties, dressed for a holiday, with a cap and collar and tie and an up-to-date suit of clothes. I was told he was from a neighbouring village, a student in some electrical *technikum*‡ on a visit to relations.

"I don't know Nikolai," he went on defiantly, "but I heard all that you had to say about him."

"Well, what of that?" said the old man.

"I'll tell you what," calmly replied the youth.

"Oh! dry up!" cried the old man impatiently.

"Plug up your ears, old boy," retorted the young fellow, "you need not listen if you don't want to. A lot of you people never want to hear any sense at all. But what I say is this. Here is Nikolai; the Soviets, you complain, have maltreated him. He has worked hard all his life to build up a place of his own. He denied himself everything,

\* A wheat roll.

† Power.

‡ Industrial School.

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even a herring on market days. He'd pick up every bit of manure that fell off his wagon and every shred of hay that blew about his yard. An excellent citizen that——"

"No, a bandit," interrupted someone sarcastically, and a roar broke out from the crowd.

"An honourable citizen," continued the young man quite unperturbed, "the kind, at all events, that you hold in honour. But I ask you in all seriousness, what did he save for? You say yourselves that he was denying himself things all the time. He just saved. What for? For whom? Was it to take something to his grave with him? Why didn't he at least try to live?"

He paused as though for a reply, and it came.

"And what is the good of doing nothing and saving nothing after the fashion of rapscallions like you?"

"We try to live," replied the lad. "We buy clothes, books, and newspapers, and we study and do our best to understand the better life and to live it; that's what we do."

"And to push your elders into the grave," shouted a very old man. "Take me for example. I am sick. I have special wants. Sugar I must have, for instance, but do you imagine that I can get sugar? Not a bit of it. I am too old, I suppose, and you young scallywags think that it would be waste to give it to an old man like me."

"Join the kolhoz," suggested someone, "and you'll get sugar soon enough."

"As though there were not enough people already in the kolhoz to start quarrelling!"

"They can do with a lot more."

"In the village of H—— the other day a man who preferred to run his own farm had a dispute with the chairman of the kolhoz over some question of pasture, whereupon the chairman pulled out his revolver and shot him dead."

The group of kolhozniks, who had thus far taken little

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part in the discussion, showed signs of resentment at this statement.

"And suppose there was shooting at H——" shouted one of them, "Was there not shooting in this village too last year? Was there not shooting in this country before we ever heard of the kolhoz? Why is it always the kolhoz that is responsible?"

Someone tried to stop him, but he brushed him aside, and turning to me he went on:

"Every time anything happens in the kolhoz they yell themselves hoarse about it. They forget that the same things happen outside the kolhoz. One of our men tipped over a load of hay, and it was the talk of the whole countryside for weeks. Two of our women started a fight, and pulled each other's hair. That again set everybody off laughing. The other day on my way home, I noticed a horse that had come unhitched, and I said to myself, if this is a kolhoz team everybody will say that kolhozniks do not trouble to hitch up their horses properly. But it so happened that it was Semko there, so of course nobody had a word to say about it. How they love to pitch into the kolhoz, but, nichevo, they'll change their tune in time."

"That they will," cried another kolhoznik, "we'll see who can raise the best crops, and who'll enjoy the best life."

A tall woman with a hard face joined the crowd, and an oldish man yelled out for fun:

"Here is the chief champion of the kolhoz in our village."

"I?" protested the woman. "A champion of this fresh torment that they are foisting on to us!"

"A paradise, auntie," someone on the outside snapped.

"Paradise, of course," snarled back the woman, "living by the bell. Did you see," she had turned to me, "the bell they have fixed up? They just live by it. They get up by it, eat by it, sleep by it, fight by it, and if anything should ever happen to that bell, they'd be more at a loss than little chickens which suddenly lose the old hen."

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"She obviously doesn't like music," someone remarked facetiously.

"I certainly don't like bells," said auntie, "what a life in the kolhoz, always under someone's orders! Yesterday, for instance, I did no work. I just wanted a rest so I took one, and I ate more than I usually do, five times as much."

"*Zdorovo, zdorovo*,"\* exclaimed several voices. The woman smiled, pleased with the applause.

"Yes, I had five meals and there was nobody to say me nay. It was nobody's business. I was my own mistress. But in a kolhoz, how could I take a rest when I want to? I'd have to wait for the blessed bell before I could have a meal, and I could not have five meals unless the bell rang five times. That's the position. Then my little girl likes butter, but if I joined the kolhoz how could I get butter?"

"When our new cows come on we'll have plenty of it," interrupted a kolhoznik.

"But you have none now," she shouted back, "and my little girl wants butter at once, every day."

"When the harvest comes everything will be different," said another kolhoznik. "We'll have more than any of you and we'll fare better and live better. Just you wait and see, all you grouchers."

"And supposing you do?" burst out Ilya, the patriarch of the village, a hardy old gentleman with a still upright carriage though nearing his century, "Would that be anything so unusual? You have got the best land in the village, the best pasture, the best grain for seed, the best horses, cows and pigs, raised by decent people with their own sweat and blood in this or other villages. You have wood and lumber from the State forests, tractors and other machines, credit from the government; everything, all the help, all the advantages. Where then will the miracle be if you succeed in raising better crops than we do? Why don't you perform a real miracle? Get the

\* Well, well.

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poorest land you can find, let the government impose on you half the burdens that it puts on us, do everything with your own hands, and then see what you can do."

"Yes, yes," chimed in a host of enthusiastic voices.

"Then let's see your miracle."

"Yes, a real miracle," repeated a host of others.

A kolhoznik began to say something, but Ilya interrupted him:

"And I say more. Give us the same privileges that you are enjoying, good land, machinery, credits, stock, and see if we don't even go one better than you. I know. When a man has his own things he will work his head off to get results, but when everything is pooled as it is in a kolhoz, he says to himself—'I'll do as little as I can, for I'll get as much as the other fellow anyway.'"

"No use arguing with these people," muttered a kolhoznik to me, "they'll have their own way. They won't have anything new."

"We must re-educate you first,"—it was the student again, "Then you will change your attitude towards labour. You will no longer say 'let the other fellow do the work.'"

"Re-educate," sneered Ilya, "re-educate a muzhik. You silly idiot. When you have lived as long as I have, young man, you'll talk less nonsense. But I wanted to say something else. The kolhoz is supposed to exploit nobody. But did any landlord ever exploit people as it does? Did any landlord ever take cows, pigs, horses, wagons, timber and other things, too, from their owners as the kolhoz has from these unfortunate kulaks? Yet it, too, hires labour and far more than any kulak ever did—exploitation!"

"Hear hear," shouted a burly peasant, delighted. And Ilya, stimulated by the attention he was attracting, raced on with increasing fervour. "They talk about exploitation. Well, look at the settlement of the *shliakh*\* near here.

\* Well-to-do Polish peasants formerly of the Polish nobility.

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Son of mine," he put his hands across his chest and shook his head dolefully, "it was as near a pogrom as anything I have ever seen in my life. They were well-to-do people in this settlement, cultured and industrious, and in the old days they bought a lot of land from the neighbouring landlords, and they raised wonderful cattle, pigs, geese, sheep and everything. They had machinery too. Of course they employed hired assistance, so as to get the work done properly, but they themselves and their wives and children worked harder than all the hired men. For a long time the Soviets tried to break them with taxes, levies of bread, fines, and cutting into their land, yet they still lived on and prospered, for they were real hustlers and good folk. Last winter, however, they were pronounced kulaks, sixteen of them out of eighteen. To my dying day I shall never forget what I saw there last winter. I was on a visit to my nephew who had an allotment there. What a fate! Such wailing and shouting I never heard. They were one and all, men, women and children, yes even the newly born babies still at their mothers' breasts, packed off. They begged for mercy, some of the men blubbering like little children and pleading for their wives to be spared and allowed to remain so that they and the children could keep on living at home. Do you suppose that any notice was taken of their prayers? Akh! No more than a storm takes of the hay that has not been gathered from the field. Pity there was none. They all had to go, bundle up and get into the wagons and drive off to that awful place, Kotlas."

"But they were kulaks, uncle," shouted a kolhoznik.

"And kulaks have no place in a Soviet society," chimed in the student. "They are always against collectivisation, against everything indeed."

"Kulaks, kulaks," continued the old man, "Have then kulaks no feelings, have they no love for their wives and children? Do kulaks enjoy seeing their dear ones fall sick and die? They are now letting some of the women and

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children come back, if relations send for them or go to fetch them. Anisya from T—— has just returned. You ought to hear her talk! Poor thing, she went away with four children and only one has come back, three died up there. Another man from the same village has also come back with his wife. He was sent away illegally and permitted to return. But of his two children, one died on the way up there, and the other just as they got off the train the other day—almost in sight of home. My son saw them in the market place. They had the body of the dead child in the wagon wrapped up in a sack and covered with straw. My son told me that the mother, poor little thing, cried so wildly that the whole market place was upset. 'There now,' turning to the kolhozniks reproachfully.

"In a revolution you cannot stop just for a few women and children," burst out the student.

The remark released an avalanche of abuse.

"You stop at nothing, nothing. . . ."

"Think of the grain you have shaken out of us. . . ."

"And all the spying and denouncing by the poor. . . ."

"Kulak, kulak, kulak!"

"Yes, kulak, kulak, kulak."

"Everybody is a kulak who wants to keep his self-respect."

"Yes, everybody, everybody, even if he has not a shirt to his name."

"They scare you with words. . . ."

"And with threats. . . ."

The kolhozniks and the student tried to get in an explanation, but the crowd was no longer in a mood to listen. Carried away by a torrent of indignation they would have no excuse. The wrath of the moment carried everything before it. Louder and louder became their shouts as one after the other they jumped to their feet, flourishing their arms and brandishing their sticks as if to strike. The women, even more wrought up than the men, shrieked their complaints and denunciations at the top of their

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piercing voices. One man grabbed me by the arm and begged me to follow him into a corner where a friend from another village would tell me of the *peregibi*\* that the government organisers had perpetrated there. Several people pushed up to me and yelled their complaints into my face. The kolhozniks were as excited as the rest. The student jumped over people's backs and mounting the pile of logs shouted for order, but it was of no avail. Nobody wanted order. Nobody wanted to listen. Everybody seemed possessed. As no one took any notice of him the student turned to the small group that had gathered round me.

"It is always the same," he began, "they see nothing but evil in everything the Soviets do. They can't get over the fate of the wives and children of the liquidated kulaks. Of course the women and children did suffer. I was myself a special constable and helped to dekulakize people. It was not a pleasant job. But neither is going to war and shooting and throwing bombs and thrusting a bayonet into another man's flesh, yet sometimes it has to be done. And this was war, and is war. The kulak had to be got out of the way as completely as an enemy at the front. He is the enemy at the front. He is the enemy of the kolhoz, and wherever he could he struck at the kolhoz with all his might; and that we just could not allow. And what pity did these same kulaks show to women and children when they had their bins loaded with rye and wheat and would let none of it go to the city, where there were people, millions of them, yes millions of women and children too, threatened with starvation?"

"If the Soviets would pay them a decent price they would not stick to their grain," burst out one of his listeners.

"A decent price," shouted the student. "Didn't the Soviets pay the kulak a decent price? What did he want—blood? A decent price! In a revolution everybody has to work and suffer and sacrifice himself and help to build up the new society which is going to make everybody comfortable.

\* Excesses or abuses.

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But the kulaks thought only of themselves ; all they wanted was to grab and grab and to keep their grabbings in their own hands. The rest of the country might perish—it was no affair of theirs. Think of the men and women in the cities sweating away at their work, and the kulaks holding the bread back from them. Where was their pity? Kulak children died—yes, but other children have been saved. And is it nothing that nurseries have been built, even in this village and in so many other villages round here? And what are these nurseries for but to keep the children well and happy, and to save them from disease and premature death?

“Nobody said anything against the nurseries,” someone interrupted.

“No,” flashed back the student, “but you talk about kulak babies as though the Soviets tried intentionally to starve and kill them. Unreasoning creatures. The peasants want everything to happen at once. They would like the Soviets to take them into the kolhoz and immediately to shower gold and luxury upon them. Do wells dig themselves? Do barns build themselves? Do fields plough themselves? Do tractors make themselves? They forget that nothing comes without effort, without sacrifice. But, *nichevo*, they will learn, they will have to, and, babies or no babies, the kulaks, all of them, will have to go.”

“We’ll all go, we’ll all perish,” broke in the old man who had complained that he could get no sugar at the co-operative.

“You will if the kulaks are not liquidated—they’ll swallow you all up and bring the bourgeois back and make slaves of you again. The kolhoz is your only salvation.” The student finished.

The old man remained unimpressed.

“Kulaks, kulaks, that is all we hear nowadays,” he answered. “I have lived through wars and epidemics and revolutions and droughts and what not. And this is what I say—if you have a rotten piece of stuff, how can you make

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a good hat? If you have a rotten piece of wood how can you make a good axle? Of course you can’t. And if you have a rotten people how can you have order? Of course you can’t, and we Russians are the rottenest people in the world, always against one another, always fighting one another. Nu,” and he despairingly waved his hand.

“That is the old way of talking, grandpa,” said the student. “It has no meaning any more. But you are not to blame. You are too old to learn.”

Later on I went with a crowd of boys for a swim. The student came along too. Afterwards, when we were stretching ourselves on the grass in the sun, he returned to the charge.

“Do you know what the chief trouble is with our muzhiks?” he said. “They all want to become kulaks. It is deep-rooted, in their very bones. Again and again I ask myself, why are they like that? Take that fellow, Nikolai, for instance, of whom they spoke with such pity. What had he all his life been sweating and saving for? What good did he get out of all his savings? And, you remember, the more he saved the more he wanted to save. Why, what for?”

He paused; I passed round the cigarettes, and as we smoked he went on.

“I have been thinking a good deal about the subject lately because of something that happened in my own village. The old landlord there had a wonderful blacksmith, a plain muzhik, a *samouchka*,\* but with an uncanny aptitude for mechanics. There was no machine, however complicated, even of foreign make, which he could not put right. Other landlords, when they had trouble with their machines, sent for him instead of for a professional mechanic. He was earning good money both from his own landlord and from others too. But he had the soul of a kulak. He never married and he lived all alone in a little house, did his own cooking, his own washing, his own mending, and

\* Self-educated man.



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all the time he kept on hoarding. He would never help any of his relations, not even his own brother and sister, and when his sister's children came to see him he never gave them so much as a ginger snap or a slice of white bread. He just saved and saved and hoarded and hoarded.

"The other day he got sick, and the *feldsher*\* told him to stay in bed—he was too feverish to go about. The neighbours sent for his sister who lived about fifteen versts away. When she approached the bedside, he shouted to her to leave the house at once. 'You have come here to see me die,' he screamed, 'so that you can grab my property. But I won't die. I will outlive you and all your children and everyone else who wants to lay hands on my possessions. Out with you, you bitch.' The poor woman went back and she had hardly reached home when the old fellow died. With the help of the police his relations searched the house and it was amusing the things they found there—twenty-six axes, fifty odd sickles, hundreds of nuts and bolts, a whole stack of plough-points, piles of other spare parts—and also sacks of horsehair and bristles and dried fish that had begun to rot. His attic was also stuffed up with the things he had been hoarding all his life—hoarding just for the sake of hoarding, without any thought of using them. Well, the old fellow had gold too. He bragged while he was still alive that he had more than the landlords had, but neither his relations nor the police could find it. They turned his house and the little barn and shop upside down, but they could find the gold nowhere. Then they began to dig outside, and at last they found it in some little iron buckets, and where do you suppose they found it? Right under the earth closet! Just fancy! The cunning old devil! And the question I have been asking myself is, what good do these people get out of all this? One bucket of gold, two buckets of gold, a sackful of axes, a cartload of axes, a million roubles, a billion roubles—why do people love hoarding? What pleasure do they get out of it? Akh, how beastly!"

\* Healer

## THE UNITED STATES IN THE GREAT DEPRESSION

### I. THEN AND NOW

HAS there ever been quite so precipitate or unexpected a catastrophe? Little more than a year ago the United States was driving along at tremendous speed, the wheels of industry and commerce turning faster and faster, export trade expanding in every direction, stock-market soaring to undreamed-of heights, employment and profits abundant, comfort and luxury spread more widely and deeply over the land than in any country at any time. The bolder economists were prophesying the dawn of a new age in which prosperity would be permanent, based on high production, high wages and high consumption of an insatiable home market. That chronic bogey, the business cycle, they believed, had been mastered and clamped down, at least to the extent of reducing its steep peaks and valleys to gentle undulations through the regulation of price levels by the arrangement of credit. Even the President's Committee on Recent Economic Changes summed up its masterly survey last year with the words "Our situation is fortunate; our momentum is remarkable."\* This phrase was better attuned to the public mood than their caveats as to the need for maintaining balance, their misgivings about the state of agriculture, their doubts as to the healthiness of unlimited speculation. In a world of darkness or twilight the United

\* *Recent Economic Changes in the United States* (1929), p. xxii.

## The United States in the Great Depression

States stood out boldly and brightly in the sunshine, having apparently found a solution of the riddle of economic well-being unattainable elsewhere. It was a beacon which strengthened and encouraged those who were slowly struggling back to the light from the shades into which the war had plunged them. As long as America held on its way, there was hope for the rest of mankind. It was the climax and the vindication of undiluted capitalism.

In twelve short months this picture of unparalleled prosperity was transformed into the severest slump which America has ever experienced. Within one year after the Wall Street crash the combined average value of fifty representative stocks dropped from nearly \$260 to \$160. It is now lower still. Production in almost every industry of importance had been reduced in spectacular proportions. By July, 1930, machine-tool manufactures had declined by 64 per cent. as compared with the previous year—a significant figure—automobiles 47 per cent., locomotives 46 per cent., building contracts 43 per cent., steel ingots 39 per cent., and so on.\* Since July the position has got considerably worse. It was stated that by November 8 the steel industry was working to 44 per cent. of its capacity. The October output of private motor cars was 112,209 as against 318,462 in 1929 and 338,224 in 1928. In practically every trade the slump proceeded as winter drew on. With the decline of the home market the collapse of the export market kept pace, as the world depression deepened. For the first six months of 1930 the Department of Commerce reported a drop in values of 20.9 per cent. of all exports and re-exports as compared with the same period in 1929. Not only were manufactured articles affected, such as automobiles — 46.1 per cent., cotton fabrics — 34.4, tyres — 22.6, paints — 18, but most of the staple raw materials and agricultural products, cotton — 31.1, copper ingots — 45.4, coal — 8.7, apples — 66.4, oranges — 38.8, canned fruits — 9.6. Only light oils, wheat

\* *National Industrial Conference Board Bulletin*, September 25, 1930.

## Then and Now

and some types of machinery held their own or improved their position.

The inevitable result was widespread and acute unemployment. No precise figure is available in the absence of any reliable statistics. The estimates vary from three to six million with the probabilities inclining strongly towards the latter rather than the former figure, while the number of workers on short time likewise runs into several millions. The American Federation of Labour estimated that 22 per cent. of its members were workless in December and anticipated a higher percentage in the early months of this year. Colonel Woods, the chairman of the President's Emergency Committee on unemployment, stated in November that there were about 1,000,000 out of work in the building and automobile industries alone. The New York State Department of Labour's index of factory employment for the same month showed a drop of 20 per cent. as compared with the average of the years 1925-1927, the lowest figure recorded since the index was started in 1914. These statistics cannot claim any great scientific accuracy, but they are sufficiently indicative. Indeed, scientific accuracy is not of great moment, as the fact of widespread distress is only too patent in every great American city. The local authorities are acting with energy in speeding up public works, raising money and improvising organisation to deal with the hundreds of thousands who are literally without food or clothing and with the thousands who are without shelter. New York has already raised \$8,000,000, but the unemployed are believed to number from 600,000 to 800,000. They may be seen at every street corner selling apples, bread-queues are scattered all over the city, men of all social ranks, including lawyers, doctors, bank-clerks, and stock brokers, are sweeping the parks for \$15 a week, for in addition to industrial unemployment there are many thousands of "white-collar men" stranded who have been ruined by the crash or lost their jobs as advertising agents, dealers,

## The United States in the Great Depression

salesmen, clerks or shop assistants. Chicago is preparing to deal with 400,000 workless with a \$5,000,000 fund, Philadelphia with 150,000, Detroit with 100,000, and so on through every industrial city. There is no want of zeal or generosity in coping with the problem, but at best emergency organisation is sporadic and uncertain in its operation. It only touches those who are ready to confess destitution and to accept charity. It draws accumulations of unemployed into the great centres, where large relief funds have been collected. It does not prevent a vast amount of open and unrelieved suffering. Though our own insurance system has serious defects, no one who has seen the American situation at close quarters will think that even to subsidise a certain number of shirkers is too high a price to pay to prevent the destitution and demoralisation of hundreds of thousands of respectable men and women whose only crime is that there is no work for them. In these circumstances it is not surprising to find that Governor Roosevelt is convening the Governors of the five industrial States around New York to discuss *inter alia* unemployment insurance, in favour of which he has already pronounced in principle, that Senator Wagner has introduced a Bill for an "American plan" of unemployment insurance into Congress, that the heads of many big businesses are convinced that some system must be devised to meet an industrial disease that threatens to become chronic.

One other shadow has to be sketched into the picture to make it complete. The farmers' situation has not been good for some years. It is now worse. The fall in the price of most agricultural products has brought many of them into a precarious position. In his Message to Congress, the President pointed out that wheat and cotton had lost 40 per cent. of their value of two years ago. He claimed with justice that the position would have been much worse without the action of the Federal Farm Board in bolstering prices to levels higher than those prevailing

## Then and Now

in Winnipeg and Buenos Aires, and in giving financial assistance to the co-operatives. This audacious experiment in State regulation of industry is certain to cost the tax-payer very large sums of money, but it has probably stalled off a really catastrophic situation in many farming districts. Even as it is, there is dire distress in some of those hardest hit by the drought. The Senate has taken the view that to leave the Red Cross "to relieve the cases of individual distress by the sympathetic assistance of our people" was not enough. A good deal of debate has been expended in finding ways of giving the money asked by the Executive "for the purpose of seed and feed for animals," as direct relief to the farmer who is without feed himself, but only in such a way as to avoid violating the sacred principles of individualism or creating what might be called a "dole"—an academic discussion to hungry men, but characteristic of American evolution towards collectivism. There can, however, be little doubt that the evolution is happening. For the first time in American history it is generally admitted that society and industry have a responsibility towards the unemployed. In the old days every man shifted for himself, and if he starved it was no one's fault and no one's affair but his own. Industrialism has created the sense of collective responsibility, because no city can ignore the presence of thousands of hungry men in its midst. Industrialism has also created not only high wages, but the expectation of high wages almost as of right. One result is the great effort now being made by the Federal, State and municipal governments to finance and further public works, to organise relief and to stimulate private generosity. Another and more far-reaching result will probably be a changed attitude towards social problems on the part of the American voter and hence of the American politician.

# The United States in the Great Depression

## II. THE CAUSES OF THE CRISIS

THE present state of affairs in America is not rosy, but its importance lies not so much in its intrinsic seriousness as in the lessons it conveys. The foundations of American economic strength are solid. The country will emerge from this crisis as it has emerged from others and continue its onward march, but the depression may have effects on the rhythm and direction of its march and is certainly having a considerable influence on the world depression as a whole. The general crisis is due to a complex of causes, some of national, others of international origin, but every large country has made some contribution to it. Those in power everywhere are glad to be able to wash their hands of responsibility by referring their troubles to "world causes." But these "world causes" are themselves to a large extent the combination of a series of national maladjustments and mistakes. The world's economy is so far a unit that malaise in one country has its repercussions, greater or smaller, throughout the globe. When malaise exists in so huge an economic entity as the United States, its repercussions are bound to be considerable. It may, therefore, be worth while to attempt to elucidate some of the factors which have led to the American collapse and to estimate how far they may be said to have international aspects and international consequences.

In the first place some of the internal weaknesses of the prosperity structure deserve careful attention, as they suggest not only some modification of the anticipated lines of American development, but also some teachings for other countries treading the industrial path. The most obvious of these weaknesses was the stock market boom, which, in Mr. Hoover's words, "diverted capital and energy into speculation rather than constructive enterprise." Perhaps nothing quite like it has been seen since the South Sea

## The Causes of the Crisis

Bubble. When it burst, thousands in every walk of life were ruined, and many who were not are still restricting their ordinary living standard in order to pay off borrowings to the bank. A similar influence is the reduced consumption of those who bought luxuries of all kinds on the instalment plan. It is claimed that the system has justified itself, because losses and repossessions have not largely exceeded normal levels. But a great deal of extended credit is certainly being given, because the repossessed goods would be unsaleable, and in any case those who are still paying off their indebtedness are often doing it at the sacrifice of normal expenditure on other articles. Yet another cause of under-consumption, which enormously reduced business and left the shops even on Fifth Avenue half-empty during the Christmas season, was the fear of those who had money to spend it, lest they should lose their jobs next week or business should take an even worse turn. In the absence of any system of social insurance, the worker who is still employed hearkens to the voices of banking wisdom exhorting him "to save for a rainy day" and ignores the contradictory slogan of the salesman, "Buy now," which has been launched in the hope of reviving purchasing and confidence. Even men and women who are in no danger of losing their ample fortunes are infected by the wave of anxiety and prefer "to keep their money for the present." This psychological element in the situation is very potent. The President has more than once denounced the "unnecessary fears and pessimism" which are aggravating the crisis.

Finally, there is the tremendous loss of income due to unemployment itself. It is calculated that the income of the workers has declined by 20 per cent.—something like \$9,000,000,000 a year—to which must be added the impoverishment of the farmer through the slump in the quotations of his staple products unbalanced by a corresponding fall in general retail price-levels.

All these factors are enough to account for the tremendous decline of production since 1929. Some of them are

## The United States in the Great Depression

temporary, and will pass away with the gradual recovery of trade, but others suggest that the 1929 level of production and consumption was to some extent fictitious. American industry had reached a state of over-production, which could only be kept alive by artificial stimulants. Hazardous profits on speculation, "high-power salesmanship," anticipation of income through instalment buying enabled the pace to be maintained a little longer than would otherwise have been the case, at the expense of a more precipitous collapse when the inevitable reaction set in. It is therefore now generally admitted that there can be such a thing as overproduction in the sense that American industry is geared to produce far more of many articles than the American public can possibly consume. In spite of abundant currency and credit and high wages there was a limit. In a sense the very facility of production defeated its own end. More and more machines turned out more and more things with fewer and fewer men employed. Illustrations may be found on every hand. Within five years one workman was enabled to turn out ten times as many tyres, which lasted six times as long. Where hundreds of operatives would have been formerly employed, glass now automatically flows out in an endless band with a few men to check the temperatures of the furnaces. A similar process has been successfully applied to motor car chassis. If only 14.5 per cent. of the boot factories were operated full time, they would produce 95 per cent. of the total production, thus crowding out most of the other establishments. The automobile plants of the United States produced 5,358,420 vehicles in 1929, and almost certainly were not working to full capacity. The steel plants were rated to produce 62 million tons, yet in that altogether exceptional year they only turned out 56 millions. In almost every industry unrestricted competition, working through constantly improving machinery, has created a productive capacity in excess of any normal requirements of the home market.

## Machinery and Employment

Three questions of considerable importance are now being widely discussed by Americans as the result of this experience: (1) How can the effects of mechanisation on employment be mitigated? (2) How can production be kept within reasonable limits? (3) How can the surplus be disposed of, when the home market is satiated?

Each of these questions is of more than American importance.

### III. MACHINERY AND EMPLOYMENT

IT has always been admitted that the displacement of labour by machines has in the short run created unemployment, but the economists have always consoled the man who has lost his job, and whose skill may have become totally unsaleable, by the assurance that he will sooner or later secure other employment, and that in the long run the world will be richer and happier. The first of these comfortable words is only very partially true. The younger man will usually succeed in finding new work, though often at lower wages or in some less desirable occupation. The older man will usually descend to a lower level, if he is lucky enough to get a job at all. In the great majority of cases a more or less prolonged interval is inevitable, and in the absence of any organised provision against unemployment is apt to involve considerable hardship. That the world will be ultimately richer and happier has been proved by the history of the last century, but at no period has the displacement of labour been so rapid as in the last ten years. It may therefore be asked whether there is not a mean to be observed, whether the ultimate blessings are not bought at too high a price of immediate hardship, if efficiency in production proceeds at too vertiginous a rate. In the United States the output per factory worker was increased by 45 per cent. between the years 1919 and 1929, yet instead of this producing an increase in the number

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employed, as had been the case in every previous decade of American history, there was an actual decline of nearly 10 per cent. The factory population had in fact decreased by 900,000 in spite of an enormously increased output. It is not known how far those who were turned off succeeded in obtaining other work. The estimates of normal unemployment in America vary from one to two millions. No doubt many of these men were absorbed in building or in satisfying new needs—garages, pumping stations, cinemas, selling services, restaurants, and so forth. When wealth is expanding new avenues are opened up in connection with luxury trades, but these are the first to suffer on a falling market. It is hardly open to doubt that the present number of unemployed would be very much less formidable, if mechanisation, mergers and managerial efficiency had been promoted at a more gradual speed.

If under present conditions industry can expand not merely without increasing its working force but actually by diminishing it, the same thing is equally true of agriculture. The "combine" and the tractor have revolutionised rural life in the United States and Canada. Harvest labour is no longer required, while the small farmer is progressively unable to compete with the cheaper costs of large farms operated by machinery. As a direct consequence there has been a cumulative loss in the American farm population of 3,000,000 persons since 1920.\* A large proportion of them have been driven by economic pressure into the cities as wage-earners at a time when industrial employment was also shrinking. Again, if they were still on the land, the problem of urban employment would be far less acute. Yet wheat and cotton are also glutted. The American, particularly the American woman, eats less bread and wears less clothes. "Slimming" and unsubstantial raiment coincided with the farmer's offer to produce more and cheaper flour and textile material by the most up-to-date scientific methods of cultivation and the

\* *Recent Economic Changes in the United States*, vol. ii, p. 471.

## Restraint of Production

best modern machinery. There was in fact over-production in the factories and over-production in the country, and simultaneously under-employment in both.

These facts are giving rise to speculation in the United States which is not irrelevant to other countries where the inevitable process of rationalisation is proceeding. Is it not possible that too much of the industrial product may be assigned to return on capital expended on machinery and too little to that expended on wages at any given moment? Is it not better that improved methods should only be introduced at such a speed as will enable the total number of workers to be approximately maintained, or even increased, as was the case in previous decades? If this is impossible, must not society and industry undertake to protect the displaced worker during the painful process of transfer by some system of unemployment insurance? This obligation has already been recognised by the establishment of company systems, as in the case of the General Electric Company, or by the payment of a "dismissal wage" as in the case of the United States Rubber Company, Hart, Schaffner and Marx, and other large firms; but it is being increasingly felt that some more comprehensive measures are indispensable to cope with so widespread an evil as "technological unemployment." It may be anticipated that legislation to this end will be passed in more than one State of the Union in the next ten years, and that it will have the support of "big business," which is already giving a lead in places, and whose interest will be to bring the small employer into line.

## IV. RESTRAINT OF PRODUCTION

A FURTHER question is also troubling the American business world—whether the unrestrained multiplication of productive power is not a danger to capital itself, quite apart from its effects in displacing labour. Every

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fresh invention, every new process, is a temptation to some new industrial adventurer to enter the lists and to seek the ruin of all competitors by producing more swiftly and cheaply than they can. This, again, is, of course, nothing but the normal procedure by which industry has progressed in the past; but it seems to have outrun all reasonable bounds under modern conditions, in which scientific discovery in the physical, chemical, mechanical and electrical fields is moving forward with such unprecedented range and momentum. The unlimited possibilities of rapid improvement render every new process liable to be outstripped and reduced to an anachronism in a few years. It is significant that out of 200 large manufacturing concerns 128 were found to require new equipment to pay for itself by savings in three years or less.\* The fact is that they *dared* not schedule their returns over a longer period; but such a rapid turnover of machinery can hardly be other than exaggerated and wasteful. Unbridled competition threatens the safety of industrial investment over a wide field. Forecasting is impossible, if the potentialities of increased production are infinitely greater than any possible expansion of demand. If expensive machinery is reduced to working short-time, it quickly becomes unremunerative, but this must have been the case in many American plants, even before the slump began. Yet in many instances there is no means of ensuring its full-time operation, except by monopoly or by agreed adaptation of production to demand. Both these things are fundamentally repugnant to the tradition of American individualism. The saga of Theodore Roosevelt's trust-busting campaign still awakes a grateful echo in the breast of the average citizen. Yet the force of events is more powerful than tradition. The Sherman Act, making agreements in restraint of trade illegal, still stands on the statute book, but its utility is now being questioned even by the President himself. In October he told the American

\* *Recent Economic Changes in the United States*, vol. i, p. 139

## The Exportable Surplus

Federation of Labour Convention that "it certainly is not the purpose of our competitive system that it should produce a competition which destroys stability in an industry and reduces to poverty all those within it. If our regulatory laws be at fault they should be revised." And in December he advised Congress to institute an inquiry into the economic working of the anti-trust laws. Here is another great change looming on the American industrial horizon. Indeed, it has already begun. Mergers which avoid transgression of the law are being negotiated in many directions. There were more than 200 announced in the year 1928 alone. Where complete mergers are not possible, co-ordination of policy is secured by interlocking directorates. But even these devices do not always suffice to ensure stability of production and employment. For the gearing down of the American machine to the level of effective demand, it is growingly felt that agreements to limit production must be allowed. Until that becomes possible, a prominent Federal official declared recently that "sane thinking about the future could only be done in a penitentiary."

### V. THE EXPORTABLE SURPLUS

**B**UT when everything has been said and done, even if production should be better regulated and technical progress slowed down, the United States will still have a great exportable surplus, not only of foodstuffs and raw materials but also of a large number of manufactured articles. The world now finds itself in the fantastic position that millions of men and women are unemployed and underfed in Europe, India, China and elsewhere, when Canada and the United States are bursting with food they cannot sell. American factories, mines and oil-fields are running half-time, while the rest of the world is clamouring for their products. Yet the rest of the world

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is largely standing idle too, because unless it can sell it cannot buy.

The problem now facing the American people has been concisely stated by Mr. Owen D. Young,\* who asks "What are we to do with our surplus of wheat? Either we must burn it at home or sell it abroad. If America starts to burn surplus wheat when people are hungry elsewhere in the world, that fire will start a conflagration which we cannot stop . . . There is no way out except to market this surplus where men are hungry." For manufacture the solution is the same as for agriculture. "As our production per man increases in our factories, and goes beyond the power of our consumption, we must export that surplus or have corresponding unemployment in those industries." The same conclusion has been reached in other quarters. Even the American Federation of Labour, though still desperately clinging to its old faith in a high tariff, announces, "We depend on foreign countries for an important part of our trade and the fate of wage-earners abroad is closely linked with ours."

The knell of the economic isolation and self-sufficiency of the United States could hardly be more clearly sounded. The country is gradually perceiving that it is irrevocably committed to an international trade policy. Fewer and fewer people now seriously believe that the home market alone counts, because only 10 per cent. of American production goes abroad. In some branches the percentage is much higher, and in any case it is from the last 10 per cent. of sales that profits are usually derived. Moreover, the home market is not likely to expand in future at anything like the rate even of the last ten years, let alone the two decades before the war. Mechanisation of industry and agriculture has reduced the demand for immigration, which, under present circumstances, is being kept below the quota level, and may be checked altogether for a period. However necessary such a step may be owing to shortage

\* In an address delivered at San Francisco, June, 1930.

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of employment, it can only have the effect of arresting the expansion of the body of American consumers, upon which the expansion of industry itself was so largely founded.

But what are the implications of an international trade policy? They are far-reaching and subversive of many rooted American tenets. They involve the whole question of trade barriers, the whole question of international credits, and ultimately the whole question of peace and disarmament. All these implications are plainly stated by Mr. Owen Young in phrases of unanswerable simplicity.

How can we market these surpluses? (he asks). The method is well known. Those who need our goods are the potential buyers. One cultivates his potential buyers. He does not rebuff them. He seeks their friendship and goodwill. Is that the attitude of America to-day toward her potential buyers? Are we creating good will or bad will in the countries where they live? Are we extending them credits through our financial machinery? Are we co-operating with them politically in order that they may improve their condition? I venture to predict that we must do so, if we are to conserve our economic structure, not as a matter of charity but of self-interest.

Coming from such an authority in the financial and industrial world, these are words of great significance. Moreover, they are not the words of a prophet just crying in the wilderness. They are finding an echo in many unexpected quarters. Large sections of business were always hostile to the tariff. As export trade declines they are being steadily reinforced; but it is hard for a Republican Congress to disown its principal achievement within the space of a few months. Faith is placed in the discretionary action of the Tariff Commission, but its powers are limited. It cannot view the tariff as a whole. It can only amend specific rates, each of which must be judged in the light of the immediate interests involved, not in that of the general commercial well-being of the nation. Not much modification can be expected from this quarter. In the meanwhile American goods will find their markets



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in Canada and in Europe shrinking, and American capital will leave American shores to found factories in Canada and Europe, thus increasing the toll of unemployment in the United States. Canadians and Europeans will not have any ground for excessive rejoicing on this score. They will simply be buying dearly what they might have bought cheaply. It would have profited everyone if America had allowed other countries to sell more freely to her and so enabled them to buy more freely of her. But perhaps the very exaggeration of protection will produce its own reaction and restore the world to fiscal sanity.

Failing tariff reduction, there is the alternative of credits. If they were flowing more freely out from Wall Street, they might maintain America's foreign custom in spite of the tariff. In Mr. Young's view "either international credit and finance must be developed to a much greater extent than now, or our tariff will have to go, if we wish to sell our agricultural and industrial surplus abroad."

American exports can only be effected if they are balanced by American payments. In 1929 exports of merchandise exceeded imports by \$841,000,000. So far from this surplus being met by the export of American credit, new investments abroad were balanced by equivalent investments in the United States. Moreover, apart from other creditor receipts, the United States Treasury has to accept some \$200,000,000 a year in respect of war debts. In 1929 this sum was mostly paid in gold, of which the imports exceeded the exports by \$120,000,000. America did not want this gold and did not ask for it, but she had to take it, as there was no other way in which her claims could be met by her debtors. Is it really an asset? Is its storage in the Treasury vaults strengthening or weakening the will and the ability of foreign customers to purchase American goods and maintain American industry? Is its accumulation, causing a maldistribution of credit and currency, which is choking the channels of American trade abroad, now essential to the marketing of

## Trade and Politics

her surplus production? Are these channels likely to be further silted up by the barriers raised by and in answer to the new tariff? In other words, can a creditor nation, which at the same time has an exportable surplus, afford to collect all its debts and to maintain a high tariff wall at the same time?

These are some of the questions which are being canvassed in widening circles of American business and finance. The pre-war position of the United States has been completely reversed. Instead of a debtor she is now a creditor. Instead of being self-sufficient she needs outlets, not only for her foodstuffs and raw materials, but for a growing volume of her manufactures. Her trade policy, however, has not been adapted to these new circumstances. It will not be easy to reverse in the face of habits of protectionist thought, which have become almost congenital. As an alternative there is the method of aiding debtors and customers by giving them extensive credit facilities. But at this point the frontier between economics and politics is reached. Like most frontiers it is invisible, for they are unfortunately inseparable.

## VI. TRADE AND POLITICS

NO one lends money unless they believe that they have good security for recovering principal and interest. But when Wall Street looks at Europe, or China, or India, or South America, the prospect is not inviting. As long as American money was available to Europe, its wheels continued to turn and its internal condition was relatively stable. In 1928 no less than \$672,000,000 were lent to Europe. In 1929 there was a sharp drop to \$156,000,000.

The drying up of American credits soon began to produce political consequences in Europe, particularly in Germany. No doubt it was impossible for the German people to continue borrowing indefinitely at high rates of interest.

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But they had already lost a large part of their capital through war and inflation. They had also paid some £613,000,000 in reparations. They had still to pay £80,000,000 or more every year under the Young Plan till 1985. Without foreign loans it was impossible to keep the industrial machine working. From the early months of 1929 business began to decline and unemployment to increase. By September, 1930, when the elections were held it had reached a figure of 3,004,000. One of the direct results was the startling growth of the Hitler party with its advanced social demands, its repudiation of the war indemnity and its demand for the disarmament of other countries promised by Article 8 of the Treaty of Versailles. At the same time the Communist vote swelled ominously, and would certainly have been much greater had not Hitler overtrumped the Communist programme. These events sent a shiver of alarm through France. They increased the nervousness already abroad in Europe owing to the tension between France and Italy, the mistrust of Italian designs in the Balkans, the bickerings between Germany and Poland, and the simmering of the Spanish cauldron. Rumours of war, based on fear rather than any rational calculation of the realities, ran through one country after another during the autumn. They were broadcast in the American press and froze the pocket of the American investor. There was little chance of floating European loans in such circumstances. The prospects in other parts of the world were not much more alluring. The rehabilitation of the Chinese and South American markets would give an immediate stimulus to the business of the United States, but civil war and revolution are anathema to the financier. However anxious Wall Street might be to use its money to assist the restoration of other countries, and so to hasten the recovery of the United States, it was powerless in the face of so much political turmoil and uncertainty abroad.

The conclusion is inevitable and it is slowly penetrating the American consciousness. America cannot be a world-

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power in the economic sense without becoming a world-power in the political sense, with all the obligations and responsibilities which that status involves. As one American writer pithily expressed it : \*

We are trying to run a twentieth-century industrial world with eighteenth-century political ideas. . . . The United States continues to live in the intellectual atmosphere of Jeffersonian individualism. Its administrative system is roughly the same as in days of Jackson. Its philosophy of international relations is inherited from Hamilton. It repeats the Declaration of Independence as if nothing had happened since 1776. . . . It does not see—at least it will not admit—that the advice contained in Washington's farewell address is as obsolete as the stage coach in which he rode from New York to Philadelphia.

And yet, under the pressure of depression, American psychology is undergoing real, if slow, transformation. As has already been suggested the doctrine of individualism is losing its magic. The old free buccaneering days, in which every man fought for himself and the devil ruthlessly took the hindmost, are gone for ever. There is now a social consciousness developed which is imposing all kinds of administrative limitations on unfettered competition. The State is now intervening more and more for the protection of the farmer and the worker—of the former by guaranteeing him stable prices, of the latter by restricting the employment of women and children, by fixing compensation for accidents and by acknowledging the duty of succouring him in unemployment. Moreover, the more far-sighted employer welcomes rather than resents such interference, as he realises that good conditions are necessary to production and contentment in an industrial democracy, just as he believes in high wages as the foundation of his home-market. Again, business itself is demanding the means of restricting cut-throat competition by regulating production to reasonable levels. Rationalisation itself is in need of rationalisation. In the face of a growing overseas

\* Mr. Raymond B. Fosdick, *Companions in Depression*, November, 1930.

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trade the philosophy of high protection is being subjected to a critical re-examination. Wrestling with the problem of selling their surplus production abroad, the farmer and the manufacturer are beginning to wonder whether the exaction of debts from their customers is a good introduction to happy business-relationships. Anxious to promote the general recovery of prices and confidence, the financier is aware of the paramount necessity of peace and the difficulty of ensuring it without active American participation in the solution of the world's problems.

In a word, the old bottles will not hold the new wine of prosperity. An era of unexampled progress has been brought to a summary end. It was the final flourish of individualism and isolation. A new period is now beginning in which prosperity will be gradually rebuilt, for the foundations are firm, but by methods based on the needs of the new world rather than the habits of the old. The scope of this fresh effort and the conditions of its success are once more lucidly defined by Mr. Owen Young, whose words are a fitting summary of this interpretation of America in the great depression:—

“When our political policy in international affairs becomes co-operative in spirit, which need not involve us in entanglements or alliances; when our economic policy looks to the economic development of the world as a whole and the improvement of living standard and consuming power of peoples everywhere; when our tariffs and our treaties are made to evidence this spirit; then we may hope for effective plans for farm relief, for reduction of our surplus of raw materials and manufactured goods, for relief of unemployment, and for what is most important of all, a better spirit of all nations toward us and toward each other. That means peace, and peace thrives in a world of contentment and mutual welfare. It cannot live in a world or in a nation where there are great inequalities and injustices caused by man-made barriers.”

## CHINA: A BRIGHTER OUTLOOK

### I. THE CIVIL WAR

THE September article from China in THE ROUND TABLE ended on a note of hope. “Peace is in the air to-day, though no one can bring her to earth.”

During March, April and May, the central Government, under the leadership of Chiang Kai-shek, ably backed by his Finance Minister, T. V. Soong, had battled with the two Northern “rebels,” Feng Yu-hsiang and Yen Hsi-shan, and by the middle of the summer, both sides had weakened considerably. It became imperative that they should seek outside assistance or perish in chaos.

The fortunes of the Nanking Government were at their lowest ebb in June and July. Intensive attacks upon the Kuominchun in the Lung-hai sector failed before a stubborn resistance, and the loss of Tsinanfu on June 25 was not only a tremendous blow to Nanking's prestige, but threatened to add to the number of its opponents. For General Han Fu-chu, after evacuating the city, expressed his unwillingness to do any more fighting, and General Liu Chen-nien, at Chefoo, appeared to be about to throw in his lot with Marshal Yen. During July, too, the Lung-hai drive had temporarily to be abandoned, while Nanking's armies were regrouped for a decisive advance up the Tsin-pu railway. Early in August, however, Tsinanfu was recaptured, the Shansi army which was defending it putting up a very poor resistance. The retreating troops seemed indeed to be demoralised and drug-sodden, and they suffered enormous losses in personnel and material when the town was retaken. Their rout exposed the flank of the Kuominchun on the Lung-hai railway, and convinced Feng Yu-hsiang that reliance upon the assistance of his Shansi allies was futile. The Kuominchun began to withdraw westwards towards Loyang.

At this juncture, when the tide of battle turned, Chang Hsueh-liang, the Manchurian leader, moved. On September 18 he issued a characteristically Chinese circular

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enjoining all and sundry to make peace. This decision of the young Marshal's followed a council meeting of all the Manchurian leaders including Chang Tso-hsiang, sworn brother of the old Marshal, Chang Tso-lin, and to-day the hand behind the throne in the three Eastern provinces. For a week military and political advisers had been in conference on what should be their official attitude in the conflict. The time had clearly come for an announcement, and Chang's telegram was the result of their deliberations, though he did not get his way without considerable opposition from the "Old Guard." As is frequently the case in such exhortations, the points of immediate importance remained ambiguous and, even during the third and fourth weeks of September when Fengtien troops were moving south along the railway to Tientsin and Peking, the world at large was still in the dark as to the side on which Manchuria had finally entered the arena. Previously to this the central Government had formally appointed Marshal Chang "Vice-Commander of the national army, navy and air forces" but in spite of Mukden's nominal adherence to the Nanking cause and of the constant rumours that they had agreed to come in on condition that Nanking secured certain military successes and, of course, made it worth Manchuria's while financially, people had come to doubt their sincerity, for not only were they very slow in declaring their hand, but the rebel allies, whose propaganda grew daily more insidious, firmly contended that their "court-ing" had met with success, and that it was on their side of the stile that this eligible young man had jumped.

The period was a critical one, for there was more than idle chatter in the rumour that, should the offensive against Tsinanfu fail, Nanking would withdraw to a defensive line to recuperate and leave her enemies an opportunity of wasting their strength on a probably fruitless attack. The immediate cause of the Manchurian move was, however, undoubtedly the success of the Government forces at Tsinanfu followed by the Kuominchun retreat on the

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Lung-hai and Kinhan fronts. Though Chang Hsueh-liang was actuated by a lively desire to see peace brought to China, the exact moment of his entry into the struggle was the work of his astute councillors. He came in at a time when it was reasonably sure that Nanking could not be defeated and yet was sufficiently exhausted to be amenable to counsel from Mukden.

The visit of the young Marshal to Nanking resulted in a great increase of prestige for the central Government. The other Manchurian leaders, however, it is rumoured, are by no means satisfied that sufficient material advantage has accrued to them from the support given to Nanking during the later stages of the civil war. The prolonged stay of the young Marshal at Tientsin after his visit to Nanking, although ostensibly due to the necessity of solving the problem of the rehabilitation of Shansi and the north-west, is in some quarters attributed to his reluctance to face the reproaches of the political clique in Mukden of which he is little more than the figurehead. The hurried visit of the Minister of Finance to Tientsin, followed by that of the Minister for Foreign Affairs, was presumably not unconnected with the financial and political aspects of the Manchurian problem.

Thus it came about that the end of September was the decisive phase in the war. Yen, apparently realising that his army had ceased to be a fighting machine, decided to withdraw from the Tientsin-Peking area, and the bugles of his retreating armies had hardly faded in the distance, when the trains carrying the Fengtien soldiers made their way into the Northern capital. The transfer of control was made with an ease, moreover, that suggests, what subsequent happenings tend to confirm, that the art of compromise is still an essential factor in Chinese warfare. It was some weeks, however, despite Nanking's claims of Manchurian support, before the Fengtien troops were declared to be on the side of the central Government, during which time the Nanking offensive along the Lung-hai front was con-

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tinued with increasing success. The strategic points of Lanfeng and Kaifeng, the capital of Honan, were recaptured, and the fall of Chengchow, long an important objective, on October 6, closely followed by the capture of Loyang on the 11th, brought the campaign to a virtual finish. Feng seemed just to fade away and Yen withdrew into his Shansi stronghold, publishing a circular as he went, in which he accused the South of using poison gas, and stating that because of this he felt it his duty to retreat in order to spare the people further horrors of war. An article in the London *Morning Post* on September 10 represented the situation in China as a stalemate. Far from this, it was the beginning of the end, the turning point when the causes of victory and defeat began to come to light. The biggest factor in the fighting strength of the North was General Feng himself, a man whose character and determination acted as a spur to the Kuominchun in the face of every disadvantage.

"Chiang Kai-shek will give up and go abroad as soon as he gets a chance," the South had been saying, but the Generalissimo has proved himself a man with qualities far above those of the ordinary war-lord. His determination was equal to Feng's, and for weeks on end he remained at the front, directing the operations in person. The commanders of the two opposing armies indeed matched one another well, and with Chiang rests much of the credit of victory. The central Government forces were probably the better equipped, and, moreover, they had the advantage of expert foreign military advisers. This, combined with a stronger financial position, gave them the real advantage. During the autumn it began to be clear that the Northern coalition was failing and Nanking gaining. On the one side Yen Hsi-shan and Feng Yu-hsiang were growing weaker and further and further apart; on the other side the Nanking Ministry of Finance held on gallantly and gave the support which finally enabled the Government to overthrow its enemies. Most wars in China close with

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"cash" victories, and this was no exception. The financial resources of the "Allies" did not compare with those of Nanking; Yen's desperate effort in seizing the Tientsin customs was of no avail. He could hold out no monetary inducements to Manchuria, and it was as much as he could do to maintain his army. The Nanking Minister of Finance, however, managed to keep abreast of supplies and at the same time made Chang Hsueh-liang attractive proposals, and continued to contribute handsomely to the Mukden coffers, which were, incidentally, already swollen with Yen's money. Yen was also doomed to failure in the all important "post-armistice" finance. The chances of the Peking group being able to buy the submission of the semi-independent generals from the interior were remote, whereas Nanking has apparently been able to settle with these "outsiders" and also to take over part of the Kuominchun itself. If in the autumn the military campaign seemed in Europe to be a stalemate, there were already signs in China that, both in politics and in finance, Nanking was winning.

During the whole of this period the war in South China had been going on unabated. In Kwansi and Kwangtung the troops of the central Government fought with varying fortunes against rebels far less formidable than the Northern coalition; but none the less they meant a serious drain of strength in times of crisis. With the Government's victory in Hunan, however, the situation in the South began to clear. The siege of Nanning, which had been the main feature of the campaign, was brought to a close, and Nanking is reported to have ordered the end of the war and a settlement of differences by other means than force.

### *The "Communist-Bandit" Movement*

But in spite of the successes of the Nanking Government in the civil war, the "Communist-Bandit"\* movement has grown and prospered. It bids fair indeed to become as

\*The words "Communism," "Banditry" and "Red" are used loosely in China and are synonymous with "violent lawlessness."

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grave a threat to the central authority as the Northern rebellion. Along the valley of the Yangtse, in Hupeh, Hunan and Kiangsi, as well as in other provinces, the country is infested by and seldom free from the merciless pillaging of organised Red forces. On August 5 the treaty port of Changsha fell into their hands, Chinese as well as foreign property being looted, burnt and wantonly destroyed. For a month the threat to Hankow was serious. The advancing Communist leader even suggested that a foreign bank should pay a ransom for the city. The Communists are now thoroughly established, their organisation includes fourteen armies, the areas in which they operate are recorded, and their approximate strength as well as the names of their military and political leaders is known. Many of their military commanders are Whampoa cadets; the political leaders are educated students. That the Nanking Government appreciated the seriousness of the threat to its power, and its concern over the success of the fourth and fifth Communist armies operating in Hunan under Generals Chu Ten and P'eng Teh-hui, can be judged by the number of men, said to be 100,000 in all, who were sent under General Ho Chien to cope with the situation. General Ho Chien, though he declares that he has been completely successful, has made little progress, but General Ho Ying-ching, the Generalissimo's Chief-of-the-Staff, is now taking energetic measures, as head of the communist-bandit suppression operations, while General Chiang Kai-shek has himself made a personal survey of the provinces. The use of some of Nanking's best troops, moreover, co-operating with an air force, allayed the danger to Hankow and pacified that area to some extent; but the trouble is still far from being extinguished, as is clear from the growing wave of hostilities on the middle reaches of the Yangtse, where ships are daily subjected to fire from the banks—fire which, dangerous enough when a ship is under way might lead to serious trouble should any mishap befall it in navigating these difficult waters. But for

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foreign gunboats the river would indeed have been closed to shipping; a curious state of affairs, foreign gunboats fighting China's enemies for her. Communism has even penetrated as far as the capital, though it is to be hoped that the executions, both in Nanking and Hankow, will precede stern measures elsewhere too. The Government is aiming at eradication in three months, but the hold of communism, and the difficulties of this type of warfare, are such that the process may well be drawn out for months. The actual forces of disorder can be dispersed and an era of peace made possible, but eventually the military personnel will have to take in hand the disbandment of its own troops, thus releasing a fresh horde of potential bandits to roam the countryside, for whom, moreover, leaders will not be lacking. Communist risings and the military movements necessary for their suppression may well become a vicious circle. One can only hope that Chang Hsueh-liang's intervention and the end of the civil war have come in time to enable Nanking to avert this menace.

### II. REFORM : THE FIRST STEPS

**I**N October General Chiang Kai-shek launched an attack on the political shortcomings of the Kuomintang. He criticised the system of *tangpus*\* and deplored the want of discipline in his own party. With this rebuke still fresh in mind, the Fourth Plenary Session of the Central Executive Committee opened in Nanking in the second week of November to discuss the reorganisation of the country and the settlement of its manifold problems. Once again China set out to consider how to put her house in order, and once again many fine resolutions were passed. But such a conclave has seldom met under circumstances more propitious for a start. On November 12 the young Marshal arrived with all the pomp of a con-

\* Local Committees of the Kuomintang which interfere with the official authorities.

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quering hero. The leaders of the Nanking party were there, fresh from victory, to welcome him. Titular chief of the three strongest provinces, his intervention had made their victory complete; his continued support was vital. The proceedings began with an exhortation from Chiang Kai-shek, the leader of the party, and he did not mince matters. He called for more vigour and less abuse from his adherents, more of the enthusiasm which had inspired their successes in the early days of the revolution, and less of the traditional indolence and corruption which have hampered government in China for centuries. "Cultivate self-oblivion" was his cry; "work hard for your country and not for yourselves." After this admonition the young Marshal issued a further appeal for peace, laying stress on the difficulties of Manchuria in view of her position between the rival Powers, Russia and Japan.

On the 21st the session closed, and a manifesto was drawn up, declaring, first, that a National Convention is to be called next May, at which representatives from all over the country will be able to explain their grievances, a sure step, if it is actually taken, up the ladder of unification. There is, however, grave danger of the military dictatorship driving the Kuomintang and the legitimate Opposition underground. Secondly, emphasis was laid upon the urgent need for government reform, and wider scope for legitimate opposition within the Kuomintang. Thirdly, it was declared that banditry and communism must be stamped out for good; and lastly, it was agreed that steps must be taken for the relief of the famine areas. This, though a bold and far-reaching declaration, amounts, it may be said, to little more than so much paper, and it must be admitted that Chinese Governments have an unfortunate habit of promulgating law upon law, many of them only destined for some pigeon-hole from the very outset. Hu Han-min, President of the Legislative Yuan, recently boasted that his *Yuan* (department) had been able, within the brief span of two years, to complete laws comprising

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a total of over 6,000 articles. Nanking may, however, change all this, for on the same day as Mr. Hu made his speech, a Chinese News Agency reported Chiang Kai-shek as having said, "If we take stock of what we have done in recent years, we cannot but admit that there is some truth in the general criticism that we only know how to talk, but not how to act, how to draft paper schemes, but not how to carry them out." If the present Government can put some of its good intentions into effect, they may look forward to a period of development and progress such as has never been seen before.

### *The Four Men of 1930*

Chiang Kai-shek has time and again confounded all his critics in recent months. Primarily a soldier, he has won through the most gruelling of struggles, and now he has taken up politics with a will. Three months ago it was the general opinion that he would leave the country; in case of defeat he would be forced to flee; in the event of victory he would withdraw on the cessation of hostilities. He would leave the politicians, people said, to work out their own salvation, and live quietly in some foreign country on the proceeds of his supposedly enormous gains. Contrary to expectation, he had no sooner seen Chengchow fall and attended the Plenary Session than he was back again in the saddle, tackling the problem of bandit suppression. His determination and tenacity are proved, and his activity immense. During his recent short stay in Nanking, his outspokenness was beyond all praise; he has the vision to see the weakness of the Government and the courage to denounce it. His severest critics must admit that he is doing his best to serve his country, and that if his resolve to follow up words with deeds is carried out, China may have turned a corner in the career of Nationalism.

His brother-in-law, Mr. T. V. Soong, the Minister of Finance, deserves as much praise as Chiang Kai-shek himself for the way in which the central Government has

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weathered the storm. In the critical periods of August and September he bore the burden of maintaining the war. It was he who raised the money, floated the loans and faced the creditors. Towards the close he even bought materials for arms and ammunition and concurrently performed the duties of financier, quartermaster and paymaster. For two or three months both foreign and domestic credit depended on him, and there is little doubt that if he had resigned as he threatened to do several times, confidence in the present Government would have been severely shaken. Since the Plenary Session, Soong, too, has been remarkably active, and, like the Generalissimo, he has turned from military to domestic finance with unusual vigour. He has outlined a programme of reorganisation which, if carried out, is bound to have far-reaching effects, and he has an organisation in Nanking which is determined to enforce his decrees. His first measure—the abolition of likin, which for many a year has been a nail in the coffin of trade—will be watched with special interest. Judging from what happened when the coastal duties were done away with and subsequently replaced by a similar impost, the intra-fifty-li duty, it looks as if this reform will take a long time to enforce. The Minister of Finance can, however, be relied upon to make a determined effort to win through where others have failed before him, and the general confidence would be immeasurably strengthened in the Nanking regime if this much needed reform were actually to be carried through.

True to the spirit of the Fourth Plenary Session the Ministry of Finance is endeavouring to organise and unify the finances of the country. New tariffs are to come into force early in 1931, and even though they mean an increase in duty, it will be a tremendous advantage to the trader if he knows for certain what he has to pay, and can forget the uncertainty that always goes with arbitrary exactions.

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Feng Yu-hsiang, the so-called Christian General, is still at large and a menace to Nanking. He has always been a thorn in the side of the central Government. One of the outstanding personalities in China—those who meet him are instantly drawn to Feng. A burly figure with hardy habits and the constitution of a "coolie," his hold over his soldiers is unique. The man's magnetism is shown by the action of one of his doctors, who after being trained and thoroughly Westernised in America, left the peaceful security of a flourishing practice in Shanghai and joined the General in the middle of the discomforts of a campaign in the North. In China few educated men fight for their convictions, and none of them sacrifice assured positions. Feng's whereabouts are unknown, and it remains to be seen whether he will leave the country for good or not ; but it is reasonable to suppose that, broken though he is, if he stays in the North, he will be heard of again.

Young, active and progressive, Chang Hsueh-liang, has still to show himself worthy of the responsible position which he holds. Although he was addicted to certain weaknesses in his youth, there have latterly been indications that, under the steadying influence of his doctors and the responsibilities of his years, his character has grown stronger. His decision to come to Nanking as an envoy of peace was a genuine gesture of goodwill, and while there he committed himself to resolutions which show an enlightened determination to help his country along the road to peace and unity. Whether his zeal will wane when he gets back to the colder atmosphere of Mukden remains to be seen. But there are already doubts whether he will find any way of keeping his undertakings and fears that Mukden and Nanking will not long see eye to eye. Manchuria is more feudal than the rest of China, and it is by no means certain that the lords of the three eastern provinces will agree to the young Marshal's promises. His task is certainly an unenviable one. He not only has his own people



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to please; the responsibility for keeping the balance in the North falls upon his shoulders.

### III. FOREIGN AFFAIRS

IN spite of almost incessant civil war there has been considerable activity upon the "diplomatic front" during 1930. With the signature of the Sino-Japanese tariff treaty in May, and the ratification of the Sino-Dutch treaty in November, China has gained complete tariff autonomy. The small area known as the British Concession in Amoy was handed back under an agreement dated September 17, and the leased territory of Weihaiwei was formally restored on October 1, under a convention signed on April 18. New treaties were also negotiated, with America on the question of arbitration, with France about Indo-China and the adjoining Chinese provinces, and with Czecho-Slovakia and Greece on other subjects. The new agreement was signed on September 19 for the disposal of the British Boxer indemnity, under which the bulk of the remitted indemnity will be utilised in the first instance for the rehabilitation of China's railways, though it will be treated as an investment fund for educational purposes, and the necessary legislation has already been introduced into the House of Commons in London.

Upon the cessation of civil war, the National Government redoubled its efforts to secure the abolition of extra-territoriality, and counter-proposals are understood to have been submitted to the British and American Governments, and to be under consideration. China objected to many of the suggestions submitted to her by the British and American Ministers. Dr. C. T. Wong, Minister of Foreign Affairs, has had unexpected success in his dealings with foreign Powers—except perhaps in the case of Russia. He has managed to draw the Powers into diplomatic discussions and to play off one against the other in a way that would suggest, however erroneously, that China is a law-abiding, centrally controlled and united

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member of the family of nations instead of a country weakened by the ravages of civil war. But the questions of Sino-Russian and Sino-Japanese relations in Manchuria, undoubtedly among the most difficult problems that confront China, remain, and the breakdown of the prolonged negotiations at Moscow arising out of the attempted seizure by the Chinese of the Chinese Eastern Railway, has brought the Sino-Russian question once more sharply to the fore. The Chinese representative, Mo Teh-hui, has returned to Manchuria *re infecta*, the Soviet Government having utterly declined to limit the scope of the conference, as desired by the Chinese, to the settlement of the outstanding questions about the railway, and insisted upon a full-dress discussion of all the matters at issue between the two countries.

The rapid collapse of Chinese resistance on the Manchurian frontier to Russian armed intervention in defence of their rights in the Chinese Eastern Railway has greatly strengthened "Red" influence, particularly at Harbin, the headquarters of the railway administration, and the result has been the wholesale dismissal of superfluous—*i.e.*, non-Communist—Russians from the railway service. The Red penetration of Northern Manchuria is, moreover, being relentlessly pursued, and it is difficult to see how, in the long run, the Chinese authorities with their poor organisation, their inferior troops, and, last but not least, their venal habits, can hope to stem the tide and prevent this rich territory from going the way of Mongolia.

In the South, the Japanese are beginning to feel the pinch. A network of Chinese owned railways has during recent years been spreading on either side of the South Manchurian Railway, and even penetrating the grain-producing districts of the Chinese Eastern Railway zone, with the result that receipts have been greatly reduced, and the revenues of the South Manchurian Railway seriously impaired. The unfriendly attitude of the Chinese

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in Manchuria, due in part to the exaggerated national consciousness now prevalent throughout China as a consequence of intensive Kuomintang propaganda, is rendering the position of the Japanese increasingly difficult, and it remains to be seen whether they will allow, or can afford to allow, themselves to be frozen out of the country altogether. At the time of writing, negotiations are reported to have been initiated between the Chinese and Japanese railways, and the community of interests is such that they might well result to-day in a political pact of wider scope. The task before Mukden is certainly one of extreme difficulty and delicacy, and it remains to be seen whether her leaders possess the qualities of statesmanship which are necessary to maintain her position not only in Manchuria but in the larger political sphere of China proper.

### *Conclusion*

On the surface the outlook in China is brighter than it was six months ago. The Nanking Government has made a more promising start than any of its predecessors, and it has now won through the most serious crisis which has yet confronted it. At its head there are several men whose activities ring true, and they have the support of the most powerful factor for peace—Manchuria.

But below the surface the country is still hampered by the same old fundamental defects—dishonesty and corruption. The great majority have, of course, still to learn the conditions which a people must realise in order to govern themselves. In the spirit of nationalism, the negative element of anti-foreignism is still too strong. But a few who are learning what team work and capacity to take responsibility mean, may in due time leaven the vast lump of China. In the present situation there is food for a tempered optimism.

China,  
January 1931.  
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## CHURCH AND STATE IN FRANCE

*(From a French Contributor)*

### I. DOCTRINE AND POLICY

WE can only understand the history of the relations between the Catholic Church and the French State under the Third Republic if we keep certain facts always before our minds. We must remember that towards the civil power Roman doctrine has been unchanging, Roman practice opportunist. We must be familiar with the traditional policy of the French State towards the Holy See, with the fundamental ideals of French democracy as they emerged from the Revolution of 1789 and with their radical divergence from the ideals of the *Ancien Régime*.

Rome has always asserted in principle the absolute supremacy of the spiritual over the temporal. Catholic theologians have always claimed for the Pope—to use their own terminology—either the possession of the two weapons, direct jurisdiction in the temporal as in the spiritual sphere, or, at least, the possession of the spiritual weapon, and the use, the free disposal, of the temporal weapon through the intermediary of the political sovereign. The first claim is the pure doctrine of theocracy preached by Boniface VIII, the second is known as the theory of indirect power, and has predominated in the teaching of the later Popes and particularly of Leo XIII.

It would be an exaggeration to suggest that these two forms of Papal imperialism are in the last resort indistinguishable. A power which is finite and even subaltern may still

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be a real power: moreover, the Pope to-day claims supreme authority, not over the temporal sphere as such, but in the temporal sphere in so far as spiritual interests are involved. Yet, since in practice there are scarcely any human actions which have no moral significance, since every type of human activity may, in the words of a contemporary authority, "have some bearing on the good of the soul," and since the Church claims to be the sole judge in that cause, it is clear that the Church's right of intervention extends in principle just so far as the Church itself may care to press it. In other words, as the same authority has declared without qualification, it is "in practice sovereign and unlimited."

This being the Roman theory, in its most moderate form, of the relations between the spiritual and the temporal, it was certain that from the outset the civil power in every Christian country would rise in revolt. It was this revolt of the civil power which, with the awakening of the religious conscience, led in the sixteenth century to the secession of the Protestant communities over half Europe. In the countries which remained Catholic, the revolt may be traced in different forms, violent or passive, systematic or casual. In France, from the earliest years of the Monarchy down to the close of the *Ancien Régime*, this revolt was the inspiration of the doctrine known as Gallicanism, which proclaimed, alike under St. Louis and under Philip le Bel, in the time of Henry IV and in that of Louis XIV, that the King of France recognised no sovereign lord in the temporal sphere.

In theory, the opposition between Church and State seems absolute and irreconcilable. But in practice the Holy See reserved the right to compromise where such action seemed likely to benefit or protect the spiritual interests in its keeping. Given the will to compromise, the subtlety of the Italian mind was never at a loss to find the means. The King of France, for his part, was not unmindful of his immense debt to the Roman Church, for the

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Church added to his power a tinge of mysticism through his consecration at Rheims as an *Evêque du dehors*\* and thus enhanced his prestige and his authority. The Church, too, showed especial favour to France as her "eldest daughter," and the Church inculcated in the masses the lively virtues of obedience and devotion. On all these grounds, the King tended to be animated by the desire for an understanding and collaboration with the Papacy. Thus the struggles which through the ages arose between the Roman Church and the French Crown bear more resemblance to frontier disputes than to a conflict of principles, and both sides sought in tacit agreement to lay stress, in the sphere of doctrine, rather on the points which united them than on those on which they were divided.

The eighteenth century brought into play a new factor which was destined to transform the respective positions of the Church of Rome and the French State. That factor was the whole body of ideas and passions—confused perhaps and incoherent, but not on that account any less powerful—associated either with the philosophers of the Encyclopædia or with Jean Jacques Rousseau. From the world of ideas, this force was brought by the Revolution into the world of politics, and through varying fortunes became, as we shall see later, one of the twin souls of French democracy, and, indeed, its essence, at times its poison.

The teachings of the Encyclopædists and of Jean Jacques Rousseau are more often divergent than parallel. But in their anti-Catholicism, which derives from quite different sources, they meet in a common negation. The anti-Catholicism of the Encyclopædists, as expressed in the phrase of Voltaire, *Ecrasons l'infâme*, seeks through Catholicism to overthrow Christianity itself and to replace it by a

\* A phrase used by Renan which may be paraphrased as "Bishop in the temporal sphere." It expresses the notion that, just as a Bishop at his consecration is appointed to watch over the spiritual wellbeing of the people, so the King at his coronation was charged by the Church with a similar sacred trust to watch over their temporal wellbeing

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form of rationalism run wild, whereas Rousseau appears at first sight to be anti-Catholic for the sake of Christianity, which indeed he claims to be restoring to the simple purity of its beginnings. In fact, he leads direct to a form of Christian heresy which we may call for want of a better name "mystical naturalism." Its essence is the substitution, for the traditional threefold dogma common both to Catholics and Protestants, of man created good by Providence, corrupted by sin and saved by grace, of a new threefold dogma of man created good by Nature, corrupted by society and saved by the return to Nature.

The fundamentally anti-Christian policy of the first Revolution was founded on the rationalist fanaticism of Voltaire, whereas in its para-Christian or pseudo-Christian attitude the Third Republic has sought inspiration in Rousseau's mystical naturalism—not without an occasional excursion into the anti-Christianism of the Encyclopædists. But, whether during the Revolution or under the Third Republic, the struggle between French democracy and the Church of Rome ceased to be a quarrel as to authority or jurisdiction and became a war of principles, almost a war of religion—the clash not of the spiritual and the temporal, but of two spirituals, of a Church and a counter-Church.

Yet any account of French democracy, unless it is to be at once inaccurate and unjust, must look beyond the system of ideas which we have here outlined. Those ideas have on many occasions since the Revolution dominated the organs of government in France, but their dominion has only been achieved by the most determined efforts of a fanatical minority. Although the adherents of that minority have not wearied in their claim to be the only representatives of the true Republic, there has always been an important section of the French nation which has accepted the Republic as a form of government without embracing it as a creed. That section has remained firmly attached or at least sympathetic to Catholicism, and the mere existence of this large Catholic or pro-Catholic element

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has acted as a brake on the anti-Catholicism of the only true believers. There have been other checks on the revolutionary proclivities of the extremists. Any Government which neglects the overriding claims of public order and domestic peace will soon founder in universal hatred or ridicule. Moreover, in foreign policy, a permanent civil service has maintained traditions which preserve for France in the outside world the appearance and the interests of a great Catholic Power.

There are times when all these restraints prove inadequate or ineffective and when the sectarianism of the wild men touches our interests, revolts our consciences, and alarms our patriotism to the point of setting up a reaction which may be bourgeois, catholic or nationalist in turn, or even all these at once. It is then that the true Republic gives way to the good Republic, which is not the appanage of any sect or party, but the common heritage of the nation—the Republic which is concerned rather to continue and to develop than to overthrow or to innovate, which has no ambition beyond temporal government and is glad to leave to the Church the right and the duty of spiritual government, only maintaining with some degree of firmness the political traditions of Gallicanism in the mixed domain where spiritual and temporal meet.

## II. FROM THE REVOLUTION TO THE WAR

THE secret of the religious history of France since 1789, and more particularly since 1870, is the alternation, in the control of public life, of the two conceptions of the State mentioned in the last section, the one supported by a considerable majority of the nation, but a majority not easily roused to action, the other represented by a small minority, powerful, dynamic, burning with the desire to convert and to conquer. The anti-Catholic saturnalia of the first Revolution was followed

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by the pro-Catholic reaction of the First Empire, a reaction which continued under the Restoration and the July Monarchy. After a brief reversal during the Revolution of 1848, a new pro-Catholic reaction in the Second Empire survived into the early years of the Third Republic, not merely survived, but prospered, aided by vivid memories of the disasters of 1870 and of the horrors of the Commune.

There is something strange in the strength of this reaction after 1870. At no time possibly, not even in the golden age of the Most Christian Monarchy, has the Catholic Church held so privileged a position in France as during the Septennate of Marshal MacMahon. The Pretender of those days, the Comte de Chambord, made his famous declaration: "To save France, God must reign there as Master for me to reign there as King"—and was thought to foreshadow the early re-establishment of a Monarchy which would be not Catholic only, but Clerical, if by clericalism we mean the intervention, direct or indirect, of the spiritual power in the temporal sphere. It was inevitable that a wave of disapproval should sweep over the most sober sections of French opinion, hostile as they were by tradition to the irruption of religion into politics. Cleverly turned to account by men like Gambetta and Jules Ferry, this sentiment led to the "opportunist" elections of 1877 and to the enactment between 1879 and 1889 of those laws which again confined the Church within the bounds set for her by the Concordat of 1802 and deprived her of such material extensions of her liberty as the open or tacit connivance of subsequent Governments had helped her to obtain.

In their attitude to the religious policy of the Opportunists, French Catholics were divided. One section was disposed to accept that policy with resignation, taking it at its face value and being prepared to assume that it did not go beyond the strict application of the terms of a treaty which the Church had signed. Others, however,

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looked to the spirit which had inspired the movement. They saw the mass of the people being carried away towards radicalism, and as they suspected, not without reason, that the relative moderation of the Opportunists would soon be supplanted by more active hostility, they urged resistance to the law. The Pope, Leo XIII, after hearing representatives of the two groups, decided in favour of the first. The events of the next few years seemed to prove his wisdom, for those were the days when Opportunists and Radicals had no independent majority and no hope of obtaining the solid support of the Socialists. They were driven to court the favour, or at least the neutrality, of the Right. This in itself led to a conciliatory attitude towards the Church, and induced Leo XIII to enjoin on French Catholics acceptance of the established political order. The ten years from 1889 to 1899 were years of peace and of expanding goodwill between the Church and the Republic.

The Dreyfus affair, in which French Catholicism as a whole took sides passionately and almost blindly against the Revisionists, brought about a new alignment of parties in the Parliament elected in 1898. The moderates of the Republican Alliance were driven into the arms of the Radicals and Socialists. Waldeck-Rousseau became the head of the so-called Concentration Government with the support of a majority leaning towards the Left. This was the beginning of a struggle between Church and State in France which was to last for fifteen years (1899-1914).

There were three phases of that conflict.

In the first phase (1899-1902), Parliament, at the instigation of Waldeck-Rousseau, enacted the law dealing with Associations. The objects of the law were to establish under supervision the right of association which had been omitted from the Declaration of 1789 and to apply this right to the specific case of the religious houses. The atmosphere of those days was poisoned and obscured by the smoke of battle, and the law gave rise to violent debates

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and aroused in the minds of Catholics apprehensions which their adversaries often seemed at pains to justify. Yet, to-day, when the dust of these encounters has subsided, we may be allowed to observe that Waldeck-Rousseau, who was both a statesman and a distinguished jurist, only continued and adapted to the circumstances of his time the gallican tradition of the *Ancien Régime*, by claiming for the French State the right to supervise the activities of the religious houses as it supervised those of every other form of association.

On the other hand, in the second phase of the struggle (1902-1906), his successor, Emile Combes, threw tradition to the winds when he changed the law of supervision into a law of exclusion and launched a politico-metaphysical offensive against the Church. We need here only recall the principal events of that phase. Thousands of religious houses were closed, hundreds of religious orders were robbed of their possessions and condemned either to secularisation or exile, even those communities which had been allowed to survive were prohibited from giving instruction. There was the proclamation as the official religion of the Republic of a laicism which made no effort to conceal its anti-Catholic and anti-Christian spirit, then the breaking off of diplomatic relations with the Vatican, the unilateral denunciation of the Concordat and finally the separation of Church and State.

Although this situation continued without any apparent change down to the outbreak of war in 1914, a latent process of evolution had begun with the fall of the Combes Government and even before the final enactment of Separation. Through the efforts of a young Socialist who was then winning his spurs on the field of high politics—M. Aristide Briand—the original draft of the law introduced by Emile Combes was amended in a more liberal sense. From that moment it is possible to trace within the French episcopate a current of opinion favourable to the adoption of a statutory regime which, with all its draw-

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backs—and they were formidable—did at least ensure to the Church in France, henceforth to be disowned by the State, a degree of freedom such as she had never known. It is true that the Pope on this occasion joined the ranks of the party of resistance, condemned the separation law, and forbade the formation of those religious associations which the law itself envisaged for preserving and administering ecclesiastical property. But that Pope was Pius X, unyielding, immersed in mysticism, a stranger to the intellectual subtlety and to the supple diplomacy of a Leo XIII. So, in despite of the Papacy, the Church in France gave way and accepted with dignified courage the conditions of existence which this legislation imposed on her, conditions no less painful from the moral standpoint than they were precarious from the material.

It was not long before courage and dignity attracted to the Church those sympathies which in a generous nation invariably go out to such as bear persecution bravely. A moderate opinion grew up which disapproved the extreme policy of the Combistes and asked only for peace. Parliament was daily more preoccupied with the danger to the nation from without and daily less interested in the religious question. The Courts of Appeal established by their judgments legal precedents in favour of the regular Catholic hierarchy in a series of cases relating to the ownership and use of places of worship. The Council of State took decisions in the same sense, and in 1912, after a campaign conducted by Maurice Barrès, the cathedrals were by decree brought under the care of the Ministry of Fine Arts, and the preservation of most of the French churches was thus assured. Beneath the shelter of this provisional security French Catholicism, now of necessity self-reliant, tried in the furnace, strengthened by freedom, devoted all its resources of energy, patience and perseverance to an effort to win for itself within the Republic that ultimate place to which it considered itself entitled.

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### III. THE RECONCILIATION

THEN came the war and *l'union sacrée*. From their enforced or voluntary exile members of religious communities returned in swarms at the call of France in danger. A great number of priests defied the canonical law which forbids them to shed blood, and enrolled as combatants. (The writer is reminded of Maurice Barrès, who told him in 1914 that he had asked Cardinal Amette what view he took of priests serving in the trenches. The Cardinal had replied: "In law there is no defence, but I should be grieved if they were not there.") The bravery of many of them, the dignity and steadfastness of the Bishop of Lille during the German occupation, the devotion to his cathedral of the Cardinal Archbishop of Rheims in the bombardment, the untiring activity of the Cardinal Archbishop of Paris in the organisation of the *Secours National*, the forthright patriotism preached, and so strikingly practised by the French episcopate, often in the face of other suggestions from a Pope who made little attempt to conceal his sympathy with the enemy—all these things combined with the brotherhood of the battlefield to make it unthinkable that on the morrow of victory there should be a return to the anti-clericalism of those years before the war. How could there be any thought of driving out from the soil of France men who had come of their own free will to offer their lives in its defence? How could there be any thought even of depriving them of any of their rights as citizens, above all of the right of teaching? For them, although the "laic laws" might remain on the statute book, no Government having the courage to propose their repeal, those laws in practice would no longer be enforced.

These sentimental considerations were strengthened by considerations of expediency no less urgent. In the first

### The Reconciliation

place, the return of Alsace and Lorraine into the French family compelled the Government of France to abandon the policy of ignoring the Vatican. The religious status of Alsace and Lorraine was still determined by the Concordat. Under that régime they had lived when they were separated from France, the Germans had respected it and the two provinces had remained strongly attached to it. There could be no question of applying to them by force legislation which had been enacted without their collaboration during the period of their separation from France, legislation, moreover, which the great majority of their population did not want. So, for the time being, they retained the Concordat, with all its implications of continuous contact and permanent co-operation between the French State and the Holy See. But that was not all. The Government wished to facilitate the reassimilation of Alsace and Lorraine into the French family. The remarkable influence of the Catholic clergy in those provinces as the spiritual advisers of the people made it essential that the Government's general policy should win their goodwill, and it was to their supreme head, the Sovereign Pontiff, that Governments were glad to turn, with childlike confidence, for support when they encountered rooted mistrust or hostility amongst the provincial clergy.

A further consideration was the fact that France of to-day had inherited from the *Ancien Régime* a mandate for the protection of Catholics in the Near and Far East, an inheritance which no Government under the Republic had renounced. The most radical of them adopted for domestic use Gambetta's formula "Clericalism is the enemy," but remained loyal outside France to that other maxim of the great tribune "Anti-clericalism is not one of our exports." The Holy See for its part had at no time, even in its fiercest struggles with the Combistes, contemplated any change in the age-long trust held by France in the East, and that for the very simple reason that the relations of the Church with Italy—the only Catholic

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Power which might have been played off against France—were infinitely worse, since she had been robbed by Italy of her temporal possessions, than her relations with France. Shortly before and even during the war, however, signs were observed of a rapprochement between the two Romes; and with the rise of Fascism that rapprochement evolved rapidly towards the full reconciliation which was to be so triumphantly recorded in the Lateran agreements of 1929.\* These developments contained the seeds of danger to the Catholic world as a whole and to France in particular—the danger that the Head of the Church, by long tradition an Italian, would devote to the service of Italy an increasing part of the Church's authority throughout the world and would seek to make of Italy, now returned to the fold, the main protector of Catholicism. Here, then, was another consideration impelling France irresistibly towards a policy of agreement with the Vatican.

This brief analysis would be very far from complete if we did not add that from before the war Catholicism was coming back into favour in those circles which had felt the intellectual influence of men like Barrès and Maurras. To such minds, Catholicism was an organic part of our national heritage, it was a school of duty and an instrument of social peace, it was the custodian of those inestimable qualities of spiritual, moral and intellectual civilisation which are being threatened both from within and from without in the world of to-day. To another group of thinking minds the gradual disappearance of the Catholic missionaries, after the legislation of 1901 to 1905 had dried up the sources from which they were recruited, seemed as time passed to be only a clear loss to France and to the cause of French civilisation and French intellect throughout the world.

These considerations led France in 1920 to abandon the religious policy which she had followed before the war. Paul Deschanel, who owed his election as President of the

\* See THE ROUND TABLE, No. 76, September, 1929, p. 740.

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Republic to the Catholic vote, at once entered into unofficial negotiations with Benedict XV through the intermediary of the Duc de Vendôme. Some months later, Parliament authorised the revival of the Embassy to the Holy See, and M. Jonnart appeared at the Vatican on May 28, 1921, whilst the Papal Nuncio, Monsignor Ceretti, presented his credentials to the Quai d'Orsay on August 6 in the same year.

As early as May, 1920, Benedict XV would have been prepared to announce the withdrawal of the papal ban on canonical associations which complied with the 1905 law, if the French cardinals had not hastened *ad limina* to impress upon His Holiness that French Catholic opinion was not ready for so precipitate a change. But less than four years later, early in 1924, the efforts of a skilful diplomacy and a tactful interpretation of the texts enabled the Pope to give public sanction to the formation of diocesan associations, working under rules which had been drawn up in Rome and passed by three eminent French jurists as in conformity with French law. This meant reconciliation and the dawn of a new sympathy between Church and State.

The movement then set on foot was not interrupted, indeed its pace was scarcely slackened, by the anti-clerical interlude of the Cartel des Gauches. It will be remembered that in his Ministerial declaration in June, 1924, the head of the Cartel, M. Edouard Herriot, did not shrink from announcing as the three principal aims of his majority the suppression of the Embassy to the Vatican, a return to the strict enforcement of the laic laws and the immediate extension to the re-annexed departments of the legislation which applied to the rest of France. For a moment it seemed as though the days of Combism had returned. But the times had changed. The third point in M. Herriot's declaration provoked a storm in Alsace and Lorraine and put the Bishops of Strasbourg and Metz at the head of the protesting patriots of those provinces. In the rest of France, the other points were the cause of profound



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dissatisfaction, not only, as was to be expected, amongst Catholics, but in wide circles of non-Catholics, who were resolved, for the reasons which we have indicated, not to allow the fanaticism of the radicals to rekindle between Frenchmen those religious quarrels which the war had quenched, or to repeat the political blunder of a breach with the Vatican. M. Edouard Herriot was under no illusions as to the strength of this feeling, and at one moment he had in mind a compromise which would have left a special envoy at the Vatican for the affairs of Alsace and Lorraine after the withdrawal of the Ambassador. This proposal, as might have been expected, merely estranged M. Herriot's supporters without placating his opponents. There was a succession of Catholic demonstrations against the Cartel. Meetings of protest organised by General de Castelnau's National Federation brought together tens of thousands of sympathisers at different points in Alsace and Lorraine, and there was justification for the comment of Father de la Brière that these militant activities of the French Catholics had introduced a new factor to the importance of which the Government could not be indifferent. The Archbishops and Cardinals of France launched an open attack on the laic laws. Strikes took place in the schools of Alsace. Simultaneously with these events the financial position of the country rapidly deteriorated, and there is no doubt that the hostility of Catholics and Conservatives to the Government was not without influence on that deterioration. The landslide in the franc exchange inevitably brought back *l'union sacrée* and terminated the political experiments of the Cartel. The way was open for the development of the rapprochement between France and the Vatican.

One of the most remarkable signs of that rapprochement was the public condemnation by Pope Pius XI early in 1927 of Charles Maurras and the *Action Française* movement. It is true that the condemnation of Charles Maurras was no novelty in Rome. All well-informed

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persons were aware that the Committee of the Index had proposed it in 1914 to the then Pope, Pius X, and that he had confirmed the sentence but decided to postpone its publication, either from a personal liking for Charles Maurras or in view of his services to the Church. *Damnabilis, non damnandus* were the words attributed to Pius X on that occasion. But *damnabilis et damnandus* was the judgment of Pius XI, and he condemned not only the writings of Maurras but the whole political movement which derived its inspiration from them. It is not open to doubt that the works and the political activity of Charles Maurras contain ample justification for the papal ban; and yet this inflexible severity towards the only political opposition which might be tiresome or even dangerous to the Republican régime, particularly when that severity followed without warning on a long period of friendly tolerance, suggested that Pius XI was no less desirous of pleasing the French Government than Pius X had seemed at pains to annoy it. We are bound in fairness to add that this new loyalty to their Government was in all probability enjoined on the French Catholics by Pius XI not solely for reasons of diplomatic expediency but because it conformed to the Pope's personal political beliefs. Although as a general principle the Church has no preference for any particular system of government and can in practice come to terms with almost all of them, the personality of the Pope undoubtedly plays an important part in determining the political leanings of the Catholic world. Pius X hated democracy, even when it called itself Christian, and in 1910 he had condemned the political movement known as the *Sillon*, which M. Marc Sangnier had established for the express purpose of endeavouring to reconcile democracy and Catholicism. Pius XI appears to believe reconciliation not only desirable but attainable, and although he has not withdrawn the condemnation of the *Sillon*—withdrawal is not in the Roman tradition—he has neutralised its practical consequences. The new popular

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democratic party has been formed with his consent, even with his active approval. It has already about twenty members in the Chamber and is the recognised successor of the *Sillon*, whose democratic character it has copied and indeed at times pushed almost to the verge of demagoguery. This change of front will not astonish anyone who is familiar with the history of the Church. Catholicism is not, like Protestantism, a middle-class religion; it is a religion of the aristocracy and of the people, with leanings at different periods more to the aristocracy than to the people, or more to the people than to the aristocracy.

The goodwill so strikingly shown by Pius XI was met by a most significant gesture on the part of the French Government. In the autumn of 1928, M. Poincaré, then President of the Council, introduced into the text of the Finance Bill two clauses, 70 and 71. The first proposed to assign to the newly formed diocesan associations the residue of the church property which had not been liquidated or otherwise dealt with since 1905, while the second authorised the Government to issue decrees with the object of restoring to the missionary communities the right of having in France their legal domicile, their novitiates, their houses of retreat and their powers of attorney. No serious objection was taken to the first of these clauses, which was felt to be the logical corollary of the 1924 agreement in regard to diocesan associations. The second, however, met with lively opposition not only in the country, but in the Chamber and even within the Cabinet. Many parliamentarians repudiated a procedure which they thought alien to the spirit of the French parliamentary system, whilst influential sections of public opinion were apprehensive that all the religious communities might slip through the half-open door in the guise of missionaries. After lengthy debates, Clause 71 was struck out of the Finance Bill, and in its place nine Bills relating to nine specific communities were introduced. These nine Bills were passed by the Chamber on March 14, 1929, but they are still before the

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Senate, and it is very doubtful whether the Upper House, in which there is an anti-clerical majority, will ever ratify or even consider them.

Meanwhile the religious communities have lost no time in returning to France—not only the missionary communities in whose favour the Government has declared, but all those which existed in France before the law of 1901, and even some others. There is more than an element of paradox in the contrast between the situation *de jure* and that *de facto*. And yet that paradox reflects both the wish of the French Government to meet the views of Rome, so far as it can do so without alienating powerful currents of French opinion, and the inclination of Rome in certain circumstances to prefer vague and ill-defined arrangements, which the Church can always hope to improve by perseverance and ingenuity, to a precise and restrictive agreement with which she could never feel wholly satisfied. This is, in fact, one of those provisional situations which has more than a chance of enduring.

It must not, however, be overlooked that any understanding between the Holy See and the French Government will be in some sense fragile and insecure until it covers that most disputable of all subjects, education. In both camps, men of eminence have devoted their attention to this aspect of the problem, and there have been many attempts in unofficial discussions to reach some basis of agreement. In defence against the atheism of the lay movement, or against that unqualified "neutrality" which is hardly less abhorrent to her, the Church has set up complete courses of instruction, primary, secondary and higher, given by teachers appointed by the Church in institutions of her own. It is a form of activity in which the Church feels an especial and most legitimate pride; but pride has not been unmixed with anxiety, and perhaps some disillusionment. It has for long been noticed that, whilst some of the ablest defenders of the Church come from the lay universities, many leading anti-clericals have

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been educated in religious institutions. Quite apart from this, the maintenance of a system of private education represents a heavy financial burden on French Catholicism, and this burden is likely to become more oppressive as the State extends to the higher branches the privilege of free education which it already provides in primary schools. On the other side, there are already some French statesmen who are disturbed by the moral deprivation suffered by the younger generations as a result of the ostracism of religion from public instruction. The most liberally-minded of them lean towards the system which has come to be known as *la proportionnelle scolaire*: in other words, they would favour State grants, in proportion to the number of scholars, to every educational institution, secular or religious, which attains a certain standard and accepts some form of supervision. Others would be satisfied—and it is worth noting that the two solutions are not mutually exclusive—if the schools were thrown open to ministers of the different religious sects, and parents were left free to decide whether or not to entrust their children to them. It would seem, then, that if the Church would make some concession, not in principle, but in practice, to “neutrality,” and if the State would discard from its secular character any anti-Catholic or anti-Christian bias, an agreement between them would come within the range of possibility.

This opens a vista of infinite attraction into the future. At its furthest limits we see the end of those misunderstandings between “the two divisions of our youth” which Waldeck-Rousseau in a famous speech long ago denounced, and we see also at last consolidated the moral unity of the nation, which the war in its transitory way brought about. But it is well to remember that the realisation of these hopes and even the maintenance of the unstable equilibrium of to-day may be endangered at any moment by the revival of an uncompromising spirit in Rome or by a new ground-swell of radical fanaticism in France.

## THE UNREST ON THE INDIAN FRONTIER

### I. THE DISTURBANCES ON THE FRONTIER

SUFFICIENT time has now elapsed to make it possible to review the disturbances of last summer on the North-West Frontier of India,\* and to examine the causes which led up to those extraordinary events—tribesmen advancing through British territory right up to places strongly held by British and Indian troops, and, what must seem stranger still, posing as the liberators of the oppressed Indian subjects of the British Empire. The responsibility for a situation which so nearly developed into a grave disaster has also to be determined.

The events themselves may be briefly chronicled; their causes are suggested on a later page. On April 23 last riots broke out in Peshawar city after the arrest of certain orators and office bearers of the Provincial Congress Committee. There were troops in the city, but some thirty hours later these were withdrawn—two of the platoons of the Garhwal regiment had refused to support the police. The Congress Committee thereupon assumed the virtual control of the city; volunteers were posted in the main streets to direct traffic; patrols policed the streets at night and bulletins from the Congress office were placarded every day in the principal square purporting to announce events of interest. This state of things went on for nine days, until the city was re-occupied by troops on May 4, and, by the end of August, though a certain amount of unrest continued, order was restored in the province.

\* For a description of the North-West Frontier see *THE ROUND TABLE*, No. 61, December 1925.

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But we must now turn to the part played by the tribesmen. Exaggerated accounts of the Peshawar riots had reached the Haji of Turangzai,\* who was related by marriage to a landowner in the Peshawar district, named Abdul Ghaffar Khan, who was also vice-president of the Provincial Congress Committee. On May 3 the Haji was reported to be endeavouring to stir up the Bajauris and Mohmands, with the object of attacking Peshawar, and a few days later the Congress Committee in that city published a bulletin announcing that the Haji was on his way to rescue its inhabitants. And within a week he had actually advanced with five or six hundred tribesmen to a point within a couple of miles of the border and only some twenty miles from Peshawar city in a direct line. Here he got into communication with disaffected villagers, remaining on the border until the end of May, when repeated aerial bombardments and the scarcity of supplies broke up his lashkar,† which at this time varied from 500 to 2,000 men, the numbers rising or falling according to the amount of food and munitions available. At the same time efforts were made to induce the Afridis to come down from their hills and to join in a general attack, and there was sniping of posts in the Tribal Agency‡ at night, and an increase in the general unrest. On May 8, it became necessary to take action against the Congress Committee in Kohat city, and subsequently against the committees in Thal and a village named Darsamand on the Tirah border.

On Sunday, May 11, as a result of seditious propaganda

\* See the map in the appendix for the position of the tribes referred to in this article.

† Tribal army.

‡ The hills between the Frontier Province and Afghanistan are occupied by Afridis, Orakzais, Mahsuds, Wazirs and other tribes (Durand settlement 1894), who, except in the Kurram valley and Sherani country, where there is a loose form of British administration, have internal autonomy, though for external relations they are grouped in tribal agencies under political officers drawn from the Indian political service, which is mainly recruited from the Indian army and the Indian civil service.

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from Bannu district in North Waziristan, the British post at Datta Khel was attacked by a lashkar of Madda Khel Wazirs 5,000 strong, and on May 14, aerial action had to be taken against the villages of the offending tribesmen, and a column started out from Razmak. Boya Fort in North Waziristan was attacked on the same day by a Mahsud lashkar 1,300 strong. A report had reached them that Datta Khel Fort had surrendered. The leaders of the lashkar, however, fell in the assault, and their *maliks*\* then induced the tribesmen to retire.

On May 14 the Congress Committee in Bannu city was suppressed, but disaffection had already infected so many of the surrounding villages that order was not restored until the end of August. In South Waziristan, too, there was considerable unrest all through May owing to wild rumours and organised propaganda, and on May 14 a number of Wazirs advanced into Wana plain to loot Wana Camp, which was reported to have been evacuated. Letters were also received in the Orakzai country on the border of the Kohat district on May 17, appealing to the tribesmen to come to the assistance of the people of Peshawar. These appeals continued throughout the month, and were redoubled at the beginning of June when the first Afridi invasion of Peshawar district took place. On May 24 the tribes on the border of the Hazara district were visited by messengers from the Hindustani fanatics of Samasta, who brought a letter declaring a *Jehad*† from their Amir. A similar call was sent round the villages of Lower Swat by the people of the Charsadda subdivision in the Peshawar district, and at the same time the Jihad was preached by the emissaries of the Haji of Turangzai in Dir and Swat. All this took place toward the end of the harvest, a specially favourable time for hostile activities, but fortunately the lack of any leader of influence, and the fact that the people did not know why they were being called upon to perform *Ghaza*,‡ served to check any

\* Chieftains.

† Holy war.

‡ Fighting for the faith.

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large response. On May 25, however, there was a serious demonstration near Mardan in the Peshawar district, in the course of which Mr. Murphy, the Assistant Superintendent of Police, was murdered, and the same day a small Utman Khel lashkar advanced to the border of the Charsadda subdivision and threatened the police station on this part of the border, where they continued to be a source of unrest until June 21 when they were dispersed by a combined force of troops and militia.

On May 30 it became necessary to put a stop to the propaganda of the local Congress Committee in the city of Dera Ismail Khan. The fact that, as soon as the Congress office was seized and the local agents dealt with, trouble came to an end in this district, shows how largely the attitude of the surrounding country was merely imitative and dependent upon events.

On May 31 there was, however, an unfortunate incident in Peshawar city which revived the popular excitement and furnished fresh material for propaganda among the tribes. A rifle accidentally went off while it was being cleaned for inspection at one of the military posts in the city, and two children in a passing tonga were killed on the spot. The mother, too, was wounded. An immediate riot was, with difficulty, averted, but a little later some British troops, returning to their quarters, met the procession escorting the dead bodies of the children, and the crowd refused to make way, attacking the troops, and attempting to seize their rifles. The latter were thereupon forced to open fire in self-defence.

On this same date an Afridi lashkar, estimated at from 1,500 to 2,000 men, was reported to be moving down the Bara valley, and by June 4 it had swelled to 10,000 men with sixteen tribal standards. Although these figures included a certain number of unarmed lads and old men, all sections of the tribe were understood to be represented, and the same evening 2,000 of these tribesmen penetrated into the Peshawar district, where, splitting into two sec-

## The Disturbances on the Frontier

tions, they advanced on the city and its cantonments. On their way they did no harm to any of the villages they passed through. Some 1,000 Afridis are understood to have actually reached the outskirts of the city, but no attack was delivered that night, either because it took too long to reach the positions selected for attack, or possibly because of the smallness of their numbers, and the next day, upon being attacked by the troops from the cantonments, they withdrew. By breaking up into small parties, and thanks undoubtedly to the help of the villagers, they got away with very few casualties.

On June 9 a lashkar of 200 tribesmen appeared on the Agror valley border in the Hazara district, but the Frontier Constabulary forced it to retire, and a second attack on June 10 was also repulsed. About the same time some 2,000 tribesmen were reported in Lower Swat. They moved about at night, and some damage was done to the property of the Canal department, but aeroplanes finally dispersed them. In the meantime the Afridis continued their weekly meetings, and on June 20 the news came that they had decided to take further action against the British Government, though for the moment nothing happened. On the evening of June 22, however, the village of Akbarpura about twenty miles from Peshawar was raided by a body of them disguised as Frontier Constabulary, and the Hindu shopkeepers were relieved of cash and jewellery to the estimated value of Rs.20,000. On July 12 a similar raid was made on a small village in the Mardan subdivision by another gang also disguised as police. These are the only two instances in which injury was done to villagers by tribesmen during the outbreak.

In July the unrest increased all along the border, and on August 1 a meeting of Afridis resolved to raise a lashkar and to attack Peshawar again. The maliks and elders did their best to restrain the younger men and to defeat the resolution, but to no purpose, and on August 3 there was a muster of about 2,000 men with three tribal standards,

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which by August 7 had swelled to 5,000, and by August 9 to 6,000. On the night of August 7 a large body entered Peshawar district, followed the next night by a second party, and by the morning of August 9, there were, report said, some 2,500 Afridis in the district, many of them in the gardens south of the city. At 11 a.m. indeed an Afridi actually succeeded in getting into the cantonments. He was shot after firing at a police sentry at the police station on the east side of the cantonments. The same afternoon a cavalry patrol was attacked near a village two miles from the city, and suffered a few casualties. An Indian officer was captured but subsequently released and told to inform his Colonel that the Afridis were engaged in a religious war from which they would not desist until the British Government gave up oppressing its subjects, and released their religious leaders, Mahatma Gandhi and Abdul Ghaffar Khan. At 6 in the evening a gang attacked the mobilisation store depot near the railway station, setting fire to a store-room before they were ejected, and half an hour later there was another attack on a damaged part of the city walls, which was repulsed with considerable loss by the police. Another party succeeded in holding up traffic by damaging the railway line and attacking a goods train.

On the nights of August 10 and 11, there were further attacks on the city wall and the wired in space behind the railway station, but they were again repulsed by the police. There was also some sniping into the cantonments. It is interesting to note that a city shopkeeper was with one of the attacking parties and killed on the night of the 10th. At last on August 12, the Afridis, having suffered a number of casualties and failed in so many attacks, began to withdraw, and three days later the district was clear, except for a small gang of 200 men which had penetrated beyond Nowshera and, though it did no serious mischief, remained a few days longer. Meanwhile, a lashkar of Massozais had been unsuccessfully threatening certain posts in the Kurram

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Agency on August 7. Another incident calls for notice. A mulla from the Bannu district, a fugitive from arrest, had been moving about North Waziristan with a following of some eighty Wazirs preaching and trying to raise the tribes. On August 25, however, he returned to Bannu district with an armed escort, and attempted to hold a meeting at a village thirteen miles from Bannu in defiance of the legal prohibition. A force of police supported by troops was, therefore, sent to prevent the meeting, and on their arrival a pretence was made of submission. They were told that they must give up the mulla and, while this demand was being discussed, a treacherous attack was suddenly made by the villagers and tribesmen, in the course of which Captain Ashcroft, of the 6/13th Frontier Force, and ten men of his regiment were killed and nine wounded. The attack was beaten off with heavy losses, the mulla himself being among the slain. There was still the menace of another Afridi invasion, but, though it served to keep alive a general sense of insecurity, it came to nothing, and at the end of September the Afridis declared their readiness to come to terms if the Government would grant certain demands. These were the release of all political prisoners, the repeal of ordinances dealing with disorder in India and similar matters in which the tribes had neither interest nor concern.

### II. THE RESPONSIBILITY FOR THE OUTBREAK

SUCH, roughly, is the history of the events of last summer. The outbreak, which started with the riots in Peshawar city on April 23, appears to have taken the authorities by surprise, though there were indications of what was coming, both in recent history and in the violence of the public speeches and writings by which opposition to Government was systematically and openly worked up among a fanatical people some months before the disorder occurred, which should have led to its anticipation. But to arrive at any correct appreciation of the causes which

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facilitated the outbreak it is necessary to go back some years. When constitutional changes were introduced in the form of government in India ten years ago, the reforms granted to the rest of the country were withheld from the frontier province owing to the special conditions which prevail in it. This differential treatment, though accepted without question at first, has in more recent years caused some discontent among a small section of the educated classes in the province, who find themselves deprived of the opportunities of office enjoyed by their contemporaries in other provinces, and it has also been taken up as a bone of contention by politicians belonging to the great Indian communities who, for communal reasons, would like to have the same conditions of government in the North West Frontier Province as in the rest of India. The Mahomedans desire it because of the increased importance that would be brought to their community by the numerical strength that they would thereby gain; the Hindus, that is to say, the Congress or National party, because they claim to present a united demand for the whole of India, whether for Dominion status or independent government. Taken as a whole, however, the people of the province neither desire a new constitution nor do they understand the meaning of the impending changes. Even the educated classes themselves are not united in their demands. There is indeed a considerable party, led by the better educated and wealthy Hindus, which looks upon the possibility of any change with the gravest forebodings, and this section has repeatedly demanded that there should be no change which will weaken the existing British personnel or British authority, or deprive them of the sense of security which they now enjoy. Their fears are such that repeated representations have been made by them on this subject to the authorities; and, in 1928, when a party of Hindu members of the Legislative Assembly visited the Frontier as guests of the Government, a deputation of Hindu residents waited upon them and pointed out the difficulties of their position and the in-

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security which must follow any weakening of the executive government. In reply they were informed that, while they had the full sympathy of their co-religionists in other parts of India, they must sacrifice their personal interests for those of the nation.

In so far then as the introduction of reforms is concerned, it would appear that the people of the Frontier have been merely pawns in a game played by others. It is certain that the constitutional question was not the direct cause of the outbreak in the province, nor of the defection of the tribes. All that can be said is that the prospect of impending constitutional changes has caused a general feeling of unrest, which has been further intensified for the last three years by the visits of the Simon Commission, by debates in the Indian Legislative Assembly, and above all by unrestrained and violent articles in the press. The tolerance shown by Government towards the Congress and its repeated complaisance to growing political demands have led to a widespread belief that its control is weakening.

On the Frontier the communal question is not what it is in the rest of India, for the Mahomedans are in a sufficiently large majority to render Hindu domination impossible under any circumstances. The question does not even arise. The Hindu on the Frontier is there on sufferance, in constant fear of Mahomedan aggression, and when the two communities differ it is usually a result of the repercussion of communal disturbances in other provinces. Among the Mahomedans themselves there are two schools of thought, the older generation of orthodox Khilafatists who are opposed to Congress and its doctrines, and the younger school whose ideas are more advanced. The latter were much affected in 1928-1929 by the events in Afghanistan and resented the overthrow of Amanullah, believing it to have been directly due to the evil machinations of the British Government.

Finally, the application of the Sarda Bill, passed in 1929

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which aimed at the abolition of child marriage among Hindus—to Mahomedans, further increased Mahomedan ill feeling against Government on the Frontier where child marriage, though practically unknown, is permitted by both the Islamic law and religious custom. Mahomedan sentiment, already on the alert and suspicious as a result of the events in Afghanistan, was further inflamed by this apparently wanton interference with their religion, and it hardened against Government. This undoubtedly did much to throw both sections of the Khilafatists into the arms of the Congress. Thus it found the ground already prepared at the end of 1929, when the time approached for its declaration of independence and the inauguration of the mass civil disobedience movement in fulfilment of Gandhi's challenge.

Before the close of the year, then, it was apparent that Congress was making preparations to give effect to its express intention of defying the law, and that these preparations were being extended to the Frontier, where it had hitherto had little following. This extension was made possible by the exacerbation of Mahomedan feeling which was utilised to the full by Congress leaders. Meetings of protest against the Sarda Act, itself a piece of Hindu legislation, were staged and supported by the Congress Committee at Peshawar, and sympathy was extended by the Hindus to their unfortunate and oppressed Mahomedan brethren. The wildest rumours of the forms of oppression which were likely to be exercised under the provisions of this law were set afloat both in the districts and across the border, in the tribal areas. The most offensive of these was to the effect that, before marriage was permitted, Mahomedan girls would be subjected to police or medical examination in order to determine their age. The appointment of certain prominent Mahomedans as office-bearers of the Congress Committees on the Frontier cemented the alliance between the two communities, and thus both joined in the common cause of opposing Government.

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Public meetings for any pretext became more and more frequent in Peshawar city and the treachery and oppression of Government was the favourite, indeed almost the only theme. The enlistment of volunteers for the Congress proceeded apace, the bulk of them being Mahomedans.

Finally, to inflame public feeling still more, arrangements were made to import the most scurrilous newspapers from the Punjab, and to give them the widest circulation in the province. Subsequently four papers modelled on the most virulent of these were started in Peshawar itself. The Press Law, formerly an effective check on seditious publications, had long been repealed, and proscription, the only weapon left to Government, was not only ineffective but even helped to give notoriety to such writings. Deterioration set in so rapidly, and Congress appeared to be so powerful, that by the end of January it was asserted in Peshawar city that the British Raj would shortly disappear.

Simultaneously with this growth of anti-Government and anti-British activity in Peshawar city, an organisation was set on foot in the district to operate in rural areas. The head of this movement was Abdul Ghaffar Khan of Utmanzai in the Charsadda Sub-division, whose name has already been mentioned, and he owed his position to his connection with the Haji of Turangzai who, as we have seen, has taken such a prominent part in stirring up tribal unrest. This association was known as the "Frontier Youth League" or the "Afghan Jirga," and it controlled a volunteer organisation called the "Khudai Khidmat-gharan,"\* better known in official parlance, however, as the "Red Shirt Organisation," from the colour of the uniform adopted. It was laid down in the rules of this association that the object of the league was to attain complete independence by uniting Hindus and Mahomedans, and by causing a political awakening. The actual organisation which came into being in September, 1929, was of the simplest kind, consisting of a committee of forty persons,

\* The servants of God.



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with a working committee of ten. The aim was to establish a district committee in each district, with committees in every subdivision and village. The duty of the village committees, composed of two or three persons only, was to enrol the villagers as volunteers ready to carry out and enforce the orders of the central committee when called upon to do so. The ostensible object of the village committees was to improve social conditions, to discourage violence and immorality, and to deal with complaints and breaches of the law. Thus a boycott was to be put on the courts and a parallel government set up. The system savoured to some extent of Soviet methods, but beyond the fact that one of the office-bearers of the league had at one time undergone a Soviet training, there is nothing to indicate any such connection. Abdul Ghaffar gathered around him a number of lawyers, including office-bearers and supporters of the Congress, but his appeal was more particularly to young men, and the movement rapidly became popular in the rural areas of Peshawar district. Although the slogans adopted were "Long Live Revolution," "Down with the Union Jack," "Up with the National Flag," and even on occasion "Down with King George," instruction was actually concentrated upon the three principles of unity, obedience, and non-violence. In Peshawar district, organisation was the first aim, but by April there was also evidence of revolutionary and anti-British teaching. Abdul Ghaffar Khan twice toured the province in person, accompanied by the secretary of the Provincial Congress Committee (a paid agent) and other members of the Congress, including some lawyers, in order to advertise his Youth League and to establish district branches. Being vice-president of the Provincial Congress Committee he was assisted in his work in each district by members and office-bearers of the local Congress Committees. He proclaimed his association with the All-India Congress which was going to free India from British control, and invited others to join.

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People often ask me to what party I belong (he remarked on one occasion when addressing a public meeting). In my opinion there are no parties in India, and, even if there were, I belong to that party which intends to free the country from the clutches of the tyrant English people, who have not only ruined India but almost the whole Islamic world; who are responsible for the destruction of Afghanistan, and whose hands are still red with the blood of innocent Afghan martyrs. If anyone opposes my party, then let him suggest another, which may point out to me some way whereby I can release not only Islam but the people of the whole world from the clutches of the cruel-hearted English nation. Oh Pathan brothers, what has happened to you? Your brethren and neighbours, the Wazirs, who live only ten miles away, have shed their blood in guarding their bare hills from foreign interference, yet you can do nothing for your very fertile country. You should learn a lesson. There is no better jihad from the point of view of Islam than to free your own country from slavery and a foreign yoke.

Could any issue have been more clearly stated? And this speech was not an isolated example, nor was it delivered at a moment of frenzy, or under conditions which could have explained or made natural a lapse from moderation. It was one of many speeches delivered with a set purpose and the deliberate intent of inflaming the people.

On April 23, 1930, Abdul Ghaffar Khan was arrested under the Frontier Security Regulations with three of the leading office-bearers of his league, and was called upon to furnish security that he would refrain from the dissemination of sedition and be of good behaviour; but he declined to do so, electing to go to gaol. His last words in court were to the effect that a Government under whose *régime* corruption and injustice flourished deserved to be overthrown. He stated that he had been working for this end and would continue to do so, and that he believed that it was the duty of every Moslem to follow in his footsteps.

The action taken against Abdul Ghaffar Khan came too late. The Youth League had by this time been firmly established in a large number of villages, and its organisation extended across the border into lower Swat. Though declared an unlawful association, it continued to extend

## The Unrest on the Indian Frontier

under the direction of new office-bearers. The villagers, incensed at the arrest of their leader, who, in Peshawar district, had posed as a religious reformer and was accepted by the countryside as their saviour from social and economic ills, collected in mass meetings, held parades and roamed about after dark destroying telegraphic communications and ready for more serious action if the tribes succeeded in penetrating into the district, or if anyone could be found with the courage to lead them. It was the want of a leader, the lack of co-ordination and, in spite of repeated tales of British oppression, the absence of any real grievance or true hatred, that enabled the Government to deal with each incident as it arose and to bring the people back to sanity and a realisation of the destructive character of the teachings that they had imbibed. The steps taken on April 23 to check the spread of disaffection in rural areas synchronised with the action taken against the leaders of the agitation in Peshawar city. Here again, however, the effort to stem the rising flood of revolution was too long deferred. The arrest of popular leaders led to immediate rioting, and was followed by increased propaganda both within and across the border.

### III. CAUSES OF UNREST

VARIOUS attempts have been made to find a satisfactory explanation for the defection of the people of the Frontier Province, and for their response to revolutionary teaching. Among the causes suggested have been the wide prevalence of corruption, the costliness and delays of litigation, both of which impose such a heavy burden upon the poor, and the unsuitability of a scholastic education for a people whose needs are chiefly agricultural, and who, in the south-west of the province, live in conditions of dire poverty and distress owing to the scarcity of water. Then there is the increase of unemployment among the middle classes, and the loss of influence and position among the

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upper. But these and other similar grievances could hardly account for a popular revolt, for some of them arise from defects long inherent in our administration, for which a remedy is constantly being sought. There is, however, a growing consciousness of these evils among the people, a readiness to attribute them, and indeed all other social ills, to the British Government, and a belief that they would automatically disappear with the eradication of British rule. They have therefore served political agitators as a text on which to preach revolution.

The creation of disaffection and disorder in the settled districts can clearly be traced to the campaign deliberately organised and carried out under the direction of the Working Committee of the All-India Congress. That fact is established by correspondence addressed to provincial committees by the central body, by action taken in pursuance of the instructions contained in this correspondence and by the public speeches of the more prominent members of provincial and local Congress committees. The extension of disorder to the tribal areas would be a natural sequence of the outbreak of disorder within British territory under normal conditions, for British and tribal territory comprise a more or less homogeneous population, intimately connected by ties of marriage and by a close association of many years. On this occasion, however, the extension of disorder was not left to chance. Relations between the dissatisfied elements in Peshawar city and the Tirah tribes were established in the summer of 1929, when large Afridi and Orakzai *jirgas*\* visited Peshawar at the time of the preliminary attempts to effect a settlement of the Sunni-Shia† dispute in Tirah, and they were entertained by the Congress and Khilafat committees in the city. Again, in March 1930, when another Afridi-Orakzai *jirga* was sitting in Kohat attempting to reach a settlement of this same dispute, the opportunity was taken by Abdul Ghaffar Khan,

\* Tribal council of elders.

† The two great branches of the Mahomedan religion.

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whose activities in lower Swat have already been mentioned, to address the tribesmen, and to advocate unity and the establishment of branches of his Youth League in their territory as well as in British territory. An unceasing propagandist campaign has been carried on by Congress among other tribes both in South and North Waziristan through the instrumentality of theological students, mullas, and other agitators, and vernacular journals, including a magazine in Pushtu published by Abdul Ghaffar Khan in Peshawar district, have been circulated. The dissemination of propaganda has been facilitated both by improved communications and, during recent years, by the influx of money into these districts as a result of road construction. This has enabled the tribesmen to visit the cities in adjoining districts, and they have learned more in this way about political movements in British India and in particular about the civil disobedience movement. Naturally, since it could be defied by the despised Hindu, the belief grew that the British Government was weakening. And when emissaries from Peshawar and other districts brought exaggerated reports of what had taken place in Peshawar city on April 23 and May 31, and spread malicious stories of the way in which religion had been interfered with, of Moslem girls dishonoured and Moslem leaders who dared to protest oppressed, a strong feeling of resentment was aroused. When, to complete the story, it was further alleged that the disaffection of Indian troops and the police showed that the end of the British raj was approaching—for the Government could only rely upon British troops—the opportunity for rebellion and loot seemed too good to lose. No tribal grievances likely to affect the general attitude of the tribes towards the Government have come to light. The revolt can only be ascribed to propaganda, probably, though there is no direct evidence on this point, accompanied by the distribution of money. The factors affecting the Afridis were much the same, except that the propaganda was in their case far more intense. As is

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happening with the Khans in British territory, the influence of the tribal chiefs is weakening. The old feudal system is breaking down with the extension of the British occupation, and the younger men now resist the authority of the elders. The maliks used formerly to strengthen their position by lavish hospitality and by the maintenance of a number of rifles. To-day hospitality is declining; the malik keeps his allowance as far as he can for himself and looks to Government to maintain his position. In consequence he is losing his influence. The revolt, therefore, in tribal areas as in British territory, was against the existing social *régime*, and inspired by a belief that the British Government was about to be overthrown.

But the alliance between Congress and the Pathans, though outwardly sincere, as is shown by the strict discipline which kept the Afridis from looting Hindus and saved the villages during their incursion into Peshawar district, was never a genuine one. If the revolt had succeeded, it could never have lasted. There were, moreover, features in the organisation of the Youth League which definitely indicated that Abdul Ghaffar's real object was to make use of Congress help and organisation just long enough to enable him to establish an independent Pathan State. Unity among Pathans was the text to which he constantly returned in his injunctions, and on one occasion he added the significant warning that a flood was coming from down country and that they must protect themselves from it. There was, however, a general belief among the townspeople that the alliance was sincere, and that there was nothing to fear from the tribesmen. An ex-schoolmaster, one of the principal office-bearers of the Congress Committee of Bannu city, stated that Mahomedan volunteers had been enrolled to assist in maintaining order when the Congress had secured independence, and when questioned as to the part that the tribes would play if British forces were withdrawn, he asserted that they had given an assurance that they would not harm their Hindu brethren. It was this

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belief that led the Hindus of Akbarpura village, contrary to custom, to keep their money and jewellery, of which they were relieved by a gang of Afridis, in their houses. The assertion of the Afridis that they were the liberators of their oppressed brethren, that they were engaged in a holy war from which they would not desist until British oppression ceased and their political leaders were released, and finally the demands which they presented to Government in the autumn that all political prisoners must be set free and the special ordinances withdrawn, are all equally significant, for they indicate both the source of inspiration and the real audience for whose ears these statements and demands were intended. It is impossible to resist the conclusion that the Congress organisation in British India has been the main source of trouble. The whole course of events points to it. No other agency possesses either the intimate knowledge of affairs in India which underlay the propaganda in this instance, or the same facilities for penetrating the area in which this propaganda has been disseminated.

Disaster has been narrowly averted, but the danger remains. Indian extremists have before now shown a reckless disregard of consequences in their endeavours to create trouble on the Frontier for political ends in India. It was so in 1919, when the commencement of the third Afghan war and the outbreak of disorder and rebellion in India so nearly synchronised. It has been so again this year, and we may expect the peril to recur whenever the prevailing circumstances are favourable. History has a habit of repeating itself in India. The Mahomedan has no aversion to seeing the tribesmen resisting British authority. He desires the menace on our border to continue. The position of the British on the Frontier, therefore, must remain precarious. The services are being weakened by Indianisation, and any further weakening of control by the introduction of constitutional changes, which are not understood by the people of the Frontier, or of a form of

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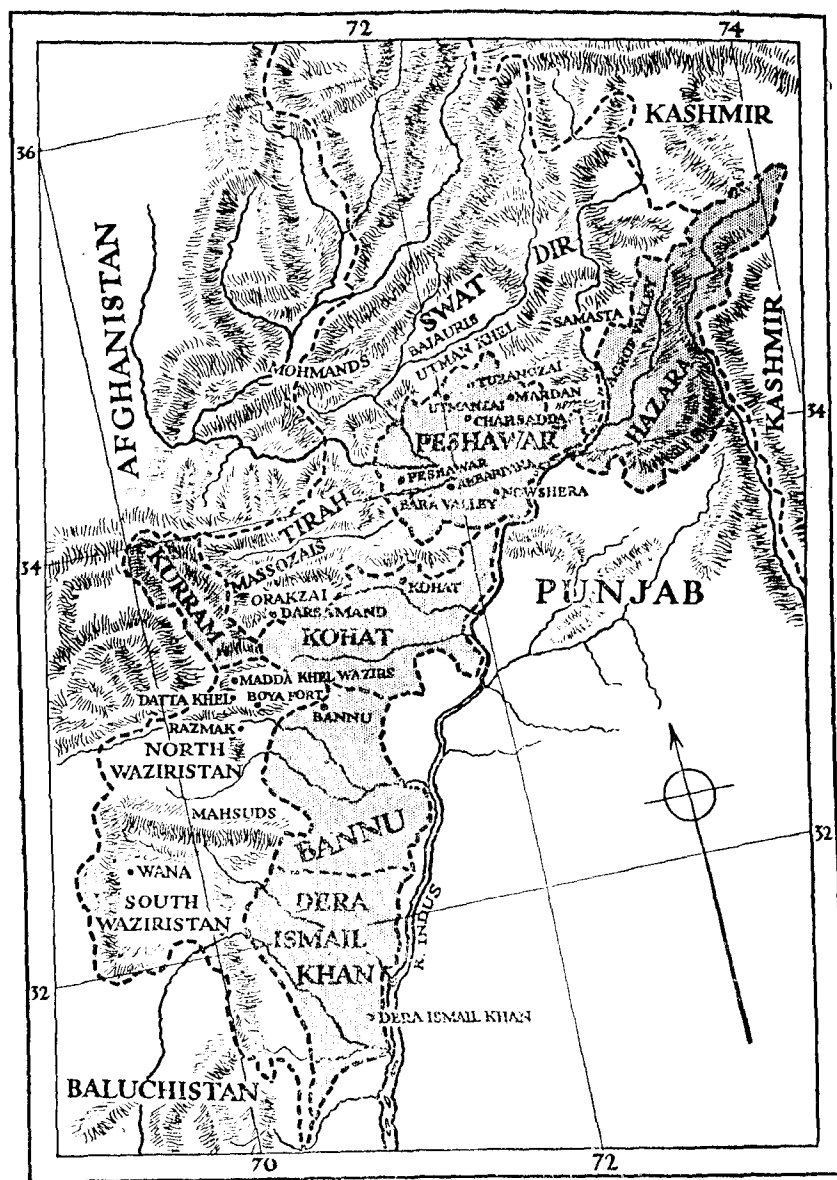
democratic government, which is desired by the Hindu of India but foreign to all Pathan ideas, is necessarily fraught with the gravest danger. In the past we have been repeatedly blind to the consequences of legislation which offends oriental susceptibilities and we have taken no notice of intrigue which is being carried on under our very eyes. We have disregarded threats and talk of revolution, content to drift upon the tide of circumstance. But times are changing. In the hurry of the present day we are losing touch with the masses, on whose contentment the peace and security of India depend; the spirit of unrest and discontent which has been apparent among the educated throughout India for years is increasing; and the antagonism between East and West now takes form in a more constant resort to violence. India will not rest content as she is. Congress has declared for independence and revolution. But should a serious rebellion ever occur, the tribes will sweep down on India, looting and killing as they go, and the supporters of Congress will then reap the harvest that they have sown.

India.

December 1930.

## POSTSCRIPT

Since this article was written, a Committee has been appointed by the Government of India to go into the existing system of tribal control and defence against risings.—EDITOR.



## NORTH WEST PROVINCE and Indications

*Shaded parts denote the territories, British, Indian State & Afghan, adjacent to the  
N. W. FRONTIER.*

*Boundaries -----*

## GOVERNOR - GENERAL AND HIGH COMMISSIONER IN SOUTH AFRICA

**D**URING the heat of the war, hopes ran high in certain quarters, in Great Britain and overseas, that the end of the struggle would see the constitutional bonds of Empire tightened. These hopes were disappointed and, even before the Imperial Conference met in 1921, everyone realised that the order of the day was to be equality and autonomy tempered by that "continuous consultation" which had been the main problem of the Commonwealth ever since the British Government had recognised and welcomed the growing Dominion nationalism of 1907.

Writing on the eve of the 1921 Conference, *THE ROUND TABLE*\* noted that, in accordance with this new status of equality, the Dominions were entitled to appoint plenipotentiaries in London, and that the United Kingdom was similarly entitled to appoint such at the Dominion capitals as the channels of communication between His Majesty's Government and the Dominion Ministries. At that time, the Governors-General discharged that function, as they had always done. But if, as General Smuts was suggesting, the King was to appoint the Governor-General on the recommendation of the Dominion concerned, the United Kingdom would come perilously near to losing a vital part of this equality; for, whereas the Dominions would have the right of choosing whom they would to represent them in London, the right of His Majesty's Government to exercise a similar liberty at

\* See *THE ROUND TABLE*, No. 43, June 1921, p. 553.

## Governor-General and High Commissioner

Ottawa, Canberra, or Capetown-Pretoria, would be virtually denied or, at the least, gravely restricted. THE ROUND TABLE, therefore, suggested that the reasonable course would be to separate—

The formal and social functions of the Governor-General, which are analogous to those of a constitutional monarch, from what may be called his quasi-ambassadorial functions. . . . In the particular case of South Africa the United Kingdom's local representative would have not only quasi-ambassadorial functions, but also those involved in the discharge of the duties at present resting directly upon the Government of the United Kingdom in regard to the administration of Rhodesia, Basutoland, Swaziland, and the Bechuanaland Protectorate. He must clearly, therefore, be a servant of the United Kingdom Government appointed by and directly responsible to it.

In this matter of the Governor-General and the High Commissioner, South Africa is, as she so often likes to remind herself, truly a "particular case." Long ago in the 'fifties, Sir George Grey justified some of his more temerarious acts by the reflection that no mere Governor was saddled with his powers and duties. And that was so. During the years of confusion which followed the Great Trek of the 'thirties, His Majesty's Government realised that the problem in southern Africa was markedly different from those in North America and Australasia. There, it had to deal simply with groups of British colonies; in South Africa, it had to adjust its own and colonial interests to those of republics and native states and tribal territories. In 1846, therefore, it appointed the Cape Governor also High Commissioner for the settling and adjustment of the affairs of the territories in southern Africa—adjacent or contiguous to the eastern and north-eastern "frontier of the colony." Once, in Sir Bartle Frere's time, in 1879, a separate High Commissioner for south-east Africa was appointed temporarily; from 1887 till 1897, when Zululand was incorporated with Natal, the Governor of the colony was also Special Commissioner for Zululand; for the rest, the High Commissioner was always the Governor of Cape

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Colony, until, in 1901, Sir Alfred Milner transferred the office to the Transvaal. In 1910, it was handed on to the Governor-General of the Union.

The present is not the first time that a clean cut between the two offices has been proposed. Prior to the grant of responsible government to the Cape in 1872, the Imperial representative was responsible in the last resort in both his capacities to the Secretary of State. Even before 1872 one High Commissioner at least had admitted that, being paid by the colony, living in its capital and in daily touch with its leaders, he was simply the Governor writ large, and that Great Britain's policy must therefore be guided largely by colonial ideas. The grant of self-government emphasised the distinction between the offices: as Governor, the Imperial representative must be guided by his Ministry; as High Commissioner, by the Home authorities; but it did nothing to reduce the peril that the High Commissioner might be swallowed up by His Excellency the Governor. It was on these very grounds and with an eye to Imperial responsibilities towards the tribes, that in the middle 'eighties the Reverend John Mackenzie, champion of the Empire and the Church in Bechuanaland and still further north, tried to induce His Majesty's Government to separate the two functions. Sir Hercules Robinson, the Governor, would have none of it. An independent High Commissioner, he held, would be costly and might be a highly disturbing element in a land where Imperial and Colonial interests dovetailed so admirably as they did in his own hands. So, matters were left as they were.

That was forty years and more ago. Much has happened since to alter the situation radically. The republics, which used to communicate with His Majesty's Government through the High Commissioner's Office, are gone; the old colonies have joined with them to form a Dominion; many of the native territories of Sir Hercules' day have been absorbed in the Union; the High Commissioner's

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powers in self-governing Southern Rhodesia are less than they were when the British South Africa Company still ruled. The Balfour Report of 1926, and the Sankey Report of 1930,\* have adopted the course foreshadowed by THE ROUND TABLE and, indeed, rendered almost inevitable by the resolutions of the Conference of 1921. The Governor-General is no longer "the representative or agent of His Majesty's Government in Great Britain," he is solely the representative of His Majesty appointed on the responsible advice of the Dominion Ministry. This rule, and the practice that lies behind it, have been applied logically to the "particular case" of South Africa. The decisive step has been taken and the twin offices of Governor-General and High Commissioner have been separated at long last.

In the Union the step has either been warmly approved or regretfully accepted as the necessary consequence of other recent changes. But we note that, in London, grave doubts have been expressed as to the wisdom of the change. Lords Selborne and Buxton, each of whom has served in the joint offices for a full five years, have written to *The Times*; Mr. Ormsby-Gore has also raised that issue there and in the Commons.† After criticising the hasty and almost private manner in which the change has been effected, they ask how far it will operate to make the Governor-Generalship less attractive than it has been hitherto to able men, and, further, what effect the change may have on the impressionable minds of the chiefs and the tribes in the Imperial Territories?

Experience alone can give the answer to the questions raised by these distinguished critics. The powers attached to one office alone must be less than those of the two together. The High Commissioner has power: the Governor-General must rely mainly on influence, and that, admittedly, is not government. But, even though the

\* See THE ROUND TABLE, No. 66, March 1927, and No. 81, December 1930.

† See *The Times*, November 25, 26 and 28, 1930.

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ablest Governor-General cannot hope to be all that the King is, there is much good work that an able man can do by reason of the continuity and prestige of his office, and by tact, even as His Majesty does in Great Britain. We do not feel that, in the person of our new Governor-General, the Earl of Clarendon, the single office has failed to attract an able man this time.

As for the possible repercussion in the Territories and Protectorates, such evidence as is available would seem to indicate that the change is welcomed among those of the natives who are capable of understanding and appreciating what is proposed to be done. Many regard it as a definite declaration by the British Government of its intention to maintain their existing status of being directly governed by the Crown and as a new barrier against Union influence. Whether in actual practice that will be its effect in the long run may, as is foreshadowed at the conclusion of this article, be open to doubt.

On the score of general policy, or, if you prefer, of theory, the reply of the Secretary of State for the Dominions would seem to be unanswerable. "I could not," he said, "undertake the responsibility of having someone controlling native policy who was not responsible to me." That is the position in a nutshell. The Governor-General, in other words, the Ministry of the day, controls the fate of all the natives within the Union; the new High Commissioner, Sir Herbert Stanley, who is due in April and will be welcomed as a man who has had long and intimate experience of southern Africa and of the duties which he will be called upon to perform, will be responsible to "His Majesty's Government in the United Kingdom," whose representative he will be, for the affairs of the three great Native Territories and, to a less extent, those of the Rhodesias. So long as the British authorities control those territories, they must have a man on the spot who is free to see eye to eye with them, to take instructions from them, and to act accordingly. If those offices were to

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remain combined as heretofore, they could not be sure of that, now that the Union Government is to have so decisive a voice in the selection of the Governor-General, and may very well emulate Australia and recommend a South African for that high office. That is the crux of the matter, and the British Government has, as far as we see, faced it in the only possible way.

To sum up, the separation of offices was a necessary step under existing circumstances and probably the advantages will outweigh the disadvantages; and, in so patently an imperfect world, that is the best we can hope for. But there is one possible danger that the critics have not noted. Its gravity need not be exaggerated, but it is well to note its existence. Sir Hercules Robinson fought the appointment of a separate High Commissioner partly on the ground that this obvious intrusion of the "Imperial factor" might alarm the republicans and the colonials of his day. Republicanism is so strong in South Africa to-day that the risk of a little less or a little more encouragement to it may well be taken. The risk of a revived demand for the incorporation of the Territories in the Union is not so slight. Lord Selborne, with some support from within South Africa and without, tried to secure the appointment of a standing commission with wide powers to rule the Territories when they should come under the Union. The scheme was, for all practical purposes, set aside on the plea that there could not be two kings in Brentford: the Commission and the Union Government. In the event, a gentleman's agreement was set forth in the Schedule appended to the South Africa Act of 1909. In those days, the transfer was expected to be speedy. It has not yet taken place, and, as far as we can judge, there is at the moment no pressing demand from within the Union that it should take place, though such demands have been made from time to time. Certainly, there is none from the tribes themselves. But under the new arrangement, those who object to the

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Imperial factor even in its mildest form may well take up the cry that the Territories must be handed over, and the cry may be echoed by Europeans, who in Swaziland and the Bechuanaland Protectorate at least, are numerous enough to be audible. These last will be on the watch lest anything approaching the East African White Paper policy be applied in the Territories. But we cannot flatter ourselves that our record in the matter of native policy since Union has been such as to awaken any enthusiasm on the part of His Majesty's Government for the transfer.

South Africa.

January 1931.



## GREAT BRITAIN

### I. ECONOMY AND UNEMPLOYMENT

#### *The Prospects of a General Election*

“**T**HREATENED men live long.” After an anxious fortnight following the reassembly of Parliament, the Government remains in office, and a dissolution appears to be indefinitely postponed. Those who, a few weeks ago, were encouraged or alarmed by the reopening of dealings in majorities on the Stock Exchange are reminding themselves that Mr. Balfour’s Government, deemed moribund in 1902, lasted until the end of 1905.

But, although the Government has an improved expectation of life, it cannot be said to have earned a lower rate of insurance by any greater manifestation of health. Credit has rightly been given to it for the successful conduct and the hopeful conclusion of the Indian Round Table Conference, and while it lasted there was a lull in responsible criticism evoked by failures in domestic policy. But the lull is over. The patient is now more comfortable for a different reason. His omnipotent doctor—Mr. Lloyd George—is more determined to keep him alive. The doctor has emerged triumphant from a heated consultation with his colleagues, in which those who desired to administer a tonic proved more numerous than those who thought that a body which was so clearly still under the influence of sleeping draughts might as well be given an over-dose, the decisive argument being that, if the patient died, he would be unable to pay his fees, and would be replaced by an obstinately healthy cave-man who would not employ the same doctor.

The official decision of the Liberal party is to keep the Government in, and that decision makes any immediate speculations about the date of an early dissolution merely a waste of time. The Government can count upon 295 Labour and Independent votes, or just 13 short of a

## Economy and Unemployment

majority of the House of Commons. The Unionists can count upon only 262 votes. Forty-six Liberals out of fifty-eight must therefore vote with the Unionists, and the other twelve Liberals must abstain, if the Government is to be defeated. In other words, so long as twelve Liberals are loyal to Mr. Lloyd George, the Government is safe from the attacks of the Opposition, although it may have to reckon with mutinies in its own army such as did in fact lead to a defeat on an important point in the School Attendance Bill. A mutiny, however, is still most unlikely upon any occasion when defeat would involve the resignation of the Government.

#### *Mr. Lloyd George’s Policy*

There have been various comments on the attitude of Mr. Lloyd George, but he himself has never attempted to conceal his motives. He has the lowest opinion of the calibre of the present Government. In the very frank speech in which, on December 5, he laid the situation before his party, he made it perfectly clear that he considered the Government incompetent. But he believes that an immediate general election would give the Unionists an independent majority, and reduce Liberal representation in the House of Commons by at least one-third. He views the prospect of a repetition of the Unionist government of 1924–1929 with horror. “The country cannot,” he said, “be saved by swapping footlers.” Moreover, he fears, not only their administrative incapacity, but their policy of tariffs. His own record suggests a certain fiscal impartiality. It was his government which passed the safeguarding duties in 1921 and only the other day he declared—a dictum resented in his own party—that “free trade is not bound to carry the monster (dumping) on its back.” However that may be, the defence of free trade is now the accepted rallying cry of the Liberal party, and the free trade principles of irreplaceable members of the present Government constitute one of the greatest incentives to Liberals to support

## Great Britain

his strategy of keeping that Government in office. To the defence of free trade, moreover, he added two further arguments. The first was that the present Government was the most likely one to consent to adopt the Liberal policy of intensive development of works. The second was that it has promised the Liberals the alternative vote, which they hope will preserve the balance of power for them in the next House of Commons.

The Liberals have, however, been by no means unanimous in their approval of this programme. Sir Robert Hutchison, the chief whip, resigned his office; Sir John Simon considered that it was only consistent with the principles of an independent and self-respecting party to turn out a Government which had signally failed in practically all their undertakings and wrote to Mr. Lloyd George on October 25 to say so. A policy of keeping the Government in at all costs would, he believes, force Liberals to be equivocal upon questions with regard to which it was their clear duty to be unequivocal. He holds that these are clever tactics more likely to damn than to save the Liberal party. And the policy adopted has already been put to the test. Upon the second reading of the Trade Disputes Bill, on January 22, Mr. Birkett, the official spokesman of the Liberal party, pronounced a criticism of the Bill only less devastating than that of Sir John Simon himself. The Liberals abstained from voting in sufficient numbers to permit of the Bill passing its second reading. Their intention is, however, to have it drastically altered in Committee. More recently another body of Liberals have challenged, not only Mr. Lloyd George's tactics, but also his policy. The Liberal Council—a body founded four years ago by Liberals dissatisfied with Mr. Lloyd George's leadership—headed by Lord Grey and Mr. Runciman, have launched a campaign for economy, and have expressly repudiated the policy, upon which the party fought the last election, of raising a national loan of £250,000,000 and spending it upon development works. This repudiation shows that the

## Economy and Unemployment

Liberal Council are not merely trying to emphasise that part of the official Liberal policy which proposes again to review expenditure after the manner of the Geddes Committee in 1921. There is an undisguised split upon principles within the Liberal party. In the writer's view, however, the quarrel will not affect the Parliamentary position nor prevent Mr. Lloyd George from keeping the Government in, if he likes, and he has already modified his policy to the extent of now being content with the raising of loans by instalments to finance plans previously approved.

### *Economy and Budget Prospects*

Meanwhile, there are signs that economy may, in effect, become the issue which will decide the colour of political labels. Two remarkable memoranda submitted to the Royal Commission on Unemployment Insurance by the Treasury and by the Government actuary, have confirmed the estimate made in an earlier issue of the *ROUND TABLE*\* that the cost of unemployment would destroy the balance of this year's and next year's budget. Even if the numbers of the unemployed do not increase it is estimated that £135,000,000 will be paid out during the next financial year in unemployment benefit, of which only £30,000,000 will be found by employers and employed. Of the remaining £105,000,000 (assuming that the system is not changed) £55,000,000† will be met by taxation, and £50,000,000† by borrowing. Since the total of the statutory sinking fund on the National Debt is £50,400,000, this means that under the head of unemployment alone Mr. Snowden will have to incur as much in the way of debt as he repays. The Treasury memorandum utters the warning that the situation will contain every mark of an unbalanced budget. If Mr. Snowden is to fulfil his qualified promise not to increase taxation, he will have to find from other sources the following sums:

\* See *THE ROUND TABLE*, No. 81, December 1930, p. 136

† Maximum estimate in Treasury memorandum. (*Times*, Jan. 20.)

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(1) The deficit in the coming budget, at this stage a matter of speculation, say, £15,000,000\* (apart from a further £35,000,000 representing borrowing on behalf of the Unemployment Insurance Fund).

(2) The difference between the cost of unemployment in 1931-32 and the cost as stated in the budget estimates for 1930-31, which may amount to £70,000,000 (£20,000,000 more from the Exchequer and £50,000,000, which, under the present system, would be borrowed, but which, upon sound financial principles, would also, in view of the size of the debt, be found by the Exchequer).

(3) The amount by which the revenue for 1931-32 will fall short of the revenue for 1930-31 on the existing basis of taxation. The ordinary commentator has no criteria on which to base an estimate of this amount. It has been put by Mr. Oliver Stanley at £15,000,000.

These three items together would amount to £100,000,000. If the whole sinking fund were raided there would, on this basis, still be a deficit of some £50,000,000. It is true that there are certain "nest eggs" in the Treasury, notably the reserve established when this country returned to the gold standard, which is said to amount to £33,000,000, and the cheapness of short-term money, if it continues, may reduce the cost of the floating debt by £10,000,000 more than was estimated for 1930-31. But if all these figures are only approximately correct, it follows that either the sinking fund will be entirely suspended, or taxation will be heavily increased, and even these unpleasant alternatives assume that no new commitments will be entered into. Mr. Snowden has frankly confessed the difficulties of the position in a remarkable warning uttered during a debate on economy in the House of Commons on February 11. He admitted that he would have a large deficit; declared that any increase in the taxation falling upon industry would be the last straw; appealed for a common effort and sacrifices all

\* In the *Economist* of Jan. 3, the figure was put as high as £25 to £35 million.

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round, and for the largest sacrifices from those best able to make them. He announced that expensive projects would have to wait for a return of prosperity. He was quite ready to consider the Liberal proposal for a fresh Geddes committee. This statement created amazement and alarm among Socialist members, who feared that it meant drastic cuts in the social services and a halt in expenditure generally. The next day, however, the Prime Minister accepted the Liberal policy of development work put forward in a motion by Sir Herbert Samuel, proposing, not the original Liberal policy of a loan of £250,000,000 in advance—that had been rejected by the Government which saw no good in borrowing money first and then selecting the objects on which it was to be spent afterwards—but the amended policy already referred to of meeting the problem of unemployment by getting an active policy of national development works adopted by the Government and leaving the cost of the different schemes to be met by loans from time to time, as required. In his acceptance of Sir Herbert Samuel's motion which, for the immediate future at all events, cements the Liberal-Labour entente, the Prime Minister made it clear that the Government intended to speed up their existing programme of such works, and, among other things, to carry through their Agricultural Bills, which will involve considerable expenditure; while a Treasury Memorandum published on the same day showed that they propose to continue unaltered for a further eight months the present system of unemployment insurance, which will involve increasing the borrowing powers of the Fund by £20,000,000, and spending £30,000,000 from the Exchequer for transitional benefit during 1931-32. In these circumstances the political world is puzzled to know what Mr. Snowden's warning meant.

### *Legislation*

The Government have been widely criticised on the ground that their programme of legislation has been almost

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entirely political in character, whereas the urgent national problems are all economic. All their principal measures have been roughly handled. The interest of their Bill for raising the school age has been rendered academic for the present by an amendment against the Government providing that it shall not come into force until agreement is reached upon the question of how State assistance is to be given to denominational schools. The Government chose to regard their defeat as involving no question of principle, but the agreement upon which the operation of the Bill depends seems, at the moment of writing, to be as far off as ever. The Trade Disputes Bill was duly introduced at the instance of the trade unions to amend the Act passed by the late Government in consequence of the 1926 general strike. Under this Bill strikes, whether ordinary or sympathetic, would be illegal only if their primary object is non-industrial. It proposes also to restore the power of trade unions to impose a political levy on their members subject to approval of such a levy by a ballot of members, and to the right of every individual member to declare his desire to be exempt; to restore the right of civil service unions to take political action, and to allow local authorities to insist upon their employees belonging to a trade union. The question came up with the Bill whether it was intended to legalise such strikes as the general strike of 1926, which was declared ostensibly to support the industrial strike in the mining industry. In the view of the trade unions who prompted the measure, and who have always contended that the general strike was legal, the answer was in the affirmative; did not the Bill itself show this? The Attorney-General declared that the legality or illegality of an exact repetition of the general strike of 1926 would depend upon whether the main object of that strike had been industrial or political; that the answer to that question depended upon the ascertainment of unascertained facts; the Bill dealt solely with the future, and it would make a strike illegal only if the courts held that its main object was not industrial. The

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Solicitor-General's view was, however, that the general strike would be illegal under the Bill, because the courts would have held that the primary object of the strike was not industrial—a view which gravely disquieted the trade unions. The chairman of the Trade Union Congress, indeed, stated that they would not have endorsed the Bill if they had realised this. This point, however, and indeed most others in the Bill, seems, as in the case of the Education Bill, likely to become academic. The Bill secured a second reading owing to the abstention of all but eight Liberals, but the speech already referred to in which Mr. Birkett defined the official Liberal attitude announced the impending destruction or drastic amendment of every important point in Committee. He approved of the definition of intimidation and he had no love for the Conservative Act of 1927, but he did not consider that the Bill restored the position as it was before that Act, and he believed that the 1926 general strike would have been legal under it. He objected to the necessity of obtaining a declaration of the High Court before criminal proceedings, to the substitution of the principle of "contracting out" for "contracting in," to the freedom given to civil servants to strike, and to the right conferred on local authorities of requiring their employees to join a union. It therefore seems as certain as anything can be in politics that the Bill will never reach the Statute Book in any form capable of giving satisfaction to its authors.

The second big measure introduced has been the Electoral Reform Bill, which proposes to introduce the alternative vote at any election when there are more than two candidates, to abolish plural voting and university representation, and to forbid the use of motor-cars at elections except those which are placed at the disposal of returning officers for equal distribution among the rival parties. The only special representation to survive will be that of the City of London. The Bill is commonly regarded as an attempt to consolidate Liberal support of the Government. Rightly or wrongly, Liberals, as already mentioned, believe

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that the alternative vote will increase their representation in the next House of Commons, and make an independent Unionist majority less likely. The system is not popular with Labour, but the Bill would, they consider, do away with the weighting of the franchise in favour of wealth. The argument for the Bill, apart from party considerations, is that the present electoral system does allow a party to obtain an independent majority in Parliament based upon a minority of votes in the country, and is therefore anathema to all those who think that the House of Commons should be a mirror of public opinion. The argument against the Bill, apart from any suspicions of the causes of its introduction, is that the alternative vote seems likely to guarantee a deadlock between parties in the Commons, and therefore indecision in Parliament, while the abolition of university representation is distasteful to those who think that the House of Commons should guide rather than reflect popular opinion. There is no ground for compromise on this matter of principle. On the one hand those who believe that democracy must be interpreted as the counting of heads will not be really satisfied with anything less than proportional representation, because the alternative vote does not guarantee the representation of minorities, and on the other hand there is the danger of the taxing authority reflecting an electorate, the vast majority of which is not conscious of paying any taxes at all. But once again the Bill, like the Trade Disputes Bill, seems destined for immediate purposes to be only a text for debate. The motor-car and university representation clauses are by no means sure of surviving Committee, and there is little chance of the Bill in its present form being passed through the House of Lords, except under the Parliament Act—a procedure which involves a delay of at least two years. Another possibility is that the House of Lords will substitute proportional representation for the alternative vote, as they did in 1918. Proportional representation is more popular with the Liberals, and might be accepted by the

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Unionists as the lesser of two evils should they be convinced that a change of some kind is inevitable; but it is anathema to Labour, and therefore, if proportional representation were to be inserted by the Lords, the Government would have either to drop the Bill or court certain defeat. If defeated they must resign, and the Bill would not go back to the Lords. The chances are therefore that the Bill will never reach the Statute Book at all.

Other Bills now going through the House embody a first instalment of the Government's agricultural policy. The first proposes largely to extend small holdings and allotments as a measure of unemployment relief, and to carry out experiments in large-scale farming. The second Bill proposes to organise the agricultural industry compulsorily for marketing purposes. Both measures (save for the extension of allotments) have been hotly challenged on the ground that nothing will save agriculture except better prices, and that, if prices are better, nothing else is necessary. This feeling is shared to some extent by that section of the Labour party who desire Import Boards, and they are using it as a lever to press their favourite project, without so far being able to extract anything definite from the Government. Other measures, such as the Consumers' Council Bill, the Factories Bill, the Eight Hours Bill, are still in abeyance. One possible reason for the delay is that the Government, after their experience of the operation of the Coal Mines Act, are more ready than they were to take into account the economic difficulties of industry. Another Act which has so far produced no results is the Housing Act, designed to clear the slums. It is said that local authorities have nearly finished submitting their five-year building programmes, and that it will soon be possible to go ahead. But the fear is expressed that the only result of the Act will be to attain the same number of houses at a greatly increased cost. The Act is criticised on the ground that it is imperfectly designed; that it gives a bigger subsidy, but does nothing to prevent any sudden

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increase in demand resulting in a serious rise in prices ; that it does nothing to secure that slum dwellers shall in fact inhabit the new houses ; nor to prevent the creation of new slums. These dangers were no doubt in the mind of the Prime Minister in the House of Commons on February 12, when he indicated that the operation of the Act would be supplemented by an agreement with the building industry upon programmes and prices

### *External Affairs*

Foreign Affairs, in the usual sense of the word, have been featureless. The Naval Treaties have not been rounded off by any subsidiary agreement between France and Italy. Mr. Henderson has made a good impression at Geneva, where the Preparatory Commission on Disarmament has completed a draft convention for submission to an international conference early next year. The Convention suggests that disarmament should be secured by limitations on length of service and on annual expenditure on armaments. Lord Robert Cecil has pointed out the extremely critical character of next year's Conference. The fear is that, if it fails, Germany will claim the right to re-arm, with terrible repercussions upon the stability of the European situation.

Meanwhile the attention of British politicians is concentrated upon our relations with Soviet Russia. Considerable evidence has been brought forward to show that the timber exported from Russia is prepared by convict labour indistinguishable from slave labour, and the British Government has been hotly pressed to prohibit its importation, or at least to inquire into the truth of the allegations. Both requests have been refused. The Prime Minister has sought to brush them aside as instances of Unionist propaganda, and declared that nothing could be done without hurting the susceptibilities of a sovereign State. It is a pity that Anglo-Russian relations should be so acute an issue in British domestic politics as to make their

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continuance and their rupture respectively points of honour in party programmes. This is the more regrettable because, should the Soviet Five-Year plan follow its present lines, Russian exports will undoubtedly ultimately constitute an economic problem which will have to be treated without prejudice of any kind.

Finally, the Indian situation has reached a critical stage. The broader issues involved in the Round Table Conference's conclusions are dealt with elsewhere. As far as British politics are concerned there have been two main results. The first is that India will not, if the present leaders of parties can help it, become an issue in British politics. The second is that Indians now know the most they can expect from any conceivable British Government.

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WITH the continued fall in prices, the great increase in unemployment, and the spread of the belief that inelastic money wages are one of the main handicaps on British industry, it is not surprising that movements for wage reductions are now gathering strength. They will probably fill the industrial landscape in the next twelve months. So far, however, demands for wage reductions to overtake the fall in prices have not caused any serious stoppage of labour. The two considerable crises of the winter arose from rather different causes. That in the coal industry was due to the attempted fulfilment, in the middle of the trade depression, of the Government's election pledge to reduce miners' hours without reducing their wages ; economic circumstances combined to whittle away the benefit Parliament had bestowed. That in the cotton industry was due to the innate traditionalism of Lancashire ; primitive instincts of fear and suspicion combined with imperfect conciliation machinery to produce a long stoppage in the most precariously situated of our great exporting industries.

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### Coal

The coal disputes might have been very much worse, but as it was the greater part of the Scottish coalfield was stopped from December 1 to 6, and the South Wales coalfield from January 1 to 17. When the Coal Mines Act was passed last year, it was contemplated that, before the reduction of miners' hours underground to  $7\frac{1}{2}$  a day took place, there would have been three months' experience of the working of the marketing schemes, and the owners, having regulated prices and output, would be in a better position to meet heavier labour costs. The marketing schemes were not, however, ready to operate until the end of the year, and November found the industry little prepared to meet a change in hours on the statutory date, December 1. In the eight hour districts the owners were not ready to concede a reduction of half an hour without some reduction of wages. The men, while they cared more about wages than hours, were reluctant to take advantage of the alternative under the Act—the "spreadover" clause, which permits a district, with the approval of the Mining Association and the Miners Federation, to work up to a maximum of eight hours a day so long as the total hours, averaged over a fortnight, do not exceed ninety.

The delegate conference of the Miners Federation on November 28 was asked to endorse the spreadover as the only way to save wages. But, confounding all prophecy and defying the advice of its officials, the conference turned down the spreadover and prepared to test opinion on a national strike for the  $7\frac{1}{2}$  hour day with no wage reductions. The influence behind this grave decision—a reversion to the "all or nothing" policy of 1926—was the non-combatant districts of Yorkshire, Notts and Derby, which have worked a  $7\frac{1}{2}$  hour day since 1926, and Northumberland and Durham, where hewers work  $7\frac{1}{2}$  hours. Their attitude was that it was the Government's business to

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see that its pledge was fulfilled. A widespread stoppage was only averted by the action of the officials of the Federation, who were ready, for the sake of peace, to disregard their representative body, and to back the Government in an appeal to the districts to continue at work at all costs until another conference could undo the mischief.

By its decision of November 28, the delegate conference had made anything longer than a  $7\frac{1}{2}$  hour day illegal from December 1. Most districts fell in with the law, but in South Wales and Scotland an 8-hour spreadover (of 11 days a fortnight) was the hard alternative to heavy wage reductions. Rather than have a stoppage, the Government winked at the illegality of an unauthorised spreadover, but the Scottish miners struck rather than defy the Act which they were urged to break. They soon, however, bowed to the Prime Minister's appeal, and while the next conference of the Federation still voted against the spreadover, it allowed its decision to be neutralised and side-tracked.

Agreements for three and four months were then arranged in the districts, and with the help of the National Industrial Board, spreadover terms of from  $7\frac{1}{2}$  to 8 hours, without substantial changes in wages, were agreed on. The South Wales owners would not recognise the Board and insisted on pressing for wage reductions, irrespective of the arrangement on hours. After a stoppage of a fortnight, a long term settlement was reached (with government help) by which the owners conceded a  $7\frac{1}{2}$  hour day, and the men took the risk of having wages reduced by the arbitration award of an independent chairman.

The immediate crisis is over, but the hours difficulty is already arising again, as the district agreements come up for revision, and it will reach an acute form when the decision has to be taken on the lapsing of the Act of 1926. Without fresh legislation, hours will drop to a uniform seven a day in July—a far greater economic upheaval than that of December. Delicate negotiations must soon be

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begun. Mr. Shinwell, the Secretary for Mines, is moving to devise an agreed policy on hours, but it will be no easy task to persuade the miners to acquiesce in another postponement of their hopes. The events of December, disturbing though they were, at all events showed that the miners are not oblivious to the economic difficulties of the industry, and Mr. Shinwell may succeed. He is also trying hard to secure an international Convention on hours at Geneva, and to secure an agreement on markets with Germany and Poland. The international argument may be conclusive in gaining for the industry the breathing space that it so badly needs.

### *Cotton*

In spite of the fatality which seems to dog it, one can have more hope for the recovery of British coal mining than for the recovery of the Lancashire cotton industry. The dispute which has thrown idle most of the weaving mills is a revelation of deep rooted industrial conservatism which reflects, unhappily, the spirit of a whole industry. Lancashire, with the same quantity of machinery as before the war is now producing little more than half its pre-war output. The present depression has merely accentuated a progressive decline in the exports on which the industry depends. But although the industry has no lack of counsellors, and although its more active minds, through the Joint Committee of Cotton Trade Organisations, and the Government, through its chief industrial adviser, are working continuously to promote reforms, the results have been extremely disappointing. Since the formation of the Lancashire Cotton Corporation two years ago, almost all efforts to amalgamate the industry's innumerable small units and to improve marketing methods have broken on the hard grained sectionalism which not even disaster can disturb.

A desperate pessimism is common to employers and operatives alike. On the long view the weavers' opposition

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to the "more looms system" will probably appear in the same light as their ancestors' opposition to the introduction of the spinning jenny or the power loom—a futile revolt against a labour saving device. Much of the successful competition of other countries is due to their adoption of the automatic loom, on which, although the capital outlay is large, labour costs are small, as one weaver can attend to as many as 20 or more looms. Lancashire has been slow to take up the automatic loom (partly owing to labour's opposition), and now that the mistake is realised employers lack the capital or confidence to modernise their weaving sheds. They have therefore turned to the half measure of economising on the labour costs of their machinery by giving the weaver more ordinary looms to run. This is not so drastic as it sounds, as the machinery is run more slowly, and the weaver is relieved of subsidiary, unskilled duties. Instead of four looms to a weaver being the normal maximum, it is possible under this system to extend the number to six, eight or ten. So far it is applicable to only a small part of Lancashire's production—no one claims it to be a general panacea—but where it can be used, it is said to save 20 per cent. on weaving costs, while at the same time affording the individual weaver a higher wage.

By joint agreement twelve months' trial was given to the system at Burnley, but when more permanent terms came to be discussed last April, irreconcilable differences presented themselves. The weavers, who at first looked on the experiment with some favour, developed intense hostility. They came to view the system as a menace to their customary standards of life. It would, they believed, reduce the demand for weavers by 40 per cent.; it would disturb the family basis of the income of the weaver's household, in which both husband and wife go out to work. Whatever the employers might say, it was impossible for them to convince the weavers that the system was not a trick for reducing wages all round. A further



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argument was added that, so long as the employers refused to reorganise, labour should not be sacrificed to prolong inefficiency.

Sometimes the weavers opposed the system on pure general principles such as these, sometimes on the narrower grounds of the inadequacy of the new wages list offered by the employers. But, on whatever point they took their stand, they refused to give their leaders any power to negotiate on the employers' proposals for the gradual extension of the system, under joint regulation and control. With the hands of the union tied so fast that all the efforts of the Government could not untie them, and with the employers restive after nine months of abortive discussion, the stoppages began, first in strikes at 14 mills, then in a lockout at Burnley, and finally, on January 17, in a general lockout of the weaving mills.

Both sides committed grave tactical mistakes. The employers might have done a great deal more to reassure the weavers in the early stages of the dispute, and to convince them that no revolutionary changes were intended, and that decent wages would be paid. The weavers' union has been lacking in consistent leadership. But the greatest interest of this remarkable dispute lies in its illustration of how little pure reason and nice calculation of economic loss and gain can prevail against a wave of mass emotion. The Lancashire weavers, among whom women are more numerous than men, have been worked up into a state of panic. The industry seems to be collapsing around them, and they cling to what scrap of security they feel they have in their old workshop customs and wages methods. Their fears are almost certainly greatly exaggerated, and, in any case, blind resistance to change and frantic demands for salvation through State control are no substitutes for normal methods of collective bargaining. The Government, for all its sympathy with workers in distress, has thrown its influence on the side of a settlement through a further trial of the system on scientific lines. The employers

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are willing to grant it, and the weavers' executive has proposed it to its members. So far, however, all compromise has been refused; the weavers have rejected the advice of their executive and feeling has hardened. In few industries, perhaps, would such violent opposition to a minor change in organisation have been possible, but Lancashire has a long industrial history. The resistance might have been less strong, but for a very modern influence, that of unemployment insurance benefit; a third or more of the weaving population is being supported from State funds, and their votes, along with those of the operatives working for non-federated firms, have gone against a system which, they think, will lessen the amount of work to go round. The tragedy of it is that whatever the issue may be—and the present dispute may not settle it—a large proportion of the Lancashire weavers can never look forward to continuous employment again. Every measure of rationalisation can only intensify the problem of the surplus labour of this contracting industry.

It will be some weeks before we can know the issue of the railway companies' movement for all-round wage reductions. The National Wages Board has taken nearly a month to hear the evidence from the companies and the unions, and must take time to prepare its findings. Our comments must be reserved for a future issue.

The engineering, building, pottery, textile finishing, and boot and shoe industries are others in which the resources of collective bargaining are now being tested. We can only hope that the more friendly and realistic spirit which has entered into industrial relations since 1926 will help us in what promises to be a difficult period of transition.

### *Postscript.*

At the moment of going to press the news comes that the cotton lock-out, after lasting a month, was called off on February 13, the morning after Mr. Snowden's speech, and

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just before the Prime Minister's. It is interesting to note that Mr. Snowden's warning was one of the reasons given by the employers for their action. The employers acted courageously and wisely in reopening their mills and discontinuing the more looms experiment. The alternative was a long, desperate struggle from which no one could gain. Now, in a calmer atmosphere, there will shortly be another approach to the whole range of problems of reorganisation with, we may expect, better results. This time the operatives will be more ready to play their part, and the experience will not have been lost on the employers.

## IRELAND : EVENTS IN THE FREE STATE

### I. POLITICAL

IT would never do to open a session of the Dail with a King's Speech. Not only would such procedure needlessly enrage Mr. de Valera and his followers, but it might even convince the backwoods supporters of the Government, who are not well versed in constitutional fictions, that our national policy is really being settled in London. The necessity for some such statement of programme and policy is obvious, and when the Dail re-assembled after the recess on November 19 Mr. Cosgrave took the opportunity to give a general survey of the economic condition of the country and to indicate the steps which his Government have taken and propose to take to deal with such difficulties as have arisen. The story he had to tell was entirely reassuring. As regards our foreign trade, in spite of the widespread fall in prices, our exports have increased substantially during the past four years, and the adverse balance of our visible trade has fallen from £19·3 millions in 1926 to £10·2 millions for the year ending September 30, 1930—a drop of no less than 47 per cent. An analysis of the available trade returns for forty-three countries for the first eight months of the year 1930 shows that only in nine others has the value of exports increased as compared with the corresponding period in 1929. The aggregate actual income of Free State tax-

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payers assessed for income tax purposes has increased by £4.75 millions during the period 1923-24 to 1928-29. The average number of persons registered as unemployed during the year 1930 up to the end of October is 50 per cent. lower than the average number registered during 1922. The number of persons insured under the Unemployment Insurance Acts has increased steadily from 242,494 in 1922-23 to 284,382 in 1928-29. Since 1923 we have floated three national loans, the aggregate amount raised being £23 millions, of which approximately only £3 millions was raised externally. £5.5 millions have been invested in Savings Certificates since 1922, and deposits in the Post Office Savings Bank have risen to £3.2 millions. These facts suggest that our citizens, after providing for current consumption, have had an appreciable margin available for savings. Our National Debt is comparatively low, and our credit abroad is high. In November the quotation for the Free State external loan in New York was over two points higher than the quotation for 5 per cent. War Loan. The second National Loan, issued at 97, has reached 105 on the Dublin Stock Exchange.

Mr. Cosgrave, after pointing out these facts, referred to the acute depression in agriculture as a result of falling prices and a bad harvest, and stated that the Government proposed to vote a sum of £300,000 for the provision of employment, principally in rural areas, as a temporary expedient to meet a temporary situation. He claimed that the policy which the Government had consistently urged on the farmers, namely, to produce live stock and live stock products, and to use grain as their raw material, had saved this country from the deplorable conditions existing in agricultural countries which, either from necessity or choice, have concentrated on the production of cereals, especially wheat. As regards agricultural tariffs, he said that the position of the Government was quite simple. So far as beef, mutton, eggs and feeding barley are concerned, the imports of these are so negligible that tariffs cannot

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possibly affect the position. So far as the imports of feeding stuffs, wheat and flour, which amount to about £12,000,000, are concerned, any tariffs on these would bankrupt the farmer. The world price of wheat had reached an almost unbelievably low level, and showed no sign of an increase. It was admitted that no tariff could increase the price of Irish bacon on the home or on the foreign market. It was equally clear that the effect of a tariff on foreign bacon would be to increase the price of low grade bacon to the farmers in the poorer districts and to labourers all over the country. These results did not commend themselves to them as a method of relieving agricultural districts.

Turning to industrial conditions, he pointed out that any doctrine of self-sufficiency in industrial policy was inevitably too facile and too short-sighted. It might indeed amount to recklessness if based on neglect to study world conditions. Economic forces were deploying in the international field which, if their bearing on our interests were not constantly and carefully studied, might go far to stereotype those activities by which we live. These conditions have impelled the Government to set up a whole time Tariff Commission,\* consisting of Mr. H. O'Friel, the late Secretary of the Department of Justice, who is Chairman, Professor T. Smiddy, until lately High Commissioner for the Free State in London and previously in Washington, and Mr. D. Twomey, an experienced official of the Department of Agriculture. This Commission will be able to concentrate not only on the precise applications before them, but also on the study of all the surrounding and constantly altering factors that must be taken into account. The Executive Council has also taken power to refer proposals to this Commission direct for examination and report, even though no request for a tariff has been made by the industrial interests concerned. The first task which the Commission has been set is an inquiry into the proposed

\* See THE ROUND TABLE, No. 64, September 1926, p. 813.

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tariff on butter, and in order to protect the home market against the dumping of foreign butter, whilst the inquiry is proceeding, a temporary prohibitive tariff of £5 a hundred-weight has been imposed by the Dail.\* This tariff has also been imposed to enable the Irish Associated Creameries, the new co-operative selling organisation, to dispose of the large stocks of butter which it rather rashly held in cold storage, expecting a rise in price during the winter months. Many of the Government's advisers are against a permanent tariff on butter, and indeed it would seem better to concentrate on capturing the British market, where we supply less than one-tenth of the demand. Denmark, in fact, supplies more than Australia, New Zealand, and the Irish Free State combined. The Government has also decided to make substantial reductions in the contributions paid by employers and employees under the Unemployment Insurance scheme, which will result in a relief of £225,000 per annum to industry, and of £64,000 to the taxpayer. These reductions have become possible owing to the approach towards solvency of the Unemployment Fund, the debt of which is now relatively small.

The results of the Imperial Conference† had, as far as the Free State is concerned, been largely discounted, but our representatives took a foremost part in its deliberations. A competent observer, who was present at most of the important meetings, expressed the opinion that there were four outstanding personalities, Mr. Snowden, Mr. Scullin, Mr. Bennett, and Mr. McGilligan, and that Mr. McGilligan was the only one of the four who held his own equally well in both the economic and constitutional fields with which the Conference was chiefly concerned. He was undoubtedly the best representative we could send to Geneva, where he is now representing us on the Council

\* On the recommendation of the Tariff Commission, the Dail, at a special meeting on January 22, imposed a tariff of 4d. a pound on imported butter, and removed the prohibitive tariff above referred to.

† See THE ROUND TABLE, No. 81, December 1930, page 152 et seq.

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of the League of Nations. Mr. McGilligan's chief object was of course to secure approval for the report of the Conference on the Operation of Dominion Legislation, and the abolition of the right of appeal from the Free State courts to the Judicial Committee of the Privy Council. In the economic field the Irish delegation, quite rightly, had little hope of any serious or far-reaching decisions. The report of the Conference on the Operation of Dominion Legislation has been almost entirely approved by the Imperial Conference and will now be implemented by the proposed Statute of Westminster. The disappearance of the British Government and Parliament from the relationship existing between the King and the other Governments and Parliaments has, as Mr. McGilligan recently stated, transformed the Commonwealth into a group of six Kingdoms. The transformation has, in fact, strengthened the prestige of the Monarchy inasmuch as the King, instead of being separated from the Dominion Governments by the British Government, is now directly advised by the former in their own affairs, and the King, by rejecting all advice, except that of the Government concerned, has, in a sense, become the guarantor and the symbol of the independence of the different nations of the Commonwealth. It is, in fact, difficult to see what further constitutional questions remain for future Imperial Conferences to discuss without mutual interference and annoyance. The Irish Free State must endeavour to use its position as one of the six British Kingdoms in the interests of its people by taking an active and constant part in the affairs of the Commonwealth and of the world, at the same time building up at home a distinctive cultural and economic life.

As regards the question of the Privy Council appeal Mr. McGilligan was not successful. The position would seem to be that the Free State representatives contended that they could abolish this right of appeal, which is implied in the Canadian status conferred on the Free State by Article 2 of the 1921 Treaty, without altering the Treaty, because

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Canada had now the right to do so if she wished. The English representatives maintained, on the contrary, that this right of appeal cannot be abolished without an infringement of the Treaty. The only way out would seem to be an alteration of the Treaty by mutual consent, but this the Free State Government does not desire as its attitude has always, very properly, been that the Treaty position must be maintained in its integrity at all costs. Thus the matter rests for the present, but it is extremely probable that as soon as the Statute of Westminster is passed the Free State Government will exercise the powers which, it claims, will then exist, and straightway abolish the right of appeal to the Privy Council, which indeed is already virtually obsolete. It is a pity that the matter was not settled amicably at the Imperial Conference, as it should have been. It is equally to be deplored that the two Archbishops of the Church of Ireland should have seized the opportunity to issue a public letter on the question demanding the retention of the right of appeal. They themselves acknowledge "the fair and generous way in which we, as a minority, have been treated, since the establishment of the Free State." The time has come when Irish Protestantism, if it is to have any national future, must realise once and for all that the political centre of gravity in Irish affairs has passed from London to Dublin, and that its surest shield and defence is to rely upon the fair play and love of liberty of Catholic Ireland. Such a course is bound to succeed. To do otherwise, to appeal, as the Archbishops have done, to outside opinion, is only to fan old fires and revive bitter memories.

A striking example of the fair play now shown to Protestants in the Free State has been recently given by the Government in connection with the appointment of a county librarian in Mayo. Appointments of this nature are now made by the Appointments Commission, which acts through independent selection boards, who examine the candidates' qualifications and interview them personally, reporting the result to the Local Appointments

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Commission,\* which is a civil service body independent of the Government. The Appointments Commission recommends the successful candidate to the local body concerned, which has no option to refuse the selection. This system, in some ways the most revolutionary change made by the present Government, has completely destroyed the old methods of appointment by family influence or corruption. It is rapidly giving us an efficient and highly qualified local administrative service. In the Mayo case Miss Dunbar-Harrison, a Protestant graduate of Trinity College, who had also taken out a special course of library training in the National University, and obtained experience as an assistant librarian in Dublin, was unanimously selected to fill one of five vacancies by a selection board consisting of a university professor and three librarians of much experience, all Catholics. Their selection was endorsed by the Appointments Commission and the recommendation duly made to the Mayo library committee for endorsement. This body objected to the lady on two grounds, namely, that as a Protestant she was not a suitable person to supervise the reading of a population which is ninety-nine per cent. Catholic, and also that in an Irish-speaking area she, being without qualifications in Irish, could not be expected adequately to discharge the duties of librarian. As regards the first objection, it need only be said that all books placed on the public library shelves have to be first approved by the library committee, which contains here, and elsewhere in Ireland, several Catholic priests, and that in addition to this safeguard we have a censorship of objectionable literature. As regards the second objection, Miss Harrison was the best qualified applicant for the post, and is entitled by law to three years in which to qualify in Irish. It may be added that several of the most competent librarians in the Free State are Protestants, and no complaint has ever been made

\* See THE ROUND TABLE, No. 64, September 1926, p. 820; No. 69, December 1927, p. 152; and No. 72, September 1928, p. 821.

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as to their conduct. Moreover, as Mr. de Valera has very cogently pointed out, if the public libraries are to be treated as a means of denominational education, then we must have libraries, as we already have schools, for each denomination. The Mayo County Council having supported the library committee, Mr. R. Mulcahy, Minister for Local Government, acting in accordance with his legal powers, held a local inquiry, suspended the County Council, and appointed a Commissioner to discharge its duties, who has, of course, appointed Miss Harrison to the position to which she is justly and legally entitled. It may be pointed out that in so acting he was not only obeying the Free State Constitution, but following the teaching of every Irish Nationalist thinker from Davis to Griffith. Davis indeed expressed it in verse when he wrote :

“ So start not, Irish-born man,  
If you're to Ireland true,  
We heed not race, nor creed, nor clan,  
We've hearts and hands for you.”

It must be said to the credit of Fianna Fail that, as a party, it has refused to identify itself with the hysterical and entirely dishonest protests of the self-styled Catholic press. The Chief Justice, Mr. Hugh Kennedy, K.C., in a remarkable and courageous speech at the National University Literary Society, reminded his audience that we stood as an example of what a Catholic democracy might be expected to be, and that after the bloodshed and struggle we had endured to upset the old ascendancy and tyranny we were not going to replace them by setting up another tyranny. That was not the character of our people, nor the teaching of our Church. Such sentiments, widely held by educated Irish Catholics, are a better safeguard for Protestants in the Free State than any appeal to the justice of an impotent foreign court.

The Government have shown equal firmness in dealing

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with the recent attempt by a small group of officers to cause trouble in the army over the National Defence Association. This association, consisting of serving and retired army officers, was formed under official approval in August 1929, with the following objects : the development of the highest standard of service among the army officers, the cultivation, on the part of the public, of an appreciation of the problem of national defence, and the preservation of the welfare and comfort of the officers and their families. The control and management of *An t-Oglach*, the army journal, was vested in the new association. Unfortunately those responsible for the policy of this journal allowed it to become critical of army administration in a manner which was subversive of discipline, and in October Mr. Desmond Fitzgerald, Minister for Defence, intimated that the Defence Association was no longer approved of. This decision necessitated the retirement from it of all serving regular officers, whereupon certain reserve officers, whose principal spokesman was General Sean MacEoin, T.D., issued a statement on October 22 challenging the Minister's action. This statement was first handed to Mr. Cosgrave and then to the press, but it was not published in the Irish papers. Its principal criticisms were that the Government had no considered policy which could give the taxpayer an adequate return for the £14 millions spent on defence since 1924 ; that, while the existing force is well disciplined and trained in an elementary fashion, its organisation and the system upon which it is administered are so defective that it is doubtful whether it is capable of acting in any circumstances as a useful instrument of national defence ; that officers have been victimised ; and that the general administration has been calculated to promote serious discontent and demoralisation among the personnel. It is believed that General MacEoin and his associates were actuated by a desire to secure the resignation of Mr. Fitzgerald, who, owing to his administrative economies

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and lack of sympathy with military mentality, is not very popular with the army. General MacEoin himself, who had military greatness accidentally thrust upon him by an incident during the Anglo-Irish guerilla warfare, and parliamentary honours by the political necessities of the Government,\* was merely a mouthpiece for more ambitious and abler men. The Government did not waste time in dealing with the matter. General MacEoin had to resign his commission, and his principal supporter amongst the reserve officers, Colonel T. FitzPatrick, had his commission withdrawn, whilst certain serving officers closely identified with the movement would have suffered a similar fate had they not eaten the leek. The National Defence Association itself, at a specially summoned meeting, decided unanimously to terminate its existence. Thus ended an incident which at one time appeared to be full of serious possibilities.

The Fianna Fail party, naturally, sought to exaggerate its importance during the County Dublin by-election in December, caused by the death of Major Bryan Cooper. The candidates in this contest were Mr. T. Finlay, K.C., a distinguished young barrister and a nephew of Father Tom Finlay, the well-known Jesuit economist, who was the Cumann na nGaedheal or Government party candidate, and Mr. Conor Maguire, B.L., another clever barrister, who represented Fianna Fail. In the result Mr. Finlay was elected, and the Government retained the seat by the handsome majority of 20,338 votes. It is pleasant to record that the election was fought in an exemplary fashion on both sides. The electorate is one of the most intelligent and best informed in Ireland, and the result proves that after eight years of office in a period of general economic depression Mr. Cosgrave's Government still retains public confidence.

The session of the Dail, which lasted from November 19

\* See THE ROUND TABLE, No. 76, September 1929, p. 820.

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to December 11, and has now been adjourned to February 18, was largely of a practical nature. Bills were introduced dealing with the provision of meals for school children, the status of veterinary surgeons, the sale of eggs, sea fisheries, the new tariff commission, and land purchase regulation. The treaty for the limitation and reduction of naval armaments was also at last ratified. Our neglect of ratification was in fact responsible for seriously delaying the treaty becoming operative, but no doubt this apparent discourtesy was worth while if it satisfied Mr. de Valera as to our international status. The forthcoming session of the Dail will have to deal with several measures of considerable importance. Amongst others there will probably be Bills to implement the reports of the Town Tenants Commission of 1927, and the Intoxicating Liquor Commission of 1929, both long overdue, a Bill dealing with road traffic regulation, and a redistribution of seats Bill. This last measure is consequent on an Article of the Constitution which requires that the constituencies must be revised every ten years with special regard to increases or decreases of population in each area. The existing arrangements were made in 1923. Only in the city and county of Dublin has there been any increase in population. In thirteen other constituencies there has been a substantial decrease. The new Dail will consist approximately of 140 members, instead of 153 as at present. Whether this reduction will favour the Government or the Fianna Fail party remains to be seen, although as the former is strong in the Dublin area it should therefore benefit by the increase of members there. The present constitution of the Dail is as follows: Cumann na nGaedheal, 64; Fianna Fail, 55; Labour, 13; Independent, 11; Farmers, 6; National League, 2; Independent Republican, 1; Speaker, 1. The Independent Republican is Mr. Mullins, who has recently been expelled from the Fianna Fail party, a fate which, it may be added, might with justice be meted out to others of that per-

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suasion. It is also believed that the Government will introduce some measure to relieve agriculture, either by a scheme of partial derating, or a very substantial increase of the present agricultural grant. During the Dublin election Mr. Cosgrave stated that the Government were agreed that the farmer deserves and must receive every assistance which, having regard to our resources, can be given to him. The only question, he added, that remained was the form of assistance which would be of the greatest value to him and would, at the same time, render necessary the minimum imposition of burden on the rest of the community. Complete derating on English lines is generally accepted as out of the question, for it would cost at least £2·5 millions a year. The largest measure of assistance which can be expected would be about £1 million a year, and even this sum would mean heavy new taxes, probably on petrol, tea and sugar. The Commission on Derating\* has not yet reported but is likely to do so very soon. Should derating be undertaken on a substantial scale the present system of local government will undoubtedly be altered in order to bring local finance under the control of the Local Government Department.

After the Imperial Conference the other Dominion Premiers took the opportunity to visit Dublin, and were received in the true tradition of Irish hospitality. The contacts established will reinforce the many links of friendship and kinship which already unite the Irish Free State to those offspring of our race, for we are, as much as Great Britain, a parent State in the Imperial Commonwealth. Although it is perhaps invidious to make selections, there can be little doubt that General Hertzog and Mr. Scullin were the most popular figures amongst our guests, the one because of his fight for national freedom in South Africa, and the other because of his Irish descent. The former warned us, as he has already warned his own people,

\* See THE ROUND TABLE, No. 78, March 1930, p. 369.

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against the folly of throwing away national independence for a form of words. Mr. Cosgrave undoubtedly spoke for the Irish people when he declared in an eloquent address at the reception to Mr. Scullin that Irish policy, in the future as in the past, would be directed towards asserting the sovereignty inherent in our Statehood against every contrary influence, internal or external, and of rebuilding on the broad basis of nationality a worthy and self-respecting Irish State. But it must do more than this. It must, as Mr. Desmond Fitzgerald, Minister for Defence, recently reminded us at Cork in an admirable lay sermon on primary political principles, aim at setting up a State in which the mentality acquired during our opposition to a foreign Government is deliberately discarded, in which the title "rebel" will be no longer glorious, and support of law and order recognised as the first duty of every citizen. We have become anglicised, as Mr. Fitzgerald pointed out, not only by copying English habits, but by the characteristics resulting from English rule. Not the least objectionable of these characteristics is the silly Anglophobia, which Mr. Fitzgerald did not mention, which prevents us from thinking of England except with suspicion and hatred. This demon we must also exorcise if we wish to become a great people with a sense of international perspective.

## II. ECONOMIC AND GENERAL

THE annual report of the Registrar-General, which has just been published, shows that the population of the Free State is still decreasing. Our population at the end of 1929 is estimated at 2,946,000. The report contains interesting tables showing the variations of population since 1801 in the area now comprising the Free State. In that year the population was 4,154,000. In 1844 it had



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risen to 6,560,000—the highest figure reached. It was a population too large for the country to support, and then came the terrible famine years 1846 and 1847. By 1876 the population had shrunk again to 3,949,000, and the decrease continued almost without interruption to 1917, when the stoppage of emigration owing to the war increased it during two years by 80,000. In 1922 the figure was 3,022,000, and each year since has shown a decrease. The report also records, unfortunately, a substantial decrease in the birth and marriage rates, and an increase in the death rate. The births were 58,820, the lowest number ever recorded, and equivalent to a rate of 19.78 per 1,000. This fall is not due to the practice of contraception which, in spite of the gratuitous advertisement given it by the censorship, is not prevalent in the Free State, but rather to the equally unnatural practice of late marriage which, like birth control elsewhere, is due to the pressure of economic necessity, the same cause producing like results by a different method. The report discloses one gratifying fact, namely, the fall in the mortality from tuberculosis, which has practically decreased by half in ten years owing to proper treatment and advice. In other respects the Free State continues to show signs of steadily increasing prosperity. The latest official trade returns show that for the twelve months ending September 30, 1930, the adverse trade balance stood at £10,158,452, an improvement of £4,238,046 upon the figures for the corresponding period of 1929, and of about £8,000,000 upon those for the year 1924—25. For the first nine months of 1930 our export trade at £34,080,257 has improved to the extent of £427,468 upon that recorded for the first nine months of 1929. That our credit is good is proved by the fact that an issue of £250,000 worth of 5 per cent. guaranteed mortgage bonds by the Agricultural Credit Corporation\* in November last was over-subscribed in a few hours

\* See THE ROUND TABLE, No. 71, June 1928, p. 608.

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to the amount of £700,000. The registered number of unemployed in the Free State is only about 20,000, as compared with 70,000 in Northern Ireland.

Side by side with the improvement in economic conditions one must chronicle a general return to peaceful conditions throughout the country. The recent shooting incidents in Dublin, when Mr. Cosgrave's private motor car was fired on, on a country road, while occupied only by the driver, and a sergeant on escort duty at the house of Mr. Hayes, the Speaker of the Dail, was also fired on by two men whom he accosted, whilst they prove that there are still blackguards in the country, need not be taken too seriously. As a matter of fact, whereas the strength of the old Royal Irish Constabulary in the Free State area was 7,859, the Civic Guard, which has replaced them, numbers only 5,600. In other words, the semi-military force of pre-treaty days has been replaced by an unarmed police force the strength of which is 29 per cent. less. The number of police stations has also decreased by 33 per cent. without any apparent loss of efficiency. It is believed that, as the people come to realise their full responsibilities, further economies will be possible in this direction.

An interesting return recently issued by the Ministry for Industry and Commerce shows the results, as regards employment, of the tariffs imposed since the Free State was set up. The return, which gives the number of persons employed in each protected industry on the date of the imposition of the tariff and on March 1, 1930, shows that substantial increase of employment has taken place in certain industries, the most important being: tobacco, 1,886 persons; boots and shoes, 1,151; sugar confectionery, 5,519; shirtmaking, 1,818; hosiery, 3,332; clothing, 3,541; furniture, 1,559; and woollens, 1,883. The total increase in protected industries is 12,958. The position of the Government as regards tariffs is that it is prepared to impose protective measures against the free importation of any commodity, provided adequate investigation reveals that the

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commodity may be economically produced here and that no unnecessary permanent burden will fall on the consumer as the result of such a tariff. In short, its policy is directed to an economic position in which agriculture will be balanced by suitable manufacturing industry. The result of the existing tariffs has been in most cases to reduce the imports of the protected article as far as value is concerned, but not always in amount. Exceptions to this are hosiery, probably due to the ladies' demand for silk stockings, both real and artificial, and general clothing. Men's clothing, which is little affected by fashion and outside influence, shows a considerable decrease in imports.

The first sweepstake\* organised under statutory sanction in aid of our public hospitals proved, as was anticipated, a triumphant success. Carried out in the Round Room of the Dublin Mansion House under every circumstance of publicity and guarantee of good faith, the total proceeds were over £650,000, out of which the hospitals received approximately £132,000. A last minute advertisement of the most valuable kind was provided by the action of the English Post Office in holding up all letters addressed to the promoters, on legal grounds. The only effect of this ban was to divert subscriptions into indirect channels, and they came in increasing numbers through Dublin banks, stock-brokers and business houses. The drawer of the winning horse received over £204,000. Already two new sweeps are being organised, one for the Grand National and the other for the Derby. Mr. Fitzgerald Kenney, the Minister for Justice, has wisely refused to countenance the promotion of rival sweepstakes, and future arrangements will ensure that a larger proportion of the proceeds will go to the hospitals. Granted that betting will go on, legally or illegally, it cannot be said that sweepstakes of this type are the worst of its manifestations, and they at least serve some useful purpose.

\* See THE ROUND TABLE, No. 80, September 1930, p. 835.

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The Drumm electric battery\* is now to be put to a prolonged practical test, and the Dail has voted a sum of £25,000 for this purpose. Two double railway coaches, each capable of seating about 100 passengers, are being constructed for use on the suburban line between Dublin and Greystones, and will probably be in operation next summer. The use of these coaches will decide the question of the life of this battery, and if this is settled satisfactorily, we can confidently claim that it is a discovery of first class importance, which no other country has yet achieved. The Dail debate disclosed that the invention consists of an alkaline storage battery based upon a negative plate which consists of zinc plated out of liquid electrolyte, but that no patent has yet been granted.

Our various censorship activities continue unabated, and Mr. Fitzgerald Kenney, Minister for Justice, has recently complained that the elimination of the power given by the original Bill to authorised religious associations to recommend books for censorship was unsatisfactory, as apparently the general public have not cared to act as literary detectives for the Censorship Board. As regards periodicals, he claims that the Act has worked extremely well, and that the periodicals censored have mended their ways. Our other department of censorship, that concerning films, which is far more necessary, has recently been mercifully extended to cover the activities of the "talkies," but even in this respect some of our pious periodicals are not completely satisfied, and Mr. Montgomery, our courteous and efficient film censor, is credibly reported to have said that he finds himself "between the devil and the Holy See," a *bon mot* both amusing and accurate. His annual report for 1930, just published, discloses that he censored over 6,000,000 feet of film in the year, and that sound films have been censored since June last. There were 64 appeals to the Appeals Board against his decisions, in 36 of which he was

\* See THE ROUND TABLE, No. 76, September 1929, p. 834, and No. 81, December 1930, p. 160.

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upheld, in 15 partially upheld, and reversed in 13. Long and short films of drama and variety made up more than two-thirds of the total length of film dealt with, but it is satisfactory to note that topical and interest films as compared with the previous year have increased by nearly 50 per cent.

No chronicler of Irish events during recent years can fail to record his sense of the national loss which we have suffered through the untimely death of Mr. John Hooper, the Director of Free State Statistics.\* His work in organising, simplifying and amplifying our national facts was for him a labour of love carried out with unostentatious zeal in spite of bad health and many other difficulties. The results achieved during the last few years under his direction have contributed enormously to the accurate information of our politicians and publicists, and few public servants have deserved so well of their country. Two other deaths must be noted as a national loss in the artistic sphere. The one of Harry Clarke, an artist of delicate distinction and charm, whose work was reminiscent of Beardsley at his best, but who will be better remembered for his wonderful stained glass, which was of international renown; the other, Frank Fay, one of the little band of enthusiastic actors who assisted to found the Abbey Theatre, and remained one of its principal performers down to 1908. All three names will take a foremost place in the records of the Irish renaissance.

The Irish Free State.  
February 1931.

\* See THE ROUND TABLE, No. 71, June 1928, p. 602.

## CANADA

### I. WHEAT

THE economic position in Canada at the beginning of 1931 is difficult to gauge. Like all the rest of the world Canada has suffered in the slump, but, on the other hand, it has been constantly pointed out by our business leaders that we have not suffered nearly as much as most of the rest of the world; and there is a widespread inclination, based perhaps rather on hope than on any very logical reasoning, to believe that we are on the verge of improvement.

The President of the Royal Bank, Sir Herbert Holt, pointed out in his recent annual address that in spite of the decline in the price of basic products "the activity of industry . . . has not been as seriously affected as have the industries of most other countries." Sir Herbert expressed the opinion that the tariff increases made by the new Conservative Government last September had helped industry substantially, and he evidently feels that, if necessary, further doses of the same medicine can be applied with beneficial results. "As high tariffs of other countries and other special conditions may react to reduce Canadian exports," he said, "there must be corresponding measures on our part to discourage imports and to encourage a proportionate increase in the quantity and variety of our home production."

Not everyone believes that the cure is as simple as this. Increasing the tariff will inevitably tend to lessen purchasing from abroad; but the advantage accruing to Canadian manufacturers from securing a larger share of

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the home market has to be discounted by the fact that the purchasing power of the home market has been seriously reduced, especially in western Canada, which is an unerring barometer of Canadian economic conditions. The rest of the country runs along on a more or less even keel, but the West is subject to substantial fluctuations and it is good or bad times in the West which really determine whether the Dominion has or has not that bit of extra volume which gives industry a profit, and the absence of which results in loss.

Those who are most familiar with conditions in western Canada are not pitching their hopes too high. They point out that the manufacturing industries in the East have not yet felt the full result of the drying up of buying power in the West; that, whereas in the autumn of 1929 farmers belonging to the Pool received \$1.00 on account for their wheat and many of those outside the Pool substantially more, in 1930, on the other hand, very much lower prices prevailed; and that the full effect of this lessened buying power will only make itself felt during 1931. Many who know the West rather anticipate therefore that, unless unexpected developments occur elsewhere—for example, a sudden improvement in Canada's other basic industries, notably wood products and mining—1931 may be a worse year for the manufacturer than 1930.

While nearly all our basic industries—gold mining is a happy exception—have been adversely affected, the most serious shrinkage is in the value of field crops—especially wheat, the great cash crop. The approximate value of minerals produced in 1930 was \$276,865,000 as against \$310,850,000 in 1929, and the value of newsprint approximately \$124,982,000 as against \$136,441,000, while the value of wheat exported for the crop year ending July 31, 1930, was \$188,289,000 as against \$387,491,000 in 1929. Worst of all, the increasing keenness of foreign competition, particularly from Russia, has raised anxious doubts as to the future of the wheat industry on which our whole

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western country directly and the east only slightly less directly, are dependent. It will therefore not be out of place to consider the position of the wheat industry somewhat more in detail.

When in the month of June, 1930, wheat dipped below a dollar a bushel for the first time in six years, it was felt throughout Canada that an event of national importance had happened. We had come to regard ourselves as *par excellence* the premier wheat-growing nation, leading the world not only in quantity, but even more in quality, and the attempt had even been made to attach a certain imperialistic romance to Canadian wheat-growing by calling Canada "the granary of Empire." Few people had ever conceived it possible that the time might come when Canadian wheat would be a drug on the market. It is true that in the welter of European economic difficulties immediately after the war, particularly when currency problems were most acute, some fears had been entertained as to Europe's capacity to buy; but the four or five good years preceding 1929 had quite silenced any such doubts, and the result was that the situation of 1929 found us unprepared and incredulous.

Moreover, even those who were caught "long" and lost severely in the weak market in the winter of 1929-30, and who found that the two-dollar wheat which they had anticipated was actually selling below a dollar, would have believed in the end of the world more readily than in fifty-cent wheat. Dollar wheat itself seemed almost contrary to nature. So confident of this were the western provinces of Canada—Manitoba, Saskatchewan and Alberta—that in February, 1930, they joined in a guarantee so as to enable the banks to continue advancing money on the crop.

In August the price which had gone down to 90½ cents suddenly reacted 10 cents, to \$1.00½, owing to reports which proved exaggerated, of the disaster to the United States corn crop, and for a short time it looked as if a definite reversal of the downward trend had come. Re-

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sponsible authorities were quick to point out that the anticipated surplus was evidently exaggerated and that the shortage of corn would be quite sufficient to counter-balance any excess there might be of wheat.

The rise was short-lived. The decline was resumed in August, and from that time until December the price gradually sank till it reached the low level of 50½ cents on December 26. Various influences combined to make a buyer's market. In the first place, the northern hemisphere had a good crop of high-grade wheat, and reports were that exporting countries in the southern hemisphere—Australia and the Argentine—also had promise of a good crop. In the second place, the constant publicity given to the difficulties of marketing Canadian wheat, the fact that the position of the Pool was continually “front-page news,” visits of Pool representatives to Europe in the winter of 1930, and again in the autumn in Mr. Bennett's entourage, were in effect taken as signals of distress, making the buyer feel that every day he put off buying was to his advantage.

This situation continued until December 1930, when the Prime Minister returned from the Imperial Conference and, according to press reports, an arrangement was made to guarantee the banks against any losses sustained in the event of the price going below 50 cents. Since then the price has somewhat improved, and the view is held in many quarters that if this action of the Government could have been taken some little time earlier, the price would probably have become stabilised substantially above the present level. The Government has allowed it to be known that there is to be what is described as “orderly marketing” of the balance of the crop of 1930. The difference between “orderly marketing” and attempts to control prices is not always easy to discern; but with the multitude of “bear” influences which have been affecting the market it is generally considered that Mr. Bennett was wise in taking the step which he did early in December.

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Meanwhile a part of the 1929 crop is still unsold, and the three western provinces must make good their guarantee of February last to the banks. Unless the Dominion Government intervenes to protect them, they will face a staggering loss, estimated at substantially more than twenty million dollars.

To a very considerable extent the distress in which Canada finds herself is due to world-wide conditions, but there is no doubt that during the year 1929 and part of 1930 serious errors of judgment were made by those responsible for conducting the export trade in wheat. It would be most unfair to suggest that these mistakes were confined to the Pool, but there is no doubt that the Pool was in part responsible for the situation.

It is not generally realised that in each of the three prairie provinces, Alberta, Saskatchewan and Manitoba, there is a pool, and that the Canadian Co-operative Wheat Producers, which is commonly referred to as “the Pool,” is technically merely a selling agent for the three provincial pools. The provincial pools buy wheat directly from the farmer and store it in their own elevators. They in turn employ the selling “Pool” to sell this wheat. It is this agent which is in the public eye. There is no doubt that the provincial pools did supply a want which the farmer had keenly felt. He had previously complained, and often with justice, that the elevator was not treating him fairly with respect either to quantity or grade. The provincial pools went far to remove such grievances.

The justification for the selling Pool is not so obvious. It owed its origin to a rooted feeling on the part of the Canadian farmer that by selling his wheat in the autumn he inevitably had to take a lower price than if he could hold till spring; and also to a strong desire to be his own selling agent. Its history, too, has been unfortunate—its payments have gone down year after year. In the years 1924-25 payments to members totalled \$1.66 per bushel; in 1925-26, \$1.48; 1926-27 and 1927-28, \$1.42; 1928-29,

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\$1.18; 1929-30, \$1.00, which latter, as events have proved, was an overpayment. The initial payment in the case of the 1930 crop was 60 cents, later reduced to 50 cents. In very large measure this decline of price is, of course, due to world conditions, but there are two respects in which the existence of the Pool appears undoubtedly to have operated to the disadvantage of the wheat grower. The first is a difficulty apparently inherent in the whole Pool system—namely, the principle of an initial payment below the market price. This appears to have a depressing effect on the price. Some people go so far as to say that inevitably the price of wheat comes down to the Pool's initial payment, and certainly the history of the last few months appears on the face of it to give support to this view. Those who argue thus maintain that the fact that the initial price is merely an instalment of the final price is ignored by most people, and that even if it were not ignored it is regarded as evidence that the initial payment was the highest price which the Pool felt it safe to pay, and therefore was, in effect, their estimate of the true price. However exaggerated it may be to say that wheat will fall to the Pool's initial price, it can well be believed that the fact that the initial payment is below the market tends to depress the market.

The second charge laid at the door of the Pool is one for which they must accept full responsibility. In the early years of the Pool they made use of the selling agencies in Britain and elsewhere which for many years had marketed the Canadian wheat. In the year 1929, however, the managers of the Pool evidently came to the conclusion that they could save the middle-man's commission by selling directly themselves, and the long-established agencies were notified that their services were no longer required. The effect of this was simple and instantaneous. It turned Canada's former agents into competitors, and competitors who knew the business thoroughly, who had been in it in some cases for generations and who were able to divert a

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great deal of the trade formerly enjoyed by Canada to others.

So much for the present troubles in the wheat industry—their history and causes. Now what are the remedies? It was inevitable that in a situation of this kind ill-considered things should be said and doubtful remedies suggested—to make a huge loan to China to enable her to become a large purchaser of wheat; to threaten the French with the loss of certain privileges in our markets unless they buy more wheat from us; to seek preferences in England in return for similar concessions; to cut down the wheat-growing area; to set up marketing boards.

On examination these sudden and dramatic remedies seem illusory. We are warned not to indulge in extravagant expectations of sales in the Orient by Sir John Aird, who spent some time there in 1929 and 1930. Speaking at the recent annual meeting of the Canadian Bank of Commerce, he said:

I believe that Manchuria and northern China will become the major sources of supply of foreign wheat and other foods for Japan and adjacent countries of the Orient. . . . I am of the conviction that western Canada will find that the oriental market for its products will be largely curtailed, and that our western agriculturist should consider immediately the question of diversified farming.

Purchases by the French turn out to be a few million bushels only—a very small affair. Preference from England seems at least as remote as it was before the Imperial Conference. As for cutting down wheat acreage, those who know the West most intimately point out that, however desirable such an object may be, time will be required to shift over from wheat to mixed farming. Further, even those who believe that more hogs and cattle should be raised in Canada point out that this does not of necessity imply a decrease in the amount of wheat and other cereals but only a change in their use. Special marketing boards are regarded with great doubt or even dismay by those most expert in the matter of buying and selling. They

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feel that no human agency, whether an individual only or a group, has sufficient wisdom to buy or sell primary products such as wheat on a large scale, since its judgment cannot be compared with that of competitors, as is the case in ordinary business. Supporters of this view point to the failure of similar attempts in the past.

The more one reflects on the problem the more clearly it appears that the solution will be found, not in any new cure, but by the long established and well known remedies of cheaper production and greater efficiency in marketing. Cheaper production will have the dual effect of expanding the market for wheat on the one hand and, on the other, of turning back to other uses land which was sown with wheat only because of high post-war prices. Cheaper production will come in two ways : by the increase of efficiency in the growing of wheat itself, and by the lessening of overhead expense through production on the farm of as many as possible of the farmer's wants. When wheat prices are high the western farmer often grows little or nothing for his own table. He may even buy his bread and milk as well as vegetables. He will often buy all his fuel. He will use machines with oil fuel instead of raising the fuel for motive power, in the shape of fodder, on his farm. The present low prices are changing all this. Evidence is abundant that as rapidly as possible expenses are being reduced. Wood is being cut for fuel where formerly nothing but purchased coal was used. Hogs and cattle are being bought to the end that farming may be diversified.

The spirit of the western farmer in meeting his difficulties is beyond praise. Murmurs there will be and talk of secession, but most of the farmers are not talking but working. The western farmer is again "scratching gravel." Men who know the West report that, while the first shock of surprise and consternation made men angry and anxious to find a scapegoat elsewhere, that mood has now gone and men are courageously facing the future in the light of present conditions. Ten years ago when things became diffi-

## The Balance of Trade

cult eyes were turned south and there was a good deal of movement "across the line" to the United States. Conditions in the United States do not tempt anyone to do that now.

What of Russian competition with the western wheat grower? The question is of course in every mind. All "information" as to Russia is of necessity derived in the main from Russian official sources, for no one can observe at first hand more than a small fraction of a hundred and fifty million people. In the end, therefore, one is largely thrown back on broad general considerations affecting the situation as a whole. We have, for instance, in Canada far superior equipment—local and terminal elevators, railways, steamships, etc. We have a free, self-reliant, vigorous people who, given anything like equal conditions, should be able to hold their own against all competitors. The fear is of course that the conditions will, at least for the next few years, not be equal, in other words, that Russian wheat for export will be the product of forced labour with a minimum standard of living, and that such competition will seriously depress the standard of living, if indeed it does not make any large-scale production of wheat for export economically impossible, in a free labour, high living standard country like Canada.

But while this danger is realised, and in any event an indefinite period of low prices is accepted as inevitable, the general feeling, as has been pointed out, is one of confidence that with hard work and more economical production, there is a good future for wheat-growing in western Canada.

### II. THE BALANCE OF TRADE

IN the past two years Canada's exports have declined by nearly \$500 million. In 1928 they were \$1,374 million ; in 1930 they will hardly exceed \$900 million. Imports in 1928 were \$1,222 million ; for 1930 the figure will be about

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\$1,025 million. This means that a "favourable" balance of more than \$150 million has been unexpectedly converted into an "unfavourable" balance of \$125 million. Unfavourable trade balances were familiar occurrences to an earlier economic generation. From 1902 to 1914 they were always with us and we prospered exceedingly. But since 1915 we have grown accustomed to large favourable balances, rarely less than \$200 million a year, and at times over \$400 million, and the sharp reversal of this balance has required some drastic rearrangements in our balance of international payments. Under the circumstances how has Canada met her current international obligations?

A year ago it could be said that the fall in exports was due solely to our failure to market our wheat, but sweeping declines in nearly all classes of export are now apparent.\* Grains and grain products have, as generally supposed, experienced the most severe decline, but meat and dairy products have been almost equally affected. Production of both cheese and butter has decreased fairly steadily for the past six or eight years; the number of cattle on Canadian farms is no greater than ten years ago, and smaller than five years ago; efficiency in production and marketing has received comparatively little attention, and Canada is now far behind her chief competitors in these respects. The higher profits in grain had led many farmers to neglect the advantages of mixed farming. The decrease in the number of cattle is most marked in the prairie provinces. Moreover, the recent changes in the United States tariff have seriously affected this class of exports. In 1928 exports to the United States totalled \$56 million and in 1930 only \$19 million.

Lumber exports have declined about in proportion to the general decline in business in the United States; but pulp and paper somewhat less than conditions in the export markets would seem to warrant. This is due in part to some American companies closing down their high-cost

\* See Table I in the Appendix.

## The Balance of Trade

mills in the United States, and drawing more on their low-cost Canadian mills. The increase in non-ferrous metal exports is an indication of the remarkable development in the production of the precious and base metals in the last two or three years. The figure of \$119 million is, however, \$25 million below the 1929 total.

Exports of manufactures, other than those based directly on natural resources, show smaller but still substantial declines most of which are due to the curtailment of the export of motor-cars and farm implements. A large part of the decrease in exports is of course due to falling prices. A rough calculation shows that the prices of our principal exports in 1930 was, on an average, about 16 per cent. below those of 1928. Thus about half the shrinkage is due to lower prices, and about half to lower volume.

Imports have declined less than exports, the decrease being 15 per cent. as against 32 per cent., and about one-half or two-thirds of this decline is probably due to lower prices.\* Imports primarily for the consumer declined 12 per cent., and imports of manufacturers' raw materials about the same. Imports of machinery and capital goods show a much heavier fall of 30 per cent.

The proportion of Canada's external trade to her internal trade is unusually high. About one-quarter of all our production is for the export market. Our economic system, therefore, is especially sensitive to changes in the general structure of world prices. From 1924 to 1929 we were particularly fortunate in this respect. Our staple exports held to a relatively high price level, while the prices of our principal imports moved steadily downward. In other words, the purchasing power of our exports was steadily increasing.† No small part of our recent prosperity was

\* For recent changes see the Appendix, Table II.

† The following is an index of the purchasing power of our exports, obtained by dividing an index of import prices into an index of export prices (1913=100):—

| 1922  | 1923 | 1924 | 1925  | 1926  | 1927  | 1928  | 1929  | 1930  |
|-------|------|------|-------|-------|-------|-------|-------|-------|
| 102.1 | 92.7 | 98.4 | 108.7 | 111.6 | 113.3 | 108.1 | 111.7 | 101.5 |



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due to this fortunate price situation, and much of our present trouble is directly due to its sudden change.

The prosperity of 1924 to 1929 was built on wheat at \$1.50. In recent months wheat, as we have seen, has sold down to fifty cents. While that is clearly an uneconomic price, we must face the probability that \$1.00 will become a good average price during the next few years. Can we maintain our former prosperity on "dollar wheat"? Undoubtedly, some of the less advantageously situated farmers cannot produce at \$1.00. But with greater mechanisation, more diversified production, careful seed selection, proper soil cultivation and strict attention to all other costs, dollar wheat can become a large and profitable crop in the West. Canadian wheat is of unsurpassed quality, and Canadian costs are lower than those of most competitors. The price of wheat must eventually be stabilised at about the marginal cost of production, and at that price, whatever it may be, efficient Canadian farmers can make profits.

Newsprint and base metals, again, are industries in which the price situation is often disturbed. Much extravagant expansion occurred during the recent "boom," and some of these new ventures are now in difficulties. But here again the natural advantages are very great, and, given stability in financial organisation and a high degree of technical efficiency, there is little to fear.

When the world price structure regains its normal stability we shall probably find that Canada will be somewhat less favourably situated than before, but once the short period of readjustment is past, the ultimate benefits of lower costs and higher efficiency will tell.

The market problem is closely related to that of prices, and it is no less acute. One side of this problem, fluctuating purchasing power abroad, is almost entirely beyond our control. Another side of the problem is the tariff situation, and this is only partly within our own control. Canada would benefit more than most countries from a general

## The Balance of Trade

tariff truce, but the negotiations which must precede such an event, even if it is to be on a small scale, call for qualities of understanding and patience which are all too rare both at home and abroad. A further side of the problem, however, lies entirely in our own hands, and that is the ready adoption of the best possible marketing policies.

To return, however, to the balance of trade. We have experienced a severe and unexpected decline in exports, and, while the worst is perhaps over, we shall probably have for some time to come to face less favourable terms of trade than a few years ago. How have we stood the test of the past critical year?

Our balance of international payments for the years 1913, 1925 and 1930 will be found in the Appendix in Table III, which may perhaps be left to explain itself with the aid of the notes attached to it.

Another table gives, for the years 1913 to 1930: (1) The excess of exports over imports, (2) the balance of the various "invisible" items in the accounts, and (3) the net balance which, subject to inevitable errors and omissions, represents the net flow of capital inward or outward. The most striking facts which emerge from this table are the steady decline of the adverse balance in the invisible items, and the occurrence of several consecutive years of net capital exports. Thanks largely to the rapid growth of the tourist trade, the revenue from which is now equal to the entire interest and dividend payments due to foreign investors, the invisible debit and credit items now almost exactly balance. It is not unlikely that in the near future Canada will have a small excess of credits in these items.

We are now in a position to give at least a tentative answer to the question with which we started. Canada has met the sudden and unexpected reduction of \$475 million in her exports by reducing her imports \$200 million, by reducing her capital exports \$150 million, by reducing her repurchases of Canadian securities formerly held abroad by

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\$75 million, and by increasing her tourist revenue by \$50 million. Canadian foreign borrowings in 1930 were somewhat below the average for the previous three years. With the return of more normal conditions we may expect a resumption of the repurchase on a considerable scale of securities now held abroad, and fresh capital exports.

Canada.  
January 28, 1931.

## APPENDIX

TABLE I

EXPORTS (VALUES IN MILLIONS OF DOLLARS)

|                                   | 1928    | 1930* | Change | Per cent. |
|-----------------------------------|---------|-------|--------|-----------|
| <i>Raw Materials, etc.—</i>       |         |       |        |           |
| Grain and its Products ..         | 558.1   | 242.3 | -315.8 | -56.5     |
| Fisheries ..                      | 36.3    | 30.7  | - 5.6  | -15.4     |
| Meat and Dairy Products ..        | 97.5    | 44.5  | - 53.0 | -54.4     |
| Lumber ..                         | 92.9    | 70.5  | - 22.4 | -24.0     |
| Pulp and Paper ..                 | 192.8   | 178.6 | - 14.2 | - 7.4     |
| Non-Ferrous Metals ..             | 103.4   | 119.2 | + 15.8 | +15.3     |
| Total ..                          | 1,081.0 | 685.8 | -395.2 | -36.6     |
| <i>Manufactures—</i>              |         |       |        |           |
| Rubber Goods ..                   | 30.7    | 25.5  | - 5.2  | -16.9     |
| Textile Products ..               | 6.7     | 6.8   | + 0.1  | + 1.5     |
| Iron and Steel Products ..        | 70.7    | 49.5  | - 21.2 | -30.0     |
| Chemicals ..                      | 18.4    | 17.2  | - 1.2  | - 6.5     |
| Total ..                          | 126.5   | 99.0  | - 27.5 | -21.7     |
| All other goods ..                | 166.7   | 143.0 | - 23.7 | -14.2     |
| Grand Total (merchandise only) .. | 1,374.2 | 927.8 | -446.4 | -32.5     |

\* 12 months ending November 30.

## Appendix

TABLE II

IMPORTS (VALUES IN MILLIONS OF DOLLARS).

|                                              | 1928    | 1930*   | Change | Change Per cent. |
|----------------------------------------------|---------|---------|--------|------------------|
| <i>Manufactured Goods (chiefly capital)—</i> |         |         |        |                  |
| Iron and Steel (plates, bars, etc.) ..       | 68.5    | 57.2    | - 11.3 | -16.5            |
| Iron and Steel (finished goods) ..           | 207.6   | 138.5   | - 69.1 | -33.3            |
| Total ..                                     | 276.1   | 195.7   | - 80.4 | -29.1            |
| <i>Manufacturers' Raw Materials—</i>         |         |         |        |                  |
| Rubber ..                                    | 20.0    | 10.3    | - 9.7  | -48.5            |
| Textiles ..                                  | 50.6    | 33.0    | - 17.6 | -34.8            |
| Ores ..                                      | 21.1    | 15.2    | - 5.9  | -28.0            |
| Coal ..                                      | 61.3    | 64.5    | + 3.2  | + 5.2            |
| Petroleum ..                                 | 62.6    | 67.4    | + 4.8  | + 7.7            |
| Total ..                                     | 215.6   | 190.4   | - 25.2 | -11.7            |
| <i>Consumers' Manufactured Goods—</i>        |         |         |        |                  |
| Cottons ..                                   | 33.1    | 26.1    | - 7.0  | -21.1            |
| Woollens ..                                  | 42.2    | 33.6    | - 8.6  | -20.4            |
| Other Textiles ..                            | 67.0    | 59.0    | - 8.0  | -11.9            |
| Iron and Steel Products ..                   | 37.9    | 28.4    | - 9.5  | -25.0            |
| Household sundries ..                        | 93.5    | 92.7    | - 0.8  | - 0.9            |
| Total ..                                     | 273.7   | 239.8   | - 33.9 | -12.4            |
| Tropical Foods ..                            | 132.4   | 115.8   | - 16.6 | -12.5            |
| All other ..                                 | 324.5   | 290.8   | - 33.7 | -10.4            |
| Grand Total (merchandise only) ..            | 1,222.3 | 1,032.5 | -189.8 | -15.5            |

\* 12 months ending November 30.

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TABLE III

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS  
(VALUE IN MILLIONS OF DOLLARS)

|                                   | 1913  |       | 1925  |       | 1930  |       |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
|                                   | Cr.   | Dr.   | Cr.   | Dr.   | Cr.   | Dr.   |
| Merchandise and Bullion           | 473   | 693   | 1,316 | 926   | 900   | 1,025 |
| Freights* .. ..                   | 38    | 56    | 84    | 105   | 80    | 115   |
| Interest† .. ..                   | 10    | 137   | 51    | 259   | 95    | 315   |
| Tourists‡ .. ..                   | 30    | 37    | 175   | 67    | 315   | 100   |
| Insurance§ .. ..                  | 2     | 6     | 16    | 19    | 45    | 22    |
| Advertising .. ..                 | 1     | —     | 3     | —     | 5     | 1     |
| Motion Pictures ..                | —     | —     | —     | 4     | —     | 5     |
| Government Expenditure            | 3     | 8     | 12    | 11    | 12    | 12    |
| Other Non-Commercial ..           | 10    | 65    | 16    | 21    | 13    | 22    |
| Total Current Items ..            | 567   | 1,002 | 1,673 | 1,412 | 1,465 | 1,617 |
| New Investments ..                | 591   | 46    | 157   | 250   | 344   | 133   |
| Redemptions and Repurchases .. .. | 55    | —     | 108   | 18    | 108   | 50    |
| Net Investments .. ..             | 536   | 46    | 49    | 232   | 236   | 83    |
| Balance** .. ..                   | —     | 55    | —     | 78    | —     | 1     |
| Total .. ..                       | 1,103 | 1,103 | 1,722 | 1,722 | 1,701 | 1,701 |

\* Freight charges: Imports are valued f.o.b., point of original shipment, hence transportation charges must be paid to the Canadian border. Exports are valued f.o.b., point of original shipment, and transportation charges to the point at which they leave the Canadian carrier are earned. Moreover, Canada earns large sums on a large volume of American freight travelling through Canada in bond, especially across south-western Ontario.

† Interest: At present there is approximately \$6,375,000,000 of foreign capital invested in Canada on which interest and dividends must be paid. On the other hand, Canadians have nearly \$2,000,000,000 invested abroad on which interest and dividends are earned.

‡ Tourists: The growth in the tourist trade has been extraordinary. In 1920 some two million visitors spent about \$85,000,000 in Canada. In 1929 we had 16 million tourists who spent about \$300 million. In the same decade the expenses of Canadian tourists abroad increased from \$45 million to \$100 million a year.

§ Insurance: The figures reflect the expansion into foreign fields of some of the large Canadian Insurance Companies.

\*\* The balance represents errors and omissions. Some of the omissions are smuggling, short term loans and credits, and private stock trading transactions of an international character.

## Appendix

TABLE IV

(VALUES IN MILLIONS OF DOLLARS)

|         | Merchandise and Bullion |     | Invisible Items | Total |
|---------|-------------------------|-----|-----------------|-------|
|         |                         |     |                 |       |
| 1913 .. | —                       | 220 | —               | 215   |
| 1914 .. | —                       | 83  | —               | 214   |
| 1915 .. | +                       | 140 | —               | 230   |
| 1916 .. | +                       | 239 | —               | 309   |
| 1917 .. | +                       | 493 | —               | 370   |
| 1918 .. | +                       | 387 | —               | 389   |
| 1919 .. | +                       | 206 | —               | 351   |
| 1920 .. | —                       | 18  | —               | 270   |
| 1921 .. | +                       | 54  | —               | 216   |
| 1922 .. | +                       | 95  | —               | 181   |
| 1923 .. | +                       | 198 | —               | 170   |
| 1924 .. | +                       | 251 | —               | 150   |
| 1925 .. | +                       | 390 | —               | 129   |
| 1926 .. | +                       | 318 | —               | 142   |
| 1927 .. | +                       | 166 | —               | 115   |
| 1928 .. | +                       | 230 | —               | 63    |
| 1929 .. | —                       | 36  | —               | 52    |
| 1930 .. | —                       | 125 | —               | 27    |

Inward flow of capital is shown —, and outward flow +.

## AUSTRALIA

### I. AUSTRALIAN FINANCE: THE NARROW WAY

WHEN at Melbourne in August last\* the seven Governments of Australia solemnly agreed to take the steps necessary to balance their budgets in the current financial year, and to keep them balanced in future, it seemed that the process of reconstruction had at last begun. During the quarter under review, that agreement has virtually broken down. The story falls into two periods, divided by the New South Wales elections on October 25.

#### *The States and the Melbourne Agreement*

The Premiers went back to their State Parliaments and (except in New South Wales which was on the eve of a general election) proceeded to open budgets in accordance with their pledge. Balance was provided for by the two obvious means, curtailment of expenditure and increases in taxation, more or less of either according to the circumstances of each State, but chiefly by increased taxation. Special taxation of practically all salaries and wages to provide funds for relief works for the unemployed formed an ingredient in all the budgets. The principal bone of contention in most States was a proposal to economise by reducing the salaries of civil servants of all grades. A proposal of this sort had become law in New South Wales before the Melbourne agreement. In the other States it has been adopted since, though not without some incidents that assort ill with the traditional practice of responsible government. In Victoria, for instance, Mr. Hogan had to choose between amending his budget proposals and defeat

\* THE ROUND TABLE, No. 81, December 1930, p. 195.

### Australian Finance: The Narrow Way

in the House, and, after hasty and undignified negotiations with the public servants association, chose to amend the budget. He was thereupon taken to task by the Victorian section of the Australian Labour party for his failure to adhere to the Labour principle that the standard of wages should not under any circumstances be reduced, and that the whole burden should be borne by "Big Money." Dictation of policy by extra-parliamentary bodies is always vociferous under Labour governments in Australia, and it has been especially importunate, as will be seen presently, in the Federal sphere in the period under review. Both Mr. Hill in South Australia and Mr. Hogan in Victoria, however, have felt their position strong enough for a considerable measure of defiance. The Labour movement outside Parliament has felt disinclined at present to force a Labour Government to resign with the certain consequence of opening the way for a Government whose financial measures would be far less palatable to Labour supporters.

#### *The Federal Ministry*

We should now turn to trace the fortunes of the Melbourne agreement in the Commonwealth and in New South Wales, which have been closely connected throughout. The Scullin Ministry entered into the general undertakings in Melbourne only at the last moment and under united pressure from the States; and no sooner had the agreement been signed than it became clear that the Cabinet itself contained a strong minority anxious to tear it up; that, even if the members of the Cabinet did succeed in composing their differences and presenting a united front in support of the agreement, there would be great difficulty in persuading the caucus (the party meeting) to accept it, because New South Wales members were very influential in the caucus, and the Australian Labour party in New South Wales had declared itself promptly against the Melbourne resolutions; it was clear also, from the falling customs revenue, that if the Commonwealth were not to

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suffer a deficit of altogether staggering proportions, Parliament must meet to revise the budget. September passed. When four Federal Ministers began to assist Mr. Lang's electoral campaign in New South Wales, supporting a policy of no retrenchment and of "scrapping" the Melbourne agreement, the split between the Scullin section of the Cabinet led by Mr. Fenton, the acting Prime Minister, Mr. Lyons, the acting Treasurer, and Mr. Forde, the acting Minister for Customs, and the recalcitrant section, led by Mr. Anstey and Mr. Beasley, became patent. The senior Ministers hoped that Mr. Scullin would obtain in London a reduction of the interest rate on Australian war debt. The extremists secured the postponement of the inevitable session of Parliament until the end of October, when the voice of the people should have been heard in New South Wales. October passed too, with a deficit mounting steadily at the rate of £30,000 per day. The press in the capitals, irritated by Mr. Fenton's unimpressive optimism as much as by the Cabinet's inaction, began to remind its readers of Nero, and to speak of the "Federal fiddler." Mr. Fenton's four colleagues roamed New South Wales unchecked, stirring up public opinion against the Melbourne agreement and the policy to which their Government was pledged. It is the caucus which elects Labour Ministers in Australia; the Prime Minister's function is to allocate portfolios; the members of the Cabinet therefore owe their real allegiance to the caucus; and it is this of course which makes such open dissensions possible between members of a Labour Ministry. Which section of the party would be victorious seemed to depend on the result of the New South Wales polls on October 25. It appeared to be true that, as Mr. Bavin said in his policy speech, "There is more involved in this election than the fate of this Government. If the agreement is rejected by New South Wales, it falls to the ground. Hence the battle we are fighting in this State is the battle of Australia."

## Australian Finance : The Narrow Way

### *The New South Wales Election*

A few months ago, as the election approached, critical observers rated as slight Mr. Bavin's chances of being returned with a majority. His Government's determined handling of the coal dispute\* still rankled in the mining districts. Moreover, his very campaign for sound government seemed to mark him out for downfall. He had taken the lead in urging retrenchment in the Australian Loan Council earlier in the year, and he had, regardless of political risks, courageously carried out a policy of economy in his own State. He had, for instance, restored the 48 hour week in industry, reduced the salaries of civil servants, imposed an unemployment relief tax of 3d. in the pound on wages over 30s. and on all other income, and effected economies in widows' pensions and in child endowment. At the moment, however, when the decision was taken to go to the country without opening a budget in the last few weeks of the Parliament's life, there seemed to be fair prospects of Mr. Bavin's being able to fight the election under very favourable omens, with "no repudiation" as a slogan. A joint committee of the Sydney Trades and Labour Council and the Australian Labour party executive had recommended at the end of August that the Australian Labour party should instruct New South Wales Labour members, State and Federal, "to break at once with the Nationalist financial gang, whose sole object is to break down the wages, hours, and working conditions of the trade unionists of Australia." The policy favoured by the committee was to repudiate war debts, declare a five year moratorium for interest payable abroad on Government loans, and "mobilise the credit of the community" to provide for the unemployed. Without either accepting or rejecting this programme, the Australian Labour party "instructed the Federal Government to repudiate the Melbourne agreement." It seemed as

\* THE ROUND TABLE, No. 79, June 1930, pp. 629-633.

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though fortune had delivered the Opposition into the Government's hands.

Mr. Bavin's policy speech was remarkable for its stark candour and courage. He made no promises, except to carry out the Melbourne agreement, as "the only possible road of escape from national bankruptcy." He spared no emphasis in depicting the gravity of the position: "calamity-howlers" the Labour press called him and his colleagues. He asked for "a free hand to do whatever may be necessary to meet the situation." It was not at all the kind of programme that Australian voters (like others in other democracies) have unfortunately grown accustomed to expect from political parties. The Melbourne agreement and no repudiation; otherwise, as supporters and opponents alike remarked, an appeal for a blank cheque. With characteristic adroitness Mr. Lang, in his policy speech, turned Mr. Bavin's slogan against him, and went on to evade or ignore every one of the real difficulties of the situation. Certainly, he said, no repudiation—but no repudiation of any kind. No repudiation of debts to the bondholders, but no repudiation of obligations to the wage-earners either. Of this latter kind of "repudiation" Mr. Lang denounced Mr. Bavin as the arch-exponent—some examples of what he referred to have already been given. The argument that these things had been necessary because of the economic depression was "a political trick." It was all a conspiracy "to introduce into Australia the . . . policy of lower wages and a gipsy standard of living," so as to secure "London Shylocks" the interest on a vast war debt incurred solely on England's behalf. One step in this conspiracy was the Melbourne agreement, dictated to the Governments by Sir Otto Niemeyer, who had come (in the *Labour Daily's* phrase) as "the bailiff of London Jewry." Thus Mr. Lang sought, by playing upon ignorance and prejudice, to dispose of the agreement by involving it in obloquy. In this misrepresentation of Sir Otto Niemeyer's visit, Mr. Lang was supported by

## Australian Finance : The Narrow Way

certain Commonwealth Ministers (who must have known the truth) and by Mr. W. M. Hughes (who ought to have known it). In his statements to the Melbourne conference—made public by the conference itself—Sir Otto may perhaps have made too small an allowance for the difference between the temper of the European countries which he had advised and the temper of an advanced parliamentary democracy, out of touch with world events and youthfully hypersensitive to any criticism of its fetishes. But it is difficult to write with restraint either of those Federal Ministers who led the campaign of misrepresentation in New South Wales, or of those who for the sake of party advantage failed to publish the truth. Publication, however, might have done little good. Where so many persons base their opinions on hearsay, a calumny travels further than a correction. After the election, Sir Otto Niemeyer himself stated the facts leading up to his visit—a dignified rebuke for the lack of elementary fair play which had been evinced.

Having thus disposed of repudiation, Mr. Bavin, and the Melbourne agreement, Mr. Lang went on to outline his own policy. It glittered with promises. He would restore civil service and railway salaries and wages and the 44 hour week. He would absorb the unemployed in new public works, such as waterworks, wheat silos, roads; find wonderful markets for primary produce; create a State transport monopoly to rehabilitate the railways. Everybody would have plenty of work and plenty of money. All talk of depression would cease. These promises would certainly be costly—£200 million was one rather unkind estimate from opponents. But New South Wales was bursting with unsold wheat and wool, and any shortage Mr. Lang would make up by borrowing. True, New South Wales had become a member of the Australian Loan Council, and was pledged, by an agreement that seemed to be alterable only by the unanimous consent of the seven Australian Governments, not to borrow

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except by consent of the Council, whose recent resolutions were plainly incompatible with Mr. Lang's policy. When challenged, Mr. Lang was too adroit to condescend to particulars. He would borrow, he said, if not from "the money-choked markets of England and America," then from "our own people, who are capable and willing to supply all our needs." "I will find the money as I found it in 1927."

The ultimate issue in the election can be simply stated in terms of two slogans: "For brighter times change the Government," said Mr. Lang. "Borrow and boom means sorrow and doom," said Mr. Bavin. Unequivocally, the people changed the Government. A Nationalist-Country party majority of six became a Labour majority of twenty, the state of parties in the last Parliament and in the new being:

|                            | 1927. | 1930. |
|----------------------------|-------|-------|
| Nationalists .. .. .       | 35    | 23    |
| Country party .. .. .      | 13    | 12    |
| Labour party .. .. .       | 40    | 55    |
| Independent Labour .. .. . | 2     | —     |

The percentage of voters who recorded valid votes was 91 as against 83 in 1927. (Voting was for the first time compulsory in 1930). The salient features of the voting were a decline in Nationalist votes from 460,000 to 410,000, an increase in the Labour vote of nearly 200,000—from 524,000 to 717,000—and the complete failure of Mr. Hughes's Australian party and of the Communists. Neither gained a seat. Some 26,000 votes were cast for the former, and 9,500 for the latter.

Mr. Bavin has thus added a sixth to the list of successive Australian Governments which have gone to the polls since the hard times began, and been defeated. It is doubtful whether any other factor need be adduced in explanation of the result than resentment against a Government which was engaged in a policy of retrenchment. Certainly one would scarcely be justified in assuming that

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the electors of New South Wales swallowed Mr. Lang's preposterous programme at a gulp. For many voters the vote seems to have been rather a rejection of Mr. Bavin than a choice of Mr. Lang. He promised immediate relief at any rate. From some points of view the result may be regarded as the triumph of selfishness. It was certainly the triumph of unreason. It is tempting to say that the New South Wales election shows the impossibility of carrying out in the present conditions of Australian democracy the policy of reconstruction which has been successfully adopted in several European countries since the war. In any case, no New South Wales Government has been successful at the polls for sixteen years.

One aspect of the election—the part played by the public servants—calls for special comment, since it emphasises tendencies discernible throughout Australian politics. Without suggesting that every public servant voted Labour, it seems certain that the public service vote played an important part in the result. The mere exercise of the franchise by so distinct and numerous a class (including in New South Wales, it is estimated, one out of every six voters) gives rise to serious problems. But the growing political temper of the public service is a danger both to politics and to administration. The public service is highly organised, and a body of 100,000 persons whose remuneration is directly at stake can easily hold a government or a party to ransom. In New South Wales dozens of public servants spoke from Labour platforms, and several offered themselves as candidates, exercising the privilege of getting leave to contest an election conferred by an amendment of the constitution in 1916. It is important, if government is to be carried on efficiently and impartially, that this growing political temper of the public service should be curbed.

Once in office, Mr. Lang found himself confronted with those realities which, for electoral purposes, he had ignored. He went to a meeting of the Loan Council in November,

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but, as had been foreseen, his hands were tied, and the work of the Council proceeded normally. He has had the courage to propose a heavy increase in the tax on wages for unemployment relief, which the workers have, of course, been very disinclined to regard as a sign of "better times." He has, however, taken steps towards one of his major objectives, the abolition of the Legislative Council. Mr. Lang failed in 1927 (after difficulties with the Governor) to "swamp" the Council with a view to its abolition.\* Mr. Bavin proposed to submit a reformed constitution to popular vote this year, but was not able to do so. Without waiting to test the fate of any of his policies, Mr. Lang assured Sir Philip Game, the new Governor, that he had only 20 supporters in a House of 88, and asked for 40 new nominees. The Governor—very properly, it seems—refused to make appointments until it was clear that Mr. Lang would otherwise be unable to carry out his policy. The Premier's reply was to introduce two Bills in the Council. The first was a constitutional amendment to repeal, *inter alia*, the statute which Mr. Bavin had sponsored earlier in the year providing that no Bill altering the constitution of, or abolishing, the Legislative Council should be presented for the Royal assent until it had been submitted to a referendum. The second Bill was to abolish the Council. The Council surprised the Premier by passing both Bills without a division. Then, on the suit of several Councillors, the Supreme Court of New South Wales issued a decree restraining Sir John Peden, President of the Council, and the Government from presenting the Bills for the Royal assent until they shall have been passed at a referendum. The Court held that under the Colonial Laws Validity Act the State constitution can be altered only in the manner prescribed therein, and that Mr. Bavin's amendment of the constitution, requiring a referendum prior to the

\* THE ROUND TABLE, Nos. 66, March 1927, pp. 382 *et seq.*, and 65, December 1926, pp. 623-632.

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alteration of the relevant sections, did control succeeding Parliaments until repealed in accordance with its own provisions. In other words, the Colonial Laws Validity Act does contemplate, for colonial constitutions legal guarantees of stability as well as the political safeguards which alone apply to the Imperial Parliament. The case will doubtless find its way to the Privy Council. Mr. Lang has no wish to take a referendum. Nor would Queensland's history encourage him to do so. There, a referendum went against the Government, and the Council had to be abolished by legislation.

### *Federal Politics since October 25.*

We may now return to the course of Federal politics, which was interrupted pending the New South Wales election results. All through October the press throughout Australia treated the campaign as fateful for the whole country, and urged with understandable exaggeration that a Labour victory would spell immediate national disaster. Fortunately these forecasts have not been realised. But the effects of Mr. Lang's victory have already been far-reaching and regrettable, and are still far from being exhausted. The Federal caucus met immediately to discuss the financial proposals to be submitted to Parliament, and the struggle which had been going on within the Cabinet was extended to the party room. The Fenton-Lyons-Forde section stood by the Melbourne agreement, and proposed to balance the budget by means of fresh taxes and of economies amounting to some four million pounds. The Anstey-Beasley section would have none of it. The caucus was dominated by the 22 New South Wales members, flushed with Mr. Lang's victory. The Melbourne agreement was denounced as the product of an intolerable interference by outsiders with Australia's domestic affairs. The proposed taxes the caucus did accept, but the utmost measure of retrenchment agreed to was a reduction, by means of a special tax, of civil



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service salaries of £725 and upwards. It may have been impossible to balance the Federal budget in any case in a year of falling incomes and shrinking imports, without bringing government to a standstill. But the caucus resolutions made it certain that there would be a deficit of £8 million at least. The extreme section went on to develop a plan for Australia's rehabilitation based on their often expressed view that the economic depression is only a conspiracy on the part of the banks to reduce the Australian standard of living. What Australia needs is more spending power. The orthodox and arduous way of getting it is to produce more and lower one's cost of production, so as to be able to sell more. Mr. Anstey's way is to print more notes, or, if that sounds too reminiscent of German and Austrian tragedies, "to release credit." It is the banks, and especially the Commonwealth Bank, "the People's Bank," to which we should look for better times. Agreeing with Mr. Anstey, the caucus resolved that the Commonwealth Bank should be required, as and when necessary, to furnish credits for financing government operations—*e.g.*, extending the Government's overdraft so as to cover the deficit expected—for financing fresh public works, and for assisting production, primary and secondary. The Commonwealth Bank Board, however, had been established by Mr. Bruce on a basis independent of Governments, and it was scarcely expected by anybody that it would meet the requests preferred. In that case the Government would re-introduce and push to a conclusion the banking legislation which the Senate had already shelved earlier in the session; if the Senate again proved obdurate, a "double dissolution" was to be secured.

Eventually, on November 5, Mr. Lyons, the acting Treasurer, placed before Parliament the Ministry's plans for budget revision, as modified by the caucus. On the following day the caucus resolved that the bondholders in the internal loans maturing in December and shortly

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afterwards should, save in cases of hardship, be required to accept payment a year later. This was too much for Mr. Lyons. For a few days he seems to have contemplated resignation, but he consulted his leader in London, and decided not only to remain, but to defy the caucus. That speaks volumes for Mr. Lyons's courage and independence, as well as for his sense of political realities. He had sustained the burden of the attack, standing firm, backed strongly indeed, but only from a distance, by the Prime Minister and the two other Ministers in London, even when others wavered. In any party the man who defies the party meeting takes his political future in his hands; but it is particularly true in the Labour party, because the system of pre-selection ballots is so highly developed and so well controlled. After an anxious fortnight for the whole of Australia, Mr. Lyons rallied enough support in Cabinet and caucus to reach a compromise and to avert an open split. The issue between moderates and extremists in the Cabinet was to be put aside until the Prime Minister and his colleagues came home in January. Mr. Lyons was to arrange through the Loan Council in the ordinary way for the flotation of a conversion loan of £28 million (£18 million for the Commonwealth and £10 million for the States) in December.

It should perhaps be said that the decisions of the caucus, involving, as they did, a complete failure to implement the Melbourne agreement, should not be regarded as evincing simply a reckless disregard of pledges. There is involved in them nothing less than a whole theory of party politics, hammered out in the history of trade unionism, the theory that "the party must decide." The Melbourne agreement, argued the official journal of the Labour movement in New South Wales, was indeed signed by members of the Federal Cabinet, but it was never accepted by the Federal Labour party, and the party not only rejected that agreement, but put forward an alternative scheme to replace it, and "the party will must prevail." "The

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party is elected by the people, and the Ministry is chosen by the party."

The Federal position is still critical. The extremist section, becoming restive again, induced the caucus to instruct the Ministry to put before the Commonwealth Bank Board the proposals for "releasing credit" already referred to. They could scarcely have expected much satisfaction, and certainly got none; but the caucus did make an attempt to force the Bank's hand in connection with the wheat harvest. The Bank announced that it would make a first advance to wheat pools of 2s. a bushel at country railway stations, equivalent to 2s. 6d. f.o.b. Under instructions from the caucus, the Ministry forced through the House a Bill guaranteeing to pools 3s. f.o.b. This is more than wheat is worth at current prices, and is likely to involve the Commonwealth in additional expenditure of anything up to £6 million. The money must be found either by additional taxation or by the Bank. The Senate passed the Bill. The Bank has so far made no move; the growers simply do not know where they are the wheat sales have been completely disorganised.

The situation, however, is not altogether without its hopeful elements. The budgetary position in the States is on the whole encouraging, though it depends a good deal on the result of the proceedings in the Commonwealth Arbitration Court chronicled below. It is also highly satisfactory that the conversion loan was over-subscribed, on reasonable terms—6 per cent. for two years, 5½ per cent. for ten, and 5½ per cent. for twenty. This result is a fine gesture of confidence from within Australia herself, and there was the same kind of spirit about subscribing as was shown during the war. Nevertheless, so long as the inflationists sway the caucus, and the Commonwealth refuses to take reconstruction in deadly earnest, there seems to be little ground for optimism.

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### *The Wage Level.*

The stabilisation of public finance is a vital, but by no means the most vital, element in Australia's present position, nor for that matter can public finance really be stabilised apart from the general restoration of economic equilibrium. In the problem of reconstruction the ultimate factor is that owing to the fall in the world prices of wool and wheat and base metals, which make up over 70 per cent. of Australia's exports, the country has suffered, and must continue to suffer, a fall in real income. At present the loss is being borne by primary producers, by those whose incomes depend on the profits of Australian businesses, including proprietors, shareholders, and salaried officers, and by wage-earners who are unemployed or whose employment is "rationed," but not by the general body of wage-earners. As prices have fallen, the basic wage has automatically fallen too, but this, of course, has not involved any loss of real income. The official percentage of trade unionists unemployed rose to 20·4 in the third quarter of 1930, and it has risen still further since. No solution for the problem of unemployment, and no general recovery will be possible apart from lower costs in industry, involving a reduction of the wage level roughly proportionate to the decline in the national income. The quarter under review has been marked by an attempt, strongly resisted, to use the machinery of the Commonwealth Arbitration Court to secure this reduction.

It was the Railway Commissioners of South Australia, Victoria, Tasmania, and New South Wales who made the first move, for railway deficits constitute some three-fourths of the whole budget problem of the States. These applications have been regarded as test cases, upon which numerous applications from other employers will depend. The story illustrates afresh not only the unwieldiness of the Australian arbitration system but the embarrassments which arise from the constitutional division of powers

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between Commonwealth and States. It can, however, be told here only in an abbreviated form. Application was made to have the railway award set aside in so far as it concerns employees receiving more than the basic wage. The railwaymen's union was very anxious to delay proceedings as long as possible, and, as the Federal Government had declared for a policy of "no wage reduction," the union found no difficulty in securing the appointment of a conciliation commissioner and committees under the amending Arbitration Act which had just become law.\* Little delay actually occurred, and the Arbitration Court went on to make an order setting aside the award, preserving only the basic wage and the standard hours. Being appealed to by the railwaymen to hold that the appointment of conciliation committees excluded the jurisdiction of the Arbitration Court, the High Court held instead that the new sections providing for the appointment of conciliation committees were *ultra vires* and void. "A law which enables a body of persons," said the Court, "to settle a dispute by issuing a decree arrived at by discussion among themselves, without any hearing or determination between the disputants, is not a law with respect to conciliation and arbitration for the prevention and settlement of industrial disputes, and is not authorised by the constitution." Nobody can derive much satisfaction from this decision, however correct it may be. It was regarded in Labour circles as a proof of the "undemocratic" character of the High Court and of the desirability of appointing at once to the vacant seats on the bench men who understand Labour principles. By direction (it is reported) of the caucus, Dr. H. V. Evatt, K.C. and Mr. E. A. McTiernan, M.H.R., both of the New South Wales bar, have accordingly been appointed.

The ground on which the original application was made was simply that in the existing economic condition of the country it was imperative to balance State budgets, and

\* THE ROUND TABLE, No. 81, December 1930, p. 184.

## Australian Finance : The Narrow Way

that with the existing wage bill for the railways it was impossible to do it. At that time—early in October—it was stated that deficits seemed inevitable, in New South Wales of about £4 million, in Victoria of about £2 million, and in South Australia of about the same amount. On the same grounds of national emergency the Victorian and Tasmanian Commissioners (the others being requested to withdraw by their respective governments) further applied for a variation of the principles upon which the basic wage itself is calculated. Ever since the "Harvester" award in 1907, adjustments in the basic wage have been made by reference to an index number based on the retail prices of food and of house rent. This is estimated to represent about 60 per cent. of household expenditure, and the items included have not fallen as much as those which would be included if an "all lines" number were taken. By taking the inclusive figure, the Commissioners claim that a reduction of 6 per cent. would be effected. They claim also that the "Powers 3s."\* should now be deducted from the basic wage. It was added in 1922, and was explained as compensation for the lag between wages and a rising cost of living, but it has been continued ever since, and it is claimed that a further 4 per cent. would be saved by eliminating it. Thus, the Commissioners claim, the real wage would be reduced by 10 per cent. without reducing the worker below the standard fixed by Mr. Justice Higgins in the "Harvester" case. In the hope of delaying proceedings the unions involved sought an adjournment during which the Commonwealth Statistician should make certain investigations. The subjects proposed ranged over practically the whole sphere of Australian economics, but when the alarmed Statistician applied for a direction from the Court, the Court refused to permit an inquiry which might last "for years and years and years." The reply of the unions was delivered by the Common-

\* So called from Mr. Justice Powers, the Judge who made the decision.

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wealth Government, which appointed the Statistician and others a Royal Commission to enquire, *inter alia*, into the cost of living for a man with a wife and three children. But the Parliament has no power to make the Commissioner's report binding, and the Arbitration Court is in the meantime proceeding with the hearing.

### II. THE IMPERIAL CONFERENCE : AN AUSTRALIAN GOVERNOR-GENERAL

THE Imperial Conference aroused almost continuous interest in Australia for over three months, from the time of Mr. Scullin's departure until the proceedings in London had closed. As might be expected at a time like the present, economics held the pride of place in the minds of Australians ; Mr. Scullin was commonly regarded as *en mission* to gain better markets in Britain for our primary products. At first the tone of the press was cautious, and there were some discussions on the basis of general principles. But as the Conference proceeded, almost the whole Australian press was strongly affected by the natural but dangerous desire to present a dramatic narrative of the events overseas. The position of Great Britain as a world Power was forgotten, and the discussions at Westminster were so described as to give the impression that statesmanlike proposals for Empire prosperity were being frustrated by a tiny group of Cobdenite theorists. It was remarkable that although the September number of THE ROUND TABLE reached Australia at the height of the economic discussions, no public notice whatever was taken of the powerful article on "Imperial Economic Unity." The reasonable needs of the generous Dominions were being denied satisfaction owing to the implacable and rock-like Mr. Snowden, and the unpractical internationalist, Mr. Ramsay MacDonald. Disappointment was loud as the fruitlessness of the preference proposals

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became apparent. But there was a general tendency to draw consolation from looking to a future, even to an immediate future, in which the British electorate, already increasingly awake to the possibilities of preferential tariffs within the Empire, should sweep the unrepentant Cobdenites out of office.

The Australian people has never, and Australian governments have only intermittently, been keenly interested in the constitutional aspect of Empire development, and during this Conference the press was frankly impatient on the subject. It warmly supported Mr. Scullin when in the name of Australia he disavowed all interest in the question of secession, and for the rest supported the view, pressed on the Government in Parliament by Mr. Latham and Mr. W. M. Hughes, that it was both unnecessary and dangerous to try to put into legal formulæ the constitutional understandings on which Dominion status rests. The Australian people still finds it impossible to understand what interest and importance these matters have for other Dominions.

In view of the rumours that had been current about Lord Stonehaven's successor, however, the discussion in London about Governors-General did evoke some interest. The decision was understood to mean that the precedent set in the case of the Irish Free State in 1927 would now be generally followed, and that this precedent involved the transfer to the Dominion Government of the functions hitherto performed by the British Government. It was understood also that the appointment of Governors-General was a matter on which care was taken, and to be taken, to preserve as a reality the King's prerogative of appointment, and that the practice was to submit more than one name for the King's final choice. But few Australians took any trouble to understand these formalities, and the decision of the Conference was noted without any enthusiasm. Indeed in many quarters it was regretted. Thousands of persons had signed a petition to His Majesty

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against any change. But few even of these persons really understood the existing practice. What they really wanted was the maintenance of the system whereby men from overseas were sent as the King's representative. It was generally thought that the result of the discussions at the Conference had been to induce Mr. Scullin to drop any proposal he might have formed to obtain the appointment of an Australian as Lord Stonehaven's successor.

Australia was therefore taken by surprise by the announcement (from Australia House) that the King had, "on the recommendation of" Mr. Scullin, appointed the Chief Justice of the High Court of Australia, Sir Isaac Isaacs, to be Governor-General. If the office of Governor-General is to be thus brought within the sphere of Australian self-government, no person more highly qualified in capacity and experience than Sir Isaac Isaacs could well be found. His long life offers a remarkable instance of the *carrière ouverte aux talents* which should be the boast of a democratic community. He has been a member of Parliament and a Minister of the Crown, both in the colony of Victoria before federation and in the Commonwealth since. While never a member of the Labour party, he has always had, like other Liberals of the radical Deakin school, a strong sympathy with Labour policies. He has been for twenty-four years a Justice of the High Court of Australia, and it is common knowledge that in 1920 it was under his influence that the High Court, overruling its previous decisions, laid down the principles on which the Commonwealth constitution has since been interpreted. He had recently been elevated to the highest judicial office in the Commonwealth. The people of Australia are fortunate in the first Australian occupant of the Governor-General's office. Nevertheless, there are powerful considerations, constitutional, political, and sentimental, which may be urged against treating this appointment as a precedent to be followed. To begin with, the functions of Commonwealth Ministers are derived from the constitution of the Common-

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wealth, and while the constitution does contemplate their giving advice in the technical and formal sense to the Governor-General as the King's representative, it clearly does not contemplate their giving advice in that sense to the King in person. It is said that such a development is the logical outcome of the decisions taken at the Imperial Conference in 1926. But these decisions can scarcely have the effect of altering the constitutional law of the Commonwealth so as to confer on Ministers legal powers not conferred by the constitution. It is a more serious thing that by taking Ministerial responsibility for the new appointment the Prime Minister has apparently brought the appointment of the Governor-General, just like the appointment of any other officer of the Commonwealth, within the ordinary range of Cabinet government, and has subjected it to all the incidents of party politics. This may mean, as has been said here and in London, that the appointment of the King's personal representative may be the issue in a general election—which would be as embarrassing to His Majesty as to the representative when he was eventually appointed. It was certainly not intended, when the Imperial Conference declared in 1926 that the Governor-General is not to be regarded as a representative of the British Ministry, that he should become the representative of a Dominion Ministry.

This is a time when we must devise new methods to meet new needs, and recognise the appointment of the Governor-General as an exception to the hitherto universal rule of Ministerial responsibility, so that, while the Dominion is, in the future as in the past, given an effective voice in the appointment, no Minister shall give "advice" in the formal sense, and the King's own wishes shall be the determining factor in the choice. If the Governor-General is to be the representative of the Commonwealth Ministry and an Australian, the Chief Justice of the High Court does seem to be in general the proper person, perhaps the only proper person, to be appointed. But most lawyers

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would regard it as undesirable that such promotion should come to be regarded as the regular thing.

The step that Mr. Scullin has taken is of course in furtherance of the long-standing policy of the Labour party. But it was not discussed in Parliament before the Prime Minister went to London, and though Australian opinion on the subject is not very articulate and is not divided strictly along party lines, it is very doubtful whether the change to Australian Governors-General, or even State Governors for that matter, would be endorsed by the majority of the people. Many people, especially in the smaller States, doubt whether our population is large enough to afford us a sufficient succession of men with suitable qualifications. And many more value the purely sentimental link of Empire created by men from overseas who, in themselves, apart from their qualifications for gubernatorial office, and apart even from their personal popularity or unpopularity, stand as a symbol of the wider community of which Australia is a part. No Australian, however eminent and popular, can do that, or be more than the first Australian in the land. But whether an Australian should be appointed, and how the Governor-General should be appointed, are in reality two quite distinct questions, and it is to be hoped that in the discussions which are bound to ensue they will be kept clearly distinct.

Australia.

December 24, 1930.

### *Postscript*

Since this article left Australia, Mr. Scullin has made Mr. Theodore Treasurer, and Mr. Fenton and Mr. Lyons have resigned. The Conference of Premiers, rejecting a scheme of Mr. Lang's, have decided that each Government must balance its budget in three years, and "an appropriate monetary policy" on the lines of a plan of Mr. Theodore's (to restore the level of prices by credit inflation) examined by the Commonwealth Bank and Treasury. The Commonwealth Arbitration Court has decided upon a 10 per cent. cut in the basic wage for the State railways mentioned in Section I, but at the time this note goes to press the details of the application have not been settled.

EDITOR.

## SOUTH AFRICA

### I. THE UNION AND THE IMPERIAL CONFERENCE

FOR most South Africans an Imperial Conference has come before all else to signify an occasion for the discussion of inter-Imperial relations. And while the economic aspects of the 1930 Conference attracted more attention in the Union than was the case with its predecessors, if only because men hoped that by extending the market for South Africa's agricultural products, it might bring her relief from her present discontents, yet, even so, its constitutional possibilities aroused the more widespread interest. The political significance, not least for South Africa, of the constitutional pronouncement of 1926 was fresh in men's minds; moreover the "right of secession" debate\* in the last session of the Union Parliament stimulated the anticipation that the question of that right would be a primary issue at the London deliberations.

That debate culminated in the adoption, after a vote on strict party lines, of a resolution which attached to the approval of the report of the 1929 Conference on the Operation of Dominion Legislation a proviso "that section 60 of the report shall not be taken as derogating from the right of any member of the British Commonwealth of Nations to withdraw therefrom." Moreover, during its course, General Hertzog declared that he would regard the resolution as a mandate, and would see "when I go to London that action is taken which will enable me when I come back to be able to say that that door (*i.e.*, the door to secession) is not locked on us." It is true that, in the valedictory speech delivered on his departure for Europe, he somewhat qualified that statement—or at least the implication which it seemed to bear—but, even so, newspaper comment both in London and in South Africa, fostered the belief that he would seek to return to the

\* THE ROUND TABLE, No. 80, September 1930, pp. 881-883.

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Union in 1930 with a formal declaration of South Africa's right of secession, just as he had returned in 1926 with a declaration of South Africa's freedom and equality of status. These anticipations were further stimulated by a speech delivered simultaneously with the commencement of the Imperial Conference by Dr. D. F. Malan, acting Prime Minister, in opening the Cape Provincial Congress of the Nationalist party. In that speech he dealt exhaustively with questions of inter-Imperial relations, affirmed South Africa's right of secession and her right of neutrality in the event of war, and, as a corollary, categorically repudiated the doctrine of the unity and indivisibility of the Crown. Many not unnaturally drew the inference that the acting Prime Minister was setting forth the programme with which his chief had gone to the Imperial Conference, and that he would face that body with a demand for an amplified Balfour pronouncement, embodying categorical statements on the issues thus raised.

In the light of these anticipations, the results of the Conference on the constitutional side have appeared to South Africans to be surprisingly meagre and devoid of significance. The report of the 1929 Conference on the Operation of Dominion Legislation, which met with general acceptance in the Union, has been adopted with but little modification, as indeed everyone thought it would be, but for the rest the constitutional section of the summary of the Conference's proceedings contains little of a nature to kindle interest in South Africa. There is a paragraph which deals with the position of Governors-General which—the more so if it is viewed in conjunction with the subsequently announced appointment of Sir Isaac Isaacs in Australia—foreshadows the appointment of a native-born South African to a similar post in the Union; it will arouse little cavil or criticism in South Africa, although there are many South Africans who will agree, both on constitutional and on general grounds, with the view put forward in the last issue of *THE ROUND*

## The Union and the Imperial Conference

TABLE\* that the Sovereign should, in these matters, exercise "a wide measure of independent judgment," and that in any case the Governor-General "must at least be an individual well-known to, and personally approved by, the King himself." But, of those other issues which Dr. Malan raised, the Conference has said not a word—and indeed it is perhaps not without significance that it laid special emphasis in its draft preamble to the proposed "Statute of Westminster" on the fact that the member States of the Commonwealth "are united by a common allegiance to the Crown."

General Hertzog has therefore not returned from London with any resounding constitutional declaration comparable in significance with that of 1926. With the results of the Conference on the constitutional side he has, however, declared his complete satisfaction. In particular he has referred with gratification to the adoption of the report of the 1929 Conference and the proposed implementation of it in the "Statute of Westminster." For the rest, he has emphasised—as indeed he did in 1926—that South Africa now possesses her sovereign independence to use or to abuse. But as for the "right of secession" he is content to regard that as implicit in the 1926 definition of Dominion status. And when asked by an interviewer about the resolution of the Union Parliament which affirmed that right, he made this statement of what happened at the Conference :

I pointed out the special circumstances in South Africa, and explained that Parliament had approved of the report of the subsidiary committee of the Conference, subject to the resolution. I fully explained the feelings of the people of South Africa and all the circumstances surrounding the right of secession, and I asked that it should be duly noted. There was not the least difficulty about it. The point I urged was registered without the least hesitation.

The resolution was "duly noted"—that, it would seem,

\* *THE ROUND TABLE*, No. 81, December 1930, pp. 101-102.

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was all. In the summary of the proceedings no reference is made to it.

At this, if one may judge by the indications presently available, South Africa is well content to let the matter rest. There are many South Africans who, on the legal or theoretical issue, do not accept the Prime Minister's view, that a right of secession is implicit in the 1926 pronouncement. They rather share the view stated by the writer of the article already referred to,\* that in this aspect of the matter "the claim to secede is clearly inconsistent with the acceptance of a common allegiance, since allegiance cannot be dissolved by the unilateral act of the subject. It is equally inconsistent with the principle of equality of status, for the rights of the Dominions in this matter cannot be higher than those of Great Britain, and it is not claimed that in this country (*i.e.*, Great Britain) the Ministers or the members of the legislature can throw off their allegiance at will." But South Africans in general are more than weary of academic discussions of inter-Imperial relations, and where on all sides there seems to be agreement that on the practical issue a desire on the part of South Africa to leave the Commonwealth would not be questioned, they are loath to allow what they regard as mere logomachies once again to make for the dividing asunder of the people.

So it is that even those who were unable to endorse the Prime Minister's views which he set forth when the affirmation of the Union's "right of secession" was under discussion in Parliament, are well content with the outcome of this matter at the Conference, and indeed they have not been averse from expressing approval of his general attitude in London. They have rejoiced in the emphasis laid by him on the importance and value of Commonwealth co-operation, and they have watched with sympathy his efforts for the strengthening of that co-operation along the lines of reciprocal trade agreements,

\* THE ROUND TABLE, No. 81, December 1930, p. 104.

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at once sharing his disappointment at the relative failure of those efforts, and applauding the unexceptionable manner in which he has recognised the difficulties of the British Government.

If, then, the Imperial Conference has yielded little of a tangible nature for South Africa, it none the less connotes a great personal success for General Hertzog in the eyes of his fellow South Africans. That in its turn is of considerable significance in South African politics. For, on the crest of the wave of national approbation, General Hertzog, immediately after his return, made a powerful appeal for national unity as between English-speaking and Afrikaans-speaking South Africans, the while he bitterly castigated the Republicans in his own ranks. That appeal had a most excellent reception, and seemed likely to secure for General Hertzog personal and political support from many of his English-speaking opponents of the past. He has, however, since weakened its effect by a bitter attack on General Smuts and a repudiation of any other approach to the ideal of national unity save that of the, hitherto almost entirely Dutch, Nationalist party. But, even so, there still remains ground for hope that a kindlier, friendlier feeling will prevail in South Africa than has been in evidence in the past, and if that is to be one of the results of the presence of the Prime Minister at the Imperial Conference, it will indeed represent great gain.

## II. THE ECONOMICS OF THE IMPERIAL CONFERENCE

SOUTH AFRICAN comment on the economic side of the Imperial Conference has for the most part followed the usual party lines. The Opposition press welcomed with enthusiasm the proposals for closer economic relations between the various members of the Empire, less by reason of any economic benefit likely to be obtained by South Africa than because of a desire to see the place of the relaxed political ties taken by economic ties. Their dis-



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appointment at the failure of this side of the Conference was proportionate to their enthusiasm. This point of view is clearly expressed in the following quotation from a speech delivered by General Smuts on December 10 :—

The severing of the old bonds should not leave a dangerous void. The old bonds should be replaced by a new spirit of co-operation and helpfulness in our mutual relations. I am sure that the spirit is there, but it is a thousand pities that it has found no expression at the Imperial Conference, and that a sense of soreness has been left instead.

The nearest approach to economic argument used generally by this section of opinion was that Great Britain was by far the most important market for this country's exports, and that any steps likely to lessen Great Britain's goodwill would react unfortunately on South Africa's export trade.

The Government organs naturally took a diametrically opposite view of the question. Their general opinion is that, while participation in the Empire is still a necessity for South Africa, it is on the whole a regrettable necessity, and they are reluctant to see any tightening of bonds connecting South Africa with Great Britain or any increase in South Africa's economic dependence on her. It is doubtful if they would altogether welcome even a unilateral concession by Great Britain which would have this result. The proposal that South Africa should make reciprocal concessions to that end is to them highly objectionable.

It was inevitable therefore that this section of the press should regard the Conference without enthusiasm, and from the beginning should cheerfully prophesy its failure. Its main economic arguments were, firstly, that the value of the British market is much exaggerated by the fact that the trade figures show only immediate destinations of exports, and that a large proportion of the goods recorded as shipped to Great Britain are subsequently re-exported ; that therefore the continental markets are much more

## The Economics of the Imperial Conference

important to us than they appear to be, and that to antagonise them by increasing our preference to Great Britain would be highly unwise ; secondly, that it would be impossible to increase our preference to Great Britain without injuring South African producers ; and, thirdly, that the greater part of South Africa's exports to her consist of commodities on which she would be most unlikely to impose duties for the purpose of granting a preference.

Of these arguments, the first and third seem to be better founded than the second. In spite of the impressive total value of South African "industrial products" recorded by the industrial census, South Africa is not in fact a highly industrialised country, and many types of imported commodities are neither manufactured locally nor likely to be for many years. Consequently it would be quite possible for this country to give considerably increased preference to Great Britain, at the expense of the revenue, without injuring the sacred cause of "local production."

The third argument is undoubtedly the strongest, and accounts for the small amount of economic argument adduced by the Opposition. Of our total exports overseas in 1929, amounting to about £90 millions, gold accounted for rather over £46 millions, or over 50 per cent., and diamonds for over £12 millions, or 13 per cent. Neither of these commodities are suitable vehicles for preference. Then we have wool and mohair, rather over £15 millions ; hides and skins, over £3 millions ; and other agricultural and pastoral raw materials (wattle bark, raw cotton, etc.), amounting to rather over £1 million, making in all about £20 millions. To this must be added the greater part of our exports of maize and maize meal (which are in fact raw material for stock farmers), £3½ millions ; exports of coal (to eastern coaling ports), £1 million ; exports of metals and minerals (chiefly copper, tin, platinum and asbestos), £1½ millions ; and whale oil, £350,000, making in all about

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£26½ millions. Together these make up nearly 30 per cent. of the total, and consist almost entirely of raw materials for industry. Whatever illusions it might have been possible to entertain with regard to Great Britain's willingness to tax manufactured articles or even foodstuffs, few, if any, could expect that any British Government, of whatever political complexion, would be willing to tax, for the benefit of the Dominions, the raw materials on which the industries of the country depend.

From the remaining £5½ millions, or 6 per cent., there must still be deducted rather over £1 million of re-exports, mainly to the Belgian Congo and Portuguese East Africa (which are included under the heading of "overseas,") and about £½ million of other exports to these same territories. This leaves about £4 millions, or 4½ per cent., for exports of food, drink, tobacco and manufactures to destinations outside South and Central Africa.

Of these, sugar (£1.2 millions in 1929), dried and preserved fruit (£220,000), wine (£80,000) and tobacco (£75,000) are already receiving preferences, and the only items of any importance left are fresh fruit (about £1 million), eggs (£270,000), butter (£150,000—an unusually large figure in 1929 in consequence of an abnormally good season), preserved crayfish (£220,000—almost entirely to France), and frozen beef (£290,000—almost entirely to Italy). It is doubtful whether the last-named commodity would be accepted on the British market under any conditions but those of famine, and the principal items on which it would be possible for Great Britain to impose preferential duties with advantage to South Africa therefore consist of fresh fruit (particularly oranges), eggs and butter. The total value of these commodities exported annually is rather over £1½ millions, or, say, 2 per cent. of our total exports.

While, however, South Africa can have little to hope for from an extension of British preferences, we have much to gain by a maintenance of those that exist at present.

## The Economics of the Imperial Conference

The export of sugar from Natal has increased very rapidly during the past few years, and during the present season is expected to show a further large increase from about 120,000 tons in 1929-30 to over 180,000 tons in 1930-31. If this estimate is correct, the British preference of about £3 15s. per ton will be worth about £700,000 to us during the present season. To this may be added perhaps £100,000 for the other preferences, making in all about £800,000. On the other hand, South African imports have fallen heavily during the past year, and it is therefore probable that, in spite of our avowed principle of reciprocal preference, the balance this year will be heavily in South Africa's favour, not improbably by a margin of as large as two to one. On economic grounds, therefore, it is not surprising that General Hertzog alone among Dominion premiers, was willing to promise to stabilise preferences for three years on condition that Britain did the same.

But in South African politics economic motives are seldom the ultimate ones, and it is usually wise to look further. In the present instance, we must look to Natal. The chief political question which has hitherto divided this country has been the difference between the two chief white races, the Dutch and the British, or more truly between the majority of the Dutch on the one side, and, on the other, a minority of Dutch co-operating with the British and accepting fully the implications of membership in the British Empire. Recently, however, in spite of constant friction over such matters as appointments and promotions in the civil service, language rights, education, etc., the gap between the two has shown signs of closing, and a new question is coming to the fore which seems likely to divide the country on new lines. This question is that of the future relationship between the minority of whites and the majority of natives, who outnumber the whites by approximately three to one. On this issue, which is known popularly, though not altogether accurately, as "the Native Question," the Nationalists are generally united in

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favour of what they call "a firm hand," and their opponents "repression"; but the South African party is divided. Natal, which is strongly imperialist when her own interests are not affected by the policy of Downing Street, and which is therefore represented in Parliament almost entirely by South African party members, is on this question in sympathy with the Nationalists, while the old Cape policy, described by its supporters as "Justice to the Native" and by its opponents as "Negrophilism," finds most of its remaining adherents among the South African party supporters in other provinces, though even these are by no means unanimously in its favour.

It is to this question that General Hertzog has given the bulk of his attention during the past few years. One of the cardinal points of his policy is to sweep away the old egalitarian native franchise in the Cape Province and to substitute for it a shadowy franchise for Cape natives and those in the other provinces on a communal roll. Hitherto he has failed to get the two-thirds majority of both Houses sitting together necessary for the amendment of the franchise clause in the South Africa Act. This matter is now before a special committee of both Houses, and will probably come before Parliament again this session. Doubtless, the Prime Minister's recent conciliatory attitude towards "imperialists," in keeping with the attitude of some of his colleagues during his absence overseas, is partly at least due to his desire to carry his native policy with the help of Natal votes. If this reading of the situation is even approximately correct, General Hertzog should have no reason to be dissatisfied with the outcome of an Imperial Conference which guarantees the maintenance of a British preference worth £700,000 annually to Natal. "Sugar! Who dares laugh at sugar now?"

South Africa.

January 1931.

## NEW ZEALAND

### I. THE ECONOMIC POSITION

*"Given sanity and sobriety, I think New Zealand will be all right."\**

NEW ZEALAND banking is so closely associated with Australian that an economic crisis in Australia necessarily reacts upon New Zealand more immediately and more markedly than the actual trade between the two countries might otherwise warrant. The rate of exchange on London was naturally immediately affected, but uncertainty as to the extent to which New Zealand will feel the effects of Australian difficulties has raised public apprehension to a pitch hardly ever reached before. Falling world prices for our exports had, anyhow, made our difficulties sufficiently acute for the public to realise that, unless steps are taken to ensure the utmost economy, both in public and private expenditure, New Zealand's position will rapidly approach that of Australia. The Government, therefore, took advantage of the presence of Sir Otto Niemeyer in Australia to invite him to New Zealand; not, however, as was explained by Mr. Ransom, the acting Prime Minister, to advise on the economic position generally, but only on certain aspects of banking and exchange. None the less, Sir Otto before taking his departure, has expressed an opinion. It will be found in the quotation at the head of this article.

During the Waipawa by-election campaign, the acting Prime Minister, in answering what he described as the

\* Sir Otto Niemeyer at Auckland, November 17, 1930. (Press Association.)

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pessimistic utterances of the leader of the Opposition, quoted another statement of Sir Otto's :—

New Zealand (Sir Otto had written to him), thanks very largely to the sound financial methods of the past, enjoys a high reputation in the overseas lending market, but in its own interests it seems to me that it should not be led away by that reputation into overseas borrowing which will not really be productive, in the sense of producing within a reasonable period an increase in export values equivalent at least to the actual service of such borrowing.

Sober statements of this character are quite different to the loose predictions one so often hears that better times are coming, or eulogiums of the wonderful recuperative powers—unspecified—of the country.

Utterances of the latter kind have completely failed to reassure the public. They have only given rise to a subsidiary controversy about the advantages or disadvantages of taking what is dubbed, according to the temper of the writer or the speaker, an unduly optimistic or an unduly pessimistic outlook. But, while it cannot, on the whole, be said that our public has taken an unwarrantably depressed view of the situation, the continued drop in the prices of exports has certainly brought home to it in an increasing degree the gravity of the situation, and some direction as to the remedies that should be taken is eagerly awaited. The state of the public mind, indeed, can be summed up as one of anxious expectancy and disquiet at the policy of drift with which the Government seems to be content. And the Government has only itself to blame if this lack of confidence is general. That it is so is clearly shown by the dissatisfaction, expressed both in the press and elsewhere, with a political system which during such a critical period in our fortunes imposes upon New Zealand the inaction which inevitably goes with a minority Government. There has in consequence been a cry in some quarters for a fusion of the United and the Reform parties, though in the last few days this cry has been superseded by a demand for a national Government which would also

## The Economic Position

include Labour. Further, there has been a good deal of criticism of the so-called evils of the party system itself. A large section of the public takes it for granted that it is a principle of that system to put party before country, and that, if we could only get out of its clutches, men of independent views would be elected to Parliament, and having no party to serve would be free to devote themselves exclusively to the good of the country. At a time when Australia is so often pointed to as a striking example of the failure of democracy, it is natural that the people of New Zealand should turn their attention to their own political system. To the student of political history no doubt such criticism is what one would expect in times of crisis like the present. It is certainly found in Australia, where just the same demand for the fusion of parties, or alternatively for a national Government, is being put forward. In Australia Labour is in office, and its position forces it, if it wishes to retain power, to consider how such demands are going to affect its own future. In New Zealand, where Labour has fewer representatives in Parliament than either of the other parties, it takes as a party no part in the discussion on fusion, and is seemingly perfectly content with the control which it exercises over the present minority Government, which is dependent upon its support. If this non-committal attitude means that it will not consider any scheme for a national Government, then the only form such a proposal can take is an amalgamation of the other two parties, and, whatever name they might give to it, the term "national" would clearly be inapplicable. Only the future can show whether these proposals will come to anything. Certainly an alliance between parties in Australia on the basis of a common antagonism to Labour has not prevented Labour from being returned to power, and those who advocate fusion in New Zealand merely to keep Labour out, might meet with a like disappointment. Supporters of the party system claim that it is not the system that is at fault, but the organisation, and

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energetic steps have been taken, at least in so far as the Reform party is concerned, to improve its organisation. The United party claims to have done the same, but its efforts are less apparent. The Labour party, on the other hand, has for years had an excellent organisation, and there is no reason to believe that it is relaxing its efforts to improve and expand it. Mr. Coates, the leader of the Opposition, said what he thought about fusion during the Waipawa by-election. There were too many fundamental differences between the parties, he considered, to permit of it, and again, later, on November 25, after referring to his own previous offers of assistance, he made a statement to the press of Auckland in the following terms:—

The Reform party (he said) has never put party interests first. We are not prepared to compromise with anybody on matters of principle, and there are certain important points of policy which we regard as absolutely essential in the national interest. If the United party, or any other party, chooses to change its policy and adopt measures which we of the Reform party believe to be right, then those who advocate fusion may be able to justify their position. But it is futile to suggest that we of the Reform party should abandon our principles or cease to fight against a policy which we consider thoroughly unsound.

There are seven items of policy upon which we insist. They are: (1) that there must be a return to the late Reform Government's policy of tapering-off public borrowing; (2) that costs of production must be brought down to enable our producers to meet the new level of world prices; (3) that a policy of derating must be adopted to ease the burden of roading costs on the farmer; (4) that the railways must be removed from political control; (5) that the expenditure of borrowed money on railway construction must cease in all cases where it cannot be shown that the new line, when completed, will be economically sound; (6) that the rate of wages paid for single men for purely relief work must be lower than the standard rate; (7) that, although night parades should be eliminated, the system of national defence must still be based upon the principle of national service.

This declaration drew a reply from the acting Prime Minister. He intimated that, although he himself had definite views on some of the points raised, owing to the Prime Minister's absence in England, it was not fitting

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that he should attempt to define the attitude of the Government to fusion, though any proposals officially made to the Government by Mr. Coates would be considered.

So far as members of the two parties are concerned, most of their statements on the subject would seem to point to the impossibility of such a step; but at Dunedin,\* Mr. Downie Stewart, Mr. Coates's first lieutenant, who was Minister of Finance in his Ministry, has come out in favour of a national Government. He quotes the precedent of the war, and he considers that the present economic crisis also calls for a Government composed of all three parties. He believes that a fusion merely of the United and Reform parties to oppose Labour would justly be resented, but he gives no indication what his own view is as to the possibility of such a Government. The Labour party has, however, made it clear that it considers the purpose of the suggested fusion of the United and Reform parties to be a war on wages, and, if that is what its members think, they are unlikely to accept a place in a Government in which they would be subordinate to the other two parties. So far the only public comment on Mr. Stewart's pronouncement has come from Mr. Young, late Minister of Health in the Coates Government, who declared such an ideal, however desirable, to be at the moment impracticable. There is no doubt that the *Evening Post*, an Independent journal, reflected a substantial body of public opinion when on October 24 it expressed its own disappointment at the failure of the Reform and United parties to come together, and the decline in the prestige of Parliament. It is, however, anticipated that the whole question will come up again early next year on Mr. Forbes's return from the Imperial Conference. Certainly a statement will be expected from him, not only on the twin questions of fusion and a "national Government," but also on that of appointing a national economic conference to report on the general economic position. At the end of the session such a con-

\* *Evening Star*, November 27.

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ference and an early session of Parliament were suggested by Mr. Coates, and his suggestion was well received by the Labour party, with the reservation that no such conference must be used to reduce wages. This proposal has not yet borne fruit, but there is a growing demand in commercial circles that steps should be taken to meet our increasing difficulties without waiting for Parliament to meet next June.

The chain of events which preceded the full disclosure of the financial difficulties of Australia has already been explained in these pages,\* and reference made to the remarkable faith of Australians in the efficacy of political action and their belief that a period of depression necessarily means incompetent government. The same is probably equally true of New Zealanders, but a qualified belief in political action and a tendency to condemn Government for failure are perfectly justifiable under conditions which, in important respects, render private remedial action impossible owing to legislative or administrative barriers, when producers have to be content with exceptionally low prices and when at the same time taxation is increased to balance the budget, yet no reduction is made in State expenditure. The Government is moreover criticised on the ground that the unemployment rate of 14s. a day and the awarded rates of wages are being acquiesced in as immutable.

Before he left New Zealand Sir Otto Niemeyer remarked that "New Zealand has had some examples of the dangers ahead. The question is whether heed will be paid to them," and long before the end of the session the danger of a policy of drift was realised by the public. While the session lasted, however, the Government seemed unable to make up its mind on the very questions which appeared to call for an immediate declaration of policy, and the same drift has gone on ever since. On December 5 the *Sydney Bulletin* divided the citizens of the Commonwealth

\* See THE ROUND TABLE, No. 78, March 1930, pp. 396-408.

## The Close of the Session

into three classes: (1) Those who believe that in order to pay debts it is necessary to practise hard economy and reduce costs of production; (2) those who are prepared to repudiate debts rather than reduce wages or increase hours; (3) those who want to maintain wages, etc., and also to pay debts, but have no plans for doing it. Class (2) does not at present exist in New Zealand, but we have classes (1) and (3) among us. It may be unjust to include the Government in class (3), but, unless it makes a more definite pronouncement of its views than it has yet done, it runs a considerable risk of being placed in that class.

### II. THE CLOSE OF THE SESSION

THE deaths of Sir Maui Pomare, a Minister in the late Reform Government and Member for the Western Maori seat, and of Sir George Hunter, who for many years had held the Waipawa seat for the Reform party, necessitated by-elections during the session. Both were held on the same day, October 8, and they resulted in the return of the Reform candidate, Mr. Taite Te Tomo, for the Western Maori seat, and of Mr. A. E. Jull, of the United party, for the Waipawa seat. No political significance attaches to the retention by the Reform party of Sir Maui Pomare's old seat, but the Waipawa seat had been held for years by Sir George Hunter, and its capture by Mr. Jull for the United party was acclaimed by the Government as a notable victory. At the last general election the voting was Reform 3,983, United 2,123, Labour 1,362, at the by-election Reform 3,312, United 3,620. "United" satisfaction with the victory is therefore natural. Sir George Hunter was a popular sheep farmer who had lived all his life in the district, and Reformers could hardly hope to obtain an equally popular candidate. The United party, too, was fortunate in securing the services of Mr. Jull, who had contested the seat against Sir George Hunter in previous elections. Mr. Jull also lives in the district and had for a

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number of years served it on many local bodies. It was indeed unanimously acknowledged that he was a strong candidate, and the press have generally accepted his success as well deserved. Mr. Tucker, the Reform candidate, put up a good fight, and for a new man did very well, but the personal factor was too much for him. Mr. Jull's victory, however, must be taken rather as a personal triumph than as a decisive verdict for the Government's policy.

The session which ended on Saturday, October 25, cannot be described as an inspiring one. Some, indeed, consider it the worst that this country has ever had. Its conclusion found the relations between the Government and the Labour party far from cordial. They seemed, indeed, almost to have reached the breaking point. In his closing speech the acting Prime Minister warned the House that it might be necessary to call Parliament together again earlier than usual. He did not explain what he meant, but his further remarks suggested that he had in mind the possibility of developments which, in default of an improvement in the prices of exports, would render it imperative to deal with economic questions such as public works and railway construction.

The general impression of the session was expressed in the *Evening Post*, an independent journal, but one which is not unfriendly to the Government. The *Evening Post* felt that time had been wasted on little things, while big questions, some of them really urgent like the transport and railway reform, had been neglected. Stronger leadership was, it considered, essential. A policy of standing still is not likely to be condoned, though it is admitted that the Government have had to face a difficult position. For the greater part of their first session they had the misfortune to be without the leadership of the Prime Minister, Sir Joseph Ward, and during the late session Mr. Forbes has been away at the Imperial Conference, thus depriving them of the authority and leadership which are necessary for

## Unemployment

important and difficult issues. Mr. Ransom has shown tact and patience as acting leader of the House, and he is much liked by all parties; but he has been handicapped by the lack of a definite Cabinet policy.

### III. UNEMPLOYMENT

THE main features of the Unemployment Bill passed last session have already been given in this review\*. They include the creation of a permanent board, with a strong personnel, representing primary and secondary industries, employers and employed, with the Minister as chairman, to deal with unemployment problems, and the establishment of a special fund to meet the purposes of the board and to be raised partly by a tax of 30s. a year, payable, with certain exemptions, by every male of twenty years or over, partly by a contribution from the Consolidated Fund. It was pointed out that, apart from the rates prescribed for the provision of sustenance, the board would at the outset be confronted with the problem of whether the award rate of 14s. a day, which was applied by the Ward Government to relief works in place of the 9s. previously paid to single men and 12s. to married men, could be maintained. Practically all sections of the community are strongly of opinion that this rate of 14s., together with the award rates of wages fixed by the Arbitration Court for various industries, prevent the cost of production from being adjusted to meet existing world prices for the exports of New Zealand. These factors are indeed regarded as the crux of the present situation, quite apart from the additional one that the high rate of pay given for relief work makes it more attractive than either farm work or work in many industries; that the rate often provides young men with a larger income than they could reasonably expect to earn if apprenticed to some trade or working on the land, and that community life in camp at relief works—with the

\* THE ROUND TABLE, No. 81, December 1930, pp. 219-222.

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unusual opportunities for enjoyment that it brings—is not calculated to promote thrift. It is, however, the Government which is carrying on the relief works, and the fixing of the rate of pay is a part of its policy with which the Unemployment Board cannot interfere.

There was, none the less, a widespread impression that the Unemployment Board would be able to alter the rate, and when people saw it untouched by the initial small schemes launched by it, a good deal of criticism resulted, based on the assumption that the board is keeping on a rate which it has power to alter. This criticism is not justified. It is impossible to describe here the various functions of the board under the Act of October 11, but the allowances for sustenance which the board is authorised to make out of the Unemployment Fund are as follows :—

(a) In respect of the contributor, the sum of 21s. a week; (b) In respect of the wife of the contributor or other person who in the opinion of the board is in charge of his home and family, the sum of 17s. 6d. a week; (c) In respect of any child of the contributor, the sum of 4s. a week.

No direct power is given the board to prescribe the rate of wages when it makes grants or loans, and it has refrained from attempting to dictate either to local bodies receiving grants or to individuals to whom offers of part payment of wages have been made, nor has it interfered with the actual rate of wages. It has, however, announced that in the case of grants to local bodies wages will not be allowed at a higher rate than 14s. a day in estimating the value of the work for which the grant is made, or in the case of advances to individuals at more than 7s. a day. No money can be paid out of the Unemployment Fund except by the direction of the Minister of Finance on the recommendation of the Unemployment Board, and it is obvious that the Minister cannot approve of any recommendation which is not in harmony with the declared policy of his Government. Mr. Burdekin, the deputy chairman of the board, has, in answer to the above-mentioned criticism,

## Railway Policy

denied that the board is continuing, or has anything to do with, the present rate of wages.

I want (he said)\* to make it clear to you that notwithstanding what has appeared in the press, and what has been stated from the public platform by Mr. W. J. Polson, M.P., the cold, hard fact remains that the policy of the Unemployment Board is not to interfere in any way with the existing rates of wages in New Zealand. As far as we are concerned, employer and employee are free to arrange between themselves what wages will be paid. We are not going to dictate to local bodies. All we say is we will only pay up to 7s. a day. We have not set 14s. a day as the standard rate of pay in New Zealand.

The Unemployment Board has many difficulties to face, and its position will not be made easier by attacks on account of a policy over which it has no control.

Up to date the board has not had time to embark upon any large scheme, and it has so far contented itself with two small ones intended to meet cases of hardship during the holiday season. One is concerned with subsidies to local bodies, and the other with a subsidy to wages in cases of individual employment. Some £10,000 was also distributed to local bodies in order to provide two days' work or sustenance for all the unemployed at Christmas time. The board has further announced its intention of paying sustenance as provided by the Act in February.

## IV. RAILWAY POLICY

IN the last days of the session the Select Committee set up to consider the future of railway lines under construction reported that it had not yet had time to make recommendations. A minority of three, however, expressed an emphatic opinion against finishing the South Island Main Trunk line or the Midland and Gisborne-Napier lines. Their report and that of the Royal Commission set up to report on the question of economies in railway control and management were considered

\* *The Dominion*, December 19.



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together by the House, but no conclusion was reached. The report of the Royal Commission was presented on October 3. It recommended drastic changes, and, among other things, management by an independent board of directors instead of the present system of political control. Increased charges, estimated to yield an additional revenue of £334,000 a year, and economies expected to effect an annual saving of £294,000 were also recommended. Other proposals were the abolition of various concessions, an increase in the fares on certain runs, the disposal of all surplus labour, a reduction in personnel, and changes in departmental organisation. The Government, in spite of these reports, has in neither case a settled policy, and the following leading article which appeared in the *Auckland Star* on October 22 fairly reflects press opinion throughout the country :—

The Minister of Railways said the part of the Commission's report dealing with charges was to be adopted, but while he gave his own opinion against the proposed non-political control, apparently he did not speak for the Government on this point. No indication was given of what the Government means to do with the lines under construction.

To say that the position is profoundly unsatisfactory is to put it mildly. For fifty years in New Zealand's history there has not been a period in which economy was so necessary as it is to-day, yet construction of these railway lines, which a Government report estimates will involve a loss of £737,000 a year, is allowed to proceed. It is not as if the Government had definitely decided that it should proceed, and had attempted to justify this action. It has made no decision; it talks about prudence in public works expenditure, but in this important respect it is without conviction. The minority report of the Committee is a fresh reminder of the gravity of the problem. It is important to note that these three members declare that the Committee had before it all the data available on which an opinion could be formed. They heard the departmental officers, "who had all the information upon which the decision to construct railways was based." Of course, all this information is available to the Government at any time. These members' findings on three of the lines under dispute should be noted by everybody. They dispute the estimates for the South Island Main Trunk, and say that completion would not greatly increase land settlement; they consider that work on the Midland line should cease immediately;

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and they cite very damaging facts and figures for the Gisborne-Napier connection. Yet the Government goes on drifting.

What the Government and the House must realise is that the settlement of this question of construction is the basis of railway reform. It would be useless to take management out of political control and leave construction there, for the new administration would be required to operate a concern without having any voice in making additions to capital cost and to services. What on earth is the use of economising in operating costs if fresh interest charges are piled up by the construction of uneconomical lines? The first thing the Government must do is to decide what is to become of these lines. Then it must fulfil its promise to co-ordinate the forms of transport. The Minister of Railways said yesterday that improvement of railway finances was bound up with the concentration of transport administration in one department. Be that as it may, it is obvious that there is need for reduction in the waste caused by competition between railway and motor. The Government, however, has allowed another session to pass without grappling seriously with the question. Moreover, while it delays, it goes on building railways and roads competing with those railways, thereby adding to the complexities of the problem. The sad fact is that the country is still without not only a railway policy, but a transport policy.

The Reform party has been considering its own future railway policy and the leader of the Opposition, before either of these reports was submitted to Parliament, announced that his party would advocate (1) control by an independent board free from political interference, and (2) no further construction of railways which cannot be shown to pay when completed.

While, then, the Government has no definite policy with regard to control or fresh construction, new railways are being made which can only result in an annual loss to the country of £737,000, and under political control the lines in actual use to-day are losing £1,300,000 a year, though the Minister of Railways has adopted some of the economies proposed by the Commission set up to consider this question.

The figures for the April-September half-year do not make cheerful reading. The one redeeming feature is that expenditure is being reduced and a saving amounting to

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approximately £12,000 a month has been effected. On the other hand, revenue has fallen by about £28,000 a month. It is possible that the view of the Minister of Railways that political management will produce just as good results as could be expected from a non-political board will be to some extent modified when the results of the year's working are available. If he cares to take the public into his confidence, he should then be able to point to cases where, but for political considerations, economies could have been effected, or an advantageous policy carried out. The press on November 13 published a statement by the Minister announcing a revision of passenger and freight fares, partly under a scheme adopted by his department before the Royal Commission reported, and partly by way of giving effect to its recommendations. He estimated that an increase in annual revenue of about £202,267 would accrue as a result of increased charges already made, and that the adoption of the other proposals would mean an additional income of about £193,000. The increased charges affect *inter alia* the carriage of coal and artificial manures. The increase in the coal charges is roughly expected to produce an additional £65,000 a year, and that on artificial manures an additional £91,000. In his statement the Minister said :

It will be seen that it will be possible to reorganise the Railway Department and to do the things that are necessary to strengthen its finances under a system of Ministerial control. I can see no reason why the Minister who has the responsibility of control over the people's money should not face the task of doing these things. This is in keeping with the present Government's policy in regard to all this administrative responsibility.

In the same issue of the *Dominion* in which the Minister's review appeared there was published an address to railway men on the railway system of New Zealand, by Professor B. E. Murphy (Professor of Economics at the Victoria University, Wellington). Amongst other reforms Professor Murphy advocated that the railways should be divorced from electoral bribery and that the management

## The Public Debt

should be, not by a Minister, but by a general manager or a board. Experience, according to the Professor, shows that none of the political parties is competent to control the railways, and that railway construction should be removed from political control.

Not long after his declaration the Minister found it necessary, under pressure, considerably to modify his proposal to increase the charges on artificial manures. He is entitled to credit for slowing down the retrograde movement in railway finance. But, although at the end of November he was able to claim a saving of £150,000 in three months, revenue unfortunately also declined in the same period, and by a still larger amount—£170,000. Thus, with more than half the year gone, the railway department had only £169,000 in hand to set against an annual interest bill of £2,130,000. Although outside opinion, for instance, that of Sir Otto Niemeyer and Lord Barnby, as well as Professor Murphy's, advocate non-political management, it is obvious that the capital invested in railways will have to be drastically written down before the railways can, as a business concern, show a revenue approaching the amount of the expenditure.

### V. THE PUBLIC DEBT

NEW ZEALAND'S borrowings in the first half of the current year\* totalled £10,709,046. The objects for which they were made are shown in the following list :

|                                          | £         |                                            | £       |
|------------------------------------------|-----------|--------------------------------------------|---------|
| Public Works (general purposes) ..       | 5,703,948 | Education Loans ..                         | 485,000 |
| State Advances Loans                     | 1,498,212 | State Forests ..                           | 285,000 |
| Railways Improvement Authorisation .. .. | 1,139,965 | Land for Settlement                        | 122,380 |
| Electric Supply ..                       | 802,566   | Native Land Settlement .. ..               | 117,000 |
| Main Highways Construction .. ..         | 549,975   | Waihou and Ohinemuri Rivers Improvement .. | 5,000   |

\* See the gazetted accounts for the September quarter.

## New Zealand

Taking into account redemptions amounting to £1,477,672 the net increase in the public debt during the six months ending September 30 was £9,231,374. Part of the borrowed money will earn its interest and thus will impose no extra burden on the taxpayer; but this cannot be said of a large part, perhaps the major part, and to that extent there is a reason for the concern with which the heavy increase in public indebtedness is viewed. Public anxiety is increased by the publication of the Consolidated Revenue returns for the six months ending September 30. These returns show that the revenue this year for the period mentioned is less by £1,111,467 than it was for the same period in the previous year, and that the expenditure for the same six months was £12,237,467 or £391,167 more than for the same period in 1929-30. The details, indeed, of the public revenue published by the *New Zealand Gazette* early in November show a sharp decline in the revenue of the Dominion. Ordinary revenue dropped from £10,004,353 to £8,870,618, the falling off being chiefly in customs taxation, beer duty, land tax and income tax, interest on public money, and interest (£1,090,000) on the railway capital liability. These decreases were, however, to some extent counter-balanced by increased returns from duties and licences on motor vehicles, stamp and death duties, interest on the capital liability of the Post and Telegraph department, and miscellaneous details amounting to £51,059. Departmental receipts showed an improvement of £23,375. Expenditure under annual appropriations totalled £4,125,843, being £53,825 less than what was spent under the same category for the first half of last year; but expenditure on naval defence was reduced by £61,803, on the Defence department by £34,630, on the Agricultural department by £22,321, and on the department of Tourist and Health Resorts by £20,496, a total reduction for the four departments of nearly £140,000. Most of the other departments, however, show a substantially increased cost. The figures quoted, at all events, afford reasonable grounds

## Defence

for government anxiety as to whether the public accounts will balance at the end of the financial year in March.

### VI. DEFENCE

THE economic axe has fallen most heavily on defence. The Government has gone far beyond what it represented to Parliament, *i.e.*, that it was proposed merely to suspend compulsory training for twelve months, rather than to abolish it altogether, so that there would be an opportunity of seeing what was the effect of the suspension. By a gradual process of cutting down, New Zealand's defence system has been demolished to such an extent that little now remains except a few officers at Headquarters and the secondary school cadets. Air training is practically suspended. Refresher courses, which are an integral part of the system, have for the time being been abandoned. Training camps for other arms have been given up. The work of destruction has indeed gone so far that it will be both expensive and difficult to restore the system when required, and no substitute has been set up. The Government has not given a chance to the volunteer system which it proposed as an alternative to compulsory training. That system has been condemned to failure, and at the same time a return to compulsory training has been rendered for the time being impossible by the loss of the nucleus of territorial officers and non-commissioned officers, which could not be preserved after the abolition of training camps. And New Zealand's defence policy has been abandoned without any public demand. If the people are apathetic on the question, it can only be because they are immersed in their own economic troubles. Nobody knows what message, if any, Mr. Forbes carried to the Imperial Conference with regard to New Zealand's defence policy. It will be interesting to know whether he informed

## New Zealand

the Conference that New Zealand was practically jettisoning her land and air defences. Yet, needless to say, there is a large section of the public which regards the giving up of our defence policy with the utmost concern, and is highly incensed at what it considers an unauthorised abandonment of the territorial system. Whether what now appears to this section of the public as a tragedy will later be regarded by the majority as a dereliction of duty on the part of the Government towards the Empire, and a breach of trust towards the country, remains to be seen; but the National Defence League is strenuously endeavouring to rouse the public to a sense of what it considers to be a grave national danger.

New Zealand.

December 23, 1930.

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# THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF  
THE BRITISH COMMONWEALTH

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## GREAT BRITAIN'S PROBLEM

THERE is a strange fascination in the attempt to analyse the recent economic story of the world and of our own country, to segregate cause and effect, to identify the origin of present troubles, finally perhaps to forecast the future and the conditions of recovery. It is the fascination which always surrounds the mysterious. Few who have tried to unravel this particular mystery can have escaped the feeling that they are experiencing the emotions of Scotland Yard in the face of an unsolved and apparently insoluble crime. The crisis which now afflicts the economic life of the world is unique in its intensity, in its universality, in the novelty of many of its features. The professional economists disagree profoundly both as to diagnosis and treatment, so much so, in fact, that to the layman who follows their public controversies they must often seem to be speaking in strange tongues. The wisdom of the most experienced practical man of business tells him not that there is an overwhelming case for doing this or that, but that there is little obviously firm ground for him to tread. Almost the only lesson of a lifetime applicable to-day is caution—a reluctance to form hasty judgments, an honest distrust of panaceas, an open mind.

It is a natural consequence of this baffling complexity of our economic problems that we look in vain for any clear understanding of the situation by the nation at large or for any decisive guidance by its leaders. Mistaking perplexity for indifference and hesitancy for lack of courage,

## Great Britain's Problem

some critics have leapt to the conclusion that decadence is creeping over us. We are accused, at times we accuse ourselves, of having become a nation of lotus-eaters. It is the conviction of THE ROUND TABLE that no such conclusion is warranted by the facts. As this article will seek to show, Great Britain has formidable problems to solve, problems of organization, of adaptation, of readjustment different from and in some respects more refractory than those which confront the world as a whole. An unkind Fate has decreed that this task shall fall in a period of peculiar political futility. The three-party system has meant unstable government, the divorce of power from responsibility, compromise instead of action. But any theory of decadence, within fifteen years of the immense national effort of the war, might be expected to be its own refutation. We are still a vigorous and a virile people, rich in experience and in the courage born of a long business tradition. There is no reason to doubt either the will of the nation to survive or its readiness to make whatever effort or accept whatever sacrifices may be needed, so soon as the nature of the effort and of the sacrifices is made clear to it. The object of this article will be attained to the extent to which it contributes to a wider realization both of what is clear and of what is obscure and difficult in our national problem.

### I. THE WORLD CRISIS

IN the present economic situation of Great Britain there are two components, the problems and disabilities which it shares with the rest of the world and those which are peculiar to itself. In terms of unemployment statistics, there is the basic million for which the outside world has little or no responsibility and the additional million and a half with which the general "economic blizzard" has overwhelmed us. In terms of the budget, there is the

## The World Crisis

problem of finding the means, even in a period of relative prosperity, to maintain and develop our elaborate social services, while redeeming debt and lightening the burden of taxation, and the quite different problem of how to make ends meet at all when unemployment relief is costing £100 million a year and bad trade has brought a shrinking revenue. In terms of the sterling exchange, the doubt whether our surplus available for foreign investment is adequate for the retention of our position as the leading creditor nation and for the development of our Empire has become a fear whether on balance we can show any surplus; for that is the effect of an increasing gap between our imports and our exports coinciding with a diminished return from our foreign investments and from receipts such as shipping freights which are dependent on the volume of world trade. By any of these standards the importance of the world disturbance as a factor in our present troubles is seen to be not easily exaggerated. Restore to the world the same industrial activity and the same profitable interchange of goods as it was experiencing only two years ago, and you will in the process have gone far towards a solution of the most pressing problems of our national economy in Great Britain.

If this view is correct, it is pertinent to attempt some analysis, however brief, of what has happened to the world in the last two years and to search for any indication whether the ground lost is likely to be recovered in a reasonably near future. We are concerned here more with facts than with theories and this is perhaps fortunate, since the facts, taken broadly, are not in dispute, whereas the theories which seek to account for them are numerous and divergent.

Our first observed fact is a cataclysmic fall in general world prices, initiated by a break in the prices of raw materials and foodstuffs. The statistical position of many commodities was unsatisfactory for some time before the break in 1929 and it is probable that the discrepancy

## Great Britain's Problem

between supply and demand was in many instances obscured by control schemes of one kind or another. Very few of the chief raw materials enjoyed free conditions of production and marketing in 1929. The immediate consequence of the fall in commodity prices was a severe restriction of the purchasing power of all primary producers. Australia, New Zealand, Argentina and Brazil amongst such producers illustrate, each in its own way, the commercial, monetary and exchange difficulties, and the consequent political problems, which spring from the catastrophe of prices.

The next fact is the violent interruption in the unparalleled prosperity of the United States. It is perhaps still too early for the world to form any accurate and comprehensive judgment of the economic life of America in the last ten years. Some day we may be able to distinguish with confidence between natural progress and inflation, between development normal in American conditions—in a closed territory, that is, with 120 million inhabitants, endowed with all the resources of modern technique, with high standards of earnings and productivity—and expansion beyond all limits of prudence. We may even come to appreciate the real significance of Wall Street speculation. For the moment the only firm ground is the indubitable fact that the whole delicate structure of American business is dislocated. The United States is entirely preoccupied with her own problems and no one to-day can feel any assurance that their full extent has yet been revealed. For two years foreign lending by America has for all practical purposes ceased and the effect on all countries which are dependent on foreign borrowing for the development of their capital resources has been incalculable.

From the economic confusion of America to the political chaos of the great markets of Asia is an easy transition. With anarchy in China and its disastrous economic consequences we have for long been familiar. Our own trade has suffered even more from the peculiar manifestations of

## The World Crisis

political unrest in the Indian Empire. Whatever may be the political results of civil disobedience and the boycott, the economic loss to India and to every nation trading with India is not open to question.

The effect of the phenomena here so summarily described has been cumulative and can be seen in the reduced turnover of world trade. The following table\* shows the percentage decline in the value of imports and exports in 1930 as compared with 1929. In the case of Great Britain, and probably in that of many other countries, there has been a decline not merely in values, but in volume; and even where volume has been maintained, a reduction of turnover with its corollaries of diminished profits and commissions must have far-reaching effects.

|                           | Imports | Exports of Domestic Produce |
|---------------------------|---------|-----------------------------|
| United States .. ..       | 30.4    | 26.7                        |
| Germany .. ..             | 22.7    | 10.7                        |
| United Kingdom .. ..      | 13.8    | 21.8                        |
| Italy .. ..               | 19.9    | 20.4                        |
| France .. ..              | 10.1    | 14.6                        |
| Holland .. ..             | 12.1    | 13.6                        |
| Belgium.. ..              | 12.7    | 17.4                        |
| Total for all countries.. | 18.9    | 19.9                        |

In every industrial country unemployment has assumed formidable proportions. Our own total of 2½ million unemployed compares with estimates of 7 million in the United States and 3½ million in Germany. Reduced production and lower prices have meant unprofitable production. According to the compilations of the *Economist*,† an analysis of over 500 British companies which issued reports in the last quarter of 1930 showed a decline in profits of 18 per cent. Similar calculations‡ for the United States, where profits in previous years had been very much

\* See Board of Trade Journal, March 5, 1931.

† *The Economist*, January 17, 1931.

‡ *The Times*, April 7, 1931.



## Great Britain's Problem

higher, showed that the earnings of 171 railroads fell by 30·6 per cent. and those of 860 industrial companies by 41·6 per cent. in comparison with 1929. Shrinkage of trade, unemployment and loss of profits have caused budget deficits and shaken credit throughout the world, and all these ills can be related to a world-wide disequilibrium between the prices at which goods can be sold and the prices at which they can be produced.

If equilibrium is to be restored—and until it is restored the world as a whole will rest under the shadow of depression—either world prices must rise again or world costs fall or both these things must happen. That the present level of prices will be permanent is improbable, for the prices of many commodities have fallen so far that even the substantial reduction of costs which is often practicable can scarcely be sufficient to make production profitable. A rapid return to the price level of 1929 is equally improbable. Any rise in prices pre-supposes the first faint indications of a revival of confidence and it is unlikely that without that revival any human action can set on foot an upward movement. Once the corner is turned and prices begin to rise it is probably true that effective and continuous co-operation between the central banks of the world in the use of gold reserves would accelerate the rise and indeed carry it to almost any desired limit. But co-operation in this sense has not yet been found practicable, and political and economic jealousies still stand in its way. A national policy which depended on such co-operation could only be a gamble, and for the time being the opportunity for deliberate control has not occurred. Prices remain constant at their low levels or even tend to decline further, and the world as a whole has begun the painful readjustment of its costs both of primary and of industrial production. In Germany, in Italy, in the other industrial countries of Europe wages and salaries have already been reduced; in Australia, New Zealand and South America the same tendency has proved irresist-

## Our Special Difficulties

ible; even in the United States it has begun to operate. Moreover, adversity at once directs attention to the possibility of more economical methods of production and a revision of industrial technique, and there are many signs that modern conditions may at any time facilitate, and indeed make almost inevitable, an expansion of productive capacity beyond the elastic limits of the demand.

It follows that all present indications point to a protracted process of readjustment by which equilibrium between world costs and world prices will be attained at some point between the present levels and those of 1929. If this view is correct, it is necessary to consider its implications for the national economy of Great Britain, having regard to the influence on our economic system not merely of the world crisis but of those problems peculiar to ourselves.

## II. OUR SPECIAL DIFFICULTIES

THERE are certain essential features of our present problems in this country which differentiate us from the rest of the world. The first is the fact that we are exposed to the consequences of the world upheaval after ten years during which we have supported an unemployed population of never less than a million. This does not mean that for ten years before the crisis we stood still. The years from 1924 to 1929 were a period of considerable industrial activity and development even in Great Britain. The number of insured workers employed rose during that period from 9½ to 10½ millions, and the output of labour per worker also increased. As the following table\* will show, important changes were taking place in industry and in the distribution of labour between different forms of employment.

\* *Ministry of Labour Gazette*, November 1930.

## Great Britain's Problem

*Estimated Numbers of Insured Workers nominally attached to Various Industries.*

(Figures in Thousands.)

|                                                          | July 1930 | Change since July 1923 |                       |
|----------------------------------------------------------|-----------|------------------------|-----------------------|
|                                                          |           | Increase<br>Per cent.  | Decrease<br>Per cent. |
| Distributive trades .. ..                                | 1,764     | 43                     | —                     |
| Building .. ..                                           | 832       | 22                     | —                     |
| Public works contracting ..                              | 186       | 52                     | —                     |
| Silk and artificial silk .. ..                           | 78        | 115                    | —                     |
| Electrical cables, wire, lamps,<br>and engineering .. .. | 192       | 45                     | —                     |
| Motor vehicles, cycles and aircraft                      | 247       | 30                     | —                     |
| Tramway and omnibus services                             | 163       | 55                     | —                     |
| Coal mining .. ..                                        | 1,069     | —                      | 11                    |
| Other mining .. ..                                       | 32        | —                      | 28                    |
| Shipbuilding and repairing ..                            | 205       | —                      | 21                    |
| Steel and iron works .. ..                               | 203       | —                      | 15                    |
| Woollen and worsted .. ..                                | 240       | —                      | 7                     |
| General engineering .. ..                                | 592       | —                      | 8                     |

The persistence over a long period of an unemployment figure of one million or more meant rather that our post-war efforts at readjustment to a changing world were for whatever reasons only partially successful, and that our financial and economic position had been subject to a protracted strain.

The second feature of our special problem is that our economic system is built round our export industries. By the export of goods and by receipts of interest and remuneration for financial and shipping services we have paid for our immense imports of food and raw materials and manufactured goods and have had a surplus of capital for export. For no other nation have exports the same significance. Our staple export industries have for years past been subject to increasing competition. Not only has economic nationalism enjoyed an irresistible and world-wide vogue, but many of our competitors have been assisted by the repudiation of debt through the devaluation of their currencies to reduce their overhead charges and their other production

## Our Special Difficulties

costs. To meet this situation we need the power of rapid adaptation of our resources to the new conditions in the world, alert commercial methods, the facility to remould the structure of any industry, mobility of labour, high productivity, elasticity in wage rates—in a word, the background which offers a constant incentive to enterprise and capital to substitute new forms of economic activity for the old.

In fact—and this is the third characteristic of our economy—our industrial life is marked by extreme rigidity. Our standard of wages and salaries is higher than that of almost any other European country, our wage level being in practice to a great extent maintained by the scale adopted for unemployment relief. Restriction of production by trade union action is still found in various forms. There is a great disparity between wages in sheltered and unsheltered trades, and a disproportionate increase in the wages of unskilled workers. The existence of the rent restrictions legislation and of a guaranteed subsistence income for the workless without the requirement of seeking work has made labour immobile and led to the creation in many of the older industrial districts of devastated areas in which a majority of the inhabitants threatens to become permanently unemployed. Overhead charges such as the service of loan capital, rates and taxes constitute a progressively increasing burden as prices fall, being to a great extent fixed in terms of sterling.

The operation of these factors is revealed by some of the more fundamental figures. Between 1924 and the end of 1930 wholesale prices\* have fallen by 37 per cent. and retail prices† by 13 per cent., but money wages‡ by less than 2 per cent. In other words, there has been a substantial rise in real wages, and the purchasing power both of the wage- and salary-earning population and of the rentier

\* Statist Index.

† Ministry of Labour Cost of Living Index.

‡ Professor Bowley's Index, London and Cambridge Economic Service.

## Great Britain's Problem

has been augmented at the expense of that of the entrepreneur, and the demand for consumption goods and services of all kinds has increased, while the demand for capital goods has fallen off.

As between sheltered and unsheltered trades, and skilled and unskilled workers, the following figures\* are instructive. They show the percentage increase in weekly wages for time workers between August 1914, and December 1930, with the exception of coal-mining, where the figure relates to average earnings per shift. Owing to the general reduction in working hours, the percentage increases in hourly rates are substantially greater, and the wages bill of industry has been further augmented by the general revision in favour of the worker of the arrangements for overtime, night-shift and Sunday work.

| <i>Unsheltered Trades.</i> |    |    |    | <i>Sheltered Trades.</i> |    |    |     |
|----------------------------|----|----|----|--------------------------|----|----|-----|
| Coal-mining                | .. | .. | 44 | Building Trades—         |    |    |     |
| Engineering—               |    |    |    | Bricklayers              | .. | .. | 74  |
| Fitters and turners        | .. | .. | 52 | Painters..               | .. | .. | 94  |
| Labourers                  | .. | .. | 84 | Labourers                | .. | .. | 95  |
| Shipbuilding—              |    |    |    | Unskilled Municipal      |    |    |     |
| Shipwrights                | .. | .. | 45 | workers                  | .. | .. | 96  |
| Labourers                  | .. | .. | 80 | Tramways—                |    |    |     |
|                            |    |    |    | Drivers                  | .. | .. | 94  |
|                            |    |    |    | Conductors               | .. | .. | 106 |
|                            |    |    |    | Railway Workers—         |    |    |     |
|                            |    |    |    | Higher-paid grades       | .. | .. | 100 |
|                            |    |    |    | Lower-paid grades        | .. | .. | 130 |

The total payments of the British railway companies for wages and salaries were £47 million in 1913 and £114 million in 1929.† After protracted arbitration proceedings, the companies have recently obtained a revision which will reduce the total payments by about £4,750,000, still leaving them 132 per cent. above those of 1913.

It is natural that in these conditions our share of world

\* *Ministry of Labour Gazette*, March, 1931.

† Evidence before the National Wages Board, *The Times*, January 20.

## Our Special Difficulties

trade should show a steady decline year by year. From 12·94 per cent. in 1924 it fell to 10·86 per cent. in 1929\*, though during the same period the other chief industrial countries of Europe, except France, all increased their proportion. The strain on the sterling exchange which a continuance of this tendency must exert is shown by the Board of Trade calculation that our net balance available for foreign investments, which was £181 million in 1913 and £138 million† in 1929, sank in 1930 to £39 million.

It is the inevitable consequence of these conditions that industry as a whole is working at a loss and that the basic trades can neither compete abroad nor resist the encroachment of foreign competition in the domestic market. It is a further consequence that the stability of our public finance, which has been a bulwark of our international credit, is now more seriously assailed than at any time in living memory. The financial accounts for 1930–31, when proper allowance is made for the fresh borrowing to meet the cost of unemployment, show that during the year the national debt was reduced by only £7 million. As this result is attained in spite of a high level of taxation on incomes and a scale of succession and estate duties, which in 1930 brought in over £80 million, it is clear that large sums which would otherwise have been available for capital purposes were used during the year for current expenditure. The Chancellor's budget estimates for 1931–32 are admittedly provisional. They are made to balance only by the assumption that revenue as a whole will be maintained and by the appropriation of a dollar reserve and of an income tax payment which cannot recur. They depend, in fact, on a problematic revival of trade for their reality. The full effects of the fall in the national income, which has been officially estimated‡ at £400 million (from

\* Statistical Tables relating to British and Foreign Trade and Industry, Cmd. 3737.

† *Board of Trade Journal*, February 26.

‡ House of Commons Debates, March 30.

## Great Britain's Problem

£4,000 to £3,600 million) and of unemployment expenditure equal to almost 3 per cent. of that total income, will only be felt in the budgets of 1932 and 1933.

### III. THE REMEDIES

IT is unnecessary to dwell further on the details of this picture, in order to make it plain that we are faced with a national emergency. If that emergency inspired the same overmastering sense of imminent danger as the outbreak of a great war, the nation would be welded into unity and the choice of a line of defence would settle itself. The action of economic forces is less direct and obvious and may undermine the life of a still vigorous people like some slow poison in the human body. On no other view is it possible to account for such proposals as those recently made by the General Council of the Trade Union Congress to the Commission on Unemployment Insurance. The General Council advocated a substantial increase in the rate of unemployment allowances, the transfer of the whole burden from the insurance fund to the State and the imposition of a special income-tax to meet the cost. Their spokesman showed no interest in the problem of how the volume of unemployment could be reduced, and expressly disclaimed any responsibility for the finance of his proposals. The first was for the employer and the capitalist system, the second for the Treasury. The General Council, though perhaps less representative than formerly of the workers in industry, is a body of average patriotic citizens, and its plan is mentioned here only to illustrate the remoteness from reality of some sections of opinion.

What are the objects which any effective remedy for our economic troubles must seek to attain? Most of the conditions of our life as a nation are determined for us by such facts as our geographical situation or our past develop-

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ment. We are to-day predominantly an industrial people, importing most of our food and our raw materials. It is beyond our power to make any material permanent addition to the number of agricultural workers; on the contrary, farming tends to be profitable only as the human labour employed in it diminishes. We must, therefore, continue to receive and to pay for a great volume of imports, even if the entry of foreign manufactured goods were entirely prohibited. We are a great creditor nation, in receipt of an income of about £270 million from investments in all parts of the world and dependent in the last resort on that income for the maintenance of the sterling exchange. Like every creditor, we must be in a position to protect our investments when necessary by adding to them. We are an Imperial Power, with a moral responsibility for, and a privileged position in, the development of large areas of the world's hinterland. To retain that position and to stimulate our exports we have only the traditional method of lending abroad. Finally, we carry and finance more of the ocean-borne trade of the world than any other nation, and our revenue from those services is in the neighbourhood of £200 million in a normal year.

It is clear that there is little room for any violent change in the economic system by which we live. The problem is how, within these limits, we can restore prosperity, by what stimulus to industry and trade we can lessen the burden under which we are staggering of 2½ million non-producers. The most powerful single influence on our economy—the world depression—is not amenable to our control, acting alone, and there can be no reasonable doubt that until that depression is lifted, we can only hope for a limited success from any efforts of our own. But it is equally true that a world improvement cannot solve all our problems, and that without strenuous and united effort we may well be debarred from our proper share in a revival of general prosperity. On every ground, therefore, we must accept the world situation as an incentive rather

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than a soporific, and bend all our energies as a nation to the execution of a national policy of readjustment.

It is unfortunately still true that general agreement as to the main lines of such a policy is not yet in sight. By many the desired stimulus has been sought in a vast programme of capital expenditure by the State. There is nothing new or heretical in the notion that public works create employment. The expenditure on naval armaments before the war undoubtedly had the effect of putting life and activity into our whole industrial machine, and of levelling up good times with bad. In recent years the vast sums spent on road construction and improvements have had a comparable result. But there are formidable objections to the view that a State programme of capital works is an adequate or a safe policy in present circumstances. With the exception of the proposals made by Lord Weir's Committee for railway electrification—proposals which merit and are now receiving close attention—no evidence has been given that remunerative large-scale projects exist which could be put into execution in the near future. The experience of recent years suggests that the State is most likely to spend money wastefully and on no coherent plan, with relatively little effect on unemployment, but with great and incalculable prejudice to future budgets. Indeed, it is open to doubt whether any advanced democratic system such as our own, with its multiplication of authorities, central and local, and its ineradicable tendency to delay and compromise, can ever in this field emulate the achievements of a Cæsar, a Napoleon or a Cromer.

In the judgment of THE ROUND TABLE the vital need of the situation is to restore the profit-earning capacity of our industries. Continued inability to earn profits is the death-knell of industrial efficiency. It cripples enterprise, it prevents modernisation, and it hampers every movement for the more rational grouping of industrial undertakings. Industry is losing money at the present time because our

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costs are disproportionate both to the value of our products in the world market and to the costs of our competitors. Those competitors have in a less degree found their own positions untenable at the new level of world prices, and they have not hesitated to weight the scales still further against us. We cannot afford to be alone in the world in our reliance on a return to the old price level.

It is difficult to resist the conclusion that the simplest, most direct and most effective method of restoring the profit-earning capacity of industry is a comprehensive reduction and readjustment of wages and salaries throughout industry, commerce and the public services. By that method we can reduce costs, while preserving a balanced budget and exchange parity, those fundamental requirements of our economic position in the world. It may well be found that any such measure will necessitate a corresponding reduction in the income fixed in terms of sterling received by the rentier—either through an extension of the present system of discrimination in income-tax assessment against unearned income or by some better method, if there is one, any revenue so derived being applied to debt redemption. The argument is often heard that a general lowering of our so-called "standard of living" must reduce purchasing power and so create unemployment. If that were true, the converse would be equally true and an unlimited increase in all wages and salaries would become the dictate of wisdom. In fact, the standard of living, regarded as something existing *in vacuo*, is a meaningless conception. As this article has attempted to show, the conditions of our economic life are to a great extent imposed on us from without: that we should be competitive in our own market and abroad is in the long run essential to our existence. Our prosperity depends in the last resort on productivity and on the profitable exchange of goods, and every section of the nation stands to gain in the end by an immediate sacrifice.

A sporadic and inadequate reduction of wages and salaries

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has already begun, and with trade in the depths will inevitably continue. It would be idle to expect that the furtherance of this movement should arouse the enthusiasm of the masses or excite the ambitions of political aspirants. The practical probability is that when next a majority is found in Parliament and the country for any economic policy it will be for an experiment in Protection. For that reason it is desirable to examine to what extent Protection is an alternative to a plain reduction in labour costs.

There is no doubt that for the average man Protection has lost many of its terrors. He recognises that Free Trade theory presupposed a wide degree of elasticity in our internal economic system, whereas since the war that system has been the most rigid in the world. The theory demanded also that no obstacle should be placed in the way of movements in prices as a result of international movements of gold, whereas in recent years gold has been allowed no such freedom of action. Again, the average man sees the protective tariffs of other nations not relaxed but strengthened and his own power of bargaining made illusory. He has had some acquaintance with protective duties in recent years and has observed little evidence of inconvenience or exploitation. His view that the replacement of foreign manufactured goods by products of British industry must tend to relieve unemployment is an instinctive belief rather than a reasoned conviction. For if he buys a British motor-car, he knows exactly what has happened: he has given work to a number of his fellow-countrymen. If the car is a foreign car, what has happened is at the best obscure. But, if he is wise—and in these matters the average man is usually wise—he is aware of the risks and disturbance attendant on any change in economic policy and is free from any illusion that Protection will open the door to the millennium.

The problems which the elector seems likely to decide on broad grounds such as these cannot be disposed of in half a page. Protection is not like "DORA," a regime which

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can be adopted in an emergency and abandoned when that emergency is past. It establishes a certain distribution of labour and capital as between industries, and a disturbance of that new equilibrium would create problems no less formidable than those which Protection had been intended to solve. Indeed, without some assurance of permanence, industry has no inducement to remould its organisation. Moreover, the stimulus of Protection must be unequal as between industries producing primarily for the home market and those producing largely for export. It is probable that in certain industries Protection would tend to reduce costs by permitting a better planning of production, and by removing some of the formidable financial obstacles to rationalisation. It is certain that in others ability to export at competitive prices would tend to be reduced. No means exist of computing in advance the comparative effect over the whole range of industry of an increased volume of domestic trade on the one hand, and of diminished exports on the other, nor is it possible to calculate what would be the result of Protection, general or partial, on our essential invisible exports, such as shipping freights, banking and insurance commissions. These are amongst the unknowns of a tariff.

In conclusion, the view of THE ROUND TABLE on these perplexing issues may be briefly resumed in some such terms as these. We cannot hope to regain prosperity while the economic life of the world is languishing. At the best we can only improve our relative position, which has deteriorated, and must continue to deteriorate in the absence of vigorous and united effort on our part. Our objective must be such a readjustment of the relation between costs and prices as will restore to industry the power, which for the time being it has lost, of earning profits. That objective can be directly attained by a reduction in costs. It seems likely that it will in practice be attained partly by a fall in wages and salaries and partly by the acceptance of Protection, with its probable indirect

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consequences in the internal price level. The old controversy as to Free Trade and Protection has no longer any but an academic interest, and while the benefits to be derived from a change in fiscal policy are certainly limited and the disadvantages of such a change to some extent unknown, there is reason to believe that in the condition of rigidity which afflicts us, the stimulus which a tariff, rationally devised for our purposes, would inject into our economic life would justify its adoption. If as a nation we decide that we can sacrifice neither Free Trade nor our standard of living, our ineluctable fate is to drift into inflation, open or disguised, and to abandon, at any rate temporarily, our position as a leading organiser of world finance.

## FRANCE AND GERMANY

ON November 7, 1918, Kurt Eisner, President of the short-lived Bavarian Republic, proclaimed at a mass demonstration in Munich that "the German people knows itself to be one with all the peoples of Europe in the will to safeguard the future of the world by a universal alliance of law and liberty, and looks forward with confidence to the fulfilment of the world peace proclaimed by President Wilson." In this statement Eisner probably expressed the view of the great majority of Germans at that time. It was an opinion in no sense inspired by opportunism. Twelve years later a Liberal of the standing of Professor Mendelssohn-Bartholdy is found seriously discussing the practicability of Germany seceding from the League of Nations.

How has this change come about? What does it portend? To what extent, if any, does the new attitude indicate that contemporary prophecies that the Versailles Treaty spelt the collapse of European civilisation were true? The future alone can answer that question. We are, however, approaching a parting of the ways. Next February the Disarmament Conference is to be held at Geneva. Its result can hardly be a negative one. It will either leave things better or worse. A detailed examination of the problems which will confront the conference will be made in a future issue. The object of this article is preliminary study, to discuss the factors which underlie Franco-German relations, for those relations are at the root of the disarmament question.

## France and Germany

### I. THE GERMAN STANDPOINT

THE more closely one examines the differences between France and Germany, the clearer it is that the chief obstacles to their solution are psychological. Both countries seem to be falling more and more a prey to extreme nationalism. But nationalism is itself a quality which varies with the national character. The French nation has for centuries been given to what might almost be described as narcissism. The French are, generally speaking, an untravelled people with an insular mentality, indifferent to foreign customs and ideas, and suspicious of them when they are thrust upon them. French nationalism, however, before the war, was a comparatively harmless foible, dangerous only when roused by some suspicion of danger to the soil of France, a defensive weapon. The Germans are different. They have no such uniform self-centred life. They are more cosmopolitan in taste, and war brought them the highest degree of unity which they have yet attained. German nationalism, if ever it should become permanently grafted on to the national character, would be of an aggressive type. It is a forced growth. This does not, of course, mean that the German has no love for the Fatherland. The exact contrary is obviously the case. But he loves his Fatherland, so to speak, in a more local sense. When a South German wants a town holiday, he is just as likely to choose Paris as Berlin. Mutual understanding is easier between Frenchmen and Germans than it is between either of them and ourselves—perhaps it would be truer to say that they are quicker to accept each other's differences than ours. Their national characters are, indeed, so unlike as to be almost complementary to one another. The German is essentially social. He works best as part of a machine under control. The Frenchman, on the other hand, is an incorrigible

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individualist. There is truth in the saying that the German is a peaceful militarist and the Frenchman a warlike pacifist.

Let us take the events of the last twelve years as the German sees them. Between the Armistice and the delivery of the peace terms everything was in confusion, but one fact stands out. The German people were ready to co-operate with the other nations in establishing a new international order. Defeat, it was recognised, was bound to leave painful material consequences. For humiliation, however, they were not prepared. The old order had been expelled; Wilson had made it clear that the Allies were not waging war against the German people; the Armistice was accepted on the basis of the Fourteen Points, "open covenants openly arrived at" promised a negotiated peace and the fourteenth point a league of nations—such as Erzberger had already written about. Hate is the concern of the rear, fighting of the front, and Germany, with the world in arms against her, had had a wide choice for hate. On the side of the Allies it was concentrated upon herself. She chose England. While the war lasted there was little or no hate for France—that was left to Clemenceau and Tardieu, and later to Poincaré, to draw upon their country, and when it came its intensity was only equalled by their own lack of vision.

In 1918 Germany took the word of the Allies. Then, with the force of a stinging blow, came the terms of the "dictated peace." The Germans were thrown back upon themselves, and all interest in the League, which eventually emerged without their participation, went. Nor was later contact with it of a kind to revive enthusiasm. It seemed indifferent to the "scandal" of the plebiscite in Eupen and Malmédy. It took its part in the severance of Upper Silesia. The Assembly could not discuss reparations because of French objections; and finally the League did nothing to prevent the invasion of the Ruhr. Everything helped to deepen the conviction that it was merely



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an instrument for the enforcement of the Treaty of Versailles.

The Weimar Constitution came into force on August 14, 1919, and the Treaty followed close on its heels (on January 10 of the next year). It was then in disillusionment and despair that the German people started their new form of government, the exact opposite of the semi-paternal rule to which they were accustomed, and with the yoke of a universally detested treaty upon their necks. Then came the Kapp Putsch, followed by the occupation of Frankfurt and Darmstadt by the French, and Communist risings in Saxony and the Ruhr. The Upper Silesian plebiscite, the proclamation of the temporary state of siege in the Saar, the disarmament of Germany under the supervision of Allied officials, the invasion of the Ruhr, the commencement of the incredible separatist episode in the Rhineland and the Palatinate, and, finally, the inflation of the currency, belong to this period. In all these events the villain of the piece, in German eyes, was France.

Then, in August, 1923, Stresemann became Chancellor, and a policy of fulfilment was substituted for latent obstruction. But it was not until after Locarno and the evacuation of the first zone of the occupied territory that he was able to overcome nationalist opposition sufficiently to apply for admission to the League. The initial rebuff of March, 1926, further diminished its prestige in Germany and strengthened the opposition to joining it. It took all the Chancellor's political courage to apply a second time. Germany was admitted in September of the same year.

Stresemann had two main objects, the evacuation of the Rhineland and some degree of general disarmament in accordance with Article 8 of the Covenant. Convinced that these aims could only be attained and protection secured for German minorities by co-operation at Geneva, he directed all his energies to this end. He never succeeded in rousing any enthusiasm for his policy at home, but years of co-operation between himself and Briand went far

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towards allaying the hostility to France which the Poincaré policy had aroused. His crowning achievement was to get a date fixed for the complete evacuation of the Rhineland. It took place on June 30, 1930, five years before the treaty date, and nine months after his own death. The concession had been long in coming, and when it did come it seemed to be so grudgingly made and so obviously under British pressure that there were complaints in France that Briand had failed to gain the kudos for her to which the event entitled her. The haggling with the sick Stresemann at the first Hague Conference marks the point at which Briand's prestige began to wane in Germany, and the weakness of his objections to fixing a date for the evacuation did nothing to arrest the decline.

Stresemann died, then, without seeing the fruits of his labours, and with his second aim as far from realisation as ever. No sooner, indeed, had Germany taken her seat at Geneva than M. Paul Boncour made it plain that the *status quo* in armaments must be upheld, and this has been the attitude throughout. It found definite expression in Article 53 of the Preparatory Commission's Draft Convention, in which the acceptance by France of a disarmament convention was made conditional upon Germany's renewing her obligations under the Versailles Treaty, regardless of what the other countries had done. This deliberate flouting, twelve years after the Armistice, of the principle of equality, which had become an obsession for Germany, was the reason for her representative's refusal to accept the draft Convention. His warning that no treaty based on such conditions would be acceptable was endorsed by Berlin.

If (said Count Bernstorff at the last meeting of the Preparatory Commission) the majority of our Commission only realised the paucity of the results achieved during the last five years, it would not place this factitious piece of work on the same footing as previous conventions. . . . It is possible that there may be among us delegations who imagine that my Government could be asked to give its signature to a Convention which, instead of

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leading to genuine disarmament, would only serve to draw a veil over the real state of land armaments throughout the world, or, what would be worse, would make it possible to increase these armaments, and would at the same time force me once again to give Germany's signature to the disarmament clauses of the Treaty of Versailles. I beg of you, gentlemen, not to consider this possibility.

Thus, by the end of 1930, Germany had lost her illusions, but she had also failed to find her own soul. Torn with internal dissension and distracted by the difficulties of the constitution which had led to the establishment of a semi-dictatorship to prevent worse things, there was nevertheless still a considerable amount of agreement on foreign policy. Thus we find the League in general disfavour and under renewed suspicion of being a sort of Anglo-French joint stock company. France remains the villain, and Briand, hitherto the well-meaning, if somewhat weak, opponent of Poincarism, has ceased to personify hope. Three main grievances stand out—the war guilt question, the eastern frontier, and reparations. As regards the first, the German people, like most of the other ex-combatants, were, in 1914, convinced that they were fighting in “self-defence,” and that the mobilisation of Russia and France, which preceded their own, had forced their Government into the declaration of war which gave rise to the accusation of “aggression.” Article 231, which affirmed the sole responsibility of Germany and her allies for the war, was passionately denounced by Count Brockdorff-Rantzau at Versailles, and is probably still, in spite of unofficial repudiations from abroad, the subject on which Germans can most easily be roused. The inclusion of the subject in the Hugenburg referendum on the Young Plan in 1929, in spite of the Government's reminder that the charge has never been officially accepted, may be considered responsible for the large number of signatures. Certainly the denunciation of Germany as a “nation of pariahs” supplies an important part of the stock-in-trade of National-Socialist propaganda. As for

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the second point, the Germans claim that, although forty years after the Treaty of Frankfurt “revenge” feeling was still strong in France, Germany, under the Stresemann policy, finally renounced her claim to Alsace-Lorraine only five years after the Treaty of Versailles. This more than anything else makes the Germans sure that the violent opposition of France to any idea of treaty revision must be due solely to a determination to keep them permanently down—to put her own hegemony beyond challenge—for they no longer have any territorial demands as far as she is concerned. As regards the eastern frontier, Germany, it is true, has only agreed not to try to change it by force, but the overwhelming majority of the people would insist upon that change being effected by peaceful means. Internally this eastern grievance is incessantly exploited, not only by people who are against remaining in the League and who point to its failure to protect German minorities, but also by the advocates of increased armaments. The excuse for the construction of “pocket battleships” is the necessity for protecting the “island of East Prussia,” and in the Foreign Affairs Commission the question is often asked whether the Government's resources are sufficient to defend it against attempts at annexation. Poland has done nothing to mitigate this particular fear. Polish newspapers and periodicals are little read west of Berlin, so the world knows nothing of the discussions about the “necessity” for Polish expansion which from time to time excite the German nationalists. The Poles, of course, have their own grievances against the Germans, “but that is another story.”

People differ about the part which reparations have played in arousing German discontent, but there is no doubt that it is a contributory factor. When a relatively prosperous nation like France complains bitterly over the necessity of paying her reduced war debts, it is not surprising that the Germans, whose economic position is at present so much more difficult, should resent seeing

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huge sums go abroad every year. In the early years the question, "What can Germany pay," was always coming up, and this helped to bring home to the Germans the force of the hatred felt against them. The French refusal to have the debt fixed completed their conviction that the main object of reparations was to keep Germany in permanent subjection, if not to ruin her, and bitter comparisons were drawn between their own "leniency" in 1871 and the attitude of the Allies. Since 1924, however, when the Dawes scheme was introduced, controversy has been transferred to other fields, and, although the Young Plan is usually referred to as "monstrous and impossible," Herr Hugenburg failed to stampede the country against it in 1929, only some 14 per cent. of the electorate supporting his referendum. The Nazi propaganda, moreover, which pretends that the economic crisis is chiefly due to the payment of "war tribute," seems to have carried little conviction, judging by the calm way in which Dr. Brüning's repeated assurances that the crisis is primarily due to world influences and to the character of the German economic system have been taken. The Chancellor has also pointed out that there is a growing recognition abroad that reparations are permanently disturbing the economy of the whole world, and he appealed to his own people to set their house in order, so as to prepare the way for a general solution. It is precisely because no such "general solution" is in sight that, even if it arouses little animosity, the reparations question is accentuating the present feeling of hopelessness.

Such briefly are the main causes of German discontent. The list no doubt includes old matters almost forgotten everywhere else, but during the last ten years circumstances have conspired to keep them alive for the Germans. They remain, for them, an enduring proof that the old régimes across the frontiers are still afflicting the new régime at home, and that the latter has shown itself incapable of resistance. Thus, when the Hugenburg press

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publishes pictures of the disarmed Michael surrounded by menacing guns, with the armament figures for every country carefully noted on their barrels, the appeal gets home to strained nerves and minds already prepared for it by propaganda. And the energetic young people, whom the universities and technical schools pour out every year in such numbers, find every trade and profession crowded at home, and no outlet abroad. Naturally they think that, for them at all events, the war is not yet over. Action is the keynote of the German temperament, and, whatever their intellects tell them, their hearts go out to the appeal for change at any cost. "Fulfilment," they are told, has led only to humiliation, and the existing system of "strangulation" which leaves no room for hope must be smashed.

### II. THE FRENCH POINT OF VIEW

SO much for the German standpoint. The attitude of official France, both to Germany and the League, is probably better known to British readers than that of Germany. It may be summed up in the word "security" and may be put as follows. France has twice in fifty years been the innocent victim of aggression from the same quarter; she was the worst sufferer from the war, and the chief artisan of victory. Victory has given her the upper hand and she means to keep it, for she does not believe that security is possible without it. She had full information of the annexation schemes which Germany had prepared early in the war, and she approached the Peace Conference with no "sentimental" notions about a new international order. Germany must be dismembered and prevented from ever again becoming a threat. Her economic ruin should be limited only by the necessity of making her pay for the war. The bolshevisation of France's old ally Russia made it doubly necessary for her to transfer her traditional policy of alliance to the west,

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and, since human civilisation had indisputably reached its highest level in France, it was to the interest of the whole world to keep her soil immune. Sacred egoism, no doubt, but held with a genuinely religious sincerity.

The Peace Conference, however, was destined to disillusion France as rudely as it did Germany, and, if during the war detestation of the Anglo-Saxon was the distinguishing mark of the latter, it now passed to France. It was bad enough to be pestered with the ridiculous Fourteen Points—"Fourteen!" said Clemenceau, "God Almighty only had ten." But it was even worse to find the British Prime Minister obstructing annexation, weakening the united front and even calling for inadmissible concessions to the enemy. Well might M. Tardieu write that those were atrocious days.

But worse was to come. France's reading of the Wilson proposal of a "general association of nations" was a perpetual league of Allied Powers to supervise and safeguard the execution of the Peace Treaties. Later, when the dismemberment of Germany rendered it possible to limit armaments elsewhere, this association might be supplied with an international force. Such was the form in which the peace vision presented itself to France, with herself supreme, and therefore secure, on the continent and the Anglo-Saxons preventing trouble elsewhere. The conception failed, as did the idea of an Anglo-American guarantee, and France, sadly out of love with her old allies, became a member of a League of Nations which meant little to her, a nebulous body devoid of teeth and quite valueless as a watchdog, to which the Germans had been impertinent enough to demand admission. Later, though there was no real change of heart or policy, thanks to M. Briand, interest in the League grew in France. But the failure of the United States Senate in 1920 to ratify the Guarantee Pact, and its subsequent refusal to adopt the Versailles Treaty, was a shock from which Paris has never entirely recovered; in one form or another the

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guarantee project is always in the mind of her politicians. Convinced, however, that for the moment progress was barred along that line, France in 1920 turned to other quarters for security. She first proceeded to "buttress the Covenant" with military alliances with Belgium and the States which owed their existence or accessions of territory to the Peace Treaties. But in 1922 she returned to the charge, and at Cannes M. Briand was on the point of obtaining a guarantee pact from Great Britain. But the scheme again fell through, and M. Poincaré resumed control. The basis of his policy may be summarised in his own words\*:

On the morrow of the armistice each of the belligerents in a certain measure resumed its sacred egoism, of which one of them was proud and the promptings of which were more discreetly followed by the others. I am neither astonished nor scandalised at that. But what I fail to understand, what France does not understand, is why for more than three years, in the peace treaty as in later conventions, agreement among the allies is so frequently made at our expense. What good is it to recall now the long series of deceptions inflicted upon us, the concessions demanded of us in favour of Germany, the reductions successively imposed upon our claims, the opposition that we have met every time that we have urged recourse to guarantees and sanctions? It has gradually come to France that the right of having a foreign policy is almost denied to her.

The succeeding phases will be too fresh in the memory of the reader to require more than a brief reference. The League failed to solve the security problem. Both the Treaty of Mutual Assistance and the Geneva Protocol were rejected. Then came the Locarno Agreements, in which France finds little satisfaction, largely owing to their bilateral character, followed later by the Kellogg Pact, initiated by France and eagerly welcomed by Stresemann, and the signature by Germany, first among the great Powers, of the Optional Clause. But these events, too, in the eyes of France, provided no real security, and the increasing desire on the part of other nations to make

\* See *Le Temps*, August 22, 1922

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them the basis for a reduction of armaments was met by a blank negative on her part during the sessions of the Preparatory Commission. She has never believed in the disarmament of Germany. Reference is continually made, in books and elsewhere, to the probability of hidden arms, and still more to alleged arrangements for the rapid manufacture of weapons and munitions in neighbouring countries. In the absence of any proof which would enable Germany to be brought to book, attention has lately been concentrated more upon her "war potential" as a great industrialist nation, admirably adapted for the provision of whatever modern scientific warfare requires, with vital statistics all in her favour. There has been heart-burning, too, about the abolition of conscription in Germany (at Anglo-Saxon instigation), and reams have been written on the *Reichswehr* as an "officers' training corps," with a large reserve of men trained in patriotic organisations such as the *Stabhlhelm*. Comparisons have been made between the recovery of Prussia after Jena and the adaptation of the German military machine to the restrictions of Versailles. General Desvignes in *La Farce du Désarmement* brackets point by point the work of Scharnhorst after 1806 with that of General von Seeckt to-day. The conclusion he comes to is, however, significant. Economic union alone, he believes, can save Europe from disaster, since security in the military sense is no longer possible for any nation.

If the bare performance of undertakings open to various interpretations is to be regarded as evasion (as Lord Cecil recently admitted in the House of Lords that it might be), then it may be asserted that Germany is evading Part V of the Versailles Treaty, just as the Allies are evading Article 8 of the Covenant. In Germany, as elsewhere, there are permanent officials whose minds sub-ordinate the future to the past. Their power is obviously limited, but they exercise it as far as they dare. The fact, however, remains, that, by common consent even of French military experts, Germany to-day is powerless to make war

## Personal Relations

The steady progress made in the economic sphere during recent years almost tempts one to regard the dust and din of the political arena as a side-show kept up for the benefit of the press. Such a judgment would, however, be superficial, for the two spheres overlap, and if the post-war industrial world has contained men like Hugo Stinnes pursuing their ends with an almost lofty indifference to politics, it also numbers others such as Coty and Hugenberg, who use commercial success as a stepping-stone to the fulfilment of political ambitions, and whose influence upon their compatriots has not conduced to better international feeling. Then there are the occult machinations of heavy industry on both sides of the Rhine, accompanied by an increased chauvinism in part of the press. Nevertheless, although commercial relations to some extent reflect political feeling, infinitely more progress has been made between French and Germans industrially than between the two nations politically—some examples are given by M. Herriot in his book, *Europe*. In point of fact, there is now hardly an industry of importance in which joint action of some kind has not been arranged between French and German representatives. Since, however, the object of most of these arrangements has been to control markets, or to exclude third parties, and the effect on customs tariffs has been negligible, the movement can hardly be claimed as a necessarily progressive one in the international sense. It is only referred to here as an essential part of Franco-German relations.

### III. PERSONAL RELATIONS

UP to this point we have dealt chiefly with the political relations between the two States. To what extent is this a guide to the feeling between the two peoples? No doubt German spokesmen have reflected the opinion of their people more closely than French spokesmen. The reason is obvious. Public opinion in every country

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is normally comparatively little interested in international affairs, but defeat in war carries with it material consequences which force attention in that direction. The Germans are not necessarily better informed than other people in this respect, but circumstances have made them realise that foreign policy directly affects their own individual lives. When, therefore, a German Foreign Minister states that there are limits beyond which public opinion will not allow him to go, the phrase is more likely to be literally true than is usually admitted in diplomatic circles. The French undoubtedly stood behind their Government, at all events up to 1924. But latterly doubts have crept in, and Poincarism, felled by the *Cartel des Gauches*, has never completely regained its old aggressive qualities. Criticism has been slow in coming, but that is largely due to the "insularity" of the French, who take their ideas exclusively from the Paris press. Nevertheless, it is increasingly difficult to believe that the uniform intransigence of Paris really represents what French people think as a whole. That they are war-weary has long been admitted, but it is less widely known that "pacifism" is to be found even in its extreme form. To-day, almost anywhere in France, one may hear French policy and French public men, from the President downwards, denounced in terms such as elsewhere are rarely used outside Communist gatherings. The moribund condition of the old conservative peace societies is largely due to their "semi-official" character, and their place is being taken by new organisations, such as the *Ligue des Anciens Combattants Pacifistes* and the *Ligue Internationale des Combattants pour la Paix*, both recently formed by popular journalists of the Left. At a recent congress of one of the older and less radical ex-servicemen's organisations a resolution was passed in the following terms. The Congress,

considering that Article 231 of the Treaty of Versailles threw upon Germany the sole responsibility for the war of 1914; considering also that the treaty was drawn up without consultation of the ex-enemy

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nations; gives a mandate to its delegates at the national congress to present to that congress a resolution inviting the C.I.A.M.A.C. to constitute an enquiry commission charged to examine and establish the responsibilities for the war of 1914.

Then there are recent issues of periodicals which rarely, if ever, pass beyond the frontiers of France, from which it would be easy to compile extracts which have a very different tone from those which are usually quoted in the foreign press. The following is taken from a monthly issued by and for French youth.

French public opinion exists deliberately inside a circle drawn by itself. It ignores all that does not touch it directly, unmindful of world interdependence. It does not envisage Europe as Europe but as an appendage to France and refuses to be informed of, much less convinced by, evidence to the contrary. A press lacking either independence or means, assists opinion in this auto-anæsthesia. Thus after the war France hypnotised herself by the two questions of security and reparations—with arguments of a disarming puerility. Germany was the *nation de proie* always lying in wait to commit a possible aggression, the nation which had invaded France "four times in a hundred years," and against whom protection was the first necessity.\*

The article goes on to demand revision of the treaties.

The arguments for treaty revision have indeed latterly found such vigorous expression in a section of the Paris press that the Allies of France have begun to take alarm, and the conservative papers, unable to ignore it, have responded vigorously. Support for the movement has, moreover, recently come from outside; M. Vandervelde, in the Belgian Chamber, has demanded the abrogation of the Franco-Belgian military treaty of 1920.

But when all is said, the effects of this new attitude on the part of a growing section of the French people must not be exaggerated. The attitude would have to grow a great deal stronger even to capture the political machine of the parties of the Left before the elections in 1932, and the only question is whether it will find sufficient

\* *Plans*, February 1931.

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expression to oblige the existing Left groups to adopt a foreign policy of their own, instead of, as usual, feebly imitating the Right.

### IV. RECENT TENDENCIES

THANKS then largely to obstinacy on the one side and to clumsiness on the other, the spirit of hope which followed the Locarno agreements has been almost frittered away. In France the political parties of the Right were always opposed to those treaties, whilst the Left considered them a poor substitute for the Geneva Protocol. But the consequences of this change of attitude are far too serious to be ignored. They can be seen in the violence of the comments which followed the Franco-Italian naval dispute and the proposal to form an Austro-German Customs Union. In the casual "sophisticated" newspaper reader the change takes a cynical form, a feeling that nothing has really been altered, that the short honeymoon of peace talk is over, and that his "instinct" was right all the time in supposing that, when Europe finally came up against reality, these new-fangled ideas would melt away. A sort of *fin de siècle* atmosphere exists, if one may use such an out-of-date expression, and the end is felt to be near. The *Frankfurter Zeitung* has hitherto been the strongest exponent in Germany of the "Stresemann policy." This gives a special significance to the following passage. Referring to the chauvinist speeches of M. Maginot and M. Doumergue which preceded the Comte de Brocqueville's speech in Brussels on April 29, the writer says\* :

M. de Brocqueville dares to say to-day that Belgium, despite the solemn peace covenants of which she is a signatory, can no longer rely upon treaties. He wants Belgium to prepare for another war on the model of the World War, a war on the side of France and with British support. He still sees Germany only as an enemy and

\* *Frankfurter Zeitung*, April 30, 1931.

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interprets Locarno simply as a Belgian-French-British alliance against Germany. . . . Either we must recognise that these days of the League and Arbitration agreements mean that the world has gone forward, or we must refuse to believe it. But if one does not believe it, then one cannot honestly accept the Peace Pact or Arbitration Treaties. That much must the German people declare plainly to the Belgians, when they allow a responsible statesman to speak in their name as M. de Brocqueville has spoken. And one word to the others also. The situation is terribly serious. In February of the coming year the great international Disarmament Conference will take place. This is providing an opportunity for all opponents of disarmament to rouse opinion against it and to set traps for the policy of reconciliation. The outlook for the Disarmament Conference has become so bad through such agitation that, unless there is some change in the meantime, we must almost certainly expect it to be a failure. And yet failure, as we Germans can best judge from our own internal situation, would probably mean the beginning of the development of a new world catastrophe. We know that the friends of disarmament are also active and perhaps especially so in France and Belgium, but up to the present their work has not succeeded in checking the sinister game of the armaments interests. It is high time that they gained the upper hand.

Prophecies that the Conference will fail are now common in Germany, and the pessimists predict, as a consequence, a Fascist dictatorship, withdrawal from the League and, later, a Communist reaction and permanent association with Russia. The Communist party has long been strong. It now numbers 76 deputies in the Reichstag, and the rank and file of the Nazis in the north have Communist tendencies. It is, however, only comparatively recently that the Russian experiment has begun to arouse widespread curiosity, a curiosity stimulated by such statements as those of Herr Sachsenberg, head of the Junkers Aktien Gesellschaft, a concern with large interests in Russia, who has expressed the conviction that the Five Years Plan will be largely successful. How a Communist régime could function in a highly industrialised country such as Germany is not explained by its advocates. But feeling in Germany to-day, as anti-Communists themselves point out, is predominantly anti-capitalist, and the country

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is run on hybrid principles which are neither purely capitalist nor purely Socialist. This system has failed, and no recovery sufficient to allay the dissatisfaction of its victims can be expected unless relief, both material and psychological, comes from outside. The strength of the present pessimism is due to the fact that there is no prospect of either.

Official France, indeed, appears to have made up her mind that "concessions" must cease and that disarmament is unthinkable in the present state of Europe. She was profoundly hurt when no gratitude was shown for her evacuation of the Rhineland, and the subsequent Nazi raids on suspected ex-separatist agents aroused her indignation. The result of the German September elections, indeed, which gave the Nazis their 107 seats, almost created a panic. "Here," said the nationalists, "is what comes of Briand's policy of concession and weakness." They forget Stresemann's repeated warnings that procrastination and a continuance of the crushing inequality in armaments, which has existed since the war, would have this very effect. But by February France had recovered sufficiently to authorise the banks to participate in a loan to Germany. The French share was only some £1,600,000, and the measure elicited little public comment, but it increased the better feeling in Germany which had followed the January meeting of the Council at Geneva, and was the more welcome in Berlin because there had been no such loan since before 1870. More, too, was needed in the way of long-term credits and, as the Banque de France had just stated that the time had come for France to lend more money abroad, it was felt that there was reason for hope. Then came the bombshell. The proposal to establish an Austro-German Customs Union was announced.

## The Austro-German Proposal

### V. THE AUSTRO-GERMAN PROPOSAL

THE first public intimation was a scare-line in a Paris evening paper. A German plot to bring about the *Anschluss* was announced. Three days later the preliminary convention was issued in Vienna, but by that time the French press was fairly aflame, and the fire continued to burn fiercely until the Spanish Revolution provided a distraction nearly a month later. No attempt can be made here to examine the merits of the proposal. This article is merely concerned with its effect on Franco-German relations. That the first reaction in France should have been violent can surprise no one who knows French psychology. A customs union, it was felt, would certainly lead to political union, just as the old *Zollverein* had preceded the establishment of the German Empire. The *Anschluss* has always been France's bugbear. M. Briand seemed to feel the proposal as a personal matter, and the fact that the occasion was seized by his enemies on the Right to denounce not only his whole policy, including the United States of Europe suggestion, but also his candidature for the Presidency, was not calculated to make him more sympathetic. Official France immediately decided that the union would constitute a breach of the treaty obligations of Austria, a view which was vehemently supported by papers like the *Temps*, and for days the scheme was stigmatised as another example of German bad faith. Then President Doumergue, already in the last days of his official term, went so far as to assert that Germany's proposal would confirm France in her belief that, unless she obtained more security, disarmament would, for her, remain impossible. At the same time, the Committee which was drafting the Franco-Italian naval agreement had to suspend its work on account of difficulties raised by France.

The attitude of France to the Austro-German proposal is entirely consistent with her attitude, since 1919. Here and there a voice has been raised to suggest that it was simply the inevitable happening, or that the blame was



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M. Briand's, for not following up his idea of European union ; but the nationalists to a man subscribed to the view bluntly expressed by M. Charles Maurras, "*l'Europe restera désunie ou sera allemande.*" The same men who conducted the war and made the peace, men to whom France is everything, and the interdependence of the world a post-war phrase, are still in power. The eyes of these men are turned back. They see the path strewn with French concessions and the ruin of all their hopes of security through domination. To them the proposed Customs Union has only one significance—it amounts to a German Declaration of Independence. The fatal hour so often predicted is going to strike. The stricken enemy, raised up by Allied weakness, will once again confront a disunited France.

The French are right in thinking that the Customs Union represents a new attitude on the part of Germany towards their country. To what extent it is a conscious one it is impossible to say, but the fact remains that Germany can no longer afford to wait for the evolution of ideas to take their normal sluggish course. Economically and psychologically, her internal situation forbids delay, and external passivity must be brought to an end. If the risks involved are great, the risks of inaction are greater still. During the last three years there have been, on an average, 44 suicides a day in Germany, and the average earnings of the salaried classes are £8 per month. If figures such as these afford a glimpse into the welter of tragedy which lies behind them, they are an even more terrible warning of the demoralisation which threatens a highly civilised people. It is not military supremacy for which Germany is striving—in that sense *Mittleuropa* is a mere bogey of French reactionaries, and in non-nationalist circles it is increasingly recognised that of all the combatant nations Germany can most surely be said to have learnt the cruder lessons of war's futility. Nor at present does she aim even at economic leadership, though that is doubtless at the back of the minds of her rulers. What matters to her

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at the moment—and it is urgent—is a life-line to draw her back from the precipice on the edge of which she stands. The German Government is faced by a people without hope, with nerves on edge, and minds no longer normal. The time when promises worked miracles has gone. There must be some clear sign of recovery and reinstatement. Given that, Germany will recover, she may indeed set a pace in Europe which will change its face and result in a new world. This temporarily suppressed urge finds frequent expression in the writings of young Germans.

The moment of history (says one of them) at which we find ourselves arrived, this adventurous commencement of a completely new era, all this renders it out of the question that we should remain in that phase of development which France and England exemplify. It is our destiny to skip over this phase, which no amount of patchwork has enabled us to imitate adequately, into something completely and disturbingly new and different.\*

We find then, on the one hand, a Germany which has run the gamut of emotional and political experience, not only impatient, but actually forced to take risks to avoid disaster, and, on the other, a France officially still faithful to the views of ten years ago, but in which new ideas are growing behind the old façade. Can the one man who has successfully kept a foot in either world again bridge the gulf? It is not even certain, as we go to press, whether, after his defeat for the Presidency, he will still represent France in international matters. Whatever happens, the Customs Union proposal† will come to be recognised as the most important event in Europe for many years. German and Austrian official circles may or may not have been surprised at the violence of the opposition. The encouragement which the proposal brought to their peoples later gave way to indignation at the response elsewhere. In any case, it is clear that the French Foreign Minister was shaken out of his lethargy,

\* *Germany and the Germans*, by E. Diesel.

† The proposal has been referred by the League Council to The Hague Court for a pronouncement as to its legality.

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and the final result may yet prove the proposal to have been a blessing in disguise to the whole continent. It may even be that the *Arbeiter Zeitung* of Vienna was unconsciously in a prophetic mood when it wrote :

Perhaps it would have been easiest to get this plan through within the framework of a general understanding between Germany and France. Within the framework of a general understanding, in which concession would be granted by both sides, the consent of France would perhaps be most easily obtainable. But the atmosphere for an understanding of this kind was destroyed by the September elections in Germany.

A fault commonly found with M. Briand's memorandum of last year was that it subordinated economic change to the necessities of the political *status quo*. Recent events may change the formula and with it the whole drift of Franco-German relations. Therein still lies the key to European peace and prosperity. If the change comes, the Disarmament Conference may yet cease to be a cause of acute anxiety to everyone who is trying to peer into the future.

But the price demanded of France is high. Her safety seems to her to be bound up with her dominant position in Europe. This form of security—a false one if she only realised it, and certain to fail her sooner or later—she is asked to give up for a new order of things in which she will be only an equal among equals. Will she take her courage in both hands and accept the new order—trusting the future? Only the event can show, but, in this instance, as so often happens, the bold course is the safer one. It is once more a case of whosoever will save his life shall lose it. Hardest of all perhaps, will she ever bring herself to merge her individualistic soul in that of an international community with all that it implies? There is at all events—and it is perhaps the most hopeful sign in Europe—a growing consciousness in France that she, too, has reached a parting of the ways, from which there can be no shrinking back, and that the sign-post which points to the undoing of Germany would also lead to her own. The time left for her to make up her mind is, however, desperately short.

## IS THE FIVE YEARS PLAN A MENACE?

### I. A CHANGE OF ATTITUDE

ONE of the chief results of the progress made by the Five Years Plan has been to force the outside world to settle its attitude towards Soviet Russia, a step which, apart from any other consideration, is rendered imperative by the mere geographical position and the economic possibilities of the country. Considering the novelty and the character of the experiment, it is not surprising that the world should for so long have had no settled attitude, and the difficulty of arriving at a judgment has been increased by facile propaganda from both points of view. On the one hand, there has been the theory that the régime is monstrous and fantastic, and cannot possibly survive. Soviet Russia has been declared unreal, and everything connected with it has been denounced as unreal, possessing neither permanence nor importance. There has been a kind of blockade of indifference which has shut off Russia from the general interchange of ideas. On the other hand, the Bolshevik attitude has itself not been of a kind to encourage intercourse, while the unsettled state in which such questions as Russia's pre-revolution debts, or the position of concessionaires, has been allowed to remain, has acted as a deterrent to commercial dealings. Obviously such isolation could not last; it was impossible to keep such a colossal country completely apart, especially in view of the new energies which were being released there. No one, indeed, supposed any such thing, but for many years the general expectation was that the fog of Bolshevism would sooner or later disperse, and that Russia would return to the comity

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of nations. No doubt this expectation has helped to give its vacillating character to the policy of the governments towards Russia. Germany is practically the only exception to the general attitude. From the very inauguration of the Soviet régime she showed herself ready to treat Russia as an equal. But there, of course, special causes were at work; the common experience of having been outcasts among the nations, and of having passed through the fire of revolution, Germany's paramount need for finding an outlet for her manufactures, and a revival of the Bismarckian tradition which makes friendship with Russia an indispensable feature of Germany's foreign policy. Her Eastern policy is as definite and as historical as her Western. While she is a Western Power and unlikely to surrender any of the interests and privileges of that position, her economic destinies are bound up, as they have always been, with the economic progress of Russia.

The inauguration of the Five Years Plan at first made very little difference to the general aloofness. The scheme was stigmatised as sheer Bolshevik bluff and as megalomania raised to the *n*th power. The first perception of the reality of the Plan and of the dramatic force with which it is being pushed came only when the collectivisation of agriculture that formed part of the Plan led to conflicts in the villages reminiscent of those of the civil war. But, while the "liquidation" of the kulaks as a class (the objective of the latest Russian offensive) roused the indignation of the world, it failed to disturb its basic indifference to Russia. It was left to the sudden appearance last summer of Russian grain on the world market to awaken the world to a consciousness of the magnitude of the Plan, and people then began to revise the ideas which they had formed of the country in which it was being carried out. The reports of fleets of steamers chartered by the Soviet Government to carry the grain, and the unloading of Russian wheat at all great European ports, came as a ringing challenge.

## A "Planned" Export Trade

### II. A "PLANNED" EXPORT TRADE

THE resumption of Russia's foreign trade after the stabilising of the revolutionary régime in 1921 brought with it a series of surprises, perplexities and disappointments. When, during the war and afterwards, people were discussing the possibility of resuming trade with Russia, they usually assumed that the character of this trade would be similar to that of pre-war time, that is, that it would be an exchange of the agricultural produce of Russia for the manufactured goods of the West. But this expectation has never come anywhere near realisation. The great supplies of grain and of other agricultural produce which were to have come from Russia did not materialise. And while, of course, the United States, Canada and the Argentine have had no reason to feel aggrieved at this disappearance of Russia from the wheat market, Great Britain and other grain-importing countries have been deprived of a source of supply on which they had counted. Much more widespread, however, and certainly more sincere, has been the disappointment caused by the absence of the expected demand for the manufactured goods of the West. Ever since Russia discovered that she could obtain no credits, she has limited her imports to such manufactured goods as have been absolutely essential to the re-equipment of her broken industries. The further trade developed the clearer it became that this refusal to allow manufactured goods to be imported into the country was neither an accident nor a mere temporary expedient. Soviet Russia was plainly resolved to take a completely new path in the field of international trade.

Expressed in the most general terms, this new departure consists in the adoption of the principle that foreign trade is to be no longer left free and unrestricted, but rigidly regulated. It will be a planned trade. Imports and exports

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henceforward take their place in, and become a function of, the planned economy of the State ; that is to say, they are not a manifestation of the actual demands of the population but form an integral and deliberate part of the reconstruction of the country. In these circumstances, imports are given a predominant position, while exports serve mainly to pay for imports. Another implication of this new departure is the change in the character and structure of both imports and exports. The importation of consumer's goods, that is of manufactured articles, which used to total more than half of the pre-war imports into the country, is now reduced to a mere 10 per cent., the remaining 90 per cent. being strictly producer's goods, goods required for completing the industrialisation of the country, such as plant, machines and industrial raw materials. Exports, on the other hand, which in the old days were practically limited to foodstuffs, agricultural raw materials, timber and furs, now include anything and everything which can be marketed, from wheat to manganese ore, from flax and furs to anthracite coal, from pulp wood and matches to electric bulbs. A due appreciation of this new aspect of Russian foreign trade is essential to a proper understanding of the relations between Russia and the outside world.

There is a widespread belief outside and even inside Russia that the scarcity of goods in that country is largely due to the enforced exportation of commodities. While it would be wrong to say that the scarcity is due to these exports, it is certainly intensified by them. And yet the Soviet press is probably right in maintaining that the export trade is the most undeveloped branch of the national economy. What then are the facts?

In 1913 the value of exports amounted to over 1,500 million roubles ; while in 1928-29 (measured in pre-war prices) it amounted to about 700 million only.\* The decrease of exports will appear still more striking if the

\* See the *Soviet Union Year Book*, 1930.

## A "Planned" Export Trade

reader will realise that the general level of production, both industrial and agricultural, has increased in the same period by approximately 30\* per cent. Expressed, as a proportion of the general level of production, exports will now be found to have been reduced by nearly two-thirds. Before the war Russia exported over 8\* per cent. of her annual production, whereas in 1929 this proportion had fallen to less than 3\* per cent. The same result will be found if Russia's share of world trade is considered. In 1913 this was over 4 per cent. ; in 1929 it stood at 1.4 per cent. This last figure (given by the League of Nations), may require some explanation for its proper understanding. In the first place, allowance has to be made for Russia's reduction of territory, and secondly, for the growth of the volume of world trade. Yet, when every allowance is made, the figure shows that Soviet Russia has fallen badly behind in the export trade.

This circumstance is worrying the Bolsheviks a good deal, for the volume of exports sets the limit for imports, and any curtailment of the latter must bring about a retardation of the *tempo*† of industrialisation. Resorting to their customary manner of solving urgent State problems by "shock methods," that is, by the concentration of every effort upon one particular "front," the directors of the State departments concerned are frenziedly engaged in forcing the exportation of everything which can be withdrawn from internal consumption. It is safe to predict, however, that, despite the utmost effort, reinforced by the application of the "Bolshevik will," which, it is claimed, is capable of breaking down any obstacle, the volume of Russian exports will at best only slightly increase and will represent a small and diminishing ratio of the general total of production, mainly because the basic tendency of national economy, as well as the object of the economic

\* See the *Soviet Union Year Book*, 1930.

† A word in common use by the Bolsheviks signifying "rate of progress."

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plan in present-day Russia, is the development of the internal market.

Russia has now none of the motives which generally stimulate foreign trade. There is no over-production, no need for getting rid of an unmarketable surplus and no necessity for stabilising prices on the internal market. With the exception of timber, oil and expensive furs, Russian exports represent not a surplus but goods withdrawn from the internal market. Even of grain, of which there is no scarcity at present and the production of which is some 12 per cent. higher than before the war when Russia exported 19 million quarters of wheat annually, there is as yet no real exportable surplus. The underlying motive of the ambitious scheme for increasing the area under cereals and the yield of crops is obviously to enable Russia to regain and surpass her old eminence in the grain market. But the result of these efforts ought not to be felt in the world market for some years; for even a very considerable increase in production should and could be totally assimilated in the country, first in improving the quality of the people's bread, and then as fodder for the cattle. To cope merely with the meat and dairy scarcity in Russia all available grain ought to be utilised and none exported. And yet grain is being exported and will probably continue to be exported in spite of the economic tendency to the contrary.

Even such a bird's-eye view of the tendencies of Russian foreign trade as is here presented reveals the fact that, whatever its potentialities may be, it is at present small in quantity, represents a maximum effort and runs contrary to the basic development of Russian national economy. Add to this the fact that it has a balance unfavourable to Russia, that the volume of imports exceeds that of exports, a difference that has had to be made good by bills, credits and shipments of gold, and it will be seen that the alarm that has arisen in foreign countries at the expansion of Russian export trade has little justification. Such apprehension has to be explained by special circumstances.

## A "Planned" Export Trade

It is due, in the first place, to the fact that expansion took place in a period of catastrophic fall in world prices, a downward movement which Russia's readiness to get rid of her goods at any price did little to arrest; secondly, to the discovery that Russia's State monopoly of foreign trade has greatly intensified the impact of Russia's exports on the world market. But the attempt made by a section of the press to prove Russian exports, of wheat in particular, responsible for the fall of world prices does not call for serious discussion. It is negated by the simple fact that this fall began nearly a year before Russian wheat reappeared on the world market.

The fall of prices, instead of being due to the appearance of Russian exports, exercised rather an unfavourable effect upon them. Russia had to export a considerably larger quantity of goods to pay for her imports than she would have exported had there been no glut on the market. It has to be explained that, as an importer, Russia doubtless gained by the fall in prices, but not greatly, since the prices of her main imports, plant, machines and tools, were only slightly affected by the slump. As an exporter, however, she was badly hit; for her exports, practically without exception, were raw materials, the prices of which sank to rock-bottom. Moreover, in order to find a sale in this glutted market, Russian prices had to be still further cut.

It was the combination of these two factors, the determined expansion of her export trade and the ruthless cutting of prices, which made the world accuse Russia of dumping. The charge of dumping has, however, never really been made out, the only point definitely established being that Russian goods were sold below world prices. There was a suspicion that the prices at which some, if not all, of the goods were sold bore no relation to the total costs of production, transport and handling. To prove this is, however, difficult, for the value of the rouble at this time is incalculable, so that it is practically impossible to discover the cost of production. All the careful calculations, at which

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some observers have been at pains to arrive, are worthless in view of the arbitrary value of the rouble which forms the basis of all their estimates. It is equally difficult to accept at the moment the Bolshevik claim that their low cost of production is due mainly to the abolition of rent and of capitalist profits.

But even were it possible to establish beyond doubt the fact that Russia is selling her goods below cost price, and is actually losing money on every ton of grain, oil and manganese, and on every standard of timber she exports, this would only throw the more striking light on her need for foreign *valuta*\* which is so urgent and paramount that she is ready to pay for it heavily. (This is no novel experience for her. She has long been accustomed to pay usurious interest on the occasional credits which she can obtain in the open market.) Several of the conditions that would justify a charge of dumping, as the phrase is normally understood, were lacking. There was plainly no desire to maintain prices on the internal market by the manœuvre of exportation; the price level of goods in Russia, save for a few articles on the uncontrolled (private) market, is not determined by the operation of supply and demand, but is fixed in advance by the "planning" organs of the State, with very little, if any, consideration of the amount of goods on the market. As to the surplus which cannot be marketed in the ordinary way and has to be unloaded on the world market, no such surplus exists or is likely to exist for many years.

### III. THE PLAN AND ITS LIMITATIONS

"**B**UT what about the Five Years Plan?" is the obvious interjection at this point. "Does not a denial of Soviet dumping disregard the main object of industrialisation in Russia which, if it aims at anything,

\* i.e. Exchange.

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aims at enabling the U.S.S.R. to swamp the world market with cheap goods produced at the command of a monstrous super-trust under labour conditions approaching to slavery?"

Now the programme of industrialisation known as the Five Years Plan is so complex both in origin and aim, is such a mixture of elemental forces and planned efforts and represents such an interplay of realities and fantasies, that it defies concrete and simple definition. It has so many aspects that practically any definition may apply to some of them, and the dozen or so definitions and explanations which have already been given could easily be doubled. Yet the explanation that the Five Years Plan aims at undermining the capitalist system by a scheme of dumping, which is designed to produce general unemployment and to foment world-wide discontent, is perhaps the only one which not only fails to hit the bull's eye, but misses the target altogether.

That the Five Years Plan has been successful is now frequently taken for granted. In some ways, its success has surpassed even the very ambitious estimates made by its authors. But, alike in Russia and the outside world, the measure of this success has been very greatly exaggerated. The reason for this exaggeration in Russia is easy to understand. The demands which the Plan makes on the workers are so exacting that the latter seek compensation in promises and in the expectation of its almost miraculous success. What more glorious prospect could there be than the vision of Russia emerging from five years of travail as one of the leading industrial countries?

Nor is there any mystery about the motives for the exaggeration in the outside world, though they are more complicated. One obvious reason for over-estimating the results of the Plan is that at first they were underestimated. The initial belittling of the Plan's success led naturally to the other extreme of magnification, when the real scope of the effort and achievement was revealed.

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Nor must we ignore the fact that the success of the big Russian experiment appeared the greater when seen against the background of world depression. Is there any wonder that in a world ravaged by unemployment, the news that Russia can employ all her workers and even demand more labour should be regarded as an indication of the success of the Plan?

The Five Years Plan is the child of revolution and "big business" and so naturally must have its slogan. It has indeed many slogans, but the one which expresses essentially the spirit of the "drive" is usually translated "Let us overtake and outstrip," a reference of course to success in catching up with and in surpassing the production of the great capitalist countries. This English rendering of *Dognat e peregnat* (run up to and run past) deprives this slogan not only of its crispness but of a good deal of its characteristic meaning; but it is probably faithful enough to give the reader some inkling of the mixture of naïveté, arrogance and optimism which distinguishes both the Bolshevik leaders and their flock. Confronted by such a boisterous and impetuous determination to get on, Western Europe might naturally regard this slogan of the Five Years Plan as a reversal of the famous motto of the English Volunteers: "Defence not Defiance." But it is well to read this slogan together with the others, especially the one proclaimed by Stalin: "We are a hundred years behind the leading nations of the world, and unless we cover this distance in a short few years, we shall be crushed." How far then the aim of the Plan is "defiance" and how far "defence" must remain a matter of speculation. Whatever the answer, the Bolshevik propaganda, intended to arouse the enthusiasm of Russian workers for the Plan, has apparently succeeded in creating in the West a belief, not only in the Bolshevik intention to outstrip capitalism but even in the possibility of its doing so. A year or two ago no sane man would have been expected to discuss that contingency seriously. It is perhaps the highest

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compliment that could be paid to the Plan, that such a discussion should now be considered necessary.

The new situation is obviously caused by the fact that Russia has succeeded in establishing a record rate for industrial development. Hitherto the highest known rates of increase of industrial output had been recorded in the development of the United States in the second half of the nineteenth century. Immediately before the world depression, even the United States' rate of annual increment was no more than 4 per cent.\*; while in other countries it was even less. When then it appeared that the rate of annual increment in the State industries of Soviet Russia during the first two years of the Plan's operation averaged 24 per cent., according to the official figures, the idea of Russia's catching up the leading industrial countries began to look a good deal less fantastic than it originally appeared.

But a mere citation of annual increments is of no very great assistance in enabling observers to compare Russia's potentialities of production with those of the most highly developed industrial countries. Even if the annual increments of the first two years are taken at their face value—and it will be shown later that for the purposes of comparison they must be reduced—and even if those of the final years double these, as the Bolsheviks believe they will, then, although the distance covered will be admittedly very considerable, the goal, "running past" the capitalist world, will be nearly as far off as before. And this of course is because Russia started on the race of industrialisation with so very heavy a handicap.

To do them justice, the Bolsheviks are quite aware how far they are from the goal. To prove this it is sufficient to quote Stalin, who in his address to the Congress of the Communist party last summer warned his comrades how "devilishly" Russia was handicapped in the race with capitalism.

\* See *Recent Economic Changes in the United States*.

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Take for instance (he said) electrical power. Here we reached a very high tempo. Between 1924 and 1929 we increased the generation of electrical energy nearly 600 per cent. In the same period the United States of America increased theirs 181 per cent., Canada 218 per cent., Germany 241 and Italy 222 per cent. As you see, we have achieved an extraordinary tempo, far higher than that of any other country. But if we compare the actual level of production of electrical power in these countries with that reached in the U.S.S.R. the picture will be by no means consoling. In 1929 the power generated in the U.S.S.R. was only 6·465 million kw. hours, while in the United States it was 126·000 million, in Canada 17·628 million, in Germany 33·000 million, and in Italy, 10·850 million. We find the same thing if we take the production of pig iron. Between 1927 and 1930 this production was nearly doubled, a very satisfactory result. But if one compares the U.S.S.R.'s actual level of production of pig iron with that of capitalist countries the same unconsoling picture is presented. To begin with, we shall not reach even the pre-war level of pig iron production until next year. Then, a comparison of our rate of pig iron production with that of the West shows the following picture. In 1929 the production of pig iron in the United States was 42·3 million tons, in Germany 13·4 million tons, in France 10·4 million tons and in Great Britain 7·7 million tons. In the U.S.S.R. by the end of 1930 iron production will only reach 5·5 million tons.

This comparison could indeed be pursued into all industries with practically the same or with even more striking results. If, for the sake of illustration, we assume that Russian production is one-tenth of that of the leading capitalist countries (a very liberal estimate), Russia will have to increase her production tenfold\* to reach the present level of her capitalist rivals; even so, unless we also assume that the latter's level of production will meantime remain stationary, the time in which Russia can overtake them must be still further postponed. It is amazing that Western newspapers should have implicitly credited their own countries with such feeble potentialities for further development.

How severely Russia is actually handicapped in the industrial race can only be grasped if the test of *per caput* production is applied. Take again the generation of

\* The Five Years Plan presumes a trebling of production only.

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electrical power. Here in sheer level of production the United States is twenty times ahead of the U.S.S.R.; but if production is considered per head of the population, the United States is over thirty times ahead of the U.S.S.R. A direct comparison of the length of the railways in the United States with those of the U.S.S.R. is impressive enough—400,000 kilometres as compared with 80,000 kilometres—but what is far more significant is the fact that in the United States on every 1000 square kilometres there are 51 kilometres of railways, while in Russia there are only 3·5.

So much for Russia's relative handicap in the race for industrialisation. But we must remember that this industrialisation is beset with internal difficulties. Russia, so to speak, has also an absolute handicap in the "pre-capitalist" backwardness of her national economy.

In the atmosphere of exaggerated expectation caused by the progress of the Plan, people are apt to forget that Russian economy has entered a transition period in which socialised State industry, though dominant, exists side by side with privately owned and privately run industry. In other words, they fail to realise that while a great deal of Lenin's New Economic Policy has been thrown overboard, it is not completely obsolete. And it is only fair to say that in Russia, too, the death of the New Economic Policy had been taken for granted by many people. Only a few months ago this illusion caused the Bolsheviks to embark on a radical change in the credit system, based on the supposition that money in Russia is rapidly losing its primary function and subserves the business of accounting only. This premature discounting of the importance of money created a serious economic dislocation in trade and industry, and the consequence was a hasty retreat of the Commissariat of Finance and the re-establishment of the credit system on N.E.P. (i.e., capitalist) principles. It is amusing to note that this necessity for admitting that the New Economic Policy is still very much alive coincided with the



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dirges sung over its obsequies on its tenth anniversary. The celebrations, on March 21 last, were naturally rather equivocal; for the hierophants, while pronouncing the policy dead and interring it, were yet at pains to impress upon the mourners that it was not yet actually *in articulo mortis*, but was, so to speak, being buried alive.

The *Pravda* on this occasion, after assuring its readers that the N.E.P. had entered on its final stage of evolution, used the whole weight of its authority to oppose the impatience of those who, presuming on the alleged death of the N.E.P., demanded a return to Communist principles.

Only braggarts, babblers and fools (it asserted in its leading article on March 21) can talk to-day, apropos of the last phase of the New Economic Policy, of the dying out of the monetary system, of the possibility of replacing State and co-operative trading by the direct exchange of goods, and of the possibility of introducing the principle of equality in wages, in distribution of supplies or in distribution of the profits among members of the collective farms.

This warning that the N.E.P. is still operative is useful to show not only that the socialised section of Soviet economics is still permeated with the principles and methods of capitalist economy, but that a considerable, though diminishing, section of national economy in Russia is still predominantly capitalist in character. It is not easy to determine how great this section is, for the division between the socialised and privately owned sections is not clear-cut, but leaves room for a variety of hybrid combinations. At any rate it is obvious that the Five Years Plan operates chiefly in the former section and exercises a looser and more indirect influence on the latter. This brings us back to the point indicated earlier, that the annual increments of production achieved by the Plan need a further correction if they are to be regarded as representing progress reached by the entire national economy. The indices of the Five Years Plan, it must be remembered, apply not to the total volume of Russian industrial production, but only to that of the large State-

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controlled industries; outside these there remain the small private and co-operative industries, the individual peasants and the *kustars* or artisans.

What proportion of national economy is thus unrecorded by the indices of the Plan it is difficult to state with exactitude. In his book *The Economic Life of Soviet Russia*, Professor Calvin B. Hoover makes an attempt to calculate what was the complete annual increment of industrial production for 1929. For the Plan it is given as 23.7 per cent. Professor Hoover reduces this figure to 16.8 per cent. on the ground that "large-scale State industry produces only from 70 to 75 per cent. of the total industrial product." He further declares that a similar correction must be made in respect of agriculture, which would reduce the figure of the annual increment still lower.

Another way of arriving at the relative proportions of the national economy embraced and excluded from the Plan would be to compare the amount of Russia's total national income with the sum which is annually mobilised for the purposes of the Plan. For 1931 the national income is officially estimated at 49,000 million roubles, while the sum embraced by the Finance Plan is only 31,750 million roubles. This permits us to assume that 37 per cent. of the national economy is still outside the control of the Plan, a figure which goes far to corroborate the estimate made by Professor Hoover, who may also be right in making a further discount to meet the low quality of Soviet goods.

These qualifications must not of course be unduly stressed. The annual increment under the Plan, however much it may be discounted, will remain remarkable enough, marking probably a record in economic history. What the qualifications are intended to prove is that the alarming estimates of the consequences of the Plan cannot be borne out by the facts. However successful the Five Years Plan proves, it will not make Russia a formidable competitor with the more highly industrialised countries.

In a country with a rapidly-growing internal market,

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foreign trade must in any case remain of secondary importance ; and even if the original Five Years Plan is followed by a second Plan, and then by a third, they will not make Russia a great exporting country. Her development will probably be similar to that of the United States, where, it will be remembered, the effect of industrial expansion only began to be felt in the foreign market fifty years after it commenced, and where even now foreign trade, although important, represents only a small fraction of the national economy. Some may perhaps consider that the analogy with the United States is not quite correct, because there the growth of the internal market was due to an ever-increasing influx of immigrants. In Russia, however, the situation is by no means dissimilar, though there it is the enormous growth of the population— $3\frac{1}{2}$  millions a year—that is producing the same effect. But the main similarity between Russia and America consists of course in the fact that both are vast and self-sufficient countries.

The capacity of the Russian internal market for the consumption of industrial as well as agricultural products will, it is believed, grow more rapidly than their production. This tendency has not yet clearly revealed itself ; but even now there are strong indications that production, even at the accelerated tempo of the Plan, will fail to keep pace with the growing demand. This disproportion between demand and supply will apply not only to consumer's goods, but even to the output of the means of production. It is of course more palpable in the case of such necessities as wearing apparel. The increase in production of these goods has been considerable ; in fact, it has been quadrupled and more in many cases. And yet the need of these goods is not only greater than in pre-war times, but is growing more pronounced in proportion as they are brought into the market. Take, for instance, boots and shoes. In pre-war times the annual manufacture of leather boots and shoes was probably no more than 10 million pairs, to which must be added another 2 or 3 million pairs

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imported. And this amount—one pair for every eleven persons—somehow satisfied all demands. But the production of boots and shoes last year amounted to 68 million pairs,\* nearly one pair for every two and a quarter persons. Yet, as everyone acquainted with Russia knows, the boot and shoe famine remains one of the crucial problems of the U.S.S.R. The reason for this is quite simple. Before the war only a privileged section of the whole population went really well shod. The 80 or 90 million peasants had to look after themselves, and generally used such substitutes as shoes made of bark. Now, however, a pair of boots or shoes has become a necessity ; and it is the peasants, whose increasing purchasing power is an important factor in the national economy, who are now demanding and buying them. In order to provide every person in Russia with at least one pair a year, the production of 1930 will have to be trebled. But this raises another problem, for the increased manufacture of leather goods presupposes a considerable development of stock-breeding.

The same story of an awakening appetite for goods, and a consequent expansion of the internal market, can be told of any industry. The whole process of industrialisation in Russia is being stimulated by the irresistible demand for a higher standard of living. This is the explanation of the frenzied increases of the Plan year by year and month by month. To ascribe these increases of an already swollen programme to an intention to swamp the foreign market is to take a superficial view ; they have no relation to the foreign market, and are caused solely by the insatiable demands of the internal market. The necessity, for instance, of adjusting the production of iron and steel to the ever-growing demands of the new mechanised agriculture not only upset the metallurgical section of the Plan, but also threw out of gear the programme for coal mining and electrical power ; and this new standard of production, in its turn, made inevitable a doubling of the engineering

\* Official Statistics of Production.

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programme and a complete reorganisation of transport. This necessity for raising production and increasing its tempo naturally has repercussions on both the amount and character of imports and exports. To keep pace with such development, more machines and more equipment had to be brought into the country, and these imports had to be paid for by sending goods out of the country, not goods produced for export, such as timber, furs, oil, but goods withdrawn from consumption.

### IV. DEVELOPMENT ACCORDING TO PLAN

THE vogue of the Five Years Plan has had the effect of making "planning economy" a popular slogan. The fact that a backward country, unaided, was capable of reaching an unusually high rate of industrial production was attributed to the element of planning. But its possibilities and limitations have yet to be discovered. The Bolsheviks claim to have invented a true "perspective plan," that is, a plan which can foresee and organise economic activity for a number of years in advance, has so far not been made out. Their original plan has never really been adhered to. It supplied merely a definition of destination, signposts along the road—the General Line, as the *Piatiletka* is popularly called in Russia. The Plan in operation, the actual programme of work, is furnished by the so-called "control figures," which prescribe the concrete tasks for the current year. But even these control figures are changed and modified in accordance with the needs of the day and the actual forces at work. Yet only a prejudiced person would deny that planning, even in its present inchoate form, has played and is playing a remarkable part in shaping the national economy of the U.S.S.R.

How powerful and how creative the principle of planning is cannot better be realised than by a recollection that only ten years have passed since it was predicted on all hands

## Development According to Plan

that the promulgation of the New Economic Policy was opening wide the gates for a capitalist development of Russia. Any doubts which may have existed as to the real intention of this policy—its double recognition of (1) the defeat of communism by the peasant, and (2) the inevitability of a return to capitalism—have now been completely dissipated by the publication in the *Pravda* of March 21 of certain notes made by Lenin prior to its promulgation. To the question whether the New Economic Policy constitutes a return to capitalism Lenin returns a very frank answer. "Our too hasty, too direct and unprepared communism was caused by the war and by the impossibility of either obtaining goods [from abroad] or of starting the factories. There are many stages of retreat. It is possible to loosen the rope without cutting it; let it go, ease it." These entries made in his notebook solely for his own use are of necessity mere shorthand hints; but they cannot be called enigmatic, and they leave no doubt that Lenin realised all the implications of the New Economic Policy. Yet they prove conclusively that he was not giving up hope of establishing communism. It was just at that time that he proclaimed his belief that the preservation of Soviet rule and of plan-economy would secure ultimate victory.

The immediate result of the New Economic Policy was exactly what was expected. Capitalism returned and proceeded to recover its lost position in town and country. But the result of the subsequent struggle between the Soviet State and the Nepmen was the re-establishment of communism, no longer "hasty, direct and unprepared," but in full vigour, flexible and well entrenched.

To explain how this re-establishment came about would be to write a history of that all-important decade in Russia which we have just lived through. It will perhaps be sufficient to state that it has been due mainly to the preservation by the Soviet Government of the "commanding

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heights," the plan-economy and its most valuable expression, the monopoly of foreign trade. Had the Soviet Government renounced this monopoly even for a short period, there can be no doubt that capitalism would have made such inroads, and would have so firmly entrenched itself that, to adopt Lenin's metaphor, the rope, even if loosened, would have strangled communism. On the other hand, without the principle of planning, the Soviet Government would never have accumulated even the initial resources to start reconstruction.

In conclusion, it may be repeated that the popular notion that the expansion of Russian foreign trade is a menace to the capitalist countries, and that it is necessary to place an embargo on Russian exports, is fallacious.

Even on the assumption, indeed, that trade conducted by a State monopoly may be regarded in a certain sense as menacing, the influence of world trade upon Russia is likely to be much more considerable and much more "menacing." Some of the Bolshevik leaders scout the idea that the Soviet State has anything to fear from contact with the foreign markets, for they believe that the monopoly of foreign trade is a sufficient safeguard against the ebb and flow of world economic influences. The effect which the fall of prices in the world market has had on the Soviet balance of trade is, however, likely to disturb their complacency, unless for non-economic reasons the outside world continues to neglect its opportunities of commercial intercourse with Russia and thus of influencing the future history of the Communist State. The theory that an industrialised country has less capacity for absorbing foreign exports than an economically backward country is quite unsound. The cases of Germany and Japan have demonstrated clearly that industrialisation awakens demands, creates new ones and increases the purchasing power of the people; and manufacturing countries have much more to hope from an industrialised Russia as a buyer than to fear from her as a competitor.

## ECONOMIC SAFEGUARDS IN INDIA

### I. THE BACKGROUND OF INDIAN ECONOMICS

**A**MID the din of India's demands for constitutional change, and the dust of inter-communal strife, the economic problems, which the adjourned Round Table Conference must face, tend to be regarded as a side issue. On the contrary, if we look beyond the next dozen years, the economic part of India's problem stands out as the most momentous of all. In rousing the population of India, the demand for economic freedom has been among the most effective weapons in the Swarajist armoury, not least because it has won over into that camp forces which are not of their nature allied with revolutionary politics. The struggle for a relaxation of the economic and financial restrictions now proposed will probably be hard-fought and bitter. It is therefore essential to understand what is the accusation against the economic administration of the British, how far it can be rebutted and how far admitted.

A certain economic text-book—not, mark, a Congress manifesto, but a professedly scientific work much read by university students in India—says of India under British rule:

Her fiscal policy is determined by the interests of English producers abroad, her currency is trifled with and experimented upon without reference to her interests, her borrowings are not for industrial development, the resources of the Government are not pledged for attracting capital on reasonable terms, and profits which, if they remained within the country, would fertilize and multiply the means of prosperity, are drawn away to be enjoyed by absentee shareholders abroad, leaving the people denuded of the means of expansion and development.\*

If all that were true, then the insistence upon economic

\* *The Wealth of India*, by P. A. Wadia and G. N. Joshi, p. 116.

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mitigations of responsible government would be shamefully selfish and unjustifiable. How much of it is true? India, a land of villages, over 80 per cent. of whose population is primarily dependent upon the cultivation of the soil, has certainly been laggard in the race for industrial development, compared with Western countries or with Japan. Certain indigenous industries, like muslin-weaving, were killed by the advance of machinery in the West. Some of the most important trades and industries of India, notably the jute mills, sea transport, exchange banking and insurance, are wholly or largely controlled by British interests, whose monopolistic position it is very difficult to assail by ordinary commercial means. The exchange has frequently been the subject of experiment, not always successful. During the past century, silver has been the principal currency of India. Fluctuations in the relative value of silver and gold proved a great hindrance to international trade, and on several occasions efforts were made to place India upon a gold standard. They never succeeded, but in 1902 the "gold exchange standard" was established, the Government of India undertaking to maintain the external value of the rupee at a fixed level (1s. 4d.) by means of the sale of sterling or rupee bills. The system failed during the war, when the enormous demand for India's products forced up the value of the rupee, and again in 1921, when the newly fixed 2s. ratio broke with the collapse in the price of silver. In 1923 the Hilton Young Commission on Indian Currency recommended the temporary continuation of the sterling exchange system, the value of the rupee to be 1s. 6d.; meanwhile steps were to be taken with a view to the establishment of a central reserve bank and the inauguration of a full gold standard without gold currency, as in Great Britain to-day. The ratio was fixed and the Government of India assumed a statutory obligation to maintain it, but a Bill for the establishment of a reserve bank was thrown out by the Legislative Assembly in 1928.

## The Background of Indian Economics

But the heart of the indictment is the exploitation of India for the benefit of British manufacture and the refusal to encourage native industry—the accusation that Britain applied her own profitable free trade system to a country which needed something else. Before the war, no real attempt was made to protect Indian industries by means of import duties. The general import tariff was gradually diminished to nothing between 1859 and 1882; from 1894 to the war it was 5 per cent. Meanwhile cotton yarns and piece goods were given preferential treatment, the duty on cotton piece goods from 1896 onwards being only 3½ per cent. and an equivalent excise being raised. Thus the accusation of favouritism towards Lancashire is well founded. From 1916 onwards the general import duty has been steadily raised, and has become protective in effect; from 1922 to the present year it was 15 per cent. At the same time a deliberate policy of protection has been adopted. In 1915, Lord Hardinge wrote in a despatch to the Secretary of State: "It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war, unless she is to become more and more a dumping ground for the manufactures of foreign nations." The Fiscal Commission of 1921-22 concluded "that the industrial development of India has not been commensurate with the size of the country, its population and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole;" they therefore recommended the establishment of a Tariff Board, and the adoption of a protective policy. The Commission's attitude having been accepted, several Indian industries have received customs protection and sometimes bounties. It should be added that, according to the so-called "Fiscal Convention,"\* the Secretary of State does not interfere with the enactment of any

\* Fully described on pp. 243-5 of Vol. I of the Report of the Indian Statutory Commission.

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tariff measure upon which the Government of India and the Indian Legislature are agreed.

### II. FISCAL AND FINANCIAL CONTROL

THAT, then, is the historical background against which proposed economic safeguards must be set. As formulated in the committee reports of the Round Table Conference, they divide under three heads. First, there is the reservation to the Governor-General of such essential powers in regard to budgetary arrangements and borrowing "as would enable him to intervene if methods were being pursued which would, in his opinion, seriously prejudice the credit of India in the money markets of the world." \* Under the same head may be put the condition that the service of loans, with adequate provision for redemption, should be secured as Consolidated Fund charges. Secondly, there are safeguards, both permanent and temporary, with regard to currency and exchange. And finally, there is the demand that no legislative discrimination against the British mercantile community trading in India should be permitted.

With these exceptions, be it remembered, the Conference did not contemplate † "any differentiation between the position of the Finance Minister and that of any other Minister responsible to the Legislature, and in regard to taxation, fiscal policy and expenditure on objects other than those under the Governor-General's control, he would be responsible only to the Legislature." Lord Peel and Sir Samuel Hoare feared that the financial proposals would disturb the confidence of the commercial classes and impair the stability of Indian credit, but, on the other hand, Indian opinion was that the financial safeguards went too far, so perhaps what appears in the report may be regarded as the proposal of the Conference as a whole.

\* Cmd. 3778, p. 215.

† Op. cit.

## Fiscal and Financial Control

With regard to protection and fiscal policy generally, no qualification of full responsibility has been proposed. The question naturally prompts itself—what will be the future of Indian fiscal policy? What has been quoted above seems to foretell an era of unmitigated protection. Lord Chelmsford and Mr. Montagu reported: "The theoretical free trader, we believe, hardly exists in India at present." Certainly the ideology of Swaraj is saturated with protectionism. But here in India there are indications that opposition to protection is steadily developing. A spirited fight was put up by the Bengal representatives in the Legislative Assembly against the recent imposition of an additional import duty on salt, on the ground that it would give protection to Bombay at the expense of the Bengalee consumer, and against the proposed wheat duty, because it would injure the milling industry of the Hooghly. So much opposition was roused by the Tariff Board's proposal to give increased protection to the Indian galvanised iron and steel industry for three years, when it was introduced in the Assembly at the end of last January—because, said its opponents, it would impose a burden of 1½ crores (£1,125,000) on the consumer in order to benefit the manufacturer to the tune of about 9½ lakhs (£71,250)—that the operation of the measure had to be restricted to a single year. Still, India will undoubtedly be firmly protectionist for some time to come, and the measure of Imperial preference that she will grant will be small. Bitter opposition was aroused by the introduction of British preference in the cotton duties last year. Racial antipathies, even under the most liberal constitution, will not subside for some time, and, in any case, the proportion of India's imports that comes from the British Empire is so high (nearly 53 per cent. in 1929) that any substantial measure of preference would vitiate the protectionist policy.

Moreover, for some little time an unofficial policy of discrimination seems likely to prevail. British cloth has

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for long been displayed as the symbol and instrument of imperialist exploitation. The Congress will not be persuaded to abandon their anti-foreign cloth campaign, which is as much an article of their faith as Swaraj itself. The boycott that accompanied the civil disobedience movement was very successful. Between 1929 and 1930, imports of piece goods from the United Kingdom fell off by 37 per cent., those from other countries by 27 per cent. This form of unofficial protection is certain to continue, though much of the anti-British discrimination which now characterises it may be removed if there is a political settlement.

Against such procedure no constitutional safeguards would be of any worth; nor would they be in place beside the grant of fiscal autonomy. The proposed safeguards concerning budgetary stability are in a different class. The service of existing loans raised on the authority of the Secretary of State must be secured by being charged upon a consolidated fund. Efforts will probably be made by Congress delegates to persuade Great Britain to assume some part of India's national debt, under the heads of pre-mutiny debt, debt incurred for "imperialist" wars in Burma and elsewhere, and the £100 million of debt of which Great Britain was relieved by the Government of India as part of the latter's contribution to the prosecution of the Great War. Whatever abstract justice these claims may seem to possess, they can hardly be entertained in practice now. The disputed items—except the war debt, of which a very small fraction still remains outstanding—cannot be separated from the general body of India's debt. Indeed, to admit the principle that a country can financially disavow its past would be highly dangerous. As for future sterling borrowings, the position is quite clear. If India is to have the advantage of the Colonial Stock Act, then, as in the Dominions, the authority of the Secretary of State must be obtained for the raising of each loan. The consequent enhancement of India's credit would be much to the country's benefit.

## Currency and Exchange

Internal borrowings and budgetary equilibrium present a more difficult problem. Provincial Governments now borrow from the Provincial Loans Fund, and they would scarcely choose to relinquish a system which enables them to share in the credit of the whole country. The Federal Government would thus retain a powerful check upon possible financial misdemeanours on the part of the provinces, and there seems to be no need for any further safeguard, except the Governor's right to intervene if the maintenance of orderly government were seriously prejudiced. The moot point is the right of interference with the federal budgetary arrangements, should a series of deficits occur, and with the internal borrowings necessary to cover those deficits. Are Indians to be trusted in that matter, or are they not? For a long time India must be a borrower from abroad, and it is reasonable to suppose that Indians will be able to judge, as well as can Englishmen, of the importance of keeping their country's credit sound.

### III. CURRENCY AND EXCHANGE

THUS very little modification of budgetary and fiscal autonomy seems to be required. But the field of currency and exchange is a battleground of bitter controversy. The essential features of the present system are, first, the direct responsibility of Government for the issue of currency and the maintenance of its international and internal convertibility; and, secondly, the confinement of the gold anchor to international exchange operations. There is no reserve bank, and the rupee is not directly convertible into gold. Now plainly two questions arise; first, what system of currency and exchange shall we have in India; and, second, what is to be the ratio of exchange between the rupee and gold? The present system is a bad one. The Finance Member of the Viceroy's Executive Council combines the incongruous functions of

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Chancellor of the Exchequer and Governor of the Bank. Currency and exchange policy is constantly subject to political pressure and complaint. The Imperial Bank holds government balances and performs certain other of the normal functions of a central bank, but it is a commercial institution, not a banker's bank, and there is no central monetary power to determine general terms of credit and so to expand or contract the means of payment available.

The evils of the present system cannot altogether disappear until banking and the use of paper currency become as much part of the national habits as they are in Western countries. But obviously a central reserve bank is urgently needed, all the more under a new and more democratic constitution. The establishment of such a bank must precede the grant of full financial responsibility, otherwise the day-to-day administration of currency and banking must become the butt and plaything of politicians. That was recognised by the Round Table Conference. The Federal Structure Sub-Committee recommended "that efforts should be made to establish on sure foundations, and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of currency and exchange." Freedom from political influence is essential; it must be recalled here that the Reserve Bank Bill was thrown out by the Legislative Assembly in 1928 because the Government insisted upon the exclusion of politicians from the directorate of the bank, but fear of the domination of British commercial interests is not so strong now, and there is no reason to suppose that the Indian delegation will be so determined to subject the bank to political machinations.

The sub-committee did not lay down that the establishment of a reserve bank was to be a condition of the inauguration of the reforms. It may not yet be possible to assemble the necessary resources and to create the necessary

## Currency and Exchange

machinery. The Banking Inquiry Commission now sitting may throw some light on that question. The sub-committee recognised that until a sufficiently strong bank could be set up "some special provisions will be found necessary to secure to the Governor-General adequate control over monetary policy and currency." This sounds innocent enough. The political influence of a new and inexperienced Indian government might be disastrous in this delicate matter, and in any case the establishment of a reserve bank and the maintenance of sound credit abroad would be severely handicapped by any attempts to change monetary horses in mid-stream.

But Indian opposition to that condition is very strong. Powerful Indian commercial interests urged the Hilton Young Commission to recommend a 1s. 4d. ratio. The Commission, however, chose 1s. 6d., and this was adopted in 1925. Since then the campaign in favour of 1s. 4d. has been vigorously continued, and its protagonists, by arguing that the higher exchange handicaps the poor Indian exporter to the advantage of the British manufacturer, have won over almost the whole Nationalist camp. The one-and-fourpenny rupee very largely explains the strange coalition of capitalists and communists in the Congress party. Now it is possible that the rupee was over-valued in 1925, and that, as a result, some hardship was wrought in the early years—but that is past history, and the present fact is that, until the world depression dislocated price relationships everywhere, the price system had become adjusted to the actual ratio, and that any attempt to interfere with it so long as currency and exchange remain in the hands of politicians would be disastrous to India's credit.

The temporary safeguard is therefore essential. But the sub-committee went further than that. "Provision should be made requiring the Governor-General's previous sanction to the introduction of a Bill to amend the Paper Currency or Coinage Acts." It is difficult to believe that



## Economic Safeguards in India

a permanent safeguard of that kind is essential, or that it would work unless the Governor-General were given a dual set of financial advisers. The reserve bank, once established, would be an all-powerful check on rash experiments. A government experienced in responsibility would be quick to realise that the amount of taxation necessary to meet Home Charges, which total about £30 million a year, increases proportionately with the depreciation of the exchange. Moreover, it is possible that the 1s. 4d. campaign, backed as it is by the self-interest of a few wealthy speculators, will be defeated by the improvement of India's balance of trade, as protection diminishes imports, and as the gradual withdrawal of British personnel decreases Home Charges; for that would tend to force the ratio upwards rather than downwards. In any case, the ratio is a question for practical bankers, and if only they are put in charge it matters little whether the political authority is Indian or British; the essential conditions are the early establishment of a central reserve bank and a defence against rash experiments meanwhile.

### IV. COMMERCIAL DISCRIMINATION

THE most difficult question of all, that of discrimination between different sections of the community in matters of trade and commerce, was inconclusively shelved by the Federal Structure Sub-Committee. The Minorities Committee also dealt with the matter, and the following paragraph was finally included in their report :—

At the instance of the British commercial community, the principle was generally agreed that there should be no discrimination between the rights of the British mercantile community, firms and companies trading in India and the rights of Indian-born subjects, and that an appropriate convention based on reciprocity should be entered into for the purpose of regulating those rights.

It is well that the difficulties of this vital question should

## Commercial Discrimination

be realised. One trouble is that the principle of no discrimination entrenches an established order of things. Mr. Gandhi recently described British and Indian industry as the giant and the dwarf—how was it possible to speak of equality between the two? In exchange banking British firms have an absolute monopoly; in coastal shipping, in insurance and other trades they possess a dominating position which it is very difficult for Indian firms to assail; while, although easily the greater part of the capital of the jute mills is owned by Indians, a mill would have great difficulty in exchanging its British managing agency for Indian management.

Indeed, the necessity for discrimination has been officially recognised. Licences for commercial air services, for instance, have been restricted to Indian firms, and the iron and steel industry obtains its bounties and protection only on condition that it is owned and managed by Indians. These existing examples of discrimination, and the patent injustice of establishing present vested interests too firmly, render the formulation of suitable safeguards extremely difficult, and lend point to the Indian case. The Council of the Indian Chamber of Commerce in Great Britain recently issued a statement claiming for India the right to certain forms of discrimination, in the course of which they said: "The amendment of the Company Law, requiring a certain proportion of the capital to be Indian in concerns engaged in certain primary industries, which are specially protected at the cost of the Indian consumer, cannot be classed as discriminatory legislation, against which India could be reasonably expected to offer permanent guarantees here and now." The statement added that the same might be said of banking and of shipping and shipbuilding.

Thus the force of argument is not entirely on one side. The difficulty is to reconcile the parties by defending the British community against inequitable or vindictive discrimination, while, at the same time, allowing practical

## Economic Safeguards in India

scope to India's commercial ambitions and avoiding the consolidation of vested interests. The method proposed at the Round Table Conference was a commercial convention based on reciprocity. But a convention, if it is worth anything, must be subject to periodic revision. Without constitutional guarantees, a commercial convention would be insufficient assurance for British interests; on the other hand, reciprocity is no solution for the problems arising out of actual inequality. The European Association has also put forward\* a scheme whereby certain classes of Bills in India should require the sanction of the Secretary of State, who would be advised by a standing Indian committee of the House of Commons, or of both Houses, as to whether the provisions of any Bill constituted unfair discrimination. Many objections may be raised to that scheme. To be successful, any safeguard must be simple and sure, but the plan proposed has neither of those qualities. No formula is suggested whereby the standing committee could judge whether a Bill was discriminatory within the terms of the constitution or not, or the Assembly know whether its proposals would finally be disallowed.

That, indeed, is the crux of the problem. If a formula can be framed to define discrimination, the application of it becomes comparatively easy, whether by Governor's or Governor-General's veto, or by legal injunction or by commercial treaty. Such a formula cannot be made to cover all conceivable forms of discriminatory action which might injure British trade interests. Indeed the more inclusive the formula the more frequent and more successful would be the attempts to evade it, and the stronger the assault by speech and action against the position that it sought to defend—an assault which sooner or later would be certain of success. So long as the grosser forms of discrimination are banned—such as expropriation without

\* See a letter addressed by the Council of the Association to the European delegates at the Round Table Conference, published in the *Review of India*, February 1931.

## Commercial Discrimination

compensation, or statutory compulsion upon commercial firms to place their insurance contracts with Indian companies—it is better to trust to good will than to foster bad will. The best defence for British capital and enterprise in India must be their indispensability.

The same is true of all economic safeguards. If now Parliament insists too firmly on the checks that it conceives may be necessary, the law will be evaded, resentment nourished and those policies encouraged—through the sheer perversity of human nature—which the checks are designed to prevent. Certain safeguards that are essential have already been suggested; for the rest, the wisest policy is to prevent private interests which cannot be identified with the good of India from dominating the new assemblies, rather than to patch up a creaking system of reservations and prohibitions. The surest means of providing economic justice and security in India is the adequate representation of the consumer and the agriculturist.

India.

April 1931.

## PRESIDENT HOOVER AT MID-TERM

### I. HALF-TERM REPORT

WHEN a President of the United States completes his second year in the White House a review of his achievements has a peculiar interest. He then stands at the half-way mark of his term and by this time has usually made a record which permits a fair judgment of his policies. The end of a President's second year in office also coincides with the expiration of a Congress, most of whose members were seeking the voters' approval at the time of his own election. If the political complexion of the new Congress varies much from that of its predecessor, the second half of a President's term may be markedly different from the first. This was noted, for example, during the administrations of Wilson and Taft. The last two years of each of these Presidents showed a rather abrupt change because of their loss of control over the national legislature, and the present administration may possibly undergo a similar experience.

It is now in order, therefore, to take stock of the Hoover Administration, which reached its mid-term on March 4, 1931. Its first two years have been crowded with events, as the United States, in this brief period, has undergone great social and economic changes. When Mr. Hoover came into office, early in 1929, the country was enjoying what appeared to be the greatest industrial prosperity in its history. Manufacturers were breaking all records for volume of output; the railroads had been brought to a high state of efficiency; wage levels were at a new peak,

## Half-Term Report

with labor becoming increasingly productive through improved machinery and better industrial organization; and the purchasing power of consumers then seemed fully adequate for the absorption of the expanding production of the factories. The stock market, meantime, reflecting existing conditions and an anticipation of further economic expansion, was enjoying a boom which, for sweep and duration, was wholly without precedent. Some economists, infected by the prevalent optimism, were proclaiming the advent of a "new era," in which past experience would count for little and past mistakes would not be repeated because of the new understanding of economic fundamentals on the part of industrial leaders. To those who expressed doubt as to the soundness of the business situation and fears of a repetition of past reactions after a period of boom, they had a ready answer: "We have changed all that."

It was Mr. Hoover's misfortune to become identified in the imagination of a large number of his countrymen with all that made for this predicted economic millennium. First of all, there was the legend of Hoover, the superman, sedulously fostered by his admirers and political supporters. During his candidacy they had depicted him as the great engineer who would bring a scientific approach to all the country's problems. They declared that the man who had saved Belgium from starvation and who had served with such conspicuous success as the American food administrator in 1917-1918, and as Secretary of Commerce under two Presidents, was pre-eminently fitted by ability and experience to guide the country to still greater economic and social progress.

In the second place, there was the even more zealously propagated legend that the Republican party, of which Mr. Hoover was now the standard-bearer, was the party of prosperity; that under Republican Presidents business flourished, while under Democratic Presidents there were periods of hard times. In his speech accepting the

## President Hoover at Mid-Term

Republican nomination for the Presidency, Mr. Hoover gave his support to this bit of political fiction by drawing a contrast between the depressed conditions in 1921, when the country had been for eight years under a Democratic administration, and the prosperous conditions in 1928, after seven years of Republican rule. He even cited the millions of radio sets and telephones which had been installed in American homes in this latter period, as if this were a Republican accomplishment. And so, while Mr. Hoover obviously had nothing to do with the propagation of the superman legend, he contributed his bit to the fable that American prosperity always bears the label of one political party.

During the campaign Mr. Hoover was thus presented to the country in the dual rôle of leader of the party whose success at the polls would mean the continuance of prosperity and of a statesman and scientist whose peculiar talents would make even Republican prosperity surpass itself. What effect this had upon the election cannot be determined. There were other issues during the campaign which were less emphasized but may have been equally influential with the voters. Whatever its cause or causes, Mr. Hoover's victory was more complete and decisive than that of any presidential candidate since the Civil War. Receiving a total popular vote of over twenty-one million and a plurality of more than six million votes over his Democratic opponent, Mr. Hoover carried forty of the forty-eight States. Even the so-called Solid South, which for more than half a century had been overwhelmingly Democratic, was rent asunder, with five of the eleven States in this group giving majorities to Mr. Hoover.

The country seemed united as never before in time of peace behind a leader of marked ability and unusual experience in dealing with big problems in both private and public affairs. And no other President had had his opportunity to gain such an intimate and direct knowledge of the needs and aspirations of peoples in foreign lands.

## Half-Term Report

Mr. Hoover took office at the flood-tide of his popularity and when the nation's hopes and expectations were at the zenith. Even if the country had remained prosperous, it would have been difficult for him to live up completely to the rôle which was assigned to him by his fellow citizens. Some ebb in the tide was inevitable; but when the great débâcle in the stock market in October, 1929, shook the whole country, Mr. Hoover suffered unduly because of the marked contrast between what had actually happened and what many had been led to look for under his guidance.

Every period of depression in the United States has reacted unfavorably upon the party in power, and has diminished the prestige of the President regardless of his responsibility for the conditions. So it was with Van Buren in 1837, with Grant in 1873, with Cleveland in 1893, and with Roosevelt in 1907. Mr. Hoover's case offers no exception. His warmest admirers admit that he has undergone a considerable degree of "deflation" in the public estimation, and Mr. Hoover himself is fully aware of this change in popular sentiment.

The result was reflected in the Congressional election of November, 1930. The control of the new Congress is in doubt. In the House of Representatives during the past two years the Administration had an effective working majority which enabled it to offset in large measure the obstructive tactics of the Democrats and insurgent Republicans in the Senate. In the new House the Republican majority has been reduced to one, and there is a possibility that even this may be lost by changes as a result of deaths or resignations before Congress meets in December. In the Senate there is an even balance between the regular Republicans and the opponents of the Administration, and so in neither House can the President during the remainder of his term count on effective support for his policies.

It would be unfair to Mr. Hoover, however, to appraise his administration wholly on the basis of this reaction of

## President Hoover at Mid-Term

public opinion. It has frequently been observed that American voters have short memories, and there is reason to believe that a substantial improvement in business conditions in coming months would cause public opinion to swing again in the President's favor. It is not by these fluctuations in sentiment, which correspond rather closely with the swings of the business cycle, but by his domestic and foreign policies and the degree of his success in making these effective, that he is to be judged.

## II. INTERNAL AFFAIRS

THE so-called "Coolidge prosperity," to which Mr. Hoover fell heir, had its limitations. When he entered office there were some industries, notably bituminous coal and textiles, which were actually suffering depression. The American farmer likewise had little share in this prosperity. The prices of agricultural products were out of line with those of manufactured articles, and there was a growing tendency in the agricultural districts to attribute this to the tariff. The farmer was beginning to complain that the tariff forced him to buy his necessities in a protected market, and to sell his products in an unprotected market. Perceiving the need of doing something to quiet this discontent, Mr. Hoover, soon after his inauguration, called Congress in special session to devise a new plan of farm relief, and to make a limited revision of the tariff for the protection of agriculture and for the relief of such other industries as were found to be injured by foreign competition.

Farm relief and tariff revision constitute the two major legislative undertakings of the first half of the Hoover administration, and it is mainly by these measures that its domestic policy must be judged. Their examination in some detail, therefore, is necessary in any appraisal of this policy.

## Internal Affairs

In submitting to Congress a program for the relief of agriculture, Mr. Hoover insisted upon its adherence to "certain vital principles," in order that "we may not undermine the freedom of our farmers and of our people as a whole by bureaucratic and governmental domination and interference." Among these principles he cited the following:—

(1) There should be no buying or selling or price-fixing of farm products through any government agency; (2) there should be no lending of government funds where credit is already available at reasonable rates; (3) there should be no activity which might stimulate a further increase in surplus production; (4) there should be no undermining of private initiative.

Congress responded by passing the Agricultural Marketing Act, under which the Federal Farm Board was established. The chief purpose of this measure was to promote orderly marketing through the development of co-operative organizations among different groups of farmers. President Hoover selected the members of the Federal Farm Board with great care and enlisted the services of several men of exceptional ability. It was generally realised that the board faced a novel and difficult task, and that it would be subjected to tremendous pressure from politicians, farm organizations, traders and others who wished to exploit it for their own ends. Within a few months it became evident that the board was unable to resist such pressure, and by October, 1929, it had developed a policy wholly at variance with the "vital principles" upon which Mr. Hoover had insisted. It announced that, in its opinion, the current prices of cotton and wheat were too low, and that it would make loans to the cotton and wheat co-operatives, out of a fund which Congress had provided for this purpose, at a rate equivalent to approximately the market value of the products held by these co-operatives on behalf of their members. Under this arrangement a farmer belonging to a co-operative organization would be able to obtain an advance payment up to the

## President Hoover at Mid-Term

current market value of his crop, while the co-operative held the product in the expectation of an improved demand.

The board thus gambled on the chance that prices would rise. But instead of this prices declined, and the co-operatives could not sell their holdings for enough to repay the advances made to them. The board then resorted to a provision of the Agricultural Marketing Act whose full significance seems to have been little suspected by Mr. Hoover at the time the law was passed, and through its subsidiary "stabilization corporation" began to buy wheat held by the co-operatives at a fixed price above the current market. For a time it confined its purchases to wheat, but later it extended its operations also to cotton. In February, 1930, the board went a step further and entered the open market as a buyer of wheat in order to give further support to the price. As a result of its policy, by the spring of 1931 it was the holder of approximately 250,000,000 bushels of wheat and 1,300,000 bales of cotton. It had now violated every one of Mr. Hoover's canons, and yet throughout its operations he did not repudiate its program.

The policy of the Farm Board in using a huge fund from the United States Treasury to support the price of cotton and wheat at an artificial level was severely criticised in the industrial East. Among the farmers themselves, who were supposed to be the beneficiaries of this program, the policy likewise was none too popular. The Farm Board's efforts to effect a curtailment of wheat production aroused resentment in those western States where wheat is the principal crop, and where, because of peculiar climatic or marketing conditions, a substitute does not appear to be very practicable. Among the cotton growers there was also dissatisfaction because the board did not prevent a sharp recession in prices, and it is felt that the cotton now in its hands and hanging over the market is constantly exerting a depressing effect on the price.

## Internal Affairs

Meantime the board has announced that it will resort to no further buying of farm products. Its large holdings of wheat, which it proposes to market abroad, are now a matter of as much interest to Europe, perhaps, as to the United States. It is still possible that the board, through a process of trial and error, may finally develop a constructive program for the benefit of American agriculture, but during its first two years it has done more to demoralize the markets than to promote orderly distribution, and its achievements have brought little credit to itself or to the Administration.

In the case of the tariff, the story is somewhat similar. The main purpose of tariff revision was also to be the relief of agriculture. In addition, certain changes were to be made in the duties on manufactured products to meet new developments in world economy since the passage of the tariff law of 1922. Mr. Hoover prescribed a test for determining whether the revision of an industrial rate should be made. He urged that there should be no new basis of protective duties, but that rate changes should depend on "whether there has been a slackening of activity in an industry during the past two years and a consequent decrease of employment due to insurmountable competition in the products of that industry." It is hardly necessary to explain how completely Congress ignored this limitation. Democrats, though ostensibly belonging to the low-tariff party, vied with their protectionist Republican colleagues in advancing the duties on commodities in which their constituencies were interested. The Bill was before Congress for fourteen months, and its consideration was attended with all the lobbying and log-rolling which are the usual accompaniment of tariff legislation in the United States. The measure which finally emerged was far removed from the original proposal of a tariff limited to the relief of farmers and of a few industries depressed by foreign competition.

Mr. Hoover again quietly ignored this disregard of

## President Hoover at Mid-Term

Treasury which would establish an unfortunate precedent, and insisted that Government aid should be confined to loans for productive purposes, such as for the purchase of seed, fertilizers and feed for farm animals, while the relief of individual distress should be supplied by private philanthropy. In this instance he triumphed over the politicians, although the victory was a negative one.

In dealing with immigration, President Hoover early in his term urged Congress to repeal or postpone the legal provision basing the immigrant quotas for various countries on the so-called national origins plan, which was to become operative on July 1, 1929. This plan materially reduced the quotas of Germany, the Irish Free State and the Scandinavian countries, and increased those of Italy, Great Britain, Austria, Belgium and Poland. The President believes that restriction has proved a sound national policy, but he criticized the national origins basis as not achieving the real objective, which was the adaptation of immigration to the national setting and the national needs, with due regard to the fitness of the individual immigrant as to physique, training and potential service to the country. His efforts, however, to obtain the repeal or postponement of the national origins provision were futile. As a temporary measure, due to conditions of unemployment and the danger of many newly-arrived immigrants becoming public charges, the Administration ordered the offices issuing visas to emigrants to withhold them from all applicants likely to fall into the dependent class, and as a result the average number of visas per month dropped from 24,000 prior to these restrictions to about 7,000 at the end of 1930.

In any survey of Mr. Hoover's domestic policy it is impossible to avoid mentioning the vexed question of prohibition. Public opinion classes the President as a "dry," though he has never indicated that his mind is closed to suggestions for a modification of the law. He laid great hopes on an investigation of prohibition enforce-

## Foreign Relations

ment by the so-called Wickersham Commission, but the findings of that body were so contradictory that they left the problem more confused than ever, and prohibition is certain to be an important issue at the election of 1932.

Mr. Hoover perhaps showed at his best immediately after the stock market panic of October and November, 1929, when he summoned to Washington the leaders of finance, industry, agriculture and labor, and obtained their cooperation in the adoption of measures for restoring confidence and mitigating the effects on general business of the disturbances originating in Wall Street. By this action he undoubtedly prevented a worse recession in business. It is in conferences of this sort, rather than in exercising aggressive political leadership, that Mr. Hoover excels.

### III. FOREIGN RELATIONS

IN this we may also find the reason for the relatively greater effectiveness of his administration of foreign relations than of domestic affairs. The country reacted favorably to his conversations with Prime Minister MacDonald preparatory to the meeting of the Naval Conference in London. The President also showed excellent judgment in choosing men of the calibre of Secretaries Stimson and Adams, Senators Reed and Robinson and Ambassadors Morrow, Gibson and Dawes to represent the United States at that gathering. While the outcome of the conference was not in accord with American hopes, Mr. Hoover showed good judgment in cementing the gains by summoning the Senate in special session to ratify the three-Power agreement.

In dealing with Congress in the matter of the World Court, the President has not been equally aggressive. Public sentiment in the United States appears to be strongly in favor of American adherence to the court. A survey of the editorial standpoint of daily newspapers showed that more than 1,300 were favorable and only 265 were

## President Hoover at Mid-Term

actively opposed to adherence. On December 10, 1930, the President sent a special message to the Senate submitting for its consideration the protocols for the adherence of the United States to the court, but making no specific recommendation that it should ratify them. About a week later the Senate Committee on Foreign Relations voted that consideration of the question of the World Court should be postponed for a whole year. This action may have gravely endangered the prospect of American adherence, inasmuch as the next Congress will be largely absorbed with questions involved in the Presidential campaign of 1932. There were good reasons, therefore, why the President should have called the Senate in special session immediately after the end of the regular session on March 4 to consider this issue without the entanglement of domestic politics. He would then have followed the same procedure as resulted in the ratification of the London Naval Treaty, and he seems to have missed an opportunity of rendering effective service to the cause of international conciliation.

In general, the attitude of the Hoover Administration toward European questions has been the traditional one of American aloofness. In his pronouncement on Armistice Day, 1929, in favor of the immunity of food ships from seizure in time of war, Mr. Hoover showed a flash of that talent for world leadership which many of his countrymen had been looking for, but on the whole he has shown little inclination to make the United States exercise its potential influence in world affairs. This was emphasized when the Young plan of reparation payments was under consideration in 1929. American financiers played a leading part in bringing about this new settlement, but they participated in the deliberations as individuals and not as spokesmen for the American Government. The Administration undertook repeatedly to make it clear that the payment of reparations by Germany was wholly disconnected from the payment by the allied nations of their war

## Foreign Relations

debts to the United States. It even went so far as to negotiate a separate arrangement with Germany, whereby the small amount which the United States was to receive under the Young plan would be paid directly by the Reich without passing through the Bank for International Settlements.

In its desire to avoid even the appearance of any new commitment the Administration, through Secretary of State Stimson, announced on May 16, 1929, that it would not "permit any officials of the Federal Reserve System either to serve themselves or to select American representatives as members of the proposed International Bank." It may not be necessary here to point out that neither the President nor any other Government official has any legal jurisdiction over this matter. The Federal Reserve Banks are not Government institutions. Their stock is owned by the individual banks which are members of the Federal Reserve System, and two-thirds of their directors are chosen by the stockholders. Obviously, no Federal Reserve bank would participate in any operations of the Bank for International Settlements if Washington indicated its objections, but in announcing what the banks would not be permitted to do Secretary Stimson clearly went beyond the Government's legal powers.

In his conduct of Latin American relations Mr. Hoover has taken a position which shows much promise. His goodwill tour of Latin America was largely neutralized when he later accepted the new tariff Act. On the other hand he has done much to improve the personnel of the diplomatic service in Latin American countries. Most important of all, Secretary Stimson has specifically repudiated the doctrine developed under several previous administrations which assumed that the recognition of a revolutionary Government involved the moral approval of its acts. The Government of the United States has now reverted to the historical practice of recognizing promptly any Government which appears to be in full political



## President Hoover at Mid-Term

control and promises to fulfil its international obligations. In accordance with this principle the United States quickly established diplomatic relations with the new Governments of Argentina, Bolivia, Peru, and Brazil.

The Administration has also announced its purpose to withhold shipments of arms to rebels without the status of belligerents and to permit such shipments to recognized Governments. In the case of Mexico this policy was applied in 1929 with satisfactory results. In the case of Brazil, however, in 1930, the Administration chanced to place an embargo on shipments of arms to the revolutionary faction which it subsequently recognized as the *de facto* and *de jure* Government. The Administration was evidently observing its treaty obligations, but there were unusual circumstances of which it did not seem to be informed, possibly because of the temporary absence of the American ambassador from Brazil. On the whole, the reversion to the traditional recognition policy promises to remove one of the principal causes of friction between the United States and the neighboring republics to the south and to make these countries less suspicious of American motives.

## IV. THE NEXT TWO YEARS

PROBABLY no other President in time of peace has had to deal with so many difficult problems in so brief a period. And the troubles do not seem as yet to be at an end. On June 30 the Treasury faces a prospective deficit of \$1,100,000,000, an amount far in excess of the total yearly expenditure in the pre-war period. Then in December the President will face a new Congress in which he can never be sure of a majority in either House for the support of his programs. While the past two years have been hard for Mr. Hoover, there is no assurance that the next two will be appreciably easier. Indeed, they may prove even more difficult. The best hope for a smoother road for the harassed President lies in the betterment of

## The Next Two Years

general business conditions. Not a few observers of political trends are convinced that with a strong upturn in trade and industry there will be as pronounced a reaction in his favor as there was against him during the recession.

On the other hand, less friendly observers point to the President's lack of political-mindedness, to his inability or unwillingness to "dramatize" himself for the benefit of the American public and to his failure to inject new vigor into his party after the manner of Roosevelt or Wilson. They aver that these deficiencies prevent him putting his many other great qualities to their most effective use as the nation's chief executive. Mr. Hoover's career at the White House has convinced them that the country needs a combination of politician and business man for the Presidency. They attribute his failures in large measure to his unwillingness to employ politics as one of the tools of his trade.

There are still others who see in the President a growing militancy and a readiness now to fight the politicians in Congress with their own weapons; to go over their heads if necessary and take the fight directly to the people, as some of his predecessors had a way of doing. They predict that during the next two years the country will see a different side of Mr. Hoover as an executive, and that he will demonstrate that his past failures have been due to conditions more or less fortuitous rather than to his own shortcomings. In any event, the next two years will bring the crucial test, and the President will have ample opportunity to demonstrate whether his recognized ability in the administration of private business and of a government department can be employed with equal effectiveness in guiding the destiny of a powerful nation. How he meets this test will determine whether the American people will give him a second term.

The United States of America.

May 5, 1931.

## CHINA

### I. CURRENT EVENTS

IN our last article General Chiang Kai-shek, President of the Government, T. V. Soong, the Minister of Finance, Feng Yü-hsiang, the rebel leader, and Marshal Chang Hsueh-liang, the Manchurian dictator, were selected as the persons most likely to claim attention in the year before us. The course of events has since brought into the centre of the stage the President of the Legislative Yuan, Hu Han-min, who in politics seems to be cast for the rôle which Feng Yü-hsiang has played in war. He is one of the oldest and most influential of the Kuomintang leaders, and also one of the most uncompromising. He has held himself strictly aloof from Shanghai, and has publicly rebuked some of his colleagues for visiting that city too often. But Shanghai is the focus of China's relations with the rest of the world. His want of recent touch with that world may help to explain one of the incidents which has led to his resignation.

In America, Senator Pitman of Nevada has been urging that a large quantity of silver should be offered as a loan to the Chinese Government. In the interest of the silver producing States, a certain Judge Linebarger has been trying to establish an agreement on the subject between Washington and Nanking. His scheme for a silver loan was publicly rejected by Mr. Soong. Judge Linebarger, however, claimed that he had written authority from Hu Han-min to negotiate the loan. Conflicting statements as to the personal attitude of other members of the Govern-

### Current Events

ment of Nanking were published. Judge Linebarger's son, a lad of seventeen, interviewed a majority of the Ministers of State, and published accounts of what had been said to him. This interference by Hu Han-min and his group in a sphere which properly belongs to the Minister of Finance and the President of the Government has created a schism. The results have been seen in other and graver matters.

In our last article it was mentioned that the Fourth Plenary Session of the Central Executive Committee, which opened in Nanking in the second week of November, had decided that a National Convention should be held in May. When the Plenary Session was adjourned on November 21 a manifesto was issued which contained the following statement :

At the forthcoming Convention all fundamental problems relative to reconstruction of the State will be laid before the people so that the strength of the entire nation may be centred upon this important task, the foundation of a government "of the people, by the people, for the people," laid down, and finally, the responsibility of the Party in the period during which it will exercise the political powers on behalf of the people defined and clarified. The date of the promulgation of the Constitution will also be decided upon at the Convention so that the time for the reversion of the political powers back to the people may be definitely fixed.

The words of President Lincoln are worn so threadbare that we are apt to miss their significance in this manifesto. It should be remembered, however, that Dr. Sun chose the formula "government of the people, by the people, for the people" as defining the goal towards which he directed his followers. One must also reflect that Mussolini, Lenin or Stalin would never have used that formula for a similar purpose. Dr. Sun was just as sincere as Washington or Lincoln in regarding popular government as the end and object of the movement he founded. But he knew as well as the self-styled realists the difficulty of attaining that goal in a vast country like China accustomed for ages to a government based on divine authority. He therefore

## China

proposed that his followers, organised as the Kuomintang, should establish a government for all China, and continue to control it while teaching the people how to control it for themselves. He called this transitional stage the period of tutelage.

After the death of Yuan Shi-kai, the Republican movement had to deal with the Tuchuns or military governors, who, as Sun rightly perceived, were severally hoping to establish themselves as founders of new dynasties. The Kuomintang has so far won in the struggle against them, because it has stood for a principle, while the Tuchuns only stood for themselves. It has in fact established a government at Nanking, which is now recognised by the Powers as the Government of China.

It has naturally happened that certain members of this administration have developed a special aptitude for the tasks of government, while others are more interested in the work of managing and controlling the Party. The danger of a party dictatorship is that the "bosses" can claim to control Ministers who are learning to act and think for the country as a whole.

At the time of writing, the approach of the National People's Convention is bringing this issue to a head. According to the law governing the election of delegates, the members will number 520 apportioned as follows:—

|                                               |                                   |
|-----------------------------------------------|-----------------------------------|
| 450 to be elected from the various provinces. | 12 from Mongolia.                 |
|                                               | 10 from Tibet.                    |
| 22 from various municipalities.               | 26 from Chinese residents abroad. |

These delegates are to be chosen by a series of unions, organisations and associations. In point of fact, it is likely that the candidates nominated by the Kuomintang will, in the majority of cases, secure election.

The Convention is to take place on May 5, and attempts to settle the agenda have led to an open rupture between Chiang Kai-shek and Hu Han-min. The former has been in favour of discussing a Bill of Rights, a definite step towards

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the formulation of a permanent constitution. The latter maintains that this would be contrary to the last will and testament of Dr. Sun Yat-sen. He asserts that the period of tutelage under the Kuomintang prescribed by the founder of the Revolution is not complete.

These quarrels came to a head when Hu Han-min resigned his position as President of the Legislative Yuan. The announcement was followed by rumours that Hu Han-min was stricken with illness at Tongshan Hot Springs, and was under arrest. It was presently stated that a strong escort had brought him back to Nanking and that General Chiang had announced that Mr. Hu had decided to live there indefinitely. In the course of a lengthy statement on the subject General Chiang declared, "we also feel that it is better for Mr. Hu to remain in Nanking." He dwelt on the special responsibilities by which a member of the Kuomintang and Government is bound; "by joining the Party and the Government one has voluntarily agreed to limit his freedom of speech and action."

For good or ill, the problems of China largely turn on foreign relations, of which the Yangtze valley, and especially its mouth, are the focus. It is probably more than an accident that the men who have shown the greatest aptitude for public affairs, President Chiang Kai-shek, his brother-in-law, Mr. T. V. Soong, and Dr. C. T. Wang, the Minister of Foreign Affairs, all come from this region.

Mr. Hu Han-min is a native of Canton and that province is the centre of his influence. It is also the nursery and stronghold of the Kuomintang. Behind this controversy it is thus possible to discern a struggle between the Party and its managers, men in whose minds the machine and its power are tending to become ends in themselves, and those members of the Government at Nanking whose experience is teaching them the real necessities of the country at large. The country has been growing impatient of the claim of the Kuomintang to monopolise power. A feeling has developed that the people will never begin to emerge from

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the period of tutelage, until some instalment of constitutional rights is established. This feeling General Chiang Kai-shek seems to be voicing. He is naturally exposed to the charge of seeking a personal dictatorship as against the dictatorship of the Party prescribed by its founder Sun Yat-sen. The resignation of Hu Han-min is certainly intended to be taken as a protest against the personal power of the generalissimo. The future of China largely depends upon how far Chiang can use that power to achieve for her the goal of self-government as seen by his master Sun Yat-sen. We may hope and expect that he will do so, but if Hu Han-min should be justified in holding that General Chiang Kai-shek is going the way of other military dictators, he will, for all his undoubted ability, end like the rest of them. The day is gone when any military leader could found a stable dynasty in China. It was as the personal secretary of Sun Yat-sen that Chiang Kai-shek emerged from obscurity, and if he is steadfast in pursuing the aim of his great master he and Mr. Soong may do for China what Washington and Hamilton did for the United States.

At the opening of this year the risk of an "annual spring campaign" had for once in a way seemed almost negligible. It is useless to deny that recent happenings at Nanking have again clouded the prospect before the country. The leaders of the Kuomintang have tried to control the government in the interests of the Party and General Chiang has met the attempt with his usual decision. But Canton is already showing signs of serious unrest. There are rumours that the leaders of the Party in its home will call into play the Cantonese divisions employed in restoring order in Kiangsi. Marshal Chang Hsueh-liang is supporting the Government at Nanking. It cannot, however, be now said that the spectre of civil war has been laid for this year.

## Finance

### II. FINANCE

THE second Annual Report of the Minister of Finance to the Political Council of the Central Executive Committee is a document no less remarkable than its predecessor, and marks the second milestone along the path of financial stabilisation and fiscal reform in China. While Mr. Soong has still to admit a deficit, his report gives ground for hope that the time when China will balance her budget is in sight, for customs and salt duties which furnish the bulk of the revenue show a tendency to increase.

The report gives a good account of China's progress during the year ending March 31, 1931. Mr. Soong explains the continuous growth of his fiscal organisation which really shows, like a gauge, how far the authority of the Nanking Government runs. Turning to the future, he points out that China cannot progress without financial assistance from abroad.

As recognised by our late leader, foreign capital is required for the rehabilitation of the country. Credits are needed to assist in currency reform, debt refunding and public works, which can only be obtained by establishing our finances on a sound basis. Foreign leaders will not seriously discuss loans to China unless China has balanced her budget, or has adopted and is carrying into effect a programme of readjustment which will result in stabilising the finances within a reasonable time.

The report closes with some candid remarks on the departmentalism rampant at Nanking.

Surely a case has been made for discarding the haphazard, unrelated and clashing programmes of the various branches of the Government, and the creation of a really effective planning organisation, which would guide the productive forces of the country, co-ordinate the activities of the Ministries and rigidly map out the essential ends which for a given course of years each of the different components is obliged to pursue. With such co-ordinated and purposeful activity within the Government, whereby it is made a unified and effective

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instrument to serve the nation, the financial resources available within the country itself for constructive development will prove to be greater than is ordinarily realised. In the final analysis the national budget must not be considered as running for one fiscal year only, nor as a static and mechanical balance between receipts and payments to be brought about through a negative policy of cutting down expenditure. A budgetary policy to be adequate to meet the needs of the time can perhaps be attained only through the adoption of a positive programme of systematic and co-ordinated expansion extending through a series of years.

Such criticism is all the more valuable because it is constructive and comes from within. Nanking has been busy preparing the constitution of a "Supreme Economic Council" consisting of Ministers with Chiang Kai-shek as President and T. V. Soong as Vice-President. Such a project can count on the active assistance of the League of Nations in supplying technical advice. The Nationalist Government has already learned to value such help as experts like Dr. Rajchman and Sir Arthur Salter can give. It is to be hoped that Sir Arthur Salter will publish a report on his visit to China. Chinese and foreigners alike will await with interest the result of his enquiries.

### III. RECONSTRUCTION

**H**OW far and how fast the work of economic reconstruction will proceed throughout China will largely depend on the success or failure of Mr. Soong's policy. A great deal of work is in actual progress, and China gives one the impression of a country which is very much alive. The port and city of Shanghai are busy, with visible signs of construction on all sides. The work of converting Nanking into a modernised city is proceeding at high pressure. The railways are working once more. Throughout the country towns are being reconstructed with widened roads and equipped with mechanical devices and public utilities. In the rural districts roads are appearing, not in miles but in hundreds of miles. Along them cargo and passengers are

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carried by mechanical traction, lines of motion through tranquil fields. Even so the lines of young and vigorous Chinese are threading their quick way through the wide expanse of an older and quieter civilisation.

In the business world this revival of energy is unmistakable. Internal trade, after years of torpor, is reviving in the hands of young men impatient of old restraints and intolerant of custom. They are meeting the new demands which arise for a new manner of living. They are making, buying and selling new things. For the moment they are chiefly concerned with internal trade; but some of them are trying their hand at foreign trade, and are seeking new channels of supply and demand. Merchants to their finger tips, they know how to work on the narrowest margins. The Chinese bankers, who have probably the oldest and most honourable tradition of any bankers in the world, are also learning how to finance trade and industry on modern lines.

In April the Committee appointed in China to deal with the Boxer Indemnity fund held its first meeting. Its task is to use the fund for reconstructing the railways of China and creating a permanent investment for educational purposes. At a time when China's immediate difficulty lies in providing gilt-edge security for her programme of reconstruction, these funds may prove a factor of first rate importance. It is worth considering whether the accumulated fund of £3,000,000 could not be used as security for an international loan to finance projects of railway and educational development on a far more ambitious scale than at present contemplated. In any case the British Boxer Indemnity fund will do much to help China on to her feet.

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### IV. EXTRATERRITORIALITY

MR. WANG has again been insisting that "extraterritoriality" must and will be brought to an end by May 5, when the National Convention meets. The foreign Powers, it would seem, would agree to meet his views, except in the foreign settlements of Shanghai, Canton, Hankow and Tientsin. It is no doubt desired to discuss the future position in these areas separately in the light of the report which Mr. Justice Feetham has been preparing on the status of Shanghai since his arrival there in January 1930. The first part of this report should have appeared by the time that this article is in print.\*

### V. CONCLUSION

IN casting our eyes over China four months ago, we ventured to say that "there was food for tempered optimism." To-day we can only repeat that opinion. There is apparent peace, and the will for peace is also apparent. The country seems to be on the brink of a new era of financial, railway, and even constitutional, reform. Yet it cannot be said to be past the brink. The authority of the Government does not as yet spread as far as one could wish from the capital. In the north, south and west are provinces which still pay no more than a lip-service to Nanking. The really encouraging factor is the new spirit in which an increasing number of Chinese are facing the problems before them. The younger generation are determined, as never before, to unite their country and restore its prosperity. They will certainly succeed, though no one at the moment could venture to say how long it will take.

\* The first instalment of the report was published in Shanghai on April 25, and is summarised in the appendix to this article. It is understood that the second instalment containing the recommendations will appear in June.

## Appendix

### POSTSCRIPT

Several events of outstanding importance have taken place in China since the above article was written. The People's Convention duly assembled in Nanking on May 5, and passed a constitution which appears to represent a compromise between the continuation of party tutelage and the inauguration of democratic government. On May 4 the Chinese Government announced that the negotiations regarding extraterritoriality between Mr. C. T. Wang and Sir Miles Lampson had been abandoned, and unilaterally proclaimed the abrogation of extraterritoriality; the negotiations, however, were resumed in the following week. Meanwhile, it is reported from Hongkong that a new military disturbance is imminent through the alliance, in opposition to Chiang Kai-shek's Government, of the forces of Kwangtung (Canton) and Kwangsi.—EDITOR.

## Appendix

In 1929 the Municipal Council of Shanghai decided to appoint some expert with the necessary municipal, political and judicial experience, unbiased by any previous connection with the place, to report on the present and future status of the International Settlement. At their request, the South African Government released for this task Mr. Justice Feetham who reached Shanghai in January 1930. The first instalment of his report,\* published in Shanghai on April 25, 1931, is a comprehensive survey of the problem in all its aspects.

Publication of the second instalment which contains the recommendations of Judge Feetham is expected in June, and copies of this volume will presumably become available in the same way.

It is understood that a third and supplementary volume will follow.

The first instalment already published is in three parts. Part I is introductory and explains in four chapters the origin, scope and method of the enquiry, and the general arrangement of the report. Part II gives a historical and descriptive account of the Foreign Settlement and its Government, in nine chapters. Part III deals with the business interests centred in Shanghai.

Part I chapter I quotes, amongst other documents, correspondence between the Council, General Hertzog and Judge Feetham, which shows the origin and nature of the enquiry. In chapter II, Judge Feetham states that his task "has been not only to study the actual conditions, economic,

\* A limited number of copies have been sent to the agents of the Shanghai Municipal Council in London, Messrs. John Pook and Co., 68, Fenchurch Street, E.C.3, which can be ordered through booksellers (price 5s.) by libraries and others anxious to secure copies for reference.

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social, administrative and political, in the Settlement itself, and in the areas of Shanghai contiguous to the Settlement, but also to form some general idea of the conditions prevailing in the environment to which Shanghai belongs—i.e., of the background, economic, political and administrative, in the country at large, against which the special problems of Shanghai have to be viewed before they are revealed in their true shape and proportions. Without some appreciation of conditions generally prevailing in China it is not possible either to bring proposals for the future government of Shanghai into due relation with the recognised goal towards which national progress is being directed, or to plan the method and regulate the pace of advance, in any contemplated process of change, in such a way as to give the required protection to the economic interests involved.

“But while it has been necessary to keep this general background constantly in mind, my primary task has naturally been to study Shanghai itself, and more especially to understand the nature and extent of its commercial and industrial activities, the true foundations of its position as a great business centre, and the leading features of the existing regime in the Settlement, and to ascertain, and weigh, the views of the various sections of the community in the Settlement, both foreign and Chinese, who have the first claim to be heard in regard to any plans for its future.”

Part II chapter I briefly describes Shanghai as consisting of three areas: the Foreign Settlement  $8\frac{1}{2}$  square miles, the “French Concession” 3.94 square miles, and Greater Shanghai 320 square miles, which surrounds both Settlements. It mentions the roads constructed by the Municipal Council of the Foreign Settlement, beyond its limits in the area of Greater Shanghai. The relations of town to harbour are explained by a map. The physical character of the three areas and the composition of their population are described. In chapter II the development of the Foreign Settlement is traced historically from its foundation in 1843, as a consequence of the Treaty of Nanking. How its use as a sanctuary during the Tai-ping rebellion led to the inclusion of a Chinese population far in excess of the foreigners is explained. The beginnings of municipal government and its development as a neutral area are described. Chapter III gives the history of the “Land Regulations” which are still the municipal constitution of the existing Settlement. This constitution, as now in force, is explained in chapter IV. Chapter V deals with the powers claimed by the Chinese authorities within the limits of the Settlement. It explains the conflict in one area between the foreign administration based on the “rule of law,” and the Chinese administration which has not as yet accepted that Western idea. Chapter VI explains why the Chinese residents were not represented on the Council till recent years. Chapter VII shows that, while the Chinese have contributed more than half of the total revenue, it is open to question whether they have received an equivalent benefit so far as education, parks and recreation are concerned. Chapter VIII describes the scope and organisation of the municipal services. It dwells on the rigid character of the land regulations, the difficulty of making by-laws, and explains the results in practical administration. Public utilities such as water, electricity and trams, are all now conceded to companies. The Council administers police, fire brigade, public health and works and education, and maintains a volunteer corps which is in fact a small citizen army. The organisation

## Appendix

of these various services is explained and analysed. Chapter IX deals with the courts of law in the Settlement. While foreigners have to be tried in their own consular courts, Chinese are tried in Chinese courts. The vast majority of criminals are of course Chinese. As noted above, “the rule of law,” as understood in the West, is little recognised in Chinese courts, which are subject to constant interference by the Government which appoints them, by military authorities, even by political organisations like the Kuomintang. The difficulties which arise from the conflict between Chinese and foreign ideas of law are illustrated by cases. The security of the Settlement, in contrast to conditions in China at large, is traced to the fact that, in spite of all difficulties, the rule of law is in fact effective in the International Settlement.

Chapter X deals with freedom of speech, publicity and the press. In the land regulations no provision is made to protect members of the Council from the law of slander or libel. The press has been therefore excluded from its meetings, which have assumed the character of a cabinet rather than that of a municipal body. Owing to the prevalence of censorship outside the foreign settlements, the Chinese press has developed little or no influence. The foreign newspapers published under the protection of the settlements, especially in Shanghai, are therefore a factor of first-rate importance. The abolition of “extraterritoriality” would subject these papers to the censorship which has stifled publicity in China at large.

Part III traces the preponderant position of Shanghai as a centre of business to the special position of its foreign settlements. Chapter I explains how the sources of information used were obtained. Chapter II deals with the port of Shanghai and sets out the advantages of its geographical position. The Whangpoo Conservancy Board and its work in dredging the river are described, and shipping statistics are added. Chapter III discusses Shanghai as a commercial and industrial centre. Reports are quoted from British, American, Belgian, French, German, Italian, Japanese, Dutch, Norwegian, Swedish and Danish Chambers of Commerce, and from other industrial and commercial bodies, which tend to show that the predominant position of Shanghai is more due to the comparative security of its settlements than to its geographic position. Chapter IV deals with Shanghai's position as the banking and financial centre of China, which again is traced to the comparative security afforded by the special position of the settlements.

The system of land tenure in the Settlement is dealt with in Chapter V, which describes the special advantages of the consular titles, their accuracy, facility of transfer, and immunity from illegal interference. This has greatly enhanced their value, especially as a security for supporting credit, which is clearly realised by Chinese owners. Chapter VI, with which the published volume closes, points to protection and law as the foundations of security. Protection against external violence is afforded by the armed forces of Treaty Powers either in warships or on shore, and by the volunteer and police forces maintained by the Settlement. The rule of law means “that in the Settlement, speaking generally, the authority of law is upheld, and private rights are respected, and that the Settlement is governed by an executive authority (the Council of the Settlement) vested with powers which are limited and defined by its constitution, and subject, in respect

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to the exercise of those powers, to the control of courts of law which are independent of itself." Such conditions nowhere exist in China outside settlements. The chapter concludes—"In order to provide in the Settlement these conditions of security, to which so much importance is attached by owners of property and those concerned in the conduct of business and industrial undertakings, it is necessary to solve what have been described as the two main problems of government—the problem of order, and the problem of liberty. No complete solution of these two problems is of course possible, except in Utopia. It is a question of making more or less successful attempts at providing a solution. By reason of the special character of the Settlement regime, as established under existing treaties, it has proved possible in the Settlement, in spite of many difficulties and complications, to provide by international co-operation a more successful solution of these problems than can be attained in China generally under existing conditions. The National Government is taking steps to restore order and make its authority effective in China generally, and is seeking, in the face of immense difficulties, to prepare the way, by its legislative and administrative measures, for the introduction of constitutional government. Meanwhile, owing to the forces available for the protection of the Settlement, and to the fact that in the Settlement the rule of law can be maintained on the basis of treaty provisions, the Settlement is able to enjoy a greater degree of security than can at present be provided in centres under purely Chinese control. The Settlement thus already obtains some at least of the benefits of a constitutional regime, in anticipation of the time when China, having eventually emerged from the present revolutionary period, will set up a constitutional government of her own, under conditions which will enable such a Government to function successfully, and will, at the same time, make its constitutional character a reality. Thanks to the peculiar advantages of its situation in this respect, the Settlement, at the present stage of national development, is able not only to confer considerable benefits on its own large population, and to safeguard the foreign and Chinese interests immediately concerned in its commerce and industry, but also, by functioning as the country's principal business and financial centre, to play a unique and essential part in the economic life of China as a whole."

## INDIA AFTER THE CONFERENCE

### I. THE CHANGE OF ATMOSPHERE

EVENTS in India in 1930 were certainly spectacular and dramatic, and for three parts of the year the newspapers of the world were full of them. War, of a curious and probably unparalleled kind, appeared to be in progress throughout the length and breadth of a romantic and mysterious sub-continent; the static civilization of the East was suddenly and at last changing, perhaps disintegrating, as a result of its prolonged contact with the dynamic political forces of the West, and a spirit of nationalism, a demand for coherence, for status, for power, was beginning to animate a heterogeneous oriental population of close on 350 millions of people. To the observer living in the midst of these occurrences, and pre-occupied with the problems of day-to-day existence, they scarcely presented themselves in this colourful light. For they had their origin in causes which had long been apparent to those who know India, but of which the outside world was insufficiently aware, and they thus lacked, to a large degree, the charm, or peril, of the unfamiliar and unexpected. Moreover, a civil disobedience or non-co-operation campaign had been conducted before, at a time when news editors in other countries had reason to be more interested in events nearer home, and it did not appear to have effected very much. There were, indeed, certain features of the 1930 movement—for instance, its extent, the wide-



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spread participation of women in it, and the comparative absence, during the later summer and autumn, of outbreaks of violence such as had occurred in April and May—which as the year wore on, evoked some surprise. But for the resident in India it is what has occurred during the first four months of 1931—the period which will be covered by this article—that has given far more cause for astonishment and for a re-orientation of ideas than anything that occurred in 1930.

The contrast, indeed, is extraordinary. At the beginning of the year the Civil Disobedience movement was nine months old and still in progress; there seemed no reason to hope that it could have any clear or definite termination. The majority of the Congress leaders were in jail. Both participants in the struggle were exhausted and exasperated. On the one side, the strain on the local agents of Government, who were exposed to constant abuse and obstruction, and yet required to perform their duties with particular patience and tact, was becoming almost intolerable, and the higher authorities were increasingly exercised, not only with these administrative problems, but also with the financial consequences which must inevitably ensue from an active and prolonged anti-Government agitation, conducted largely by means of picketing and economic boycott, at a time of world-wide depression. On the other side, such few Congress leaders as remained at liberty were finding it more and more difficult to conduct their campaign effectively in the face of the Ordinances imposed by Government, or to maintain the flagging enthusiasm or the diminishing financial support of followers who could see no end to the contributions they were called upon to make for a cause, or at any rate a policy, which many of them but dimly understood. Thus there seemed every reason to suppose that the movement must continue until it gradually petered out in a fog of bitterness and misunderstanding luridly illuminated by outbreaks of terrorism and disorder.

## The Change of Atmosphere

So much for the internal aspect of the situation. In London, at the beginning of January, the Round Table Conference was still in progress, and its outcome, like that of the Civil Disobedience movement, still, at the most optimistic estimate, obscure. The remarkably nationalistic speeches made by some of the princes at the opening of the discussions six weeks before, and the rapid emergence of the federal ideal into the field of practical politics had, indeed, at first aroused great interest and almost as great enthusiasm here amongst those leaders of opinion who still believed that, despite the refusal of the Congress party to participate in it, the Conference might yield some practical results, and advance India further along the road to responsible self-government. But subsequent news was not encouraging. After the preliminary wave of optimistic excitement had passed by, the Conference appeared to have lost its bearings in a backwash of doubt and detail; and beyond this the unsolved communal problem, which had almost disappeared from view during the uprush of the federal idea, gradually raised its head until it became an overshadowing menace in which everything seemed liable to be engulfed. Moreover, the Government's intentions towards most of the crucial matters at issue, such as the question of granting responsibility at the centre, remained almost entirely unknown, and at the turn of the year Lord Reading's famous speech had not yet been made. From the outset of the proceedings in London those in India who believed that the Conference was foredoomed to failure had probably been the majority, and belonged to practically every school of political thought, from the most advanced to the most reactionary; the unprecedented nature of such an assemblage, its unwieldiness, the vagueness of its programme, the uncertainty of its machinery and, above all, the fact that the most powerful political organisation in India had refused to have anything to do with it, and was at the time engaged in a kind of war with the established government of the country, were all

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adduced as sufficient reasons for its achieving nothing. And it seemed, at the beginning of 1931, that these pessimists would probably prove right. Yet how incorrect was this estimate of the situation the state of affairs in April clearly shows. The British Government is now in effect committed to formulating a scheme of constitutional advance for this country which many of the most optimistic Indian politicians did not consider attainable in less than a decade, and, as a result, the Civil Disobedience movement has been abandoned, thousands of persons imprisoned in connection with it have been released, the Congress has held its annual session at Karachi, and apparently decided to co-operate with the Government in discussing the details of the impending constitutional changes, and members of the Viceroy's Executive Council, with many other high officials and their families, have been attending garden parties in Delhi to meet Mr. Gandhi and numerous prominent political leaders who spent most of the previous year in jail.

## II. THE IRWIN-GANDHI AGREEMENT.

THE first indication of the change was, of course, Lord Reading's speech on January 5. Of the recommendations made by the Simon Commission, those concerning the nature of the central government probably aroused keener critical opposition from Indian nationalists than any others, and that an ex-Viceroy, the leader of the Liberal delegation to the Conference—that is to say, of the party which was known to hold the balance of power in British politics—should indicate his acceptance of the arguments put forward by Sir Tej Bahadur Sapru and others, and agree that a form of responsible government, despite the Commission's different recommendations, should be established at the centre, was immediately recognised to be an event of very great significance. A

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further hint of impending events, to which at the time insufficient importance was attached, was contained in the Viceroy's speech to the members of the Legislative Assembly at the opening of the Delhi session on the 17th. Since the anticipated announcement of the British Government's policy towards the constitutional issue had not yet been made, it was, of course, impossible for His Excellency to comment upon the results achieved by the Conference except in very general terms, but his speech concluded with a careful analysis of the internal situation and a striking and characteristic appeal to Mr. Gandhi, which is so redolent of the atmosphere in which the subsequent settlement seems to have been made that we make no apology for reproducing it.

However mistaken any man may think him to be, and however deplorable may appear the results of the policy associated with his name, no one can fail to recognise the spiritual force which impels Mr. Gandhi to count no sacrifice too great in the cause, as he believes, of the India that he loves; and I fancy that though he, on his side too, thinks those who differ from him to be the victims of a false philosophy, Mr. Gandhi would not be unwilling to say that men of my race, who are to-day responsible for the government of India, were sincere in their attempt to serve her. It has been one of the tragedies of this time that, where ultimate purposes have perhaps differed little, if at all, the methods employed by some should have been, as I conceive, far more calculated to impede rather than to assist the accomplishment of the largely common end. . . . Is it not now possible, I would ask, for those responsible for this policy to try another course that, in the light, on the one hand, of the sinister events in India, and on the other, of the encouragement offered to India by the progress of the Conference in England, would seem to be a more excellent way?

On January 19 the Prime Minister's declaration of British policy towards India was made, and after that, for a time, events here moved rapidly. There was, of course, the automatic and inevitable outcry from the extremists that the statement was vague, belated and insufficient, but in point of fact few reasonable men failed to appreciate at once the immense and surprising advance which it

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represented upon anything which even those who were not among the sceptics and pessimists had hoped could be obtained. A clamour promptly arose, particularly in newspapers of the Liberal or right-wing Congress school of thought, for the withdrawal of the special Ordinances, and the release of all prisoners arrested for participation in the Civil Disobedience movement, in order that the new state of affairs might be considered throughout the country in an atmosphere of comparative peace and reasonableness. This, of course, was obviously asking more than the Government could give; but the announcement on the 25th, that all members of the Congress Working Committee then in jail would be immediately released and allowed complete liberty of discussion, was acclaimed by practically all sections of Indian opinion, and did much to demonstrate to the populace at large that really substantial changes were impending as a result of the Conference in London.

On his release, Mr. Gandhi declared that he had come out of jail with an absolutely open mind and was prepared to study the whole situation from every point of view. During the first fortnight of February the Congress Working Committee were assembled in Allahabad. It was known that a telegram had been sent them by the returning delegates from the Round Table Conference urging that they should defer committing themselves to any definite line of action until they had had an opportunity of discussing with Sir Tej Bahadur Sapru and others the implications of what had been accomplished in London; nevertheless, the impression undoubtedly prevailed at this time that little would be achieved by such delay, and that eventually the Working Committee would refuse to deviate from the tradition of uncompromising obstruction of everything sponsored by Government, upon which the Congress had flourished in the past. On the 6th, however, a large number of prominent delegates from the Round Table Conference, including the Maharajās of Alwar and Bikaner, Mr. Jayakar, Sir A. P. Patro, Sir Tej Bahadur

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Sapru, Mr. Sastri and Sir Phiroze Sethna, reached Bombay and issued a strongly worded and enthusiastic manifesto in which the magnitude and reality of the constitutional advance agreed upon in London were strongly emphasised. Some of them subsequently repaired to Allahabad to meet the Congress leaders. On the 14th it became known that, largely as a result of these conversations, the Working Committee had postponed decision on the constitutional issues raised by the Prime Minister's statement, and resolved that, while Civil Disobedience must for the present continue, Mr. Gandhi should ask the Viceroy for an interview; and when, two days later, a favourable reply was received, the Congress leader left for Delhi. Half the miracle had now been accomplished.

Doubters, however, remained numerous. The discussions at the Viceroy's House were very protracted, and their course so obscure as to give rise to a multitude of conflicting and often fantastic rumours. The astonishment and alarm which were so vehemently expressed in certain sections of the English press at the notion of a *khaddar*-clad oriental ascetic, the leader of a movement avowedly designed to subvert the established government of this country, which was still in progress, remaining closeted for hours with the representative of the King-Emperor amid the splendours of what is perhaps the most magnificent residence in the British Empire, was not altogether absent here. For it was evident that Mr. Gandhi had emerged from jail with his prestige enormously enhanced. Vast crowds attended him wherever he went, his lightest word was listened to with reverence, and in his speeches there seemed to be audible an unaccustomed note of self-assurance and authority; moreover, it was freely alleged by many of his more exuberant followers that it was he alone—not the sycophants and time-servers who attended the London Conference—that, by launching the Civil Disobedience movement, had forced Great Britain suddenly to surrender so much of the political and adminis-

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trative power which, despite persistent Indian demands, she had for decades been struggling to retain for her own enjoyment. It was therefore natural that many should ask themselves—assuming, as was not unreasonable, that the Congress demands were sure to prove more than the Government could safely concede—whether it was wise, that the head of the Government, however high-minded and admirable his motives, should allow himself to confer day after day on equal terms with the leader of an anti-government movement when such conduct could do no more than increase the country's belief in the latter's importance.

But when, on March 5, the actual terms of the agreement that had been reached the previous day were announced, the whole atmosphere was transformed. During the next few days, newspaper comments representative of every shade of political thought, and statements issued by a great variety of prominent men, indicated that, except for an apparently small section of irreconcilable extremists, there was no important body of opinion in the country that did not hail the settlement with relief and satisfaction. So great and unanimous indeed was the enthusiasm, that it perhaps struck some of the more detached observers of events as a trifle indiscriminate and overdone; but the element of surprise with which it was compounded largely accounted for this. Up to the last moment, there were few, even amongst those in close touch with the situation, who believed that the discussions were likely to yield material results. The enthusiasm had, moreover, solid justification behind it. From the point of view of the Government it was felt, on the whole, that nothing of really essential importance for the maintenance of its position had been conceded; the Congress claim for an enquiry into alleged "excesses" by the police had not been allowed; no promise had been given for the return to its former owners of property which had been confiscated during the course of the Civil Disobedience

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movement and already sold; the concession in connection with the free manufacture of salt for private consumption in the coastal regions possibly involved some loss of prestige, but the point had little more than sentimental importance for either side, and the revenues would scarcely be affected; the cessation of Civil Disobedience and the restoration of the jail population to more or less normal proportions would obviously relieve the local administrations of an immense burden of anxiety and embarrassment; and the settlement might be expected to enable the country to set about restoring its economic life and thus relieve the Government of some of its alarm concerning the possibility of balancing future budgets. For the non-official Europeans, who are largely engaged in commercial activities, the merits of the settlement were obvious. There has, of course, particularly in Calcutta, been a good deal of criticism—the volume of which has not been fully evident in the newspapers—of Lord Irwin's administration. It was widely considered, particularly during the first few months of the Civil Disobedience movement, to have proved itself weak, short-sighted, and sentimental. But that, after all, in March 1931 was a thing of the past; there was no use crying over spilt milk; and it was widely recognised, even by that school of thought which from its unwillingness to trouble itself with the immense constitutional, administrative, and social problems with which the country is confronted, is liable to be dubbed reactionary, that the settlement at least afforded the prospect of better times. And that there is also a more genial and forward-looking school of thought among the European commercial community was amply demonstrated by the remarkably eulogistic letter addressed to Lord Irwin by an important group of the younger men in Bombay shortly before his departure.

The Indian commercial community welcomed the settlement for similar realistic reasons, supplemented by two others. One was that Indian business had, on the whole,

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suffered even greater losses from the Civil Disobedience movement than European, not only because of its somewhat different organisation—generally speaking, it consists of small firms with less ample reserves—but also because of the substantial financial contributions which many Indian business men have made in furtherance of the Congress campaign. It was thus in very real need of a cessation of strife. The other undoubtedly was that supposing, as appeared likely from the terms of the truce, that the Congress were to participate in further discussions in the impending changes and that, in consequence, it should prove possible to whittle away the safeguards for British trading interests outlined by the Round Table Conference, there might be a good chance for Indian firms, under cover of the new constitution, to obtain a greater share in the business activities of the country. As regards the great body of reasonable Indian opinion, which may broadly be summarised as liberal, since it is not committed to the Congress point of view and does not happen to be particularly interested in indigenous commercial activity, its gratification at the settlement was obvious and unqualified. The majority of educated Indians desire in a general way that the status of their countrymen at home and abroad should be improved by constitutional means, but they also desire that their lives and property should be secure, and that the existing order of society should not suffer any violent derangement, and to people of this school of thought the previous year had been a period of extraordinary difficulty. Among them are many who are entitled to consider themselves as strongly nationalistic or patriotic in their ideals as any Congressman; and they therefore suffered considerable mental discomfort from the prosecution and imprisonment of their compatriots by the agents of what they consider an alien government, while at the same time they believe that the whole Civil Disobedience movement was not only unnecessary, but also deplorably rash, in view of the obvious danger, in a country

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so vast and with so diverse, illiterate and poverty-stricken a population as India, that it might become uncontrollable and purely anarchic. The settlement therefore represented for this section of opinion, which numerically is certainly the most important of all, the end of an exceptionally trying period and the inauguration of a new one in which it might be possible, through the activities of their representatives in London reinforced by the effects of Civil Disobedience here, to obtain for India the substance of what her educated classes had been struggling for, and at the same time to keep her safe from revolutionary disorders.

The reactions to the settlement among Congressmen themselves are more difficult to analyse, since, at the time when it was made, so many of them were still in jail. No attribute of this remarkable organisation, however, is more striking, or indeed more significant from the point of view of the future of democratic institutions in India, than the almost unqualified dependence of its multitudinous members upon a handful of leaders; and it is thus fairly safe to treat the attitude of the Working Committee (so far as it is known) of a few prominent individuals outside it, and of the Congress newspapers as typical of the whole. Unquestionably the agreement was not reached without serious misgivings, and there were, from the outset, good reasons for believing that many of the younger Congressmen were fundamentally opposed to it. The following arguments could be brought forward against it: it would reduce the hold of the Congress leaders upon the country by lowering their reputation for consistency, since substantially less was obtained under it than what had, at various times, been stated to be the minimum Congress demand; it represented a serious break with past traditions, to which the Congress owed its influence. It would, indeed, almost commit the Congress to co-operation with a Government which it had persistently boycotted during the previous twelve years; there was a far from negligible danger of its bringing about the disruption

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of the whole organisation, since the younger members were now so wedded to an extremist political philosophy that it would probably prove impossible to hold them to the terms of the agreement or to obtain its ratification at the next plenary session of the Congress; and by ordering the cessation of Civil Disobedience the Congress was abandoning the one instrument which it possessed for bringing about the collapse of the existing system of government and obtaining power for itself, since once the movement lost its impetus there would be no chance, for a long time to come, of stimulating it into activity again.

On the other hand, the advantages gained under the agreement were considerable. It would have been impossible to keep the Civil Disobedience movement going for ever, the Government showed no immediate signs of collapse, and had immense material resources; meanwhile funds and enthusiasm were alike running short, and sooner or later popular belief in this particular method of political warfare would die away. Some of the faithful would then relapse into disillusioned inactivity, while others would certainly have resort to the use of the bomb and the revolver. Moreover, it was not clear whether the Congress itself desired to go very far along the path of really revolutionary activity, or, if it did, to what extent it could count on continued support. The rich merchants in the towns were not at the moment much concerned at the agrarian agitation which the Congress had set on foot, but it could not progress very far without affecting them, and the other propertied classes were already contemplating these tendencies with an anxious eye. Nor could the political affinities of the "Youth Leagues" and similar bodies attached to the Congress be viewed with equanimity by members of the older generation; the frequent use of communist symbols and phraseology, and association both with labour organisations and with at least potential terrorists, was indicative of an attitude far in advance of anything that the average Congressman could be expected

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to tolerate except for a very short time and as a matter of expediency. Again, there was no getting away from the fact that something really substantial had been achieved in London—something indeed so like what the Congress had itself been clamouring for until only a few years previously, that to have affected to pass it by as a matter of no account would have played straight into the hands of hostile critics who alleged that the Congress was a purely obstructive organisation, inherently incapable of taking a statesmanlike view of affairs. If the possibilities opened by the discussions in London were ignored, the delegates back from the Conference would, moreover, get all the credit for any measure of constitutional advance ultimately obtained, while at the same time, if the Civil Disobedience movement were still in progress, the British Parliament and public would probably take the view that it was not safe to confer any large degree of self-government upon the country. On the other hand, by abandoning the pretence of undeviating consistency and taking a realistic view of the situation, the Congress might well claim that the concessions extorted from Great Britain were primarily the result of its own activities, and by entering into some working arrangement with the Conference delegates it might bring about still further surrenders, and at the same time strengthen its own position and that of the country. Moreover, by calling off Civil Disobedience, the Congress was giving up nothing that would not sooner or later have had to be abandoned in any case; and now that its members were out of jail it was possible to set about the repairs which its organisation and finances so much needed, at the same time retaining a free hand to initiate another subversive movement should circumstances seem to require it later on. And it was not only practical, or perhaps one should say cynical, arguments such as these that had to be taken into consideration. There was also the question of "atmosphere." Undoubtedly the printed reports of the proceedings in London,

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the accounts given to the Congress leaders by returned delegates, and still more Mr. Gandhi's interviews with the Viceroy, had done much to rid even the most sceptical minds of the mistrust of British intentions which had so long befogged the relations between the two peoples, and many Congressmen came round to the view that the "change of heart" for which they had been clamouring had perhaps really begun. Thus it would, on the whole, be true to say that although the settlement was not welcomed inside the Congress organisation with the same unanimity and fervour as it was in other quarters, it at least afforded grounds for solid satisfaction to a large section.

### III. KARACHI

**A**MIDST all this speculation the preparations for the plenary session of the Congress at Karachi, at which the fate of the Delhi agreement would finally be decided, were proceeding apace, and, as the time drew near, the belief gathered strength that Mr. Gandhi, whose prestige was now higher than it had ever been before, would prevail against the sceptics and the extremists. The one serious danger seemed to lie in the impending executions at Lahore. Bhagat Singh and two other prisoners had been condemned for the atrocious murder of two unoffending police officials in December 1928, and Bhagat Singh himself had also been one of those responsible for the bomb outrage in the Legislative Assembly in the following April. The proceedings, through no fault on the part of the Government, had been unusually protracted, but they were now over and the appeals had been dismissed. In accordance with the recent practice of part of the Indian nationalist Press, a persistent campaign for the glorification of these political murderers had been carried on almost from the outset, and as a result of this incessant adulation they were exalted to the level of national heroes. Frantic

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pleas for commutation of the sentences were made right up to the last moment, and when, on March 24, it became known at Karachi, where those attending the Congress session had already assembled, that the executions had taken place, the emotion aroused was extraordinary, and it was widely believed that this incident would make it impossible for Mr. Gandhi to secure the assent of the younger and more extreme section of the Congress party to the ratification of the Delhi agreement. It was, of course, peculiarly unfortunate that such an occurrence should coincide with such a crucial session, but, as the Viceroy pointed out in a speech to the members of the Chelmsford Club in Delhi a few days later, it was felt that, if it was inevitable—and no justification for a commutation of the sentences which would not apply to other similar cases could be found—there were sound and obvious reasons why it should take place before the session rather than after.

On his arrival at Karachi Mr. Gandhi was greeted by a hostile demonstration from a group of young "Red Shirt" volunteers, and for the next day or two the atmosphere was tense. Several of the delegates, particularly those from Bombay, expressed strong opposition to the policy of the leaders. Nothing, however, more clearly demonstrated the astonishing hold which Mr. Gandhi had obtained over the whole body of Congress opinion than the actual event, especially when one remembers the difficulty that he had experienced in controlling the extremists at the previous session at Lahore, although nothing special had occurred on that occasion to excite them. For the session which seemed likely to prove the stormiest and most dramatic in the whole history of the Congress turned out to be thoroughly drab and uninteresting. The various resolutions were methodically discussed and passed by the Working and Subjects Committees, and when, on the 30th, the one dealing with the Delhi agreement came before the open Congress, it was passed without a single dissentient vote. It may be that the leaders of the extremist section had

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come to the common-sense conclusion that as Mr. Gandhi had already achieved so much, both for the party and the country, it would be sound tactics, even if one doubted the efficacy of his policy, to support him, at any rate for a time, since any other course would probably bring about the disruption of the whole organisation and the loss of much that had been gained with such difficulty. In any case the miracle occurred. The Congress was now committed to a course of action which almost every competent observer three months before would have considered utterly impossible for it. At the same time it had clearly shown the world that it was by no means lacking in those qualities of sanity and political acumen which its critics denied it.

### IV. THE COMMUNAL PROBLEM

SUCH has been the main stream of events. But before concluding this article some of the cross-currents, which are many and dangerous, must be indicated. The most conspicuous and dangerous is, of course, the communal problem, which completely eluded the strenuous attempts at its settlement during the Round Table Conference, and which, despite the endeavours of the Congress leaders here since their release from jail, still remains unsolved. It has indeed become substantially worse during the last month or two. A large number of the politically-minded Moslems were seriously alarmed by what happened at the Round Table Conference. They felt that events might be moving towards the establishment of the Hindu *Raj* which they dread—the unexpected decision of the Indian States to enter a federation with British India particularly giving rise to gloomy reflections, owing to the fact that most of the Princes are Hindus. The policy of the Government of India, moreover, since the conclusion of the Conference, towards the Congress party, which is itself a predominantly Hindu organisation, has not been of a kind to allay their

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anxieties. The cessation of Civil Disobedience, of course, they considered satisfactory, but the Mahomedan community as a whole had throughout held aloof from it, and it was widely felt that the unconditional release, first of the members of the Working Committee, and then of all prisoners arrested in connection with the movement, added greatly to the importance and prestige of the Congress throughout the country, while the services of the community which had stood by the Government in its hour of need were being totally ignored. The Mahomedan masses are equally restive, for more immediate and material reasons. Their attitude indeed is very like what it was at the end of the first non-co-operation movement nine years ago. For months their daily life has been disorganised by the spectacular activities of the other community; perpetual processions, innumerable acts of obstruction and petty tyranny, and above all the endeavours of the Congress volunteers to persuade small Moslem merchants to alter the ordinary habits of their trade and to observe *hartals* in honour of individuals or occasions for which they feel no sort of sympathy, has given rise to a steadily increasing tide of irritation and resentment. How dangerously tense relations have become is amply demonstrated by the deplorable series of communal riots in the United Provinces, which began on February 12 in Benares, broke out again during March at Mirzapur and Agra, and culminated in the frightful massacre at Cawnpore. At the moment of writing it is impossible to avoid a pessimistic view of the situation. A meeting of nationalist Mahomedans, attended by many eminent individuals, has indeed been held at Lucknow, and passed resolutions in favour of joint rather than separate electorates, arguing that the only proper policy for the Moslems is one of close co-operation with the Hindus, since the members of both communities are, above everything, Indians; but although the trend of events may ultimately favour Mahomedans of this way of thinking, their exhortations can do little



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to improve the situation at the present moment. At the session of the All-India Moslem League in Delhi there were dangerously inflammatory anti-Hindu speeches; meetings have been held in Allahabad and elsewhere in opposition to the Nationalist Moslem Conference at Lucknow. Mr. Shaikat Ali is touring the country breathing fire and brimstone; and there is now a rumour that Mr. Gandhi has decided that unless a communal settlement is reached it will be useless for him to participate in the new Round Table Conference. Truly, it looks at the moment as if much of what has been gained for the cause of Indian self-government during the first three months of the year may be lost in the bog of communal enmity.

Then there is the problem of the terrorists. The cult of violence has been growing dangerously for many years, and it was widely believed that one of the chief reasons why Mr. Gandhi, after the stormy session of the Congress at Lahore, decided to initiate the Civil Disobedience movement in 1930, was that he felt that unless he set in motion an anti-Government campaign conducted on non-violent principles, it would be impossible to prevent an outbreak of terrorist outrages on an extensive scale. Throughout 1930 and the early part of 1931 the police have had to be incessantly on the alert, and despite their vigilance a number of deplorable episodes have occurred. And although it is believed that, after their release from jail, some of the more influential Congress leaders approached those in touch with the terrorist movement, with a view to stopping outrages during such a critical phase in the history of the country, the number of incidents which have occurred since the Delhi settlement, for instance, the abominable murder of Mr. Peddie, the derailment of the Delhi-Simla express at the time of the annual move to the hills, and the bomb explosion in Delhi station, show that the danger is far from being allayed.

Equally sinister is the agrarian agitation initiated by the Congress during the Civil Disobedience movement in various

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parts of the country, particularly in Gujerat and the United Provinces, which it is proving extremely difficult to control. For a country whose population, like that of Russia, consists mainly of illiterate and poverty-stricken peasantry, the perils inherent in such a movement, once it gains any real impetus, need not be emphasised. And the danger is accentuated by the fact that the rural masses happen to be suffering acutely from the catastrophic fall in commodity prices throughout the world—a phenomenon which, of course, they are quite incapable of understanding.

Associated with the difficulties arising out of the economic position of the peasant are those with which the Government itself is confronted in its endeavours to retain some measure of financial stability. As in every other country in the world, the unprecedented commercial and industrial depression last year has had deplorable effects on India's economic life, which have, of course, been rendered still more acute by the repercussions of the Civil Disobedience movement. What will be done in the next year or two to balance the budgets it is at the moment impossible to foresee, but that the country should find itself confronted by financial conundrums of the most serious kind at the very moment when its whole system of government is about to suffer a radical change is peculiarly unfortunate.

Finally, there remains to consider the attitude of two powerful groups—the Princes and the Europeans—towards the crucially important events of recent months. Since the Round Table Conference concluded, little has come to light to show what the ruling chiefs think of the great change in their circumstances to which they committed themselves in London, or of the line which they are going to take at the second Conference which must be held shortly. The whole conception of a federal India remains, indeed, to all outward appearance in the somewhat sketchy form in which the first Conference left it. No doubt a good deal of quite natural hesitation\* has been felt by certain rulers with regard to some of the implications of the projected partner-

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ship between the States and British India, particularly, of course, over the question whether the attempt to run democracy and autocracy in double harness will prove to the advantage of themselves and their successors. Nevertheless, there is no reason to suppose that the Princes do not, as a whole, mean business, though there may be some delay about it. Certainly, during the brief session of the Chamber of Princes at Delhi in March, there was no indication that the more important and responsible members felt any serious doubts about the wisdom of the step that they had taken, and their election, on the retirement of the Maharajah of Patiala from the office of Chancellor, of the young Nawab of Bhopal, who was among the most active of the States representatives at the Round Table Conference, and who has been constantly in touch, since his return, with leaders of opinion in British India, including members of the Congress Working Committee, seems to show that the Princes as a body have accepted the new policy and mean to make the best of it. Such important figures as the Nizam of Hyderabad, however, have remained ominously silent, and there is no positive evidence yet that the acquiescence of the smaller potentates will be secured for a scheme which must inevitably prejudice their sovereign rights more than those of the great principalities.

The attitude of the European community is somewhat clearer. There has been some attempt to denounce the community's delegates to the Round Table Conference for their agreement to the proposed grant of responsibility at the centre, but it is generally recognised that the inclusion of the States in a federal system weakens the arguments for a "strong" central government, which the European community used in evidence before the Simon Commission, and that the commercial interests of Great Britain in India would lose rather than gain by the adoption of an intransigent political attitude. The spirit of liberalism, shown in the address delivered to the departing Viceroy by a group of younger British business men in Bombay, which has

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already been mentioned, is to be found among the younger non-official Europeans in other centres also. Officially, the European Association gives its general approval to the results of the Round Table Conference, while laying stress on the absolute need for safeguards to prevent a Swaraj government from tampering with the currency or carrying legislation (on the lines, for instance, of the late unlamented Haji Coastal Shipping Bill) to discriminate against established British commercial interests. The influence which certain wealthy Indians are supposed to possess over Mr. Gandhi, and the recent demand of the Federation of Indian Chambers of Commerce, for a policy of detaching the rupee from its present relationship with sterling, gravely alarm the European commercial community. Its leaders have not yet, however, formulated a definite and complete scheme for embodying in the future constitution of India the defences to which they lay claim.

The community felt somewhat aggrieved at the terms of Sir George Schuster's budget, which were announced on February 28. He proposed to meet an estimated deficit of 14½ crores (nearly £11,000,000) partly by customs increases—including an increase of the general tariff from 15 to 20 per cent.—and partly by additions to income tax. The Europeans claim that they are the most conscientious, as they are the most important, payers of income tax, while imported articles of which they are the chief consumers, such as alcoholic liquors and tobacco, have been subjected to special increases of duty. Sir George Schuster's plans were denounced in Calcutta as unduly favouring Bombay, and as being "a caretaker's budget." Disgruntled, however, as many Europeans are, it is clear that neither they nor the Princes will offer insuperable objections to the scheme of constitutional advance foreshadowed by the Round Table Conference. It is the communal problem that restrains the pace, and threatens even to change advance into retreat.

India, April, 1931.

## GREAT BRITAIN

### I. THE POSITION OF PARTIES

POLITICAL observers are agreed that in no previous Parliament have there been such swift changes in political probabilities. During the past three months the association between the Liberal and Labour parties, upon which the existence of the Government depends, has passed through every phase, from almost complete estrangement to co-operation which at the moment seems hardly distinguishable from coalition. At the beginning of the period under review, a Liberal amendment to the Trade Disputes Bill was fiercely resisted by the Government, although the Liberals subsequently declared that, in their view, the Government had agreed to it beforehand. The amendment in effect rendered illegal the repetition of the general strike of 1926 for any reason or excuse whatsoever, and was carried against the Government. As the trade unions looked upon the Bill as having lost all its value in consequence, the Government, at their instance, dropped it altogether. The bitterness between Liberals and Labour was extreme, but so quickly did it pass that one is tempted to believe that many Labour members were glad in their heart of hearts to be quit of so questionable a measure. Since then the two have "kissed again with tears." It is true that a further serious snub was administered to the Government when their proposal to abolish university representation was defeated, but it left no sore feelings behind. It was quite legitimately treated by the Govern-

### The Position of Parties

ment as affecting their position in the House to a comparatively small extent, and their relations with the Liberals did not suffer. Indeed the Government repaid them good for evil by deciding to press on with the Electoral Reform Bill, a decision symptomatic of a reconciliation which has since ripened into something warmer, no doubt on account of the character of the budget. In consequence, at the by-election in Ashton-under-Lyne the Liberals left the field clear for Labour, and at Scarborough Labour returned the compliment. And this pooling of electoral fortunes has had its counterpart in the sphere of policy. So far as Mr. Lloyd George can count upon his party, he clearly intends that it shall fight, work and vote alongside the moderates who control the Labour party. Nor will it be an altogether unnatural association, for although these moderates pay at all events lip service to doctrines which no Liberal could support, both their actions and their convictions may fairly be described as radical rather than socialist. There are grounds for a genuine alliance between them and Mr. Lloyd George—the prophet of radicalism in the first decade of this century—who is now returning to his first love. The joint policy may be briefly summed up as the defence of free trade, national development by public expenditure, hostility to the House of Lords, self-government as the goal for the various parts of the Empire, direct rather than indirect taxation, and the taxation of land values. The new entente goes back in spirit to the years 1906 to 1910.

The process of creating a left wing *bloc* is, however, by no means so simple as it then was. In the first place, it is unpopular with the electorate, both Liberal and Labour. The average elector cannot understand why the two should fight each other in the constituencies and co-operate in the House of Commons. Successive meetings of Liberal organisations, both inside and outside the House, have also shown the strength of the feeling within the party itself in favour of complete independence; though the

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assertion of spiritual independence, if not reflected in action, does not carry things much further. Again, although the Liberal love of free trade undoubtedly helps to hold the party together, the insistence of official Liberalism on a policy of public expenditure at such a time offends many Liberals. Lord Grey and the Liberal Council, for instance, have to decide whether free trade or the avoidance of fresh expenditure means the more to them. Sir Edward Grigg has recently published an appeal to Liberals to co-operate with the Conservatives as they did in 1886. Whether he will meet with the response he hopes for it is impossible at the time of writing to say, but these factors make it hard for Mr. Lloyd George to know how much of his party he really commands. Nor is the other party to the entente free from embarrassment. The Labour party's natural tendency is to favour tariffs, or at least protective measures, as some guarantee against a fall in nominal wages, but, although there have been defections, their official policy is still free trade. The New party, formed by Sir Oswald Mosley, has already fought its first by-election, where it polled nearly 4,500 votes. The essential points in its programme are administrative efficiency and protection, though by other means than tariffs. Its promoters are naturally accused by Labour of treachery, and it may well be that, at the moment, they draw more votes from the Labour party than from the others, for that party is the most disgruntled; but they clearly supply a convenient cave for the disgruntled of all parties, and it is by no means certain that in the long run, owing to the protectionist flavour of their policy, they may not be a thorn in the side of the Conservatives. Again, the refusal of the Government to advance beyond radicalism is bound increasingly to antagonise the Independent Labour party. The "utter despair" of that body, as expressed by its new chairman, Mr. Fenner Brockway, has so far resulted in barks rather than bites. But the I.L.P. was originally the means of breaking up Liberal-Labour co-operation, and it will

## The Position of Parties

doubtless try to do so again if it can screw its courage to the point of disregarding the risk of a temporary electoral eclipse.

The prospect of a coalition of the Left has no doubt helped to consolidate the Right, and given a more permanent character to the return of Conservative rebels to the official fold. The by-election in the St. George's division on March 19 was recognised, even by the malcontents, as deplorable. The independent candidate supported by Lord Beaverbrook and Lord Rothermere was beaten, but he polled over 11,000 votes. It was clear that the schism, if persisted in, would prove fatal both to the Conservative hopes of victory at the next general election, and to the policy of the schismatics themselves. The conflict also threatened to bring into the sphere of party politics issues which, by common consent, ought not to be treated in a party spirit. It is unnecessary to look further for the motives which inspired Lord Beaverbrook in calling off the struggle after his negotiations with Mr. Neville Chamberlain. It was agreed that the party policy should be to employ "all or any" methods likely to promote domestic prosperity and imperial economic unity. The real rallying cry of the Empire Crusade and United Empire parties had always been dissatisfaction with Mr. Baldwin's leadership, and Mr. Baldwin himself proceeded to crown the declaration of peace by a series of speeches, including an admirable one in the House of Commons on India, which displayed unusual qualities of leadership. Mr. Churchill, who at one time threatened to push his views on the Indian question to the point of a new schism, has since wisely modified his methods, though not his views. His move has given him an independence of party ties which he no doubt thoroughly enjoys. His main difference with his party is and always has been that he considers a breakdown of Lord Irwin's policy inevitable, and that a policy doomed from the very outset should never have been tried. But even from this standpoint it is now, as he has himself

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recognised, useless to deplore the past. For the future he will join with his own party, with Liberals like Lord Reading, and, indeed, with the Government itself, in insisting that there can be no settlement without safeguards. The former probability that Indian policy would cause a break in Conservative unity has become more remote.

### II. THE BUDGET AND THE LAND TAX

THE budget was opened late, owing to the illness of Mr. Snowden. Budget figures are misleading, because they include the amount devoted to the repayment of debt, while they exclude borrowing for current expenditure. Thus, when Mr. Snowden announced a deficit of just over £23,000,000 for 1930-31, he did not add that he had borrowed £35,000,000 during the same year for loans to the unemployment insurance fund. But since nearly £67,000,000 was devoted to the repayment of debt, a balance sheet drawn up on the principles of strict accountancy would have shown a real surplus of about £8,000,000. That result in such a year\* is no inconsiderable achievement, although it reflects the sacrifice of the British taxpayer rather than any spirit of economy in British governments. A year ago, however, Mr. Snowden budgeted for a surplus of £2,236,000, as well as a contribution of £55,400,000 to the sinking fund. The main reason for the smallness of the final margin, apart from the unexpected cost of unemployment, was a falling off of £13,226,000 in the yield of taxes, of which £6,350,000—the decline in the yield of stamps—directly reflected the dullness of business on the Stock Exchange, and £7,169,000—the decline in the yield

\* The total deficit in the budget of the German Reich during the year 1930-31 was close on £54,000,000 (Rm. 1,078,900,000), including £15,000,000 for loans to the unemployment insurance fund in excess of estimates; the French budget showed a deficit during the same period of 2,200,000,000 francs (about £17,600,000), while at the time of the Chancellor's speech the expenditure of the United States government had exceeded revenue by over \$800,000,000 (£160,000,000) during the year ending July 1, 1931.

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of customs and excise—resulted from a falling off in the value of internal and external trade. The direct taxes stood up remarkably well to the strain. Income tax, surtax and estate duties totalled only £1,000,000 less than the budget estimate; but it must be remembered that both income tax and surtax were levied on incomes earned during a period which was more prosperous than the present.

For the current year Mr. Snowden estimated that there would be a deficit of £37,500,000 on the existing basis of taxation. This was lower than was anticipated, but the figure was only reached by refraining from carrying forward last year's nominal deficit, by reducing the provision for interest and sinking fund to its level in 1929-30, by leaving out of account (as hitherto) borrowing for the unemployment insurance fund, and by assuming that there would be substantial economies and no supplementary estimates during the year. The alternative courses open to the Chancellor were, either to impose new taxation up to the amount required, or to postpone the day of strict accounting by devices similar to those employed by Mr. Churchill to tide over the results of the troubles of 1926. He chose the second. His budget is admittedly a makeshift, a budget of postponement, and his decision undoubtedly showed personal courage, for he did not shrink from exposing himself to the charge of adopting the very course which he himself had strenuously denounced. He proposes to take £20,000,000 from what appears to be the last of the Treasury hen-roosts, namely, the Exchange Account, which is a sum of £33,000,000 in dollars originally placed in the United States to finance war purchases and since left there as an insurance against exchange difficulties in the payment of the war debt to America. He proposes to find £10,000,000 by calling income-tax payers, other than those liable under Schedule A who have already been subjected to the same call by Mr. Churchill, to find three-quarters of their payments upon the current year's income next January, and one

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quarter in July, 1932. Finally, he proposed to raise £7,500,000 by increasing the tax on petrol from 4d. to 6d. a gallon. This is the only increase in taxation and balances the budget, but Mr. Snowden himself warned his audience that the balance would be upset if trade did not improve, or if economies were not effected. The budget is intended to give a breathing space to industry—some of its critics say a breathing space to allow the new entente with the Liberal party to consolidate itself. If they are right, its political object has been more effectually furthered than its industrial object. The budget has given a respite for the moment to those who anticipated a heavier increase in taxation, but it has not restored confidence to industry. For Mr. Snowden is obviously banking on the fruitful issue of the labours of the Economy Committee and the Royal Commission on Unemployment Insurance, whereas the business world will not believe in results until it sees them. Mr. Snowden himself, moreover, had previously expressed a completely sceptical opinion on this very subject.

Assuming then a prospective deficit next year no greater than this one—an assumption which demands an unusual degree of optimism—the Economy Committee will have to suggest savings amounting to £30,000,000 to meet the raid on the Exchange Account and the £10,000,000 anticipated from income tax which together have enabled the budget to be balanced this year. Besides this, even if the Royal Commission should succeed in putting the unemployment insurance fund once more on an insurance basis, the result, far from being a saving to the Exchequer, will probably bring into the budget part of the charge so far met by borrowing—a charge which last year reached £35,000,000 and is this year estimated to reach some £50,000,000. Mr. Snowden himself cannot be accused of disregarding the necessity of looking ahead for other sources of revenue to supplement possible economies. He is precluded by his principles from recourse to tariffs, but he has produced a scheme for the taxation of land values which he has been maturing for

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two years. In his opinion the “most important part” of the budget is the proposal to take power to levy a tax of one penny in the pound on the capital selling value of land, a proposal which should strengthen the entente with the Liberals, and will certainly rouse the enthusiasm of a section of his own party which has been growing restive. Its advocates, moreover, credit it with a revenue value almost infinitely elastic, which will enable budgets to be balanced without the aid of tariffs.

Under this scheme all land, except land which obviously has only an agricultural value, is to be valued on the assumption that it is bare of everything except what has been supplied by nature or built by public authorities, but taking into account private roads and one or two other improvements. For the purpose of the valuation, however, the surrounding land is taken in its actual state. This, Mr. Snowden thinks, will enable him to arrive at the normal market value of a site. On that value he proposes to put an annual tax of one penny in the pound, but since the valuation is expected to take 18 months (incidentally it is expected to cost between £1,000,000 and £1,500,000) the tax will not be imposed until the year beginning in April, 1933. The first valuation is to be as on August 1, 1931, and subsequent valuations are to take place every five years. Agricultural land is to be exempt, though the valuers are to assess for taxation any value beyond the agricultural value. The exemptions include the sites of churches and cemeteries, land owned by the National Trust, all land owned by local authorities, sites of hospitals and almshouses, land owned by railways and other public utility concerns whose land cannot be alienated for other purposes, and, finally, all pieces of land valued at less than £120. Since the unit of valuation is to be land in separate occupation, this last exemption will exempt working-class owners of house property. The tax will not apply to minerals.

The principles which underlie the proposal are as follows. It is claimed that the land belongs to the people; that its

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value is not the product of any individual, but the result of the growth and progress of the community whose continued expenditure maintains its value. The proposed land tax, said Mr. Snowden, asserts the right of a community to the ownership of land, and the tax is a rent due to the community. The main advantages claimed for it are roughly as follows. It will afford a valuable new source of revenue, and the penny in the pound can be increased if need be without, it is said, adding to the burden on industry. On the contrary, it is contended that it will help it by cheapening land for it imposes on its owners an inducement to sell. The existence of statutes which enable local authorities to acquire land, for instance, the ribbon on each side of a road, and which also oblige landowners who benefit by such public works to hand over part of the betterment, is admitted, but it was pointed out that the Road Board has never had enough money to take advantage of its privilege. The Acquisition of Land Act, 1919, was an improvement on the old Land Clauses Act in that it substituted the market price for the value of expropriated land to the owner; but it did nothing to reduce the market price as this tax will. As for the betterment provision in the law, owing to difficulties arising out of the necessity of going to arbitration, it is, the Solicitor General pointed out, practically a dead letter. However that may be, there is now a Bill before the House to increase the part of the betterment obtainable from the owner from half to the whole.

But the framers of the measure have more in mind than a new kind of State taxation. They set great store by the preparation of a valuation register for its own sake, apart from any revenue that the tax may bring in. For the register could be used for other purposes—by local authorities, for instance, whom it would, they say, enable to adopt a new and better basis for rating purposes—and further, it would provide a means of checking exorbitant demands by owners whose land is required for public purposes. More than this; the tax, by increasing the

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readiness of landowners to sell, and so making land cheaper, is, it is believed, bound to have a good effect on the housing problem, as it will be easier to obtain land for building. It does not pretend to be an increment tax like one of Mr. Lloyd George's 1909 measures, but it is claimed that, as a stimulus to building, it is better. For that kind of tax, far from encouraging sales of land, tends to discourage them. There was a large drop in the number of houses built after Mr. Lloyd George's pre-war betterment scheme came into force.

The economic advantages are not admitted by opponents of the tax. It is contended that, far from helping industry, it will positively add to its handicaps. Even if a land tax, as was argued, is hard to pass on, that very fact will penalise an owner manufacturer. In any case, the critics ask, does anything justify adding at least £300,000 to £400,000—and probably more—to immediate expenditure this year in order to reap a tax, of which no estimate is given, a couple of years ahead? But whatever the economic advantages, there is a standpoint which cannot be ignored, that of fairness, and most of the objections to the tax are on that ground. It is impossible in an article such as this to deal with all the rights and wrongs of the matter. Many of the criticisms attack particular provisions, some of which may be met by amendment in Committee. It is said that the exemptions do not go nearly far enough. Hospitals, for one thing, get part of their funds from rents, but as only their sites are to be exempt, their revenue would be hit by the tax. It may or may not be possible for schools and colleges to escape lightly by using the Town Planning Act and, as was suggested, getting their land sterilised for any other purpose than the existing one so as to ensure a low valuation; but why, it is asked, should the railway hotel go free, while the ordinary inn across the road—its rival it may be—is taxed? Fault is also found with the method of valuation. Will a valuation as on August 1 next bear any relation to the value two years hence? The

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fact, moreover, that private roads are to be taken into account might add thousands to the site value of a garden city. From the standpoint of justice, it is no answer to say that the inclusion of these roads avoids complications such as wrecked Mr. Lloyd George's scheme. The tax has been compared to his undeveloped land duties; but there is really no analogy. Those duties only applied to non-agricultural land not yet built upon; this tax is on such land whether already built upon or not.

But besides criticisms of detail, there is one objection which affects the underlying principle of the scheme. Most of the critics recognise the logic, and even the justice, of taxing increment, as the 1910 increment duties did, however difficult it may be in actual practice, but the present tax is quite different. It is a tax on land. Why should land be treated differently from any other form of property, war loan, for instance, or industrial debentures, or stocks and shares? Even if it were true that the progress of the community has given its whole value to land, the increment is taken into account in every sale that takes place. The purchaser pays its full value. A tax of this kind will not, as a rule, reach the man who has already reaped the increment, and even in the cases where it does, the relation to his gains is accidental. Indeed, it not only discriminates against a special kind of property; it discriminates against a particular class, *i.e.*, all the people who have bought land before its introduction. The man who sold it—a speculator it may be—goes free with the full price in his pocket, and future buyers can take the tax into account in the price they give; but for landowners who happen to have already bought there is no redress. The tax takes so much off the value of their property, operating as a kind of discriminatory capital levy. And this class is a large one. It is reckoned that half the land in the country has changed hands since the war, and the landowners have increased by 50 per cent. They include all sorts and conditions of men. Whatever principle, therefore, justifies such a tax it can hardly be

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capacity to pay. It was contended by advocates of the tax that land, unlike most other forms of property, has gone on steadily increasing in value, like Government stock, notwithstanding the depression, and that the case for taxing landowners is as strong as for taxing the rentier. But surely this argument could hardly be applied to land indiscriminately throughout the country. Mr. Lloyd George answered the plea of injustice by citing the practice in foreign countries, but he did not enter into detail. It is to be hoped that this omission will be repaired. The question of the extent to which the considerations which govern municipal taxation, in new as well as in old countries, could be applied to national taxation in a country like Great Britain is certainly one upon which it would be interesting to hear more.

With regard to the plea that the tax would broaden the basis of taxation, it would obviously not do so in the personal sense, for, as land up to a value of £120 is exempt, the burden will clearly fall upon the very class which is bearing the burden of existing taxation. Another question from the point of view of fairness. Income tax cannot apply if there is no income, but this tax applies whether there is income or not. No doubt it is this very thing which forces sales, but an indiscriminate application of the screw to landowners generally, apart from any question of justice, may, as has been pointed out in a letter to the *New Statesman and Nation* from Mr. Keynes and Professor G. M. Trevelyan, lead to very undesirable results in so far as the preservation of rural amenities is concerned.

Such are some of the objections urged against this measure. Strong Liberal support was given to it in Parliament, but criticism has not by any means been limited to the Conservative party. On May 9, the *New Statesman and Nation* had an article headed "A Good Tax Gone Wrong," and the *Economist* regretted that Mr. Snowden should have adhered to traditional methods instead of tackling together the two problems of securing



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a substantial proportion of the enhancement of land values which is being created every day by public expenditure upon roads, and of gradually transferring part of the burden of rates from buildings to sites.

### III. GENERAL MATTERS

OTHER legislation of the Government has been relatively unimportant. At the moment of writing the Lords have torn the Land Utilisation Bill to fragments, no critic having been more destructive than a Liberal peer, Lord Buckmaster. The provisions for large-scale State farming and the multiplication of State demonstration farms have disappeared and a limit has been suggested for expenditure upon new small holdings and allotments. Lord Hailsham lent some substance to subsequent Labour explosions against the House of Lords by suggesting that the Government should pledge the Commons in advance to waive their privilege upon certain amendments; but the Lords were no doubt sure of the support of a strong body of public opinion in seeking to prevent the possibility of avoidable expenditure. A town planning Bill has been introduced and seems likely to be largely non-controversial. The full-dress debates in the House, apart from those on the budget, have been as usual concerned with unemployment. Immediately after the Easter recess the Conservatives moved a vote of censure on this subject which was all too clearly a tactical move designed to embarrass the Liberals. The latter refused to be caught, and as a result the Government had an unusually large majority, although their case differed in no respect from that advanced on previous similar occasions. The new Minister in general charge of unemployment, Mr. T. Johnston, had only just taken over his new post; but he showed no signs of departing from the policy of a programme of public works for the present and of pushing forward industrial rationalisation for the future. Meanwhile the

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number of the unemployed has decreased by about 80,000 from the peak of over 2,600,000—an improvement which may be only seasonal, but which did not take place during the seasons of 1930 and 1929. The operation of the Coal Mines Act had the curious result of throwing out of work large numbers of miners, towards the end of the first period for which a quota of production was fixed, in those collieries which had exhausted their quota. The trouble passed with the opening of a new period, and seems to have been due to the invasion by some districts of the markets usually served by others. The hours of work fixed by the Act have been proved to involve reductions of wages in certain districts, with the result that those districts have agreed to break the law by working the “spread over” system in spite of the veto of the Miners’ Federation. The mining situation indeed remains a dangerous hurdle for the Government. In July the Act of 1926 lapses, and the maximum daily hours of work are automatically reduced to seven. The industry will then presumably again be faced with the gloomy choice between higher prices and more unemployment, or lower wages, or longer hours. The Miners’ Federation are strongly pressing the Government to pass a Bill fixing higher minimum wages, and the course has been adopted of forming a joint committee of the Cabinet and of the Federation to draw up a policy. Feeling in the coal fields is undoubtedly despairing—indeed, the Federation at one time actually turned to the Liberals for help instead of to the Government, which probably explains why the Government have adopted so unusual a course to bring them back to their proper fold. After the mining hurdle, there looms ahead the hurdle of the dole, which will have to be faced when the Royal Commission reports. The Trades Union Council have tendered in evidence a scheme to abolish the principle of insurance against unemployment altogether, and to substitute a general scheme of relief to all the unemployed at scales higher than the existing rates of benefit and given on

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existence and our national honour, will lapse into its habitual state of legislative acquiescence. The Bill as a whole deals with various minor aspects of the licensing question which ought not to occupy altogether three days of parliamentary time in a normal assembly.

A Bill of much greater importance is that dealing with the position of town tenants which has also been recently introduced but not yet debated. Complaints have been made for many years that the Town Tenants Act of 1906, one of the many ameliorative measures which the Irish party succeeded in passing through the British Parliament, did not succeed in preventing the victimisation of town tenants by unreasonable landlords, and a Commission was set up by the Government in 1927 to investigate the matter and to recommend what changes in the law were practicable and desirable.\* This Commission made recommendations of a comprehensive nature to remedy these defects, but also found that no case was made for fixity of tenure as a general principle for all town tenants. It is now over two years since the Commission reported and, although the Bill required careful consideration and involved very complicated legal questions, there is little doubt that these were not the only grounds for the delay which has taken place in its introduction. The Government have clearly hesitated to deal with the question because they are dependent on the vote of the small Independent party in the Dail, which largely represents the landlord element, and which may not support this Bill. The measure, however, contains just and sufficient proposals for dealing with the grievances of the town tenants, and provides not only for adequate compensation but also establishes the right to a new tenancy as the primary remedy in the case of business tenants, tenants of private residences who have been so long resident in the same place as to make removal an undue hardship, and tenants who

\* See THE ROUND TABLE, No. 66, March 1927, p. 347, and No. 72, September 1928, p. 824.

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have executed improvements so extensive that they double the letting value of the tenement. Naturally the various town tenants' organisations have, for once unanimously, agreed that the proposals in the Bill are entirely inadequate and unsatisfactory.

Another important Bill which has occasioned much debate is the Land Bill, the objects of which are, first, to get the appointed day for the vesting of all tenanted lands in the Land Commission fixed at the earliest possible moment, thereby securing to every tenant the commencement of his redemption period and the fullest reduction in his annual payment to which the law entitles him, and, second, to speed up the vesting of holdings, to be resold by the Land Commission to their tenants on Congested District Board estates, and to allottees of parcels of untenanted lands, thus giving these purchasers also at the earliest possible date all the benefits of the annuity system of repayment. As there are over 80,000 holdings remaining to be vested under the 1923-29 Land Acts, which completed land purchase in the Free State on a compulsory but equitable basis, and more than 20,000 holdings on Congested District Board estates to be resold to purchasers, the necessity for simplifying the vesting operations becomes apparent. The new Bill does not alter in any respect the basic financial bargain made with the landlords by the 1923 Act, but provides a new, elaborate system of legal machinery for speeding up the process as far as the tenants are concerned. Naturally the criticism of Fianna Fail is that all this should have been done long ago and that they would have done it if they had had the power. Deputy Derrig, one of their party, did in fact introduce a Bill dealing with the matter in 1929, but it was not clearly thought out or comprehensive and died an early death.

It is clear from the recent speech of Mr. Blythe, the Minister for Finance, at Skibbereen that the Government are seriously considering an alteration of our electoral system, which he definitely stated was one of the greatest

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difficulties that they had to contend with. He specifically referred to proportional representation,\* which, he said, had prevented a clear verdict being given in 1923, which would have settled the Treaty issue for good and all and would have enabled the country to get down to work. Then there was the difficulty of by-elections which necessitated tremendous waste of energy and money, and prevented Ministers from maintaining contact with their own constituencies. He indicated that these matters would probably be dealt with in the Redistribution of Seats Bill now under consideration.† Unless the Government can produce some better arguments than Mr. Blythe has done it is hard to see how they can justify the abolition of proportional representation save on purely selfish, political and opportunist grounds. Three elections have been held in the Free State since proportional representation was introduced, and in each election there has been an overwhelming majority for the Treaty. It may in fact be argued conclusively that, but for proportional representation, the disgraceful pact made between Michael Collins and de Valera before the election of 1921 would have prevented the people from giving a decisive opinion on the Treaty at that time, with results that may be better imagined than described. The intervention of independent pro-treaty candidates in that election indicated decisively the real opinion of the country and forced Collins and Griffith to decisive action. This intervention could never have been decisive without proportional representation. Government critics of proportional representation express the view that the existence of intermediate pro-treaty groups like Labour, the Farmers and the Independents prevents the Government from implementing a courageous and extensive policy, but it must not be forgotten that the existence of these very groups has enabled voters who, for a variety of reasons, do not see eye to eye

\* See THE ROUND TABLE, No. 80, September 1930, p. 828.

† See THE ROUND TABLE, No. 82, March 1931, p. 407.

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with the Government but desire to uphold the Treaty, to express their views without supporting Mr. de Valera. Indeed, it may be argued that the abolition of proportional representation would give Mr. de Valera's party their best chance of obtaining an independent majority in the near future, and in this respect the Government may well be cutting a stick to beat themselves. It is also to be noted that the Fianna Fail party have so far raised no objection to the proposed change. Under the single member system the Government might easily have been swept away three years ago, instead of remaining in power as the oldest European Cabinet. Even if the Government had increased its strength enormously by the abolition of proportional representation, worse results might well have ensued, because in that event Fianna Fail would never have entered the Dail and would probably have been driven to more extreme courses, whilst the Dail itself would have been an entirely partisan and uncritical assembly. Proportional representation has also saved us from such absurd results as follow the so-called "swing of the pendulum" in England, and has enabled men of critical and independent mind to obtain representation. These results, no doubt very displeasing to the professional party politician, make it essential that proportional representation shall not be abolished without a searching and impartial public inquiry into its working. As regards by-elections, that is of course another matter, and much might be urged in support of the view that casual vacancies might be filled by some simpler and less expensive method.

The tariff of 4d. a pound on butter which was imposed by the Dail on January 22 has had valuable educational results, and the Labour party which represents the working-class consumers in the towns is already clamouring for its removal. Butter occupies a unique position amongst our agricultural products inasmuch as it is the only important item on the list of which the home supplies are insufficient for the requirements of the home market. It

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is true that in a certain period of each year our home supplies of creamery butter are more than twice our home requirements for the year, but there is a period of four winter months in each year during which our home production is only about half our home requirements. The immediate effect of the butter tariff was to increase the price of butter by 4d. a pound, but directly the increased production began in April the price fell 2d., and it is clear that in a very short time when the shortage of home production becomes a surplus the protective value of the tariff will vanish. The tariff, even allowing for relief of taxation, has already cost the country about £250,000, but if it prevents any further experiments of a like nature it may have been worth the price. Even Mr. T. P. Dowdall, a southern butter merchant, who believes and preaches that all our ills, both economic and uneconomic, can be cured by tariffs, has expressed the view that the butter tariff has now served its purpose and might well be discontinued. Mr. Hogan, our very competent Minister for Agriculture, has not been slow to point the moral. Speaking at Cork on April 10, he emphasised the fact that, although tariffs are effective to encourage industrial development, while the process is going on the consumer will, as a rule, have to pay the full amount of the tariffs. In all our agricultural products except butter, there is an immense surplus over and above our requirements, and consequently, he pointed out, tariffs on any of these products would be quite ineffective as tariffs. They would not increase the price and consequently would not conduce to greater production. In a word, they would not protect. The position was therefore that, while the industrialist might get effective protection at the expense of the consumer from industrial tariffs, the agriculturist, as an invariable rule, would not. His sole function in the matter was to pay the greater part of the cost. We had already put a tariff on more than £14 million worth of our industrial imports. A further extension of tariffs to a large number of items, each item inconsiderable

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in itself but substantial in the aggregate, would rob the farmer, as consumer, of all the benefits and reductions he had obtained under the various Land Acts since 1881. There was a section, Mr. Hogan added in scathing terms, which believed that a collapse of the British market, which would throw us back on our own resources, was not only imminent but desirable for economic reasons, as it would force us to become a self-contained and therefore a more stable country in which the consequences of world economic fluctuation would no longer be felt. We need not take this infantile point of view too seriously. The people who held it, though mentally incapable of envisaging beforehand the dire consequences in dislocation and misery of such a collapse, would be the first to cry out in distress if it actually occurred. Tariffs alone, the Minister concluded, and especially ill-considered tariffs, never encouraged anything except extravagance and corruption. Without skill and enterprise they were useless. Tariffs were stimulants. Stimulants might be, and in fact were, necessary and useful, but their usefulness was distinctly limited, and beyond a certain point they defeated their purpose and became harmful. The food of industry was skill, economy and enterprise. The reactions to Mr. Hogan's trenchant criticisms are not without humour. The *Irish Times*, for instance, which is the organ of the old Unionist ascendancy and disapproves of every form of tariff in the Free State, warmly commends his views, but at the same time is careful to point out that his arguments would not be valid against Mr. Baldwin's preferential schemes because of their Imperial nature. It is eloquent also of our changed political mentality to find a prominent Minister devoting an entire address to an important economic question, but, as one well-known merchant who was present remarked, it would have been even better if the other side of the question had also been expounded at the same meeting.

The truth is that the people as a whole are utterly sick of arid disputes about the Treaty and the Republic, and

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want to get on with the work of making the country prosperous. A well-known bravo of Mr. de Valera's party recently summarised the situation by the statement that he found his audiences were more interested in bread and butter than in nationality. It is, however, unfortunately true that the small secret society which is determined to revive terrorism and so make government impossible, still continues its activities with apparent impunity. Quite recently a police agent was found murdered in the suburbs of Dublin, and on March 20 Superintendent Curtin, a young Civic Guard officer, was ambushed at night and literally riddled with bullets as he was opening the avenue gate leading to his house, a few miles from Tipperary. Like all uniformed officers of the Civic Guard he was unarmed and therefore absolutely defenceless. A few months before he had been active in rounding up parties on charges of illegal drilling, and it was clearly on this account that he was murdered. He is the tenth Civic Guard to be murdered since the force was established. Although the jury returned a verdict of murder against some person or persons unknown, no one has so far been arrested, nor does it seem probable that anyone is likely to be. The crime was, of course, the work of an organised murder gang, and the facility which the motor car gives for rapid transit makes it probable that the assassins came from a distance, even if the plan was hatched locally. It is idle to ignore the horrible stain which such occurrences leave on our national character. Whilst such things continue to happen one cannot feel that we have yet escaped the curse of Cain or the results of the false moral teaching by which violence and murder were justified or acquiesced in during the Anglo-Irish struggle. Mr. Blythe has recently pointed out that, if the present Government were beaten and if they were succeeded by a Fianna Fail Government, then within one month that Government would be up against a test which it would not be able to go through—the test of the gunman, of the illegal organisations which Fianna Fail has never

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clearly condemned, and with which, perhaps, some of the Fianna Fail party have not absolutely broken. If these organisations were to reappear, the guns would be taken out of the dumps, and the local bully would take control. If the Fianna Fail Government were in power, and if it were not prepared to go out and disarm, imprison and, if necessary, shoot the members of any illegal armed organisation, then that Government would last no time, and in its place you would have a little crowd of military dictators who would rule this country, not for the benefit of the people, but for their own aggrandisement. There were two points, Mr. Blythe said, in which he would ask for guarantees from Fianna Fail before they are given power. One was that there should be no government but the elected government of the people, and no army or armed force but the army acting under the law ; and, secondly, that they should make it clear that there was going to be no quarrel with England about anything. It is because no one believes that Mr. de Valera can give either of these guarantees that he is likely to remain in opposition. Meanwhile the present Government continues to maintain and advance the status of the Free State by peaceful and constitutional methods. On March 19 Mr. McGilligan, the Minister for External Affairs, created a new precedent in Dominion procedure by visiting the King at Buckingham Palace in order to discuss constitutional matters of the highest importance, namely, the new procedure to be adopted by our Government in tendering advice to the King and executing documents of an international character. Up to this time, although the King acted in such matters on the advice of the Free State Government, this advice as regards external affairs was tendered through the Secretary of State for the Dominions in London, and the ratification of a treaty was sealed with the Great Seal of England. This procedure caused considerable confusion in the minds of foreign Governments, and in order to remedy this condition of things it has now been agreed that our Government shall advise His Majesty

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direct on all such external affairs, and that all such documents will be sealed with a new seal which will be the property of the Irish Free State and will be struck, kept, and controlled in Dublin. These developments mark another stage in the success of the policy of the Free State Government in bringing constitutional forms into conformity with constitutional realities. As one conversation is worth a hundred letters, there can be no doubt that this intimate connection between the King and his Free State Ministers will be good for both, and will help to place the Crown in its proper perspective as the head of the State. The Free State is in fact no longer a Dominion, but a Kingdom.

Mr. Blythe's Budget is in accordance with expectations, and is clearly the prelude to a general election. Having regard to the recent conclusive majority report of the Derating Commission\* against derating, it was obvious that complete derating of agricultural land was both impossible and undesirable. Mr. Blythe, however, asks for a vote of £750,000 for the relief of rates on agricultural land. The relief is to be distributed on the basis of rate assessments for the last three years, and it is to be divided as to 50 per cent. on the old basis of agricultural grants and 50 per cent. on the basis of the population of counties. By this arrangement a bigger grant will, very properly, go to the poorer and more thickly populated areas than was formerly the case. In order to prevent this grant being neutralised by wasteful expenditure it is proposed to reduce substantially the size of the county councils and to introduce a manager-ship system for counties similar to that initiated by the Cork City Management Act of 1929, and since extended to Dublin.† This is a reform which has long been essential, as the county councils are the happy hunting ground of inefficient local windbags. The total estimated expenditure,

\* See THE ROUND TABLE, No. 78, March 1930, p. 369.

† See THE ROUND TABLE, No. 73, December 1928, p. 157, and No. 81, December 1930, p. 157.

## Political

Mr. Blythe states, is £24,658,150, and the estimated revenue is £24,661,000, leaving a surplus of £2,850. To meet the new expenditure for relief of rates he proposes a tax of 4d. a gallon on petrol, an increase of the tax on talking films from 1d. to 3d. a foot, an increase of the customs duty on sugar from 11s. 8d. to 16s. 4d. a cwt., and an excise duty of 4s. 8d. a cwt. on sugar manufactured from home-grown beet. He also proposes to bring the death duties into line with those of Great Britain. The tax on race-course betting is to be remitted, and the tax on capital companies reduced from £1 per cent. to 5s. per cent. The entertainment tax on personal theatrical performances is abolished, a just and substantial encouragement to the theatrical profession. He stated that the outstanding public debt at the end of the financial year was £29,381,000, against which there were Exchequer assets amounting to £14,100,000. If we continue to pursue a rigid spirit of economy he believes we shall be able to escape all the major difficulties under which so many countries are at present struggling.

Within a few days of each other the Free State has lost its two greatest elder statesmen, Timothy Michael Healy and James Henry Campbell, Lord Glenavy, friends and rivals through half a century. Both belonged to the great line of political lawyers who have at various times graced, and sometimes also disgraced, the annals of the Irish Bar. Both came of humble stock and rose to the highest office in the State, both were stalwart fighters and great advocates, but here comparison ends. Temperamentally and mentally the two men were poles apart. Campbell was a really great lawyer, with a cold polished intellect, the greatest cross-examiner of his day, and a politician who never forgot that opportunity neglected does not return. A Dublin Orangeman in politics, acting as Carson's right-hand man in the South, he had in the end sufficient vision and good sense to accept the new regime and, as Chairman of the Free State Senate, to run considerable risks in its

## Ireland : Events in the Free State

service. Healy came from the peasant folk of Gaelic Catholic Ireland. Contrary to popular belief he was not a great lawyer. He was, however, undoubtedly a great, if somewhat eccentric, advocate, which is an entirely different thing, but his emotion always mastered his intellect when the two met. As a politician he was utterly selfless, pursuing what he believed for the moment to be the best course with a tenacity and ferocity that earned him the title of "Tiger Tim." Yet there was about him also a Puck-like quality which delighted in disturbance for its own sake, and no one could ever tell in what camp or under what banner he would emerge. Generally he was a party of one. One leader only, Parnell, claimed his devoted allegiance for long, and with the severance of that friendship came the terrible hatred which made the Parnell split one of the most disgraceful chapters in Irish history, and which even in his closing years disfigured his memoirs. Yet this ferocious politician was in private life one of the most gentle and charming of men, and the fiery political prisoner of the 'eighties became in the end the King's Governor-General and the trusted adviser of the young men who were building the Free State. Irish history can show few stranger metamorphoses, and his career reminds one of that great Earl of Kildare of whom an English King once said: "If all Ireland cannot rule this man he must rule all Ireland." Once, in a moment of deep political emotion, he said: "I'm no man's man but Ireland's," and even those of us who did not always share his views may agree that these words are his best and truest epitaph.

## Economic and General

### II. ECONOMIC AND GENERAL

ONE of the most serious economic problems at present confronting us is the rationalisation of our national transport system. The essential facts of the matter are simple. The Irish railway system has never been as flourishing as the English, although burdened with exactly similar regulations and wages, and in recent years the competition, first, of the private motor car, and more recently of the motor bus, has reduced its profits almost to vanishing point. Since the Free State was established all the Irish railways, save the Great Northern, have been amalgamated in one system on the basis adopted in England, and this has naturally led to certain simplifications and economies in working. Moreover, the Great Southern Railways, as the new system is called, have obtained a controlling interest in the Irish Omnibus Company, which is the largest bus company in the country. There remain, however, certain smaller bus companies which indulge in wasteful and inefficient competition. The general result is that neither the buses nor the railways give satisfactory or economical service, because there is no traffic route in the Free State which can economically support rival transport services. Speaking at the annual meeting of the Great Southern Railways Company on March 6 the Chairman, Sir Walter Nugent, stated that unless legislation was passed regulating transport and removing the disabilities at present placed on the railways, the companies could not continue to maintain and operate them adequately. Since 1924, the year in which the southern railways were amalgamated, working expenses have been reduced by £1,266,980, but in the same period receipts have decreased by £1,142,679. Excluding wages, which are apparently immutable, the limit to economies has been nearly reached. The capital invested in the



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Great Southern Railways is £26,000,000, and the ordinary stock which stood at over 35 in 1924 is now quoted at 15. It is now only paying a dividend of one per cent., and has practically ceased to be a profit-making concern. It is obvious that this condition of things will continue and possibly become worse, and that the cause is the competition of the uncontrolled and unregulated road transport which is unhampered by any of the rules, restrictions and taxes imposed on the railways. The proper solution seems to the writer to be a State regulated transport monopoly worked by the Great Southern Railways Company. Such a monopoly could co-ordinate and regulate bus and railway services, abolishing the smaller light railways and substituting bus services. Outside the cattle trade, there is little heavy traffic in Ireland, and the main line of the Great Southern Railways, which runs like a backbone through and across the country, should suffice for railway services. Some such arrangement alone will save the railways from disaster and give us an efficient transport system. The Government are understood to be carefully considering the situation, but so far their solution has not been disclosed.

The reports of the Irish banks recently published show an all-over increase of £16,809, and although deposits have decreased by £1,803,937 this is probably due to investments in the National Loan and similar gilt-edged securities which, owing to the low rate of bank interest on deposits, naturally attract investors. It is significant that the only Irish bank which has decreased its dividend is one whose business is almost confined to Northern Ireland, and the inference would seem to be that the prevalent economic depression has affected the industrialised North more than the Free State. The Governments of the Free State and Great Britain are at present endeavouring to settle a banking problem arising out of the dead Irish bank notes which are estimated at about £2,000,000. The Free State Government in the Currency Act of 1927

## Economic and General

took legal powers to claim the Free State portion of this money. Under the Banks Act of 1845 the power to issue these notes was given to six Irish banks which availed themselves of it up to 1927. The British Treasury claims that under the Act of 1845 they are entitled to these notes. Clearly they do not all belong to the Free State, as many of them circulated in Northern Ireland. If the two Governments can agree as to the division of the spoils the banks will naturally suffer, and they are understood to be also parties to the negotiations.

The trade statistics for 1930 show that we are at last beginning to feel the world-wide trade depression. The total value of trade in that period was £102,470,705 compared with £109,172,291 in the previous year. The adverse trade balance for the year was, however, only £11,008,343, as compared with £13,431,347 at the end of 1929. The export of live animals represented almost half the export trade and the tractor industry over two and a half million pounds. At present, unfortunately, the Ford factory is practically idle, and these figures are not likely to be repeated this year. Another serious situation has arisen from the dispute between the sugar beet growers in the south-eastern counties and the management of the Carlow beet factory, who propose to reduce the price for beet during the coming season to 38s. per ton—a cut of 8s. on last year's price. This the farmers refuse to accept and, having regard to the bounty paid the factory and the profits already earned, their attitude seems to be justified.

The sweepstake\* for the Irish hospitals on the Grand National proved so successful that this institution may be counted amongst our invisible imports and exports. The total receipts were £1,755,963, out of which the hospitals received £438,990, and the prize winners £1,181,815. Most of the tickets were purchased in England, and it is,

\* See THE ROUND TABLE, No. 80, September 1930, p. 835, and No. 82, March 1931, p. 412.

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therefore, pleasant to record that fifty-three out of the eighty-six prize-winning tickets were also held there. The Irish legal profession is the gainer by the lively legal proceedings instituted against the Italian holder of the first prize by some of his compatriots, who claim to share therein. The next sweep, for the Derby, is already in full swing, and promises to eclipse the previous ones in amount, although happily the prizes are to be much larger in number and much smaller in amount.

A more beneficent Irish institution, also not unconnected with horses, will this year celebrate its bicentenary. This is the famous Royal Dublin Society, which was founded in 1731 for the purpose of furthering "husbandry, manufactures, science and art in Ireland." How well this work has been accomplished anyone who has visited the shows of the Society at Ballsbridge will be well aware. During the last twelve years, largely owing to the intelligent management of Mr. Edward Bohane, its director, the Society has enlarged its membership and increased its activities. At present the roll of membership is full, and there is a long waiting list. Many additions and improvements have been made to the Society's premises, and the anniversary year will be celebrated by extra attractions at the annual shows, the first of which is held this month. Certainly no other single voluntary organisation has done so much to advance the prosperity of Ireland.

The Irish Free State.  
May 1931.

## CANADA

### I. AVIATION AS AN IMPERIAL LINK

**A**IRWAYS span the continent of North America, but the employment of aircraft is not limited to established lines. Passengers, mails and expresses are flown regularly day and night from coast to coast, but no published schedules indicate the routes taken by aeroplanes that daily penetrate the far corners of Canada with prospectors, supplies and petrol. The Dominion, despite her scanty population of ten million people, participates energetically in the development of this modern method of transportation, and is steadily extending her air lines to embrace new territory. No country in the world derives better value from aviation than this confederation of 3,684,723 square miles—an area in which the British Isles could be contained no less than thirty times. All the advantages, however, do not accrue alone to Canada: her airways will one day constitute an important link in an Imperial chain, and it is with this end in view that extensions are to-day being planned.

Flying in Canada had its inception on February 23, 1909, when J. A. D. McCurdy flew an aeroplane for half a mile above the ice-covered surface of the Bras d'Or Lakes at Baddeck, Nova Scotia. The machine was designed by a small group of enthusiasts headed by Dr. Alexander Graham Bell, the Scottish immigrant inventor of the telephone and phonograph. With his associates, Dr. Bell developed the "aileron," which is now a standard section in aircraft, though it was Henry Farman who uncon-

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sciously selected the name in a moment of inspiration during a visit to New York that same year. In the summer of 1910, a largely attended air meet took place at Montreal, when Count Jacques de Lesseps, Walter Brookens and Ralph Johnstone thrilled fifty thousand people with exhibition flights. Two records were established at that time, Brookens having taken his machine up to 3,510 feet, and made a duration flight of 45 minutes 20 seconds.

Two decades of flying have passed into Canadian history, but the present era of intensive development dates from 1927, when legislative recognition was given to civil aviation in this country. An Air Board was created in June 1919, to undertake the organisation of aeronautics, and a complete set of regulations for controlling aerial navigation and to prohibit dangerous flying was drafted. In July 1927, four inter-dependent administrative divisions were formed. Control of all military air activities was vested in the Director of the Royal Canadian Air Force, while the administration of operations carried out by State aircraft, other than those of a military character, was placed in charge of the Director of Civil Government Air Operations. An Aeronautical Engineering Department was organised to act in a consulting capacity on technical and engineering matters pertaining to air services, and a Controller of Civil Aviation was appointed to administer air regulations and to supervise flying operations by commercial interests. Various committees were formed subsequently to provide for discussion on matters concerning forest fire protection, surveying and postal services, and to organise an aerial expedition to study ice conditions in the Hudson Straits.

Under such initial stimulus, followed by the organisation of air mail routes and light aeroplane clubs, commercial aviation in Canada made rapid progress. Whereas there were only fourteen firms operating aircraft in the Dominion in 1926, four years later the number had increased to 135 companies and individuals, having an estimated total of 73,000 flying hours to their credit for the twelve-month

## Aviation as an Imperial Link

period. Twenty-three light aeroplane clubs brought this figure to 87,500 hours for 1930. The nineteen principal commercial operators, three mining companies and the Ontario Provincial Air Service carried 56,000 passengers and nearly 1,500,000 pounds of freight last year, the distance covered by their machines being estimated at 4,350,000 miles. The outstanding aviation company in the Dominion is Canadian Airways Limited, which comprises an amalgamation formed late last year of Western Canada Airways and a number of operating concerns in eastern Canada. James A. Richardson, of Winnipeg, one of this country's leading financiers, is president and controls at least 75 per cent. of the stock. Both the Canadian Pacific and Canadian National Railways, which hold a proportion of the outstanding shares, are represented by their respective presidents, E. W. Beatty and Sir Henry Thornton, who are vice-presidents of the airway company. By their participation, the two railways agree to co-operate in the development of aviation and airways from the Atlantic to the Pacific, instead of embarking on programmes of intensive competition. There are seventeen branches of civil aviation: passenger and freight transportation, aerial photography and sketching, forest fire protection, fishery patrol service, air mail operations, light aeroplane club flying, aeronautical engineering, aircraft and engine construction, the development of a national airport and airship base at Montreal, the establishment of weather bureaux and the study of meteorology, radio communication and directional beacon services, aerial photography for the topographical survey of Canada, crop and forest dusting operations, mineral prospecting, exploration, sport, and national defence. Canada is also interested in lighter-than-air craft; the present article, however, can only deal with aeroplanes.

The map of continental Canada is traced with a veritable network of lines representing organised airways or special flights, planes having been flown north to Dawson in the

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Yukon ; to Aklavik, at the mouth of the Mackenzie river and 300 miles inside the Arctic Circle ; to Chesterfield inlet, at the north-western extremity of Hudson Bay ; and even to the magnetic north pole in Boothia peninsula and within twenty degrees of the true north pole. Petrol caches have been laid down at strategic positions throughout the northern section of the country. Exploration companies have been formed with their own fleets of planes, pilots, mechanics and prospectors to examine geological formations in which valuable ore is thought to exist. These parties have been almost self-supporting for months on end, small groups being carried rapidly from one locality to another as the immediate possibilities become exhausted. Other aircraft operators have concentrated on the transportation of supplies to established mining camps far from the terminus of steel rails, together with the equipment necessary for sinking drill shafts. Aeroplanes are also being used to bring fish, freshly caught in winter through the ice of northern lakes, to centres of population. All these enterprises assist in the development of territory that for years to come must otherwise have remained far beyond the reach of civilisation. Aircraft, equipped with floats in summer and skis in winter, can descend almost anywhere during ten months of the year, utilising the surface of the numerous lakes and rivers which constitute about 4 per cent. of Canada's area. No part of continental Canada is more than one or at most two days by air from any railway line, a fact which conveys some idea of the service that is being rendered by aviation in pushing the frontiers of civilisation northward. Months were spent formerly in the transportation of mails and supplies by dog sledge or canoe, but the advent of aircraft has made possible enormous reductions in time. The establishment of airways has provided the public with some conception of the aeronautical development of the Dominion, but few Canadians realise even to-day that their country occupies a strategic position on one of the most important arterial air routes of the future.

## Aviation as an Imperial Link

Little has been said about this, as government officials have been content to assist in perfecting a transcontinental airway before discussing the possible extension of the system eastwards to Great Britain and westwards to the Orient.

Over 6,500 miles of regular air mail routes have been established in this country, though some are in operation only during the winter months and others only in summer. Early last February, the Atlantic seaboard was connected by air with the Rocky Mountains, and it seemed probable that this line would be extended to Vancouver, on the Pacific coast, during the next few months. Owing to the necessity for strict economy at the present time, however, the Government has practically decided to suspend temporarily the granting of a contract for the carriage of mails over that particular section, although the route has been fully surveyed. Moncton in New Brunswick is the eastern extremity of the existing line, while Calgary in Alberta, among the foothills of the Rockies, is its western terminus, 3,095 miles of airway linking the two. Of this, however, 1,065 miles are over United States territory, American companies having agreed to carry mails, expresses and passengers between Detroit and Pembina—a small town on the international boundary seventy miles south of Winnipeg—via Chicago and Saint Paul (Minnesota).

The Saint Paul-Winnipeg section of 455 miles, inaugurated on February 3, was the final link in a 12,000 mile aerial chain extending from Buenos Aires, capital of Argentina, to Aklavik on the Arctic Ocean—the longest air route in the world. The United States was willing to co-operate with Canada in the establishment of this transcontinental service, as it seeks an aerial link with Alaska, which is now possible by connecting Fort Norman—200 miles south of Aklavik—with Nome on the Bering Sea. This, of course, is only a prelude to a vaster scheme, the beginning of which was the calling of tenders last December for a transatlantic service between Charleston

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in South Carolina and Lisbon in Portugal via Bermuda and the Azores. Should this route become effective, European mails would be carried to the Far East mainly in American aircraft and through United States territory instead of in British planes operating over an all-red route. Canadians only realised the full significance of this scheme when they learned from the American press that a transatlantic service was being organised by the United States postal authorities in conjunction with Imperial Airways. Much to the disappointment of people in this country, no apparent consideration was given to the possibility of participation by Canada in such an important programme of extensions. Some support has been given to the expedition now engaged in surveying a possible route between England and Canada via Greenland, but the recent design and production of planes with a high cruising speed has for the moment diverted attention to a more practical plan of prime Imperial importance, one, moreover, the initial stages of which can be brought into operation immediately.

Although the establishment of extensive internal air mail services was considered of supreme importance, Canada particularly felt the need for expediting the transport of letters to and from the old country. Express steamers cross the Atlantic each week between British ports and Quebec and Montreal during the summer months, and compete successfully with those which make New York their terminus. Owing to the curvature of the earth, the Canadian route is the shorter by 250 miles, Southampton being only 2,790 miles distant from Montreal as compared with 3,040 from New York. No less than 956 miles of this route, or more than one-third of the whole distance, are within the sheltered waters of the St. Lawrence River and Gulf. It is therefore obvious that aircraft can be utilised to great advantage in accelerating the delivery of mails without flying out to sea. Realising the importance of this fact, the Canadian Government experimented

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in 1927 with a service between Montreal and Rimouski, 315 miles down the St. Lawrence and the point at which ocean vessels embark their pilot and discharge mails. This proved so satisfactory that a regular contract was awarded in May 1928. Air mails were flown to and from the faster passenger liners, and postal authorities reported a saving of between 24 and 72 hours in the time of delivery, and the carriage in 1930 of 53,500 pounds of mail matter.

A further experimental extension was completed last year, when two seaplanes flew nearly 900 miles with half a ton of mails from Montreal to Bradore Bay, in the Straits of Belle Isle near Greenely Island, where the *Bremen* landed in 1928 on the completion of its transatlantic flight. The mail was placed on board the outgoing steamship *Empress of Australia*, which had sailed from Quebec two and a half days previously, and a clear gain of 48 hours in the time of delivery in England was thus effected. This is a logical development of the Rimouski service, and its adoption will leave no doubt as to the superiority of the St. Lawrence route over the one to New York.

Arrangements for the organisation of the Belle Isle-Montreal service on a permanent basis were already well advanced, and the co-operation of the British Post Office assured so that this route would have been self-sustaining within a year of its inauguration, as special postage rates would provide the revenue for working it. But its development has also been postponed for reasons of economy. Eventually a transcontinental air line will be established from Belle Isle to Vancouver, entirely through Canadian territory, the link between Montreal and Winnipeg having already been surveyed. During the six months for which the Straits of Belle Isle are closed by ice, mails could be collected by a large flying boat from ocean liners passing within reach of Halifax and the Nova Scotia coast, which lie close to the track of the principal Atlantic shipping lines, and brought ashore for transfer to fast aeroplanes. All sections of the North American

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continent would be well served by Canadian air lines, the great national air port at Montreal being the terminal point from which mails could be distributed.

Once a Canadian transcontinental airway has been established, arrangements could be made to inaugurate an air service across the Atlantic to Great Britain and over the Pacific to Japan, thus providing a through line from London to Tokio by an all-red route. If it is considered practicable to fly regularly and safely between Bermuda and the Azores, a distance of 2,070 miles, it is not unreasonable to assume that flights could be made between Belle Isle or Newfoundland and the west coast of Ireland, a distance of 1,685 miles, on a prearranged schedule. The northern route is well served with radio stations, and directional wireless facilities could be provided with little difficulty or delay. The southern route is far from ordinary steamship tracks, whereas any plane flying between Belle Isle and Ireland would be within easy reach of one or more ocean vessels. More favourable weather may be experienced over the whole route between Charleston and Lisbon, but the section between Bermuda and the United States is notorious for meteorological disturbances. It is, moreover, rarely appreciated that northern routes are shorter than those nearer the equator, as maps of the world are generally prepared according to Mercator's projection. Suffice it to say that the closer to the poles, the shorter the distance between the parallels of longitude. The distance from New York to London via Belle Isle is 2,361 miles shorter than on the projected route to Lisbon by way of Bermuda and the Azores. The comparison is given in the following tables :—

|                           | Miles. |                           | Miles. |
|---------------------------|--------|---------------------------|--------|
| New York to Charleston .. | 640    | New York to Montreal ..   | 380    |
| Charleston to Bermuda ..  | 914    | Montreal to Belle Isle .. | 956    |
| Bermuda to Azores ..      | 2,070  | Belle Isle to Galway ..   | 1,685  |
| Azores to Lisbon ..       | 1,058  | Galway to London ..       | 400    |
| Lisbon to London ..       | 1,100  |                           |        |
| Total .. ..               | 5,782  | Total .. ..               | 3,421  |

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## Aviation as an Imperial Link

To obtain a clear conception of Canada's position on the air route between England and the Far East, it is necessary to examine the Pacific section. The distance from Vancouver to Tokio is 4,520 miles, which is manifestly too great for a single lap on a commercial service at the present stage of aeroplane development. There is, however, a thoroughly practicable route from Vancouver or Prince Rupert to Japan by way of the Aleutian and Kurile Islands, over which no single flight would entail a hop of more than 1,730 miles. Assuming that Prince Rupert is chosen as the Canadian terminus, the total distance to Tokio would be 3,780 miles, made up as follows :—

|                                 | Miles. |
|---------------------------------|--------|
| Prince Rupert to Unalaska .. .. | 1,300  |
| Unalaska to Attu Island .. ..   | 750    |
| Attu Island to Tokio .. ..      | 1,730  |

The entire route from London to Tokio can be divided into ten main sections, as follows :—

|                           | Miles. |                              | Miles. |
|---------------------------|--------|------------------------------|--------|
| London to Galway .. ..    | 400    | Winnipeg to Edmonton ..      | 1,000  |
| Galway to Belle Isle ..   | 1,685  | Edmonton to Prince Rupert    | 700    |
| Belle Isle to Montreal .. | 956    | Prince Rupert to Unalaska .. | 1,300  |
| Montreal to Toronto ..    | 330    | Unalaska to Attu Island ..   | 750    |
| Toronto to Winnipeg ..    | 1,200  | Attu Island to Tokio ..      | 1,730  |

Making an allowance for sixteen stops for refuelling, and changing planes, the total distance (10,051 miles) could be flown in eighty hours, or slightly more than three days. The successful operation of such a service, therefore, would enable mails and express to be carried from London to Tokio in less than four days. This, of course, presupposes night flying. In view of the rapid advance in ground organisation, particularly in the matter of radio direction beacons, such a presumption can be regarded as perfectly reasonable. Planes with a cruising speed of no more than 125 miles an hour should be able to maintain this schedule.

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The question may be asked : Is this picture sufficiently alluring to inspire the governments and commercial leaders in Canada and Great Britain ? Will definite steps be taken to consider further the possibilities of such a service ? Or will the development of an alternative route which must prove more costly and less efficient, and which will eliminate Canada as an integral part, be permitted ? Perseverance that can only be adequately described in superlative terms has enabled American airway companies to throw a girdle around South America. They have accomplished a fine feat, and it now remains for Canada and Great Britain to co-operate in throwing a transportation line across to the Orient, thereby assisting materially in the development of the immense markets of the Far East.

## II. FEDERAL POLITICS

THE first regular session of the seventeenth Federal Parliament of Canada opened on March 12, and sat for three weeks before adjourning for an Easter recess which has just come to an end. The standing of parties in the House of Commons remains unaltered since the general election, and, assuming that by-elections produce no change in two vacant seats, is as follows : Conservatives, 139 ; Liberals, 89 ; Independent Progressives, 12 ; Labourites, 3 ; Independents, 2. In the Senate deaths have obliterated the Liberal majority, and when two vacancies are filled, the Conservatives and Liberals will each have 48 members. Before Parliament met, the leaders of the Liberal party had made it plain that they did not contemplate any continuance of the accommodating spirit which they had shown at the special emergency session of last autumn, and that they intended to call the Bennett Ministry to a strict account of its stewardship. The Conservatives found themselves in a commanding parliamentary position, but they had already discovered

## Federal Politics

that among the roses of power there are many thorns, and almost from the start of the session the Ministry was committed to a defensive rôle.

The Speech from the Throne, if longer, was no less nebulous than usual ; it sought to put as bright a face as possible upon the economic situation which, it was claimed, had been greatly mitigated by the special measures for the relief of unemployment and the upward tariff revision undertaken at the emergency session. It dealt at some length with the late Imperial Conference, and held out hopes of success for the Economic Conference next August. It forecast a further revision of the tariff, but there was appended an explicit statement that the changes in the British preferential rates would merely be in the nature of incidental adjustments. The legislative programme was of a very modest character, and it was definitely announced that the Government had abandoned all idea of dealing with the complicated problem of the control of radio broadcasting until the courts had settled the controversy, raised by the Government of Quebec, about the respective jurisdictions of the federal and provincial authorities in this connection.

The debate on the address has already lasted four weeks and is still unfinished. Many of the large contingent of new members wanted to demonstrate their parliamentary prowess, and all the Opposition members from the prairies felt that they would be remiss in their duty if they did not impress upon the Government the desperate plight of their farmer constituents and their responsibility for its early amelioration. However, it was the proceedings of the last Imperial Conference and the part played by Mr. Bennett in them that provided Mr. Mackenzie King and his colleagues with their most fruitful theme for critical oratory. The Liberal case, which was backed by the other Opposition groups, was that Mr. Bennett had, before he sailed for London, ruined any prospect of success for a scheme of reciprocal preferences by raising the Canadian

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tariff against many British imports ; that by his demand for food taxes he had violated a fundamental principle of the political structure of the Commonwealth, viz., that none of the partner governments should interfere in the domestic policies of another partner ; that he had been unbending and dogmatic while the other Dominion Premiers had been flexible and accommodating, and that he had, by tactics savouring of "high-pressure salesmanship," excited a feeling of resentment in Britain which did not make for cordial Imperial relations or improve the chances of finding a satisfactory market for Canada's exportable surplus of farm produce.

Early in the debate, however, Mr. Bennett offered a spirited defence of his policy ; he contended that it had enjoyed the cordial support of his colleagues from the other Dominions, and he claimed that he asked for nothing more and nothing less than an illustrious Liberal statesman, Sir Wilfrid Laurier, had demanded at the Conference of 1902. To this argument the Liberals retorted that Sir Wilfrid, before submitting any request for a food tax preference on the part of Britain, had substantially reduced the Canadian tariff on British imports, whereas Mr. Bennett, having just raised the tariff on British goods, had no such claim upon British gratitude. The leading spokesmen of the Liberal party also expatiated upon the superior merits of their own budget of 1930 as an instrument of inter-Imperial trade co-operation, and made a general arraignment of the Government's "Canada first" policy, alleging that it was proving wholly unsuited to the needs of Canada's peculiar economic conditions, and not fulfilling the hopes of its sponsors that it would abate unemployment and bring back prosperity. The Conservative speakers, on the other hand, vigorously defended the Government's tariff policy and contended that some of its fruits were already visible in the establishment of new factories, and that it had helped to avert what otherwise would have been a complete industrial débâcle. The Labour group,

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abetted by both the Liberals and the Progressives, has been harrying the Government persistently upon the unemployment situation, which has undergone scant improvement with the advent of spring and is still serious in many communities. Mr. Bourassa, in an unwonted rôle, supported them with an impassioned speech which might have fallen from the lips of Mr. Maxton. He gave a moving account of the conditions which he had discovered by personal investigation among the working classes of Quebec, and declared that "the situation of the slum dweller in the city of London sixty years ago was not any worse than is the situation of thousands of families in the slums of Montreal to-day."

Mr. Bennett still retains the Ministry of Finance, and its duties, added to those of the Premiership and the leadership of the House of Commons, constitute a tremendous burden for any single individual. He has shown an energy and industry which command admiration, but some of his warmest admirers feel that what is almost a Mussolinian zeal for responsibility is in the interests neither of his party nor of the country. The impression prevails, moreover, that he values his Ministers in proportion to their docility, and when Mr. Mackenzie King alleged in the House that the Premier was conveying to the country the impression that his colleagues were a band of nonentities, there was a suspicion of encouraging smiles upon certain ministerial countenances. However, as a practical exponent of economy, Mr. Bennett has achieved a remarkable feat in paring estimates by some 37 million dollars, a process which has caused an infinity of anguish to the faithful partisans who were clamouring for jobs and public works in their constituencies. But there still remains to be bridged a wide gulf between revenue and expenditure for the current fiscal year, and it seems probable that new taxation to the extent of at least 70 million dollars will have to be imposed.

Undoubtedly the general economic situation is a source



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of considerable worry not only to the Government but to the leaders of the financial and business worlds. On March 31 there were no less than 275 million bushels of grain still in the country, and during March there had been an ominous decline in export sales; this carry-over, along with the prospective surplus on the 1931 crop and the wheat holdings of the United States Federal Farm Board, will probably continue to depress the market. The prairie farmers are being deluged with exhortations from a variety of counsellors to turn their energies to mixed farming, and Mr. Beatty, the President of the Canadian Pacific Railway, has bestirred himself with commendable zeal to form an agricultural credit corporation for the purpose of enabling the farmers to purchase livestock. But the western agriculturalists do not take kindly to these exhortations; they invite their advisers to examine the current prices for livestock, butter, poultry and eggs, which have sunk to deplorably low levels, and they maintain that it would be futile to transform one kind of agricultural glut into another. They aver that a large area of the prairie country, owing to inadequate water supply and transportation handicaps, cannot be profitably devoted to mixed farming, and they contend that if the banks would give them more generous credit and the manufacturers abate their craving for high tariffs which increase the cost of farm production, they would be afforded the most valuable kind of succour.

Meantime the position of many eastern industries is not very happy; the motor manufacturers, for instance, have lost their markets in the Antipodes as the result of tariff wrangles, a loss which will hardly be offset by the changes in customs regulations about motor imports equivalent to an increase of 15 per cent. in the protective duty, which the Government has recently been prevailed upon to make. The newsprint industry, which has for the last twenty years been a great buttress of Canada's export trade, is struggling with grave difficulties owing to the

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curtailment of the American demand for newsprint as the result of the business slump, which has decreased advertising in the United States; the Canadian newsprint plants are at present operating at less than 60 per cent. of their capacity, few of them are able to earn enough to meet their fixed charges, and one of the largest units of the industry, the Canada Power and Paper Corporation, is to be subjected to a drastic financial reorganisation which will entail heavy losses for many holders of its securities. Indeed, the cold truth is that none of the great basic natural industries of the Dominion is in a prosperous condition and none of the accepted indices holds out much hope that the bottom of the economic depression has yet been reached.

The Bennett Ministry has staked all its fortunes upon the efficacy of a system of higher tariffs as a remedy for the country's economic travail, and apparently the belief prevails in ministerial circles that a further increase of duties is necessary to secure a complete and well rounded structure of high protectionism. The declarations of Ministers clearly indicate that the tariff wall is to be substantially heightened in the forthcoming budget, but among certain classes of manufacturers doubts have now arisen about the value of the tariff increases which were decreed at the emergency session. The avowed object of these changes was to curtail imports and stimulate domestic production, but certain American manufacturers have apparently decided that their Canadian market is worth saving, and for this purpose have proceeded to establish branch plants in the Dominion. As a result the Canadian manufacturers of canned soups, of gypsum products, of lead pencils, to quote a few cases, are discovering that their American competitors have secured Canadian bases of operations, and in order to justify the capital expenditure involved are pushing their wares with intensified sales pressure. At the best the Canadian market for many products is not large, and some Canadian manufacturing

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firms have already found that the higher tariffs which they craved have produced unexpected consequences for themselves and become dead sea fruit. The Canadian steel industry is also at present confronted with a threat of this sort of tariff backfire, and, if the United States Steel Corporation perseveres with its project of establishing a huge Canadian plant at Ojibway, Ontario, which will manufacture every kind of steel product, things will go hard with the existing Canadian steel plants. As a consequence, the steel manufacturers of Canada, who are justifiably alarmed at the prospect of such a formidable rival inside the Canadian tariff wall, are evincing a disposition to lend a sympathetic ear to the plans for a rationalisation of the steel industry of Britain and Canada, which are being submitted to them by Mr. Julian Piggott. The discussion which he has been conducting on behalf of the British steel industry will shortly be expanded to cover the general field of industry by a small delegation of the Federation of British Industries headed by its President, Sir James Lithgow, which will arrive in Canada this month; and there are many people who think that there are greater possibilities for real Imperial trade co-operation in such moves than through tariff preferences, although the latter can probably be employed with profit to promote schemes of Imperial rationalisation.

The fortunes of the wheat pools and the general grain marketing problem are another source of worry to the Government. At present the wheat pools are for all practical purposes in a state of insolvency; their indebtedness to the banks is in excess of 60 million dollars and, although the exact particulars of any agreement reached have never been disclosed, the presumption is that, for the crop advances of 1930 to the pools, the banks are in possession of some sort of guarantee from the Federal Government. Meanwhile the latter has appointed a Royal Commission, headed by Sir Josiah Stamp, to determine authoritatively an issue of ancient controversy in the West—whether the

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marketing of grain "futures" operates to the detriment of the producers. In some agrarian circles the dark suspicion prevails that this inquiry is a preliminary move in a well-planned campaign for the extinction of the pools, but, in view of the unexpected loyalty which the supporters of the pools have shown to their co-operative fabric during days of severe stress, such an adventure as their obliteration would entail grave political risks. Whatever the results of the inquiry, the problem of finding adequate markets which will yield satisfactory prices has yet to be solved, and the outcome of the conference of wheat exporting countries, which the Canadian High Commissioner has arranged to hold in London on May 18, is awaited with keen interest on the prairies.

The Dominion Ministry utilised part of the Easter recess to hold a conference at Ottawa with the representatives of the nine provincial governments to discuss the changes suggested by a committee of experts for the purpose of bringing the legal arrangements of the Commonwealth into conformity with existing constitutional and administrative practice. It will be recalled that at the late Imperial Conference Premier Bennett withheld Canada's endorsement of the proposed changes, and of the "Statute of Westminster" which is to embody them, in deference to the demand of the Governments of Ontario and Quebec that the provinces should be consulted about any changes which might affect their constitutional position. The Ottawa conference was the outcome of Mr. Bennett's acknowledgment of the justice of this claim, and it proved a reasonably harmonious gathering. Eight of the nine provincial governments expressed a complete willingness to acquiesce in the proposed changes. Premier Taschereau of Quebec, suspicious as ever of any action which might tend to remove the trusteeship of the British Parliament for the special rights of the French-Canadian minority, withheld his endorsement until he had had an opportunity of further consultation with his Cabinet.

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It has now been announced that the Quebec Government has approved of the proposed changes, subject to the proviso that the British North America Act and its amendments should be exempted from the consequences of the repeal of the Colonial Laws Validity Act, the effect of which would be to leave the Canadian Parliament free to enact what constitutional changes it wished. This proposal will in all probability be accepted by the other provinces, leaving outstanding only the question of Canada's acquiring the right to amend her own constitution, which Mr. Bennett promised would be considered by a later conference.

Canada.

April 16, 1931.

## AUSTRALIA

### I. MEN AND MEASURES AT CANBERRA

THE last three months in Australia have been so crowded with incidents that to tell the story adequately would far exceed all limits of space available for this chronicle. They have been, however, so significant in their bearing upon the crisis of affairs and sometimes so sensational in themselves as to be very fully recorded in the British press.

All Australia awaited with eagerness the homecoming of the Prime Minister from the Imperial Conference. Government policy was clearly the pivot of the economic structure of the Commonwealth. But policy was distracted; Commonwealth and States were taking divergent roads, and the Commonwealth Government was openly at odds; Mr. Fenton and Mr. Lyons, whom Mr. Scullin had left in charge as acting Prime Minister and acting Treasurer, and who were therefore supposed to enjoy his special confidence, had been repeatedly thwarted by their colleagues and the Caucus, and their opponents were themselves divided by policy and by personal antagonisms. What steps would Mr. Scullin take to end this anarchy?

The non-Labour press, and the leaders of the other parties were more than careful not to say anything that might be attributed to party hostility to the Prime Minister. Mr. Fenton and Mr. Lyons had withstood the calamitous financial proposals of their colleagues, and it was believed that they fully accepted the alternative to inflation, *viz.*,

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drastic reduction of Government expenditure. It was understood that Mr. Scullin was on their side, and it was hoped that his official position and personal influence would swing the party and the Governments into line upon a policy which could be accepted by all parties and pursued in both Commonwealth and States as a concerted national effort. Thus, the way was prepared to range behind Mr. Scullin support from non-Labour sources. Mr. Scullin's difficulties would be with his own party: there were some intransigents with whom he must break if there were to be a concert of parties. Prudence demanded that Mr. Scullin should be left to deal with them as a matter of internal party discipline, or his party might swing away from him. This prudence was not in all cases observed.

The Labour press was already deeply committed to the policy of releasing credits to carry on government and provide employment, of "a safeguarded extension backed by the whole resources of a fabulously rich nation, as yet only on the fringe of development"; and the *Labour Daily* (Sydney) demanded from Mr. Scullin a plan for giving effect to that policy of the Labour advance guard, described as Australia's "declaration of financial independence." Mr. Scullin was warned that there was no middle course, "either he was with the bloodsuckers or he was against them"; if he heeded the Nationalist press, he was marked for eternal disgrace, doomed to suffer the fate suffered by the traitors of the past, whose names are anathema to all honest men.

The "advance guard of Labour" expressed itself more authoritatively at a joint meeting of the New South Wales Labour members of the Commonwealth Parliament and the State Executive of the party, held in Sydney on January 12. There it was resolved to endorse the "Gibbons" resolutions of the Caucus, adopted at the beginning of November last\*, that the Commonwealth Bank must release sufficient credit as and when required to meet the requirements of govern-

\* See THE ROUND TABLE, No. 82, March 1931, p. 442.

## Men and Measures at Canberra

ment, public works, and productive purposes in primary and secondary industries. Mr. Theodore now sponsored the plan, and became the leader of the New South Wales bloc. The resolutions were interpreted as an ultimatum to Mr. Scullin.

Mr. Scullin's speeches, so eagerly scanned and variously interpreted, have now passed into obscurity. The disintegration of a great political party readily assumes in the eyes of its leaders the character of a supreme national misfortune. In the light of later events, the most significant thing in Mr. Scullin's speeches is his declaration that "he would never split and would never leave the Labour party." He uttered assurances that "for anything done in his absence he was not indignant or angry or fearful," and paid indiscriminating tributes to the loyalty and devotion of colleagues whose differences from each other no pains had been taken to conceal. The insincerity of all this was manifested at a later stage when the cables exchanged between Mr. Scullin and Mr. Fenton and Mr. Lyons were published. The problem was to find a policy to hold the party together, and—it must be added—a leader.

The self-depreciation of Mr. Scullin's speeches revealed a consciousness of insufficiency, and the reiterated assertion of his rights and responsibilities as Prime Minister passed into the rather pathetic declaration: "I walk in (to the party meeting) and tell them as leader what I think and leave it to them to decide." After the speech on January 15, in which Mr. Scullin opened the Labour campaign in the by-election at Parkes, a suburb of Sydney, opinion hardened into belief that the *revenant* had delivered both himself and the search for a policy into the hands of Mr. Theodore. At a caucus meeting on January 26, the Prime Minister moved the re-instatement of Mr. Theodore as Treasurer.\* There was more opposition than he had expected; the motion was carried only by 24 votes

\* For the circumstances of Mr. Theodore's previous retirement from the Treasurership, see THE ROUND TABLE, No. 81, December 1930, p. 186.

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to 19 on a division in which four Ministers voted on one side and three on the other, and the minority included members of both the right and the extreme left of the party. Mr. Fenton and Mr. Lyons resigned from the Cabinet, and one member announced his resignation from the party.

But to some of his colleagues in the Cabinet, notably Mr. Anstey and Mr. Beasley, and to the Premier of New South Wales, powerful in the party organisation of that State, Mr. Theodore was already a "financial reactionary."\* The ascendancy of the "Left," in the person and policy of Mr. Theodore, encountered an active insurgence of the "extreme Left." A second by-election furnished a battle ground and precipitated a constitutional crisis within the complex organisation of the party. The State Executive of the party decided that the policy to be announced for Labour should be that of Mr. Lang and not that of Mr. Theodore, called on the Federal members for New South Wales to support it and secured Mr. Beasley to open the campaign. The Federal Executive protested that Federal policy was outside the sphere of the State Executive. Members were thereby placed in a quandary, for the conflict of allegiance might involve the endorsement of their candidature at the general election which events seemed to be rapidly bringing nearer.

A meeting of the Caucus at Canberra formally approved the Theodore financial policy, and a purge of the Ministry was effected by the submission of all offices to the pleasure of the Caucus. Mr. Anstey, Mr. Beasley and Senator Daly failed to secure re-election. The "extreme Left" thus followed the "Right," and withdrew from the Caucus a small group of five members of the House of Representatives, who set up a caucus of their own. On the division on March 14 on a vote of censure, Mr. Lyons and Mr. Fenton and three other

\* The financial policy of the two sections of the Labour party is described in the second part of this article.

## Men and Measures at Canberra

Labour members voted with the Opposition and thereby voted themselves out of the Labour party. The Government majority, reduced to 5, included the 5 dissident members of the "extreme Left." As these may at any moment absent themselves, the parliamentary position of the Government has become precarious, and a change of Ministry or a general election appears imminent. Mr. Lyons has announced his intention of undertaking a political tour of the Commonwealth.

In all these turmoils, the organisations of the Labour party, industrial and political, have been ceaselessly active in resolutions and demands and instructions to Ministers, both Commonwealth and State. One of these was the demand from Sydney that the Commonwealth Government should declare a "national emergency" and assume all powers of government. Attention to proceedings of organisations takes up no small part of the time of Ministers. Some Labour Ministers have already had to stand trial and to submit to censure, and some individual Ministers have reason to be anxious about their nominations. Mr. Theodore has been expelled by the New South Wales Conference at Sydney, and the remaining New South Wales members who defied the State Executive were reported to the Easter Conference. The extent of the fissure in the Labour party is marked by the determination of the party in New South Wales not to send delegates to that Conference. The determining factor within the Labour party itself may well be the attitude of the Australian Workers' Union, unique among Australian industrial leagues. It does not take kindly to the "Red" aims and doctrines, fashionable among Sydney industrialists, and has in the past done battle successfully with Mr. Lang. It is credited with a determination to exercise a "moderating" influence on Labour counsels.

At the two by-elections, both in Sydney, the "middle vote" at Parkes, a suburban constituency ordinarily Nationalist, turned a Labour majority of more than

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8,000 into a Nationalist majority of the same size; in East Sydney, a characteristically Labour electorate, the Lang candidate held the seat at a time when the party disputes had become most acute, though the majority was reduced, while in spite of compulsory voting 18 per cent. of the electorate abstained.

Outside Labour organisations, public opinion was long content to acquiesce in newspaper articles without apparently feeling any need for independent expression. That mood has now passed, and leagues and societies are springing up in somewhat embarrassing profusion. Their general note is one of protest against repudiation, bad money, and unbalanced budgets, and a demand that "party" shall be put aside in favour of "national" effort. Country organisations, while accepting all this, emphasise relief to farmers, with an eye to reduced production costs, including interest, and the provision of credits. The high cost of government, too, provokes a demand for simplification of the federal system; rural grievances, impatience at the predominance of industrialism in city politics, and indignation at the un-British policy of Mr. Lang have led to formidable movements in the New England and Riverina districts, which aim at the separation of these areas from New South Wales; the long-standing ills which Western Australia, South Australia and Tasmania impute to union in the Commonwealth have become intensified, and secession now has strong support, particularly in Western Australia. Mr. Lang's recklessness is imposing a strain on the whole federal union, for Commonwealth and State finances are so interlocked that, while Mr. Lang calls the tune, the people of every State share with New South Wales the privilege of footing the piper's bill.

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### II. POLITICS AND FINANCE

TO the skimmer of newspaper headlines the economic situation may seem for these three months past to have spouted nothing but mud and trouble. The State Labour Government in New South Wales, led by Mr. J. T. Lang, though promising to balance its budget after Easter, when it predicts a return of prosperity, has interpreted the loan agreement, by which the Commonwealth guarantees the interest on State loans, as making the service of the State debt an indefinitely remote charge on its consolidated revenue. It has proceeded to spend on internal services almost all the revenue raised, calling on the Commonwealth Bank to find funds with which to pay the interest due to bondholders. This line of action bids fair to make the budgetary problem insoluble for New South Wales, for the Commonwealth and for every State. Mr. Lang has restored a forty-four hour week, without diminution of wages, on railways that are already losing money at the rate of about four millions per annum. He has promised the civil service that on the first of April he will renew the salaries that his predecessor, Mr. Bavin, cut by  $8\frac{1}{2}$  per cent. Deficits in the budgets of all the States and of the Commonwealth have involved the grant of new credits by the Commonwealth Bank and by trading banks. By February 28 an Australian floating debt of £17,437,000 had been added to the floating debt of £38,075,000 in London, raising the total short-term indebtedness to £55,512,000. The inexorable growth of this sure source of inflation has led investors to move their resources from a scene where heavy taxes and depreciation of the currency loom so large.

On the other side of the account is the 10 per cent. reduction of the basic wage by the Commonwealth Arbitration Court; and if, as seems probable, the A.W.U.\*

\* The Australian Workers' Union.

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persuades Labour generally to acquiesce, this will go to show that inarticulate unionists have accepted the necessities of bad times. The "cut" in the legal minimum wage has been imposed temporarily and in addition to the regular quarterly adjustments by the "cost of living" index-numbers. It was the State Railway Commissioners of Victoria, Tasmania and South Australia who took the decisive first step towards economy by retrenchment when they applied to the Court for a variation in the Federal basic wage.\* They were joined by numerous other employers of labour. On January 22, after hearing long and many-sided arguments, the full Bench of the Arbitration Court refused to alter permanently the customary method of calculating the basic wage, viz., by (a) applying to the "Harvester standard" of 1907 an index-number of the purchasing power of money over food, groceries and house room and (b) adding the "Powers three shillings" to the result. But the Court did order, as a measure necessitated by national emergency, a "cut" of 10 per cent. for one year and thereafter till further order. This reduces the minimum wage legally payable to railway employees in Victoria, South Australia and Tasmania, to clothing-trade employees generally, to shearing-shed hands, motor-body builders, waterside workers, ships' officers, metal trade employees in all States, to timber workers (elsewhere than in Western Australia), and to some minor callings. The award affects more than half a million workers, and reduces the wages bill in the Commonwealth by an amount estimated at about £30 millions. Further applications by employers are likely to extend this emergency cut to all callings under Federal awards, while similar proceedings have been taken to secure corresponding reductions by such State authorities as have not already acted. The Commonwealth Government intervened in the proceedings before the Court in opposition to the application for wage reduction. After the judgment

\* See THE ROUND TABLE, No. 82, March 1931, p. 445.

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the Attorney-General applied for a postponement of the operation of the new award, on the ground that the Government was considering plans of a general nature for meeting the economic crisis, and that these plans might be prejudiced or frustrated by the award. The application was refused.

Very naturally, the judgment was received with much anger and some threats of resistance, but in all centres except Sydney talk of a general strike against wage adjustment by arbitration quickly faded out. Are there not 300,000 men out of work? In Sydney the State Executive of the Labour party—its extra-parliamentary command—talked for a month of a strike or a dictatorship. The A.W.U. took another line. It stimulated action against an industrial pastoral union which has been conducting a "red" strike among the Queensland shearers. It further condemned outright the project of a general strike. In July and August of last year its "old guard," the shearers in New South Wales and Victoria, accepted a 20 per cent. cut in the piece-rates for shearing, also awarded by the Commonwealth Arbitration Court. With what hope, then, could the poorer unions of the cities stake their feeble funds and influence on a nation-wide strike? After a futile and costly congress of Australian trade unions in Sydney the proposal for a general strike was overwhelmingly defeated.

Almost simultaneously with the basic wage decision came a move by the banks to vary their "carded rates" of exchange. The "unpegging of the exchanges" had been demanded for some months by political leaders of both the Labour and the Country parties. On October 10 the buying rate was raised to £8 10s. 6d. After three months' pause the senior trading bank, the Bank of New South Wales, initiated on January 5 a series of rapid changes which raised the price of £100 sterling to £115 in Australian money, and finally on January 29 to £130.

Soon after the export season opened the exporting industries had become intolerant of a system which, by

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"rationing" the sale of London money in short supply, deprived them of the stimulus of an eager demand for the sterling which their products brought. Inevitably exporters found the obvious way round rationing and sold their London money direct to importers. As the year ended and the financial horizon darkened there was added to the ordinary demands of importers and governments a growing demand for sterling on the part of investors who were selling out their Australian holdings. This "flight of capital," which rationing inevitably drove into the outside market, became more marked with every event or project of law that betrayed the desire of the Labour caucus at Canberra for inflation either through the note issue or by Commonwealth Bank credits. Thus the Gibbons resolutions, a memorandum by the Commonwealth Statistician favouring an expansion of the note issue until a chosen price-level should be recorded in his index-numbers, and a Wheat Advances Act promising to make up the export value of wheat to 3s. a bushel by advancing money to wheat merchants and pools from the depleted consolidated revenue—all these portents of financial irresponsibility in high places set investors' nerves atwilt. Even before the Bank of New South Wales took action early in January the open market rate had passed the £115 figure to which the "carded rate" was raised. The events that followed abundantly illustrate the maxim that you can only allay a panic by removing its cause. The banks were paying more for sterling and they still rationed their sales of it. The public inferred that the banks shared their preference for British pounds. With each rise in the banks' rate, "quitters" bid more eagerly in the open market. Several of the banks alleged that they were doing less exchange business than ever. Local inflation, moreover, loomed larger. As London funds grew dearer and budgets remained unbalanced, the Commonwealth Bank granted larger and larger credits to States and Commonwealth on the security of Commonwealth Treasury Bills. Plainly

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these central-bank credits would, as they circulated, expand the "cash in hand and at the Commonwealth Bank" which has become, since gold departed, the liquid reserve of the trading banks. Thus the "new money" created to meet government deficits was enlarging the basis of an inflated credit structure.

The principle of the Niemeyer statement in August, that budgetary equilibrium was the crux of Australia's problem, was endorsed in two statements by experts made just before and just after the Parkes by-election. The first was the work of eight university economists, setting out the primary steps to national recovery. The second was a report from a committee of under-treasurers, under the chairmanship of Sir Robert Gibson, the Commonwealth Bank chairman. This committee had been asked, at an abortive Premiers' Conference held after Mr. Scullin's return, to prepare information for the guidance of a further meeting at Canberra on February 7. The Commonwealth and State budgets, the committee reported, were likely to show, for the year 1930-31, a combined deficit of at least £15,000,000. Unless confidence were re-established and trade revived this figure would grow in 1931-32 to approximately £25,000,000. Signs of diminishing capacity to pay taxes made it clear that the main effort to fill the gap must be by reduction of expenditure in every possible way. The under-treasurers were convinced that a further reduction of £15,000,000 per annum in the total present expenditure of governments was imperative. The only alternative, default in government payments, would produce "evils immeasurably greater than any hardships which the nation need be asked to face in order to restore Australia to a sound position." Financial panic would breed complete paralysis in business. "Insolvencies would be the order of the day. Unemployment would be general. Recovery would be indefinitely protracted."

The under-treasurers' programme was summarily ruled out of order by the Prime Minister as having been outside



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their terms of reference, and Mr. Theodore propounded the government plan— injection of credit by the banks backed by the currency resources of the Commonwealth Bank; restoration of internal prices to the 1929 level, and then stabilisation of prices and wages: the credit to be the means of restoring the national income, increasing production and consuming power, placing in employment 100,000 or 200,000 persons, and balancing the budgets without increasing taxation. Mr. Lang had a simpler plan, which might at least be understood of the people— suspension of all payments on external loans pending a readjustment of obligations; reduction of interest on internal loans to 3 per cent.; and a new currency which, discarding the gold standard, was adjustable to a goods standard. He startled the world by declaring that, whatever the Conference of Premiers decided, the plan he had proposed embodied the course which the Government of New South Wales had adopted so far as interest payments were concerned. Mr. Theodore's proposals, somewhat watered down, were remitted for consideration to the Commonwealth and trading banks. The reply of the Commonwealth Bank Board reiterated the need for reduction of government expenditure "and other factors which affect the cost of living," and, subject thereto, promised co-operation with the Government and the banks in sustaining industry and restoring employment. The Conference adopted a series of resolutions in which provision by governments and banks in co-operation for the rehabilitation of industry and stimulation of employment, accompanied by a substantial reduction of interest rates, was more prominent than a reduction of government expenditure: the sheltered income of holders of government securities was to be subject to a special tax of 3s. 6d. in the pound. Commending these proposals to the consideration of bankers, the Conference broke up, without having made any considerable addition to the restoration of confidence. It had arranged a political compromise

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rather than a practicable economic scheme; its formulas for giving satisfaction to divergent policies enabled each to lay the emphasis where he would. So, while to some Premiers it was a return to the August agreement with its promise to reduce expenditure, to the Commonwealth Ministers its really important feature was the stimulation to be afforded by a vigorous policy of bank credits. The scheme was unacceptable to the trading banks, as must indeed have been expected, and the Commonwealth Government then proceeded to seek the sanction of the Caucus for a "fiduciary currency" of £18 million, to be devoted, as to £6 million, to the relief of farmers, and as to £12 million at the rate of a million a month, to finance public works and other measures for the relief of unemployment. This policy, affirmed by the Caucus, was embodied in a Bill presented by Government to the House of Representatives, with an alternative that the issue of the notes should be suspended, if satisfactory arrangements for the issue of credits could be made with the Commonwealth Bank Board.

The Treasurer has also introduced a Bank Interest Bill for controlling interest on bank deposits and advances, and the discount rates charged by banks on bills, drafts and other securities. In the exercise of its powers, the Ministry is to be aided by a board of five persons, appointed by the Government for five years. The reason alleged for the Bill is the failure of the banks to co-operate with the Government to the extent necessary for relieving the financial conditions of the country. As a first measure under the Bill, if it becomes law, the Government proposed a reduction of 1 per cent. on the interest rate on deposits, and a possible 1½ per cent. on the rate on advances. Neither of the Government Bills is likely to pass the Senate and it is evident that the stage is being set for a general election, with a Government attack on the "money power" as its central feature. The Central Bank Bill of last year, which the Senate has not passed, may be taken up again by the

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Government and sent to the Senate, so that its rejection may be made the occasion for a double dissolution.

In New South Wales, Mr. Lang pursues his impetuous course. He has introduced and carried through the Assembly a Bill for reducing all government interest on New South Wales loans in Australia to 3 per cent. and claims that he is in company with the Commonwealth Government as a "repudiator," for their proposed "interest tax" means nothing else. More specific than the Commonwealth proposal, the Bill fixes a 5 per cent. maximum for interest on bank advances and first mortgages. In the industrial sphere, another Bill establishes absolute preference to unionists, bans certain named unions as bogus, and arms union officials with a wide range of powers, sanctioned by heavy penalties against employers and employees, including the power to order the dismissals of non-unionists. Mr. Lang has met with a rebuff in the High Court decision, by a majority of three to two, that the Legislative Council cannot be abolished without a referendum. Unable to abolish the Council, he has sought the authority of the Governor to swamp it. Unsuccessful in this attempt, he is now rumoured to have demanded the recall of the Governor. A growing body of opinion considers that the Governor should dismiss Mr. Lang.

### III. THE PROBLEMS OF THE NORTHERN TERRITORY

**A**MID the tumults and the shoutings which marked the close of 1930 at Canberra, the discussion of an important Bill to alter administration and policy in the Northern Territory passed almost unnoticed by the Australian people. Once again the nation showed little interest in its huge tropical territory, although the latter embraces a fifth of the Commonwealth, and provides an unrivalled field for a clear survey of many of the grave difficulties which have now spread to every corner of the land. More than this, the region is an area of world importance,

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not merely owing to its alleged potentialities, but because of its significance in the greatest biological experiment of history, the attempt to keep a whole continent white.

There have been three eras of experimental settlement in the Territory—the British military stations, the South Australian administration, and Commonwealth rule. Each has provided a different type of settler—the soldier, the Chinese coolie, and the white industrialist. It is impossible to grasp the gravity of the present difficulties without considering the failure of each of these régimes.

The British coastal stations of 1824-49 proved that the Territory was remote from the trade routes, that the soil was "sterile and ungrateful," and that the Asiatic, in his wisdom, was unwilling to come in. The failures also created the less accurate impressions that the climate was "malignant and unhealthy," and that the seaboard was "unfit for the residence of civilised man."

In the 'sixties the tide of "squattocracy" approached the Territory, and, as Queensland unfortunately refused to superintend a latitudinal penetration, the British Government accepted the offer of South Australia to conduct an inexpensive longitudinal occupation northwards along the line of McDouall Stuart's route. On obtaining the territory South Australia at once perpetrated a breach of faith, and attempted to develop the country through the coastlands rather than the healthy tablelands—by the sea-ways rather than by the land-ways—a policy which could have been better effected from India or Singapore. Under the old conditions of tropical colonisation South Australians died like flies on the coastal gold reefs, and the colonists concluded that English farmers would be useless in "the most barren country God had ever made." The Government then turned to coloured labour, and, although Japan refused the offer of free emigration and free passages, the administration poured in Chinese coolies from Singapore. Thus the Northern Territory became the keystone of Chinese settlement in Australia, and the last stronghold of

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the Chinese race. South Australia failed to develop the country with coolie labour, for agricultural plantations proved a dismal failure, and, although the Chinese won large quantities of gold, they were badly controlled and picked the eyes out of the best mines. Nevertheless, the South Australian administration possessed redeeming features. The settlers proved the climate healthy; the whites lived in comfort with a substratum of coloured labour; there were no political disturbances, and mining, pearling, and cattle, despite the terrible "red water," made some headway. Above all, the colony was poor and economical. In forty-eight years it contracted a debt of only six millions—on the dependency itself and on the two sections of the transcontinental railway line.

The record of Federal administration from 1911 is, like Canberra, "a document of Australian immaturity." The chapter opened with the high ideals of the White Australia Policy, the lavish spending of borrowed money, and a course of development on scientific lines. Once again, however, the effort was directed to the tropical coastlands and a longitudinal penetration, and the resulting disaster was more extensive and tragic than any in previous days. Selfishly urged by South Australia, the Federal Government pushed forward—and stopped—the construction of the transcontinental line. They wasted huge sums in unsuccessful experiments in agriculture and mining in the coastlands. They vitiated some excellent improvements on the stock routes to the east and west by an agreement with Vestey Brothers, who introduced industrialism into the Territory in an effort to establish a vast meat enterprise at Darwin—the old illusive northern gate. Thus Australian socialism, bureaucracy, and industrialism entered the Territory to play their tragic comedy in raiment of borrowed gold. Official and extremist fought for supremacy, while the weak administration of the young democracy watched with indifference the failure of its experiment, and made little effort to uphold its prestige and honour when its

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representatives were assaulted or expelled. By 1920 the battle was over, and the extreme section of the white industrialists had gained a triumph, which itself showed the utter inadequacy of the victors as tropical pioneers. Arbitration had forced wages to a figure which rendered agriculture, mining and transport impossible. Vestey had closed with the loss of a million of capital. The only economic industries—pearl shell and cattle—depended upon the coloured labour of Asiatics and aborigines. Yet the Federal Government had no perception of its weakness or its failure. In 1926 it divided the Territory into North and Central Australia, and proposed that the Commonwealth should add the remaining parts of the tropics to the huge region in which it had so lamentably failed. Here at last was a wise move towards the latitudinal policy, with east and west railways through the Kimberleys and Barkly tableland, but there is little wonder that Queensland and Western Australia refused to trust the national administration in a still wider enterprise. The Act of 1930 now reflects this failure, and it may mark a return to the bad old policy of longitudinal penetration, and the administrative system of the early Federal days.

Australians may well ask themselves whether they are facing insuperable natural difficulties in the Territory, and why it should remain an iceberg of tragic disillusionment unmelted by the soft warm waters of neighbouring success. History and science provide the answer, and it is one which all who would advertise "the vast and undeveloped potentialities" of the continent should read and understand.

First, the climate has been proved healthy, but it presents great economic difficulty, for the rainfall is very low and unreliable for a tropical region, and it is poorly distributed throughout the year. Secondly, scientific analysis has shown the poverty of a soil which is leached by the short and heavy summer rains. Climate and soil therefore offer poor agricultural prospects, even with the assistance of uneconomic tariffs and bounties, while, although there are

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quantities of minerals, the White Australia policy, and the wages, hours, and cost of transport which it involves, destroy all hope of opening up the mines. The interior tablelands offer fine prospects for cattle, but the demands of white labour again present a hopeless barrier at the northern gate. In such circumstances cattle raising is the only industry worth developing, and expenditure upon airways, cattle routes, and motor roads, particularly towards the eastern markets, is the only outlay which is justified.

Critics have offered some sound suggestions as to the future of the Territory, and these are well worthy of consideration in the light of the gravity of our present financial burdens. The best proposals are that the Commonwealth should offer the administration to a cattle company, free from Australian social burdens, or divide the whole area between Western Australia, Queensland, and South Australia, whose cattle regions now extend far into the Territory under the influence of geographical and economic contacts. In either case the Commonwealth could royally pension the 3,000 inhabitants of the Darwin coastlands, the area which has been primarily responsible for an annual deficit averaging £570,000, and for debt commitments which have reached the enormous total of £11,000,000 in the last nineteen years. In spite of heroic and tragic efforts, white and coloured labour have both failed in the Territory, and Australia should now treat the region as a pastoral country, and leave the problem of closer settlement until the better parts of the continent are densely occupied. The pressure of population and the progress of science will solve the main difficulties at some future time.

### Postscript

On March 26 Mr. Lang had definitely informed the Prime Minister that he might "advise the High Commissioner that New South Wales does not intend to meet interest payable at the Westminster Bank on April 1." On March 31, it was announced that the Commonwealth would

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make the payments, and take legal proceedings in the High Court to recover the amount from New South Wales.

On March 27, it was announced by Mr. Lyons that, with the approval of Mr. Latham, the leader of the Nationalist party, and of the deputy-leader of the Country party, he had issued an appeal for unity in "one great Commonwealth movement," on the following principles:—

1. Restoration of external and internal credit by re-establishing confidence in the integrity of Government finance. The national currency to be preserved from political control. No indirect repudiation of national obligations by debasing the currency.
2. The restoration of a balanced national budget on a basis of equality of sacrifice to be progressively effected as the financial capacity of the community permits.
3. Economy in cost of government by bringing government expenditure into reasonable correspondence with the fall in the national income.
4. Economically sound tariff policy with effective preference to Great Britain and inter-Dominion reciprocity.
5. Re-employment of the people by the encouragement of productive enterprise.
6. A fair deal for every section of the community. Protection of the worker by industrial tribunals. Protection of the employer against undue interference with business management.
7. Immediate assistance to the man on the land by providing real money to be expended on keeping Australian land in profitable production.

Australia. April 2, 1931.

The sums due on April 1 on account of the New South Wales debt have now been duly paid by the Commonwealth, and later defaults on other New South Wales loans (including some raised in New York) have likewise been made good. On April 17 the Australian Senate rejected the Bill to enable the issue of a fiduciary currency—Mr. Theodore admitted that the Commonwealth Bank had warned the Loan Council "that the point is being reached beyond which it is impossible for the bank to provide further assistance to the governments." The Government's proposal to ship the Commonwealth Bank's gold reserve to London to meet the £5,000,000 of Treasury Bills due on June 30 was also rejected by the Senate on May 13. On May 7 the Federal Opposition groups, except the Country party, unanimously agreed to form the "United Australia Party," under Mr. Lyons, with Mr. Latham as deputy leader, the Country party promising its support. A vote of censure was then moved by Mr. Lyons in the Federal House of Representatives, but defeated by 34 votes to 32, the Lang Group voting for the Government.—EDITOR.

## SOUTH AFRICA

### I. THE SESSION

ON January 30, the Earl of Clarendon, South Africa's new Governor-General, opened the third Session of the Union's sixth Parliament. On March 30 and 31 the general and railway budget speeches were delivered. Thereafter Parliament went into recess for Easter. It resumed on April 13, and will probably have concluded its business early in June.

The session thus promises to be a short one, and for that the brevity of the Government's legislative programme is responsible. South Africa, like other countries, has been hit by the economic blizzard, the financial and political consequences of which are absorbing the attention of the Government. Very few Bills of importance, therefore, other than those of a financial or economic character, have been submitted to Parliament.

The party situation must first be summarised. At the general election in June 1929\* there were returned to the House of Assembly 83 pledged supporters of General Hertzog's Nationalist-Labour Government. Of these only five belonged to the attenuated Labour wing of the Pact, two Cabinet Ministers, Colonel Creswell and Mr. Sampson, and three others. Of the remaining 65 members of the House then elected, 61 belonged to General Smuts's South African party, three to the National Council section of the Labour party, which is hostile to Colonel Creswell, while

\* THE ROUND TABLE, No. 76, September 1929, p. 869.

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one was returned as an Independent Nationalist. Since the general election there have been three by-elections; in one case the South African party held the seat with an increased majority, in the second it wrested the seat from the Nationalists, in the case of the third, also a Nationalist seat, an election petition has led to protracted litigation, and at the moment of writing the seat is, in fact, vacant. Meantime the Independent Nationalist has drifted into opposition to the Government. Its majority, therefore, after allowing for the possible exclusion of both the Speaker and the Chairman of Committees from a division, has been reduced to thirteen.

That in itself should, in a House of 148, be sufficient to enable the Government to maintain its position for the remaining three years of the period for which the present Parliament has been elected. Two factors have, however, presented themselves which suggest the possibility of a speedier change. The one is the position of the Government's Labour supporters. Labour has suffered severely as a party from its participation in the government. It has been split into fragments, it has lost much of its effective support in the country, its parliamentary representation has been sadly reduced, and at the New Year Conference of the Creswellite Labour party it was decided that the two Labour Ministers must leave the Cabinet before the end of 1931. It seems probable that they will do so some time after the session ends. No doubt they and their followers will continue to give the Government general support, but in a time of such financial stringency the latter will almost certainly be forced to adopt expedients, against which they will have to record their votes—the more so as the Minister of Finance has in his budget speech come out boldly for the reduction of the costs of production, and indicated that the scaling down of wages is necessary as a means thereto.

The other factor is also connected with the Union's economic difficulties. The Nationalist Government has

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hitherto been supported by the majority of the Afrikaans-speaking workers in the towns, very many of whom are in the railway and other State services, as well as by most of the farmers, especially those whose economic position is relatively unstable. It has now been driven to apply measures of economy to its own servants, and its attempts to assist the farmer have not gone anything like as far as the latter desired. Moreover, in South Africa perhaps more than in other countries, the Government tends to be held accountable for the causes of economic discontent. So then, although the Nationalist party in Parliament is still outwardly united in support of General Hertzog, there are many murmurings in the railway camps and on the farms. And it is just at this time that a possible leader of the disaffection has presented himself, in the person of the Independent Nationalist already referred to, Dr. W. P. Steenkamp, a Dutch Reformed Church clergyman, who has become a medical doctor, a man whose power of emotional appeal and insight into the psychology of the so-called "poor white," to whose cause he is sincerely, if somewhat indiscriminatingly, devoted, are such as to enable him to fire the popular imagination at a time like the present. He has definitely broken with the Government, and has issued a statement of the principles of a "National Workers and Farmers party." It may be doubted if he has all the qualities of a party leader—but even so his emergence is a portent indicating that all is no longer well with the Nationalist party.

It is to these things rather than to the actual happenings in Parliament that political attention has in the main been directed, though the session has been far from devoid of interest. It was thought that the Opposition would launch a no-confidence motion at the outset. It preferred, however, on tactical grounds, to initiate a series of attacks on the Government on specific issues—unemployment, railway administration, agricultural distress, the German treaty, and public service appointments. As a result the

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Government has been kept almost continuously on the defensive, and the atmosphere of Parliament has on occasion become highly charged. One unhappy result has been the dissipation of a large measure of the better feeling between Dutch and British which has of late been in evidence. It may be hoped that this will prove to be merely temporary.

It is, however, on its handling of the general and railway finances that the Government is at the moment chiefly vulnerable, and it is to the discussion of the two budgets and the contingent financial measures that the greater part of the second half of the session will be devoted. Mr. Havenga, the Minister of Finance, has been compelled in his budget speech to plead guilty to the charge of over-confidence in the framing of his estimates of revenue for last year. They were indeed too high by £1,688,000, and despite savings in expenditure he has ended the year with a deficit of £1,212,000. For the year 1931-2 he is budgeting for a further deficit of £1,676,000, making a total of close on £3 million, which is comparable to a deficit of £80 million in the British budget. To the extent of £2,160,000 he is proposing to meet the deficit by increased taxation. The details will be given in a later section. Here it will be sufficient to say that the taxation proposals which seem to bear disproportionately on the married man with an income of from £300 to £600—and that term in South Africa includes the clerk and the artisan—cannot but tend to weaken the Government's position in the country.

But while the main financial and economic measures fall to be discussed in the second half of the session, two Bills of considerable importance passed into law during its earlier stages. The one has given the Government full control of the importation of flour and meal. South Africa at present produces on the average three-fourths of the wheat necessary for its own consumption—the balance must be imported. But the yield per acre of the wheat-producing soils is low, and tariff protection for the

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wheat-grower has long been an accepted article of the Union's fiscal policy. The fall of world prices has of late rendered this protection ineffective. Last year the Government took power to control and restrict the importation of wheat—this year it has extended its powers to cover flour and meal as well. Its object in doing so is to ensure for the grower a price of 22s. 6d. per 200-lb. bag. From the point of view of the consumer who to-day pays 8d. for a two-pound loaf in most parts of the Union, the effect is that he can expect no benefit from the drop in world prices; indeed, where the price to-day is less than 8d. an increase will almost certainly result. This measure was introduced by the Government for the buttressing up of one comparatively small section of the farming community. More general in its scope was the Farmers Special Relief Bill, conceived as a means of combating the present widespread agricultural distress. In effect this measure empowers the Government to make, to approved applicants, advances up to £1,000 in each case, which shall be applied to the repayment of their existing debts. Such advances are to be made on security, including the farmer's movable assets, which would not ordinarily be accepted as such by a commercial institution. The measure has met with a great deal of criticism on the grounds both of financial soundness and of its probable efficacy in relieving rural distress.

Of that part of the Government's legislative programme which is not directly economic in its scope two measures only need be referred to. One of these has raised again the problem of the franchise and its bearing on the relations between Europeans and non-Europeans in the Union. It will be remembered that part of the compromise on which the Union of South Africa was based was to leave the franchise laws untouched in the several provinces. That meant the persistence in the Transvaal and the Free State of manhood suffrage limited to Europeans; it meant in the Cape and Natal the retention of qualifications, educational,

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property, and income, the possession of which admits to the roll of voters not only Europeans, but also the natives and the people of mixed blood, whose chief constituent element is the so-called Cape coloured folk in the Cape Province. The Native Bills of General Hertzog,\* which have been under consideration by a Select Committee since the commencement of the 1930 session, provide for the transference of the native voters to a separate, or communal, roll, while the coloured voters are to remain on the same roll as the Europeans, and are in general conceived as, potentially at least, their political equals. But in the meantime a Women's Enfranchisement Act† was passed in 1930 on the basis of Union-wide womanhood franchise limited to Europeans. That has placed the women on the same basis as the men in the Transvaal and the Orange Free State—in the other two provinces it created a twofold anomaly. The franchise is open to the non-European man, but not to the non-European woman; the European male voter has to possess qualifications which are not required in the case of the European female. It is to the removal of the second of these anomalies that the Franchise Laws Amendment Bill of this session has been directed. It provides for Union-wide adult suffrage for Europeans; the position of the non-European male in the Cape and Natal provinces remains for the moment unaffected. But the wiping out of one anomaly has created another, for there is now a differentiation in those two provinces between the European male and the non-European male; and General Hertzog's policy of political equality for the Cape coloured folk seems to have been negatived. The effect on the proposals before the Select Committee is still obscure—but the difficulty of South Africa's franchise problem has again been brought into relief.

This measure, which was sponsored by Dr. Malan, the

\* THE ROUND TABLE, No. 66, March 1927, p. 398; No. 75, June 1929, p. 647; No. 78, March 1930, pp. 416-18.

† THE ROUND TABLE, No. 79, June 1930, pp. 646-7.

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Minister of the Interior, has passed the Assembly ; it may be accepted that it will pass the Senate. Dr. Malan has, however, been less fortunate in respect of another measure introduced by him, this time as Minister of Education. For two sessions now he has been attempting to secure from Parliament more extended powers of control over university institutions, including the power of veto in relation to staff appointments, a substitution in effect of the Continental for the British system. Nor has he hesitated to disclose his reasons for doing so. He is dissatisfied with the inadequacy of the present provision for instruction through the medium of Afrikaans in some of these institutions, and in that connection wishes to restrict the appointment of professors and lecturers from overseas. Against this attempt to set up a tariff against imported brains the universities have protested vigorously. They are prepared to accept the ideal of language equality, but they desire that due account should be taken of the practical difficulties of giving immediate effect to it, and they wish to avoid the impoverishment that would result if they were to be restricted to a single country in the making of appointments. Their protests have not been without effect. The Minister has withdrawn the Higher Education Control Bill, as first introduced by him, and submitted it in a new form with the proposed power of veto omitted. But he has, at the same time, inserted a new clause, withdrawing from Parliament its present power of determining the basis of State grants to the institutions, and leaving it to himself to fix each year the amount of these grants at his discretion. This will, of course, place in the Minister's hands a power almost of life and death over the institutions, and it implies the means of exercising pressure on the shaping of their policies. On this point, therefore, it may be expected that a great deal will still be heard.

## The Budget

### II. THE BUDGET

WHEN, a year ago, Mr. Havenga, the Minister for Finance, introduced his first "depression" budget, he was under the influence of the optimistic forecasts at that time prevalent in the United States of America, the spiritual home of the Government's economic advisers. In spite, therefore, of a rapidly falling customs revenue, he contented himself with imposing a few protective duties which, while abstracting money from the taxpayer, did not benefit the Treasury, and withdrawing the 20 per cent. rebate of income-tax which had been granted in the preceding year. This meant that he had to budget for a deficit of £825,000, of which about £425,000 was expected to be covered by the surplus carried forward from 1929-30. The remaining £400,000 would, he hoped, be made good by administrative economies.

Experience has shown that the optimistic view then taken was not justified. Imports continued to drop month by month, and the revenue derived from customs duties for the financial year was not more than £7,300,000, as compared with the estimate of £8,450,000 and actual receipts of £9,244,000 in the preceding year, which included several months of depression. In addition, receipts from excise duties on spirits, sugar, beer, and cigarettes were £209,000 below the estimate, post office receipts £200,000, diamond revenue £350,000, and stamp duties £70,000. On the other hand, the income-tax and death duties each yielded about £150,000 above the estimate. The net result of these variations is that the total receipts for the year, at £28,300,000, are about £1,688,000 less than the estimate.

On the expenditure side, the efforts to effect administrative economies have had considerable success, and the expenditure for the year has been reduced from the original estimate of £30,813,000 to a little over £30,000,000. The



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resulting deficit for the year is therefore about £1,700,000, compared with an estimated deficit of £800,000. The surplus actually carried forward from 1929-30 was £488,000, so that the net deficit remaining to be carried forward to 1931-32 is a little over £1,200,000.

During the coming year Mr. Havenga expects to see some improvement in customs and diamond revenue, which will, however, be more than offset by an anticipated fall in the yield of income-tax and death duties. On the present basis of taxation, therefore, he anticipates a further fall in revenue of about £800,000 to £27,500,000. He hopes, by maintaining pressure in the direction of economies, to reduce expenditure by about the same amount, to £29,200,000, which would give a deficit about equal to the one realised during the past year. This, together with the deficit of £1,200,000 carried forward, would give a total by March 1932 of £2,900,000.

In dealing with this deficit Mr. Havenga has resisted the temptation to divert revenue from non-permanent sources, such as the sale of Namaqualand diamonds and receipts from mining leases, from the loan account to the general account. This decision is the more necessary owing to the fact that during the coming year the burden on the loan account will be unusually heavy in consequence of the capital requirements of the new State iron and steel works at Pretoria, and also of the Farmers Relief Act, under which £5,000,000 of Government loan moneys are to be advanced through the land Bank to enable the debts of financially embarrassed farmers to be taken over. He has therefore decided to impose increased taxation sufficient to meet £2,200,000 of the deficit this year, leaving the remaining £700,000 to be carried forward as a deficit to 1932-33.

In selecting the form which this additional taxation is to take, Mr. Havenga has been guided largely by the taxes which have been remitted during the prosperous years between 1925 and 1929. These remissions include

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concessions to married income-tax payers, reductions of customs duties on tea, textiles, and household utilities, and the return to inland penny postage. Most of these benefits are now to go. The married income-tax payer's general abatement is reduced from £400 to £300, and, though he is allowed to keep the increased abatement for children, the effect will be to swell income-tax receipts by about £250,000. With the exception of the duties on cotton piece goods, which are only partially re-imposed, the whole of the customs reductions are withdrawn, at a cost to the taxpayer of about £506,000. Worst of all, the rate on inland letters is to be raised from 1d. to 2d., and on post-cards, accounts, receipts, etc., from ½d. to 1d. This is expected to produce about £600,000, of which perhaps £200,000 is required to balance the post office accounts, while the remainder will be a contribution to the general revenue.

These measures are expected to bring in about £1,356,000 out of the proposed £2,200,000. For the remaining £844,000 recourse will be had to new taxes. Of these the most important is an increase in the customs duty on petrol from 3d. to 6d. a gallon, which is expected to bring in an extra £700,000. In introducing this measure Mr. Havenga permitted himself to hope that the present position of the petrol market would prevent this tax from being passed on to the consumer. Nevertheless, on the morning after the budget, Cape Town motorists found themselves paying 2s. 3d. a gallon instead of 2s., a result which, it may be imagined, does not wholly displease Mr. Havenga's colleague, the Minister of Railways, who is also faced with a large deficit, and is much harassed by the competition of privately owned motor vehicles.

The next blow administered by Mr. Havenga was the raising of the duty on promissory notes and bills of exchange payable on demand (including cheques) from 1d. to 2d., together with increased duties on receipts for amounts over £5. This is estimated to bring in £150,000. Finally, to give

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of the proceeds of new taxation is sound, these new taxes are concentrated unfairly on the commercial class and the town-dwellers who form a large proportion of the Opposition's supporters. This is all the more irritating in that other practicable means of taxation have not yet been exploited, such as an excise on pipe tobacco and wine, or a heavier excise on cigarettes and spirits, imposts which would have to be borne by the rural as well as the urban population. Again, a few bold spirits, though as yet only a few, venture to point out that very considerable sums of money are taken annually from the pockets of the taxpayers, not for the benefit of the exchequer, but for certain protected industries. The amount of this taxation is hard to estimate; probably it is not less than 25 per cent. of the total budget revenue; but if even a fraction of it were diverted to revenue, additional taxation would hardly be needed now. In any case, this protective taxation, in addition to that proposed in the budget, is excessive. Finally—and here the way is open for a direct frontal attack all along the line on the Government's position—the newly-expressed economic beliefs of the Minister of Finance cannot be squared with past performance or even with current practice. The way of converted sinners is likely to be hard if they continue to consort with unconverted associates.

### *The Railway Budget*

Like his colleague Mr. Havenga, Mr. Malan, the Minister of Railways, has a doleful tale to tell. A year ago, with what was even then considered to be excessive optimism, he estimated his combined revenue for 1930–31, from railways, harbours and government-owned steamships, at £31,794,552 and his expenditure at £31,940,264. This left an estimated deficit of £145,712. Actually the earnings for the past year have been about £28,674,000, while the expenditure, on the basis originally estimated, has been about £29,724,000, giving a deficit of

## The Budget

about £1,050,000. This deficit has been reduced to £800,000 by the suspension of the usual annual contribution of £250,000 in reduction of interest-bearing capital, and a further reduction of £105,000 has been obtained by appropriating the balance standing to the credit of the Rates Equalisation Fund. The remaining deficit, estimated at about £695,000, will be carried forward to 1931–32.

The reduction in expenses during the year was due partly to economies in administration, but mainly to the reduction in operating expenses consequent upon reduced traffic. Unfortunately for earnings, this decrease was felt most severely in high-rated goods traffic which consists to a large extent of imported goods, while the low-rated traffic, much of which does little more than pay the bare running costs, has, on balance, shown comparatively little diminution. For many years this low-rated traffic, of which local farm produce, especially for export, forms an important part, has been carried on the back of the high-rated traffic. At the same time the maintenance of "political" branch lines and the expensive policy of substituting white for native unskilled labourers, have added considerably to the overhead costs. Now that the heavy fall in imports has diminished the quantity of high-rated traffic available, as the motor-lorry, for short hauls, is offering a way of escape from the monopoly of the railways, Mr. Malan's position is not to be envied.

During the coming year, however, he hopes to obtain a total revenue of £29,012,000, which indicates that he looks forward to an improvement in the general economic position. Expenditure on the present basis he hopes to reduce to £29,302,000, partly by administrative economies and by again suspending the usual contribution of £250,000 in reduction of interest-bearing capital, and partly by cutting down the contribution from revenue to the Betterment Fund from £350,000 to £250,000. This would give him a deficit on the year of £290,000 and a total deficit of £985,000 by March, 1932.

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To meet this deficit, Mr. Malan has decided not to raise rates, apart from minor increases in passengers' excursion and concession fares including the special fares for natives. Presumably he dare not make the high goods rates still higher for fear of motor competition, while to raise the low goods rates with prices at their present level would be politically highly inexpedient. In fact the only material alteration to be made in goods rates is apparently to be a *reduction* in the rate on export sugar, whereby, presumably, the railways will bear part of the cost of dumping nearly half the sugar crop abroad at prices representing only a fraction of the fixed local price. Instead of raising rates, Mr. Malan has decided to deal with his deficit by altering the minor emoluments and working conditions of his employees. The steps taken include reductions in local cost-of-living allowances, overtime rates, and piece-work bonus rates, and an increase of half an hour a day in the working hours of the office staffs. By these measures he hopes to save about £500,000 a year, which would reduce the deficit to be carried forward to 1932-33 to about £485,000.

The reductions in pay have not been well received by the employees, and there has been some talk of a strike. This is improbable, but there is no doubt that the Government will lose a considerable number of railway votes at the next election. Their number will, however, probably be fewer than the votes which would have been lost either by higher rates on farm produce, or by a reversal of the "white labour" policy, and from their own political point of view it is probable that the Government have chosen the least of the evils which confronted them.

## The Japanese Agreement

### III. THE JAPANESE AGREEMENT

**F**OLLOWING the lead of other countries which have attempted by their immigration laws to exclude the peoples of Asia, the Union has now concluded what is known as a Gentleman's Agreement with Japan.

The Immigrants Regulation Act of 1913, which is the main statute in force regulating immigration, does not in express terms deal with Asiatics. It was passed after a prolonged controversy with the Indian population here—led by Mr. Gandhi—whose cause was to some extent supported by the Imperial Government, acting on behalf of the Government of India. In the end the right of the Union Government to exclude Asiatic immigration was conceded, but on the understanding that, while the measure might be framed so as effectively to exclude Asiatics, they should not be specifically excluded by name. This was given effect to by providing in the Act that any person or class of persons might be deemed by the Minister of the Interior, on economic grounds or on account of standard or habits of life, to be unsuited to the requirements of the Union or of any province of the Union, and should therefore be prohibited immigrants. On the taking affect of the Act the Minister made an order decreeing all persons of Asiatic race to be prohibited immigrants under the provision described above.

This decree has been in force ever since, but it has from time to time been relaxed, in favour of particular individuals visiting South Africa on official business, or for other temporary purposes. It has not, of course, been enforced against consular officers or their staffs. In 1915, while the war was in progress, and when, as will be remembered, the Japanese navy was providing convoys for merchant ships from South African ports, an arrangement was made by the then South African Government for the issue of

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temporary permits to a limited number of Japanese immigrants. This was done under a provision of the law enabling the Minister to grant a temporary permit to any prohibited immigrant to enter and reside in the Union. The Government decided to give temporary permits to Japanese subjects recommended by the Japanese consul, and approved by the Minister, enabling them to enter and reside in the Union. The permits were to be valid for periods of one year at a time, but not exceeding five years in all. The matter was apparently raised again in 1921 and the Government then in power revised the previous arrangement. No material alteration was made except that the total period of residence was limited to three years. The number of immigrants to be allowed was restricted to thirty in any year, and it was understood that the majority of the entrants would be educated persons such as merchants, travellers, students, etc.

The concession had comparatively little effect, and from 1915 to 1929 inclusive the number of Japanese entrants on this temporary permit was under 100 in all. It should be noted also that the entrants under temporary permit remained, in the eyes of the law, prohibited immigrants, and were therefore incapable, under section 8 of the Act, of obtaining a licence to carry on any trade or calling, or to acquire any interest in land.

The arrangements described above were given effect to by instructions from the permanent head of the Department of the Interior to his immigration officers, and were not embodied in any interchange of notes or correspondence between the two Governments.

The new agreement is embodied in an exchange of notes between the Union Government, through its department of External Affairs, and the Japanese Consul in the Union. The object of the agreement is stated to be the temporary admission of Japanese students, tourists and merchants to the Union. The Japanese Government undertakes to refuse to issue passports to the Union to its subjects, except those

## The Japanese Agreement

who are recommended by it through its Consul for admission under the agreement. The Union Government will not serve any Japanese entrant, coming with such recommendation, with notice as a prohibited immigrant under the Immigrants Regulation Act, and he will receive a temporary permit to enter the Union on such conditions as may be prescribed. Why a permit should be necessary for persons who are not declared to be prohibited immigrants is not very clear. The Japanese Consul is to confine his recommendation to persons of the following classes :—

(1) Tourists ; (2) persons visiting the Union solely for the purpose of study or scientific investigation ; (3) wholesale merchants and buyers of South African produce for export and their staffs ; it is understood that the number of persons recommended under this class will be restricted to a reasonable limit ; (4) the wives and children of persons admitted under the preceding heads.

The permits issued are to be for one year, renewable from time to time on the recommendation of the Japanese Consul for a further period or periods each not exceeding one year. They are not to be regarded as entitling the holder to reside in the province of the Orange Free State or to settle in that province for the purpose of trading or farming. This restriction—which applied also to the permits granted under the previous arrangement—is imposed in compliance with a law of the Orange Free State, passed before the annexation of 1900 and still in force, forbidding the entrance or residence of Asiatics.

The new agreement goes beyond the pre-existing arrangement in three respects :—first, in that the persons concerned are admitted solely on the recommendation of the Japanese Consul and the approval of the Minister is not required ; secondly, in that there is no limit of time imposed on the residence of any particular entrant but his permit is renewable indefinitely from year to year ; thirdly, in that the entrant on admission is not a prohibited immigrant, and therefore is not debarred by law from obtaining a trading

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licence. The Japanese Government undertakes in the case of any person admitted under the agreement who may fail to comply with the conditions of his permit to arrange for his maintenance and removal from the Union on the request of the Union Government. Finally, the agreement is not to be construed so as to derogate from the right of the Union to administer and carry into effect the Immigrants Regulation Act of 1913, the Quota Act of 1930 by which immigration of persons born in certain countries is restricted to a certain quota, or any amendment of those measures, and is to be subject to review at any time on two months' notice.

The agreement was the subject of a prolonged debate in the House of Assembly. It was not submitted to Parliament for approval, but was debated in connection with a Bill which was before the House amending in certain respects the Immigrants Regulation Act. The opposition to the agreement was based mainly on the apprehension that the door was being opened to the influx of Japanese merchants, who would be enabled to come here with their staffs, and open places of business, and that, although nominally they were only admitted on a permit renewable from year to year, it would in practice be impossible without some very grave reason to withdraw such a permit in the case of a merchant who had once established himself here. The Government, however, stood by the agreement, and time will show how far the attacks of its critics were justified. At present the number of Japanese residents in the Union, apart from consular officials, is negligible, and if an agreement such as this can remove obstacles to a friendly understanding with the Japanese Government without opening the door to an undesirable inflow of Japanese immigration, it will be justified.

South Africa.

April 1931.

## NEW ZEALAND

### I. THE OUTLOOK

THE year 1930 closed for New Zealand with an outlook anything but bright. While Mr. Forbes and Sir Thomas Sidey were on their way back from the Imperial Conference, the financial departments could clearly see that the financial year was going to close very unfavourably for the country. Exports up to December 31 were valued at £44,940,692, as compared with £55,579,063 for the corresponding nine months of the preceding year, and imports were valued at £43,025,914, as compared with £48,797,977. External trade, import and export, therefore showed a decline of £16,410,434, reaching the lowest figure since 1922, when the total was only £77,738,810. Other statistics also reflected the depression, unemployment, which at this season usually tends to diminish, showing no signs of a decline. The sudden suspension of part of the programme of railway construction indeed told in the other direction. On December 22, Mr. Ransom, acting Prime Minister, announced that work had been stopped on four lines, two of them in north Auckland, one in Taranaki and the fourth on the east coast between Gisborne and Waikokopu, upon which the Ward Government had only commenced work in March 1929. Over £3 million had been spent on these lines, and the suspension threw 1,699 men out of work on the eve of Christmas. For the time being there is no reversal of the much criticised

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decision to proceed with work on the large gaps in the South Island Main Trunk railway which break the connection between Christchurch and Picton.

About this time the Cabinet, as a further step in the direction of economy, appointed a special committee, composed of its own members and leading civil servants, to make a drastic overhaul of departmental expenditure. It was already assumed in some quarters that there would be a cut in civil servants' salaries, and there was a general feeling that wages which are subject to the award of the Arbitration Court would also have to be reviewed. To people of this way of thinking it came as a shock when the Court at Auckland, on December 18, actually advanced the pay of certain classes of electrical workers from 2s. 2d. to 2s. 2½d. an hour, the award to run for two years. Mr. Justice Frazer, the President, explained that a majority of the Court (of three) considered that they were bound by an award made in Dunedin in 1929, "that, having fixed a standard wage, the Court must apply that standard until it decided to alter it." The representative of the employers dissented on the ground that "the Court should take into consideration more fully the economic condition of the country and act in accordance with the exigencies of the moment, rather than be guided by what might have been done by a small minority of employers more than a year ago when general conditions were vastly different." \*

These early efforts of the Government to reduce expenditure naturally resulted in a game of "pull devil pull baker." Labour organisations contended that throwing hundreds of men out of work by stopping railway construction was only adding to unemployment without improving general conditions. At the same time, a deputation from the east coast urged the continuation of its particular railway from the point of view of local interests. In his reply Mr. Ransom spoke quite plainly :

\* *New Zealand Herald*, December 19, 1930.

## The Outlook

It was (he said) the intention of the Government to review the whole of the transport system in order to prevent wasteful overlapping; and it had been considered that the only way to get a proper perspective of the position was to suspend the construction of non-paying lines. A loss of £1,250,000 on the railways justified the Government in calling a halt until it came to some decision in regard to road and rail transport. . . . The decision was purely economic.\*

Probably 90 per cent. of the farmers at a wool sale in town that very day, the acting Prime Minister shrewdly suggested, had travelled by car, and perhaps 50 per cent. of them had sent their wool by road. Mr. Coates, the Leader of the Opposition, cordially approved of the suspension of railway construction, only objecting to it in the case of lines which were nearly completed.

It was, then, in every way a gloomy prospect which faced Mr. Forbes on his return from the Imperial Conference. He had a cordial reception on landing at Wellington on January 20—people were plainly glad to see him back. Speaking of the Conference, he said that, although the proposed constitutional changes probably seemed greater than they actually were, they represented a momentous step forward, the wisdom of which time alone could prove. But though his language was diplomatic, it was clear to those who read between the lines that Mr. Forbes himself was disappointed at the absence of material results. He recognised, however, that the fiscal policy to which the British Government were committed made it unlikely that they could accept any such solution as the Dominions had proposed, though it was his own view that the increase in the volume of inter-Imperial trade necessary for the future economic welfare of the Empire could best be effected by a system of mutual preferences.

Ceremonies over, the Prime Minister turned to the formidable tasks awaiting his attention—financial stringency, unemployment and the rising tide of distress. As already intimated, his return was viewed with a distinct

\* *Evening Post*, January 8, 1931.

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feeling of relief. As Mr. Forbes had himself discovered, stop-gap administration is unfair, both to acting Ministers and to the country. Mr. Ransom acquitted himself creditably in a time of increasing difficulty, and is well liked, but no acting Prime Minister could, under such conditions, enjoy an authority commensurate with his responsibilities. It was, then, no dissatisfaction with him personally that prompted the public to hail the return of the real Prime Minister to the helm, and they willingly dispensed with Mr. Forbes' attendance at the usual host of receptions so that his whole energies might be reserved for the pressing domestic problems of the Dominion.

Nor did the different sections of the community permit him to remain in ignorance of their wishes and troubles. Deputation after deputation waited upon him to ask or to give advice, and he was able to develop his policy with full knowledge of the views of those who were most affected by the depression. As regards unemployment, he lost no time in making it clear that he would set his face against the "dole," unless work were done for it. "No payment will be made in this country so long as I am Prime Minister unless they work when there is work to give them," were his words. And again a few days later, in answer to a deputation from the Alliance of Labour anxious to prevent the standard of wages from being lowered, he said :

New Zealand was up against the greatest crisis in its history. He wanted it to pull through with the minimum of hardship, but he felt that anyone who thought that the present high scale of wages could continue while £20,000,000 less was coming into the country through the drop in prices was living in a fool's paradise. Is it not a question of the reduction of wages or the reduction of staffs ? If you have not the money, how can you pay it ?

The next day a deputation which claimed to represent 90 per cent. of the farmers of the Dominion (through the New Zealand Meat Producers Board and the Dairy Control Board) put before the Prime Minister a written statement

## The Outlook

of what they considered necessary. The farmers, according to the Canterbury Chamber of Commerce, are paying over £10 million a year in interest on mortgages, but the deputation denied that the high price paid for his land constituted the farmer's main problem. They expected a considerable rise in the price of wool. About other produce, however, they were not hopeful, and insisted that wages and salaries must be brought down. They pointed out that the payment of 14s. a day on relief works created an impossible position for the farmer, who could not compete with such a rate. They suggested, moreover, lowering the rate of wages in industries regulated by the Arbitration Court.

In such a time as this (their statement ran) the artificial restriction that has been built around industry should be removed and a large number of men could be employed profitably at wages that could be agreed upon between employer and worker. Many men are being dismissed from industry to-day who would be glad to remain in their present positions, only that the law refuses them the right. They also demanded a general reduction in the rate of interest, and the stoppage of all public works which do not promise an adequate return. The attack on wages was, a day or two later, carried a stage further by the Dominion Executive of the Farmers' Union, which protested against the 14s. a day paid on relief works, their idea of a proper rate being 12s. for married and 9s. for single men. On February 3 again a deputation from the Associated Chambers of Commerce, the New Zealand Farmers' Union, the Employers' Federation and kindred organisations placed before the Prime Minister a programme which comprised the reduction of civil service salaries, wage cuts, the removal of the railways from political control, the stoppage of railway construction and other reforms. They hoped to arrange a comprehensive conference to consider the question of the reduction of costs. Mr. Forbes' reply was that it would require the whole-hearted assistance of everyone, and particularly of the employers, if they were to mitigate existing hardships.

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"If we are not able to maintain a balanced budget," he said, "we will have to admit to the world that we have failed and are not prepared to face the effects. We have all got to pull together. These are extraordinary times, and we have to take extraordinary measures." It was clear at all events that the special session of Parliament suggested in the middle of last year, but never definitely decided upon, would have to be held. The difficulties were such that any government would wish to share its responsibilities with Parliament.

Almost at the very moment when the Prime Minister was giving the reply quoted above, a tragic event took place. An earthquake of unprecedented violence visited the province of Hawkes Bay, about 200 miles from Wellington. In a few hours the news trickled through that a disaster of the first magnitude had occurred. Two flourishing towns in Hawkes Bay, the capital city of Napier with a population of 16,160, and the commercial centre of Hastings with a population of 11,260, twelve miles distant, had their business quarters shattered by the earthquake, or to a large extent gutted by fire, while practically every house in an area stretching as far north as Wairoa, 42 miles away, and as far south as Waipawa, a distance of 35 miles, was more or less damaged, and more than 250 lives were lost. The material loss has not yet been assessed, but it will undoubtedly amount to millions.\* The position is the more serious as very few owners were insured against damage by earthquake.

Within a few hours four members of the Cabinet started for the scene, and every nerve was strained to expedite relief. Owing to the failure of the sanitary services many of the inhabitants of Napier had to be evacuated to other districts where they received the warmest sympathy and the most generous treatment. The behaviour of the

\* According to the Minister of Public Works the approximate estimates of losses through the earthquake were: To the Government, £580,000; to local bodies, £500,000; and to private persons and businesses, £2,200,000. *The Times*, April 28.

## The New Economic Policy of Mr. Forbes

people of Hawkes Bay was in every respect admirable, and a special debt of gratitude is due to the captain, officers and crew of H.M.S. *Veronica*, which arrived at Napier on the morning of the disaster. With a promptitude characteristic of the Navy, Captain Morgan landed his men, and himself took control of the rescue work at a time when the inhabitants themselves were stunned by the first shock and distracted with anxiety about the fate of their relatives. The Prime Minister had naturally to postpone his statement of policy, and on February 9 he paid a visit to Hawkes Bay to see things for himself. Needless to say, this disaster, which was at once recognised as a national calamity, has to some extent affected the public perspective and is bound to have a profound influence on the session of Parliament which has just commenced. To economic difficulties, already grave, there has been added a new problem unprecedented in extent, and of a completely novel character, which demands immediate attention. The rehabilitation of the devastated area cannot proceed without parliamentary sanctions of a far-reaching character.

On his return from Hawkes Bay, the Prime Minister was again approached by various interests anxious to make use of the respite before the delivery of his statement of policy. Among others, a deputation from the Wellington Trades and Labour Council on February 12 protested that if power were given to the Arbitration Court to reduce wages all round "it would amount to a breach of contract with the workers, and would be as bad as, if not worse than, a repudiation of the national debt."

## II. THE NEW ECONOMIC POLICY OF MR. FORBES

At last, on February 14, the statement of policy was published. It made no attempt to gloss over the position. Mr. Forbes took the public fully into his confidence. In the coming financial year, he said, they had to provide against an ostensible shortage of £4,500,000.



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For the first nine months of the current financial year there was a shortage of £1,469,936, principally due to a decrease of £1,220,000 in railway revenue and of £713,000 in customs receipts. Some of the shortage had been foreseen, but there had since occurred a sudden and unprecedented fall in prices, involving a drop in the national income of many millions. Close budgeting under such conditions was almost impossible. Despite all efforts, the deficit would, it was estimated, reach three-quarters of a million, without taking into account expenditure in connection with the earthquake. The value of our exports for the financial year would show a fall of 20 per cent. Prices appeared to have reached bottom, but there was no indication that there would be any marked recovery, and with our income down by many millions, and every sign of its continuing at a low level, our whole economic structure would have to be adapted to that level. The Government proposed to deal with the situation in a comprehensive manner, but it was essential that there should be unity of action, and the Prime Minister appealed to local authorities, public institutions and private firms to follow the Government's lead and speed up the process of readjustment. During the coming year it was expected that there would be a fall of £2 million in the customs revenue, of £500,000 in income tax, of £500,000 in railway revenue, of £300,000 in stamp duties, and of £300,000 under other heads; there would also be £200,000 of additional debt charges, and £600,000 to find for subsidies in connection with unemployment. Altogether these calls would amount to £4,500,000.

Drastic measures and considerable sacrifices on the part of the people are (Mr. Forbes insisted) necessary before the gap can be bridged . . . Knowing the spirit of our people, I have not the slightest doubt that the general desire is that the burden should be shared by one and all, and the Government will do its utmost to arrange matters to this end . . . Nominal amounts of salaries and wages must be reduced. Accordingly the Government proposes to make a 10 per cent. reduction in the salaries and wages

## The New Economic Policy of Mr. Forbes

of the public services . . . The wages on standard public works will be reduced to a basis of 12s. 6d. per day, except for tunnellers, where the rate will be on a basis of 16s. per day. On relief works the rates of wages will be on a basis of 12s. 6d. per day for married men and 9s. per day for single men. A reduction in the salaries and wages of the public service alone, however, apart altogether from the question of equity, would not achieve the larger object in view, that is the general lowering of costs throughout the Dominion . . . In regard to awards under the control of the Arbitration Court, it is proposed to bring down legislation to empower the Court to review them in the light of the present economic conditions . . . A reduction in nominal wages, followed immediately by a further reduction in the cost of living, would leave the standard of real wages but little affected, and I can assure the workers that the Government is most anxious that the standard of living should not be lowered. At the same time, the Government is convinced that under the present economic conditions it is in the real interests of the workers themselves that nominal wages should be reduced, as otherwise business generally will stagnate and there will be little work for anybody.

Mr. Forbes indicated that the cost of education, now £4,500,000 a year, was too heavy a burden under existing conditions. As a temporary relief, the reparations money from Germany—hitherto devoted to the reduction of war debt—would be made available for the consolidated fund. Highway finance, moreover, could no longer be kept separate; it was quite unsound to earmark certain taxes for special purposes. The following figures show the way in which the budget would be balanced :—

|                                                                 |           |
|-----------------------------------------------------------------|-----------|
|                                                                 | £         |
| Reductions in salaries and wages .. ..                          | 1,500,000 |
| Reductions in other expenditure and financial adjustments .. .. | 1,250,000 |
| Increase in postage rates .. ..                                 | 900,000   |
| Additional taxation (direct and indirect) ..                    | 850,000   |
|                                                                 | <hr/>     |
|                                                                 | 4,500,000 |

The Government (continued the Prime Minister) gives balancing the budget a paramount position in its policy, and, while there may be a diversity of opinion as to how it should be done, I feel

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sure that the principle, at any rate, is heartily endorsed by every section of the community.

As to the railways, the Government has decided to give effect to one of the main recommendations of the Royal Commission of Inquiry and place this national transport system under the control of a non-political board of directors . . . The Government is much concerned about the position of the farmers, who have been placed in a serious financial position as a result of the sudden\* unprecedented fall in the prices of primary products . . . Many who bought land when prices were higher have now lost part or the whole of their equity . . . In other cases the farmer has suffered a serious hardship in losing, through no fault of his own, the hard-won savings of a lifetime. If the mortgagor of land . . . is a good farmer doing his best, the mortgagee cannot hope to gain anything by driving him off the land. Accordingly, I make an earnest appeal to mortgagees to review all the circumstances in an equitable spirit, and recognise their losses by easing the mortgage charges or otherwise granting every relief possible. This appeal also extends to stock and station agents, the banks and others who have lent money . . . The State lending institutions . . . will take this line of action, and will deal with each case on its merits in as sympathetic a manner as is practicable . . . It is highly desirable that all parties concerned in each case should get together and make an equitable arrangement without outside assistance or interference, but . . . in order to assist parties to come to an agreement, it is proposed to set up adjustment commissions in various parts of the country.

As regards the demand for relief from rates, Mr. Forbes pointed out that rates collected by county councils, road boards and other rural local authorities amounted to £2,240,000 annually, and those (mostly rural) collected by power boards to £70,000 and by smaller harbour boards to £100,000. Apart from power boards and harbour boards, there were 299 rural local authorities in New Zealand, i.e., 146 road authorities, 107 river and drainage boards and 46 rabbit boards. Their administrative expenses amounted to £330,000, or 11 per cent. of their total revenue. So many local authorities were no longer necessary, and the Government proposed to set up a commission to consider the matter.

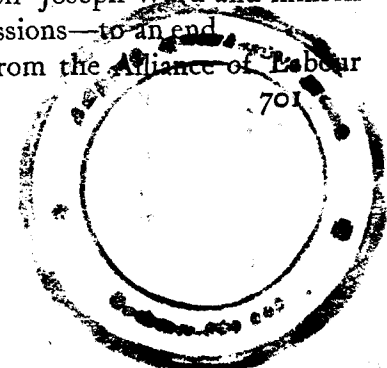
I consider (remarked Mr. Forbes) that the first step toward overcoming our difficulties is to place the position fairly and squarely

## The New Economic Policy of Mr. Forbes

before the people, for the record of the past shows that, when work and sacrifice are absolutely necessary in the interests of the national welfare, our people have always risen to the occasion . . . Our difficulties are great, and they have recently been considerably accentuated by a disastrous earthquake, but even so, the courage and resource of New Zealanders is such that they are by no means insurmountable. I confidently appeal to the other political parties and to the whole community for support and co-operation.

On the whole, the Prime Minister's statement had a most favourable reception from the press, even newspapers hitherto opposed to the United party Government not sparing their praise. The first adverse reaction was a vigorous denunciation by Mr. Holland, the leader of the Labour party, who the very day of its issue stigmatised the statement as an unconditional surrender to the Reform party on practically everything except the South Island Main Trunk railway. He especially condemned the proposal to saddle public servants and other workers with the heaviest sacrifices. A far more equitable method would, he claimed, be a supertax on all incomes over £500. Even if wage reductions were admitted, it was a lopsided policy to levy a flat rate of 10 per cent. on all incomes irrespective of their size. The wage earner and the farmer would be equally hard hit, and there was no proposal to bring down the price of clothes, rents and foodstuffs. It was absurd to talk about handing the railways over to non-political control; that simply meant private control, which was not in the public interest. The credit of the Dominion should be mobilised as it was during the war, when £55,000,000 was raised by compelling people of means to subscribe. It was hardly necessary to proclaim Labour's intention to fight wage reductions. Everyone knew that Mr. Forbes' announcement would bring the association of the parliamentary Labour party with the Government—the co-operation which had enabled Sir Joseph Ward and himself to carry on for the last two sessions—to an end.

Speaking for a deputation from the Alliance of Labour



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on February 20, Mr. Roberts asserted that the workers believed that they were being victimised by the financial institutions, a suggestion which Mr. Forbes indignantly denied.

"When one's income is cut in half" he replied, "the first thing one has to do is to reduce expenditure. I believe that wages will fall, and if they do the workers will not lose. High wages cause unemployment." Mr. Roberts intervened to say that wages had nothing to do with it. That was a fallacy. It was machinery that was causing unemployment. Mr. Forbes said the income of the country was £20,000,000 less. Could anyone tell him how they could carry on at the old level?

Mr. Roberts: "Ask Great Britain for the same concessions in the matter of the war debt as have been given to France and Italy."

Mr. Forbes: "The English money lender is lending all the money for our public works. We have to show him that the country is being run in a business way. If it is not, who will lend any money?"\*

The language used by Mr. Cook, the general secretary of the New Zealand Workers' Union, on March 3, suggested that Labour might adopt other than political methods to oppose the reduction. Labour's sincerity in defending the standard of wages fixed by the Arbitration Court cannot be denied, but it is not easy to see how their leading men can blind themselves to the fact that, with thousands out of work, the wages of the working class are, by that very fact, reduced, even though individuals who happen to be employed are getting the full rates provided by the Court.

There has since been a good deal of wage reduction in industries not subject to the Arbitration Court, and business firms which hitherto had rationed employment amongst their hands or given them alternate periods of holiday without pay have now frankly reduced wages.

Interests affected waited upon the Government after the issue of their statement, a civil service deputation on February 18 protesting that "an unfair and intolerable share of the burden was being cast upon State employees who, though numbering only one-ninth of the wage and

\* *The New Zealand Worker*, February 25, 1931.

## The New Economic Policy of Mr. Forbes

salary workers of the Dominion, were called upon to furnish one-third of the ostensible deficit besides paying their full share of the £850,000 that it was proposed to raise by taxation, direct and indirect." On the other hand, the Employers Federation commended the wage cut by general order as the fairest method, one which would be acceptable "as a temporary expedient" to all employers.

Almost simultaneously it was announced that His Excellency the Governor-General was prepared to have his own salary and allowances reduced in the same proportion as those of the public service, an intimation which was at once challenged by Mr. Fraser, a Labour member, as a departure from the established rule under which governors "abstain from participating by word or deed, in any way, even inferentially, in public controversies on social and industrial questions on which there is a strong difference of opinion."

On February 26 Mr. Donald, the Postmaster-General, announced a rather drastic revision of charges, devised to make good his deficit of £900,000. The main features of these changes are: The inland letter rate is raised from 1d. to 2d. and the cost of telegrams (12 words) increased from 9d. to 1s. The maximum number of words which could be wired at the existing press rates was reduced; newspaper postage is to be according to weight, with a minimum of 1d. a paper, instead of at the present very low rate of ½d. a copy irrespective of weight. The letter rate is now the same as in Australia, and restores the scale which existed before Sir Joseph Ward's introduction of penny postage in 1901. (It was raised during the war to 1½d., but afterwards reduced to 1d.)

Mr. Forbes' proposals to assist farming are interesting, because he is a farmer himself. The mortgage difficulty is to be met by the boards already mentioned. The Government has, for the time being, avoided anything so drastic as derating farm lands, as in Great Britain; the cost of local government clearly shows that it is too large a question

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to be summarily disposed of, especially at a time when it is proposed to change horses in the middle of such a very turbulent stream.

Liberal papers have drawn attention—and Conservative papers have supported them—to the grave injustice inflicted upon the people of New Zealand generally by the high price at which flour-bread and fowl-wheat have been maintained by the excessively high duty devised for the benefit of the Canterbury farmers. With a view to making the Dominion self-supporting in the event of war, the Reform Government in 1922 obtained authority to impose a duty on a sliding scale. When the price of wheat in Sydney is 2s. 3d., as it was a few days ago, the duty in New Zealand, under the arrangement adopted, would be 4s. 6d., or 200 per cent., plus insurance and freight. In these hard times it was obvious that the public would sooner or later resent such a privilege. The *Dominion*, itself a staunch supporter of the Government which devised this ingenious tax, remarked on February 23 :—

The price of wheat and bread in New Zealand has become a public scandal. Were such imposts placed upon a luxury there might be some justification, but the item singled out of all our tariff for this punishing treatment is the raw material of our daily bread. . . . When everyone else is suffering a severe cut in income, a specially privileged and sheltered position cannot be retained by the owners of wheat lands.

On February 21, Mr. Forbes indicated that “there would have to be some reduction not only in the price of wheat, but in the milling and baking industry.” He added, however, that anything that was done would not affect the 1931 crop.

### III. THE EMERGENCY SESSION

PARLIAMENT was duly opened on March 11 by the Governor-General. His speech made it clear that the session was an emergency one, which would deal only with

## The Emergency Session

emergency business. Labour at once gave notice of a motion of no-confidence in an amendment to the address in reply, and speaking at a crowded public meeting the same evening their leader stated that they intended to fight the reduction of wages “on the floor of the House, and to carry the fight on to the electoral field at the general election.” The tenor of its decision is indicated by the following quotation from the official report of a conference of the Alliance of Labour which was being held in Wellington at the time :—

The conference decided unanimously to oppose the wage cuts, and a central committee was appointed to advise and instruct the trade unionists throughout the Dominion on the action to be taken. The committee has been instructed to commence an organising campaign amongst the employed and unemployed workers throughout the Dominion with a view of preparing for widespread and effective industrial action. The Secretary of the New Zealand Alliance of Labour has been requested to communicate the decisions of this conference to the Labour movement of Australia and the Labour movements of Great Britain and European countries, particularly to the international Transport Workers Federation. The conference was of the opinion that the main cause of the proposal to reduce wages was international, inasmuch as we believe it to be a direct instruction from the bond holders and money lenders overseas. For that reason the Labour movement of New Zealand considers it will be necessary to obtain the co-operation of the international labour movement to fight the proposal effectively.

When the debate opened in Parliament on the following day, Mr. Coates made it clear that the Reform party intended to assist rather than hinder the Government,\* a departure from its traditional course due to the gravity of the problems ahead. He also made another appeal for the derating of farm lands.

Twitted with having kept the Government in office for two years, Mr. Holland said that Labour “had pledged

\* The Reform party has declined an invitation from Mr. Forbes to join the United party in forming a new national party, but it has promised to do nothing to block the necessary legislation and to form a small committee to discuss such legislation.

## New Zealand

that wages would not be reduced, whereas they had the assurance of the Reform party that they would be reduced if the opportunity occurred." Labour members strongly resisted the proposed reduction of salaries of a special class in the public service, and they were supported in the Legislative Council on March 18 by Sir Francis Bell, a most influential member of the old Reform Cabinet, but now, as he declares, a non-party member of the Legislative Council. In the House Mr. Ransom, the Minister of Lands, pointed out that necessity knows no law. The suggested graduated scales, to alleviate the loss to the lower grades of the service, simply would not produce the amount required; and the Prime Minister, who had also, he said, felt the unfairness of asking the civil service to make the sacrifice alone, added that he was hopeful that falling prices would neutralise its consequences for them, quoting the following figures from the government statistician to demonstrate that the increase in prices as compared with 1914 had fallen considerably in the last few years :—

|         |    | Per Cent. Increase. |         |         |              |
|---------|----|---------------------|---------|---------|--------------|
|         |    | Food                | All     | Food    | All          |
|         |    | Groups.             | Groups. | Groups. | Groups.      |
| 1921 .. | .. | 75.1                | 85.5    | 1930..  | .. 45 59.2   |
| 1922 .. | .. | 44.8                | 65      | 1931..  | .. 29.7 50.4 |
| 1929 .. | .. | 47.9                | 61.2    |         |              |

The first Labour amendment was lost by 50 votes to 20, "Reform" voting solidly with "United" against Labour. Thereupon a Labour member moved a fresh amendment condemning the assault on civil service salaries. Again Reform and United refrained from taking part in the debate and the division went for the Government by 45 to 22. The Labour party then moved an astutely worded amendment demanding special consideration for farmers unable to meet their responsibilities under mortgages. Even this did not deter Reform members from supporting

## The Emergency Session

the Government, and Labour, after maintaining the debate single-handed, was defeated by 40 votes to 22. The fourth and last Labour amendment asserted that the power which it was proposed to give the Arbitration Court to vary awards would "lay the foundation for the repudiation of agreements." Its supporters insisted that if awards could be varied "any agreements could be broken by Parliament." Once more the amendment was defeated by 37 votes to 20. Labour's chagrin at the abstention of the other parties from the debate was evident, but with only twenty members to draw upon, they could not hope to gain their end by "stone-walling," and for the moment they had to admit defeat.

The ground clear, the Finance Bill was introduced, and after a further demonstration by Labour, and two divisions, it was read a first time. It embodies the more important points of the Government's policy. The 10 per cent. cut in civil service salaries began with the Prime Minister and the High Commissioner and included Members of Parliament and magistrates, but not the judges. The Governor-General is specifically exempted. Grants to educational authorities for salaries are also reducible. Power is given to the Arbitration Court to amend wage rates at intervals of not less than six months. The Court is to "take into account the economic and financial conditions affecting trade and industry in New Zealand and all other considerations which it deems relevant, and may by general order make such reduction or increase in the rates of remuneration payable under the provisions of any award or industrial agreement as it thinks just and equitable." The Act will come into operation on April 1, and will continue in force until the end of 1932.

After the introduction of this Bill, the Prime Minister pointed out that since his declaration of policy a month ago the budgetary position had changed for the worse, and that, notwithstanding every effort to increase revenue and curtail expenditure, it seemed likely that the financial year

## New Zealand

would close with a deficit of at least £1,250,000 and that next year's deficit would exceed £4,500,000.

On the following day Mr. Coates indicated that he would support the cut in public service salaries. Sir Apirana Ngata, Minister of Native Affairs and Chairman of the Cabinet Economy Committee, stated that retrenchment as well as salary cuts would probably be necessary in the civil service. In regard to naval defence, they were tied down by certain engagements with the British Admiralty. There was, for instance, an annual payment of £125,000 for the Singapore base, and a large sum for the upkeep of the New Zealand section of the Royal Navy. They would like to see the cost of those services reduced by 25 per cent., and it might be desirable to make representations to the British Government.

### IV. UNEMPLOYMENT

**T**HE unemployment outlook has become steadily worse. Although this is the period of the greatest seasonal activity in New Zealand, the number of men registered (29,941 on March 9, exclusive of the large number engaged on public works) is greater than at any other time in our history. Besides ordinary economic causes, the earthquake in Hawkes Bay has thrown men and women out of employment who cannot possibly be absorbed in reconstruction work, and the civil service, by taking no new cadets this year, is disappointing 500 or 600 young people who passed high in their entrance examinations. Undoubtedly a large part of the increase in registrations is due to the fact that some work is now available owing to the operations of the Unemployment Board, whereas previously only general labourers offered themselves, there being no work available for tradesmen.

The Unemployment Board, which has been wrestling with the problem for the last four months, was, for a while,

## Unemployment

able, with the help of the local authorities and money from the unemployment fund, to reduce the number of idle men by special measures designed to tide them over the Christmas season. When it took office the total number of registered unemployed was 7,402. The first scheme, which lasted until December 18 and benefited probably 5,000 men, involved the State in an expenditure of £32,500, to which the local authorities added £16,000. Under the second scheme 121 local committees assisted in the administration with such success that the period was twice extended and about 10,000 men benefited to the extent of 95,000 working days. A special Christmas scheme, which cost £10,000, benefited 7,000 men. The biggest scheme of all was the allocation of £150,000 to local bodies to enable them to provide special work to be rationed according to the personal responsibilities of the workers, single men getting two days work per week, married men with dependents three days and more. This proposition, requiring the work to be all of it additional to the ordinary programme of the local authorities, met with a prompt response and has resulted in considerable alleviation. Over 22,000 were employed under this scheme last week. Two minor schemes have been devised to assist farmers to employ men in ordinary or development work, and finally a proposal was put forward by the Board to employ married men in prospecting for gold and thoroughly exploring localities in which it is known to exist.

As a result of these special Christmas efforts the number of registered unemployed fell from 11,371 on December 22 to 7,596 and 8,703 in the two following weeks; but the registers then began to expand rather alarmingly. On January 12 they showed 12,230 names, on January 19, 14,875 and on February 2, 17,556. Three weeks later the number had risen to about 27,000; but of these more than 10,000 had been provided with work by the Board, leaving a net balance of something over 16,000. It is still the policy of the Government, as enunciated towards the end

## New Zealand

of January, to find work rather than to pay sustenance. It was the principle underlying the Act passed last session, and a valiant effort is being made to adhere to it. Preliminary arrangements for the granting of sustenance were made as early as December 23. The rules (under the Act) published on January 17, provided that

no person will be regarded as eligible to receive sustenance allowance if, in the opinion of the Board, his unemployment is due to a strike or lockout or other industrial dispute to which he is a party,

or if he refuses to accept work when offered. On January 29 the Board felt able to pass the following resolution that

as under the schemes now being brought forward and in operation the Board will be able to provide work for a large majority of unemployed, the arrangements made for the payment of sustenance be suspended in the meantime.

Whatever the actual number of unemployed at the moment, it is significant that the payment of sustenance, which was, if called for, to have commenced on February 21, has not yet been resorted to, and that the Prime Minister has reaffirmed his determination to give work in preference to it, with an invitation to his Labour critics to name any of their comrades who are starving. There are, he pointed out, more men on public works now than ever before in the history of the Dominion.

On January 19, the acting Prime Minister announced that the Government had acquired a private estate of 22,000 acres at Galatea, in the hinterland of the Bay of Plenty at a price of £4 10s. an acre. It was to be cut up for closer settlement, and 200 men set to work at once on the roads necessary to connect it with the seaboard. The scheme was greeted by the Liberal press as at once a constructive step in itself and a revival of the closer settlement policy of the old Ballance and Seddon governments, but it was almost as roundly condemned by the Reform press as a costly method of putting men on the land in a period of financial stringency.

## Unemployment

Not to be outdone in constructive suggestions, Mr. Coates at Dargaville on February 25 outlined a scheme which, he contended, would at once absorb 4,000 unemployed and eventually 5,000, and enable people fitted for country life to establish themselves as settlers. The idea was to employ them in preparing Crown land now lying idle for settlement, including pumice and gum lands in Auckland province, estuaries in north Auckland which at present are only below water during extremely high tides; sand dunes, which should be planted with marram and lupin preparatory to being converted into pasture or forest lands; and mica schist lands in central Otago and elsewhere proved to be capable of improvement. The proposal is that the men should be housed in hutments and that their wives and families should receive regular allowances. To finance this scheme Mr. Coates suggests a levy on all persons over eighteen, payable in very small weekly instalments, which would yield £1 million.

### *A New Administrator for Samoa.*

On February 27 it was announced that Colonel Allen, Administrator of Western Samoa for the last three years, had for domestic reasons asked to be relieved of his post, and that the Government had accepted his resignation. In making this announcement the Prime Minister said

The Government wishes to express its warm appreciation of Colonel Allen's administration of the Territory. The situation has been a most difficult one, calling for qualities of tact, discretion, firmness and understanding of a high order, and the great improvement that has happily taken place is sufficient indication of his success.

The new Administrator is Brigadier-General Hart, C.B., C.M.G., D.S.O., a barrister and solicitor in the Wairarapa district, who was born in 1882, served in the Boer war, and in the great war won great distinction and high rank, being the first member of the territorial force of

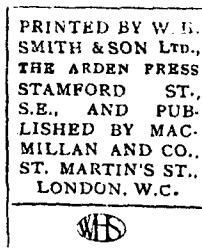
## New Zealand

New Zealand to be promoted Brigadier. It was only to be expected that the appointment would be critically received by a press which has been unsparing in its comments on the policy of the Government in the Mandated Territory. While it is true that some papers have refrained from comment—possibly from a realisation of the serious nature of the problems involved—others object to the selection of yet another military officer. Conspicuous in the chorus was the voice of the *Christchurch Times*, a traditional supporter of the Liberal party :

It will (said this journal on February 28) be a disappointment to most people to find that the Government has not broken completely away from the military tradition. . . . We are convinced that New Zealanders generally have had enough of the military element in Samoan administration and would greatly have preferred the appointment of a civilian with proved administrative ability. We had hoped that the Government would make a complete break from the old order and would seek out a man who had had experience in handling native races, even borrowing an official from the Colonial Office for a term.

New Zealand.

March 21, 1931.



# THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF  
THE BRITISH COMMONWEALTH

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## THE POLITICAL FOUNDATION FOR DISARMAMENT

NO serious student disputes the fact that the Disarmament Conference, which is to assemble at Geneva next February under the Chairmanship of Mr. Arthur Henderson, will be the most momentous assembly which has taken place since the Paris Peace Conference. Not only will it contain representatives of all the nations of the world, including Russia and the United States. Its decisions will probably determine, not merely whether universal disarmament is practicable or not, but whether the ideals which underlie the League of Nations are to prevail, or whether Europe is going to return to the old system of an armed balance of power, which would be the certain prelude to another world war.

It is not proposed in this article to consider what may be called the technical aspects of disarmament, whether, for instance, trained reserves or stores of military material should be taken into account, or what the precise figures of men, guns, aeroplanes to be possessed by various nations should be. Armaments, in the words of the old phrase, are but the instruments of policy. All experience shows that agreements to limit or reduce armaments are conditional upon prior agreement about political policy. The Coolidge Naval Conference of 1927 was a failure because there was no prior understanding about the freedom of the seas and other fundamental political issues between the British Commonwealth, the United States and Japan. The

## The Lesson of 1914

### The Political Foundation for Disarmament

London Conference was a success, so far as these three Powers were concerned, because both Mr. Ramsay MacDonald and the Japanese Delegation had reached a preliminary political understanding with Washington. It was a failure, so far as Italy and France were concerned, precisely because there was no basis of political agreement about Mediterranean affairs.

The purpose of this article, therefore, is to consider the political issues which underlie the disarmament problem. For unless some understanding about these issues is arrived at before the Conference meets or at any rate before it adjourns, no agreement of any importance will be reached about the figures for armaments themselves. The consideration of these political issues, too, will be based on the assumption that Europe is going to remain a collection of strongly national States. The events of the last few weeks show the extent to which economic and financial forces may transform the political assumptions on which post-war Europe has rested, either by forging new international bonds or raising to power in certain European countries revolutionary elements which derive their ideals from Soviet Russia or Fascist Italy. These elements are endeavouring to establish an entirely new international system, and their influence might be rapidly, and indeed decisively, strengthened by economic distress.

No attempt will be made in the article to estimate what the progress of these movements may be during the next few years—such progress is imponderable. But the possibility that events may upset the normal development of present-day Europe, and with it the work of the Disarmament Conference itself, cannot be ignored.

### I. THE LESSON OF 1914

EVER since the outbreak of the world war in 1914 mankind has, in the domain of international affairs, been torn between two conflicting principles.

On the one hand there has been the old conception of a world consisting of a number of independent self-centred sovereign States, each relying upon its own armed strength to defend its security and its rights, in which war is recognised to be inevitable from time to time, while diplomacy is concerned to promote the ends of its own particular country, if possible without war. Tradition and history are quoted to support the view that, whatever men's hopes while the reaction from the world war lasts, human nature is unchanging and will sooner or later reassert itself in international rivalry and a desire for aggrandisement, which in turn will inexorably lead to the renewal of periodic wars in which, as in the past, the prize will be to the strong and the swift, and disaster to the weak and the unprepared.

On the other hand, there has come into being a more deeply thought-out and more widespread movement for the promotion of world peace than has ever been known before. Philosophers and statesmen have arisen in almost every land who realise that, if the first view were allowed to prevail, it would mean not only war and suffering for individual nations but the destruction of civilisation itself, for economically the world is becoming more and more a single unit, while the effectiveness of weapons of destruction is growing with incredible speed. They realise, too, that war is really the most unjust and the most expensive method of settling international problems, and that it invariably breeds, not peace, but a new crop of wars.

The result was the League of Nations. The basis of the League was the conviction that war was inherent in

## The Political Foundation for Disarmament

the condition of international anarchy. So long as there was no semblance of political unity among men every nation inevitably looked at every international issue from a selfish point of view, fear and suspicion reigned supreme, and, as an inevitable consequence, armaments multiplied. At the same time, although we live to-day in a world in which, thanks to scientific inventions, the need for constant adjustment affecting frontiers, tariffs, migration, the rights of individuals and a host of other things, has never been more pressing, such adjustment had become almost insoluble except by war. War is chronic under such conditions, not because anybody wants war or likes war, but because it is the only method by which important political change can be effected in a world which has no political machinery of any sort for the conduct of its common affairs.

The world war of 1914, like its predecessors, was the result of just such causes as these. The political settlements of 1815 and 1870 had become out of date. On the one hand, democracy was demanding both the abolition of the great military monarchies of Germany, Austria-Hungary and Russia, and the liberation of the oppressed nationalities in Europe, Ireland and Asia. On the other, Germany was demanding a "place in the sun" in the outside world comparable with that of Britain or France or Russia and commensurate with the increase in her own power since 1870. There was no League of Nations and no method save diplomacy whereby these issues could be discussed, and that was secret. Force was the only way of dealing either with revolution in eastern Europe or with the larger political and economic issues which required adjustment. The consolidation of Europe into two great military camps, the Triple Alliance of Germany, Austria-Hungary and Italy, and the Dual Alliance of France and Russia, served to stabilise Europe for a time after 1890, because neither side dared to challenge the other. But gradually the military competition between the two increased, and

## The Lesson of 1914

their fear and suspicion of each other grew with it. This competition was intensified by the gradual association of Great Britain with the Dual Alliance, after Germany had set out to build a fleet comparable to her own with the object of obtaining security for her rights and her destiny in the outside world. Finally, despite the efforts of pacifists of all kinds, military and naval preparations reached the point at which success or defeat in war was mainly a question of speed in mobilisation, for it became clear that the combination which got in its blow before its rival was fully mobilised would be able to win the war and dictate its own terms within a few weeks.

The assassination of the Archduke Franz Ferdinand, the heir to the Austro-Hungarian throne, drove the Hapsburg Government to send an ultimatum to Serbia, and to mobilise its army as a proof that it meant business. From the moment of Vienna's mobilisation order it was almost impossible to prevent war. The political issues at stake were swept into the background by the imperious demands of the military time-table. If Russia allowed the Austro-Hungarian army to complete its mobilisation without a counter-mobilisation, that army would be able to march to Warsaw without opposition and destroy the defensive organisation of Russia. If Germany allowed the Russian army to mobilise without a counter-mobilisation, she would be caught, as in a nutcracker, between France and Russia. All her plans for security in the event of war were based on her having time to defeat the French army before the Russian army was ready to strike, and then to move her victorious troops back from the West to the East before her frontier was breached. Hence Europe was driven by the military time-table into war, although no single government determined that the issues should be decided by war.

Students of politics and practical statesmen, who had time to think, alike realised that if the war resulted merely in the traditional peace, however wise, and if the nations

## The Political Foundation for Disarmament

then reverted to their old mutual isolation, another world war would be inevitable. The underlying issues would be different, but the only way in which they could be settled would be the same—resort to war. Hence the first chapter in each of the Treaties of Peace provided for a fundamentally new method of mediating in international affairs. For the essence of the idea underlying the League of Nations is that the nations should meet regularly round a common table, that they should create and undertake to use machinery which would render possible the settlement of international disputes by conference, mediation, arbitration or judicial means in the full light of the public opinion of the world; that they should renounce the right to settle their disputes by war, and that they should bind themselves to deal collectively with any nation which resorted to war in defiance of its obligations under the Covenant.

Thanks mainly to the insistence of President Wilson, the Covenant was embodied in the Peace Treaties, and became the basis of the political structure of the post-war world. Whatever may be thought of the details, there is no question that in broad outline the ideas which underlie the Covenant are the only ones which can lead the world out of the morass of recurrent war. War is endemic in an anarchic world. In the international sphere no less than in the national the only alternative to chronic war is constitutional procedure, which will enable political issues to be solved by a pacific appeal to reason and justice and will curb those who try to get their own way by force. The League is the beginning of an attempt to substitute the reign of law for the reign of force in international affairs.

## After Versailles

### II. AFTER VERSAILLES

ALTHOUGH the ideals of the League of Nations triumphed at Paris they did not command universal assent. The United States felt that an acceptance of the obligations of the Covenant would involve too radical a reversal of her long tradition of political detachment from the vortex of European militarism, and she rejected both the League and the Anglo-American Treaty of Guarantee, which promised assistance to France in the event of unprovoked aggression. Russia, captured by the ideals of the Communist Revolution, refused to join the League. In her eyes it represented an anti-revolutionary association of the capitalist nations, whose object was to exploit the proletariat of their own lands. Even in Europe the League had a struggle to survive. Germany was only admitted in 1926 as part of the Locarno settlement; Italy, after the Fascist march on Rome, though she remained a member of the League, swung vehemently back to militarist and nationalist ideals. France, Poland and the countries of the Little Entente combined a belief in the utility of the League ideal with a system of military alliances designed to render impossible any forcible modification of the Treaties of Versailles and Trianon. A number of other Powers, such as Spain, the Argentine Republic and China, have, for one reason or another, been lukewarm adherents of the League. Only the British Commonwealth and the smaller nations of northern Europe have consistently advocated the full ideals of 1918.

None the less, in every respect except disarmament, progress has been made in the last ten years. The United States maintains her attitude of detachment, but she has moved sensibly in the direction of co-operation. She took the initiative in promoting the Dawes and Young Plans and the Kellogg Pact for the total renunciation of war as

## The Political Foundation for Disarmament

an instrument of national policy, and President Hoover's declaration that no United States Government could be indifferent to the violation of this pact was a recognition that if the day of permanent co-operation has not yet dawned, the day of old-fashioned isolation is at all events over. Germany has been relieved of many of the special disabilities imposed on her as a result of defeat, notably of the occupation of the Rhineland, which was to have continued until 1935. The League itself has become part and parcel of the political structure of Europe, if not of the world, so that it is difficult to-day to conceive of a Europe in which the Foreign Secretaries and Prime Ministers of its member States would not come into personal conference under the ægis of the League several times a year.

The League, too, has a number of valuable achievements to its credit, and they are by no means confined to non-controversial subjects such as health and financial relief. There is certainly a much better understanding between nations of one another's problems, and disputes have been peaceably settled in the Balkans, Iraq, the Aland islands and elsewhere. The number of adherents to the principle and machinery of compulsory arbitration has steadily increased.

If we look at the positive side alone there is no question that since 1918 we have moved far from the old concept of an anarchic world of sovereign States possessed of no common machinery to ensure consultation and co-operation or to prevent war, and that remarkable progress has been made towards a new international order, in which mutual understanding and the well-being of humanity as a whole can begin to counterbalance the old selfish egotism of some sixty self-regarding sovereign States. The black spot in the picture is the fact that armaments, so far from diminishing, have actually increased. The expenditure of the principal European Powers and the United States in this respect has risen by more than £150,000,000 per annum in the last six years, Great

## The Menace of Armaments

Britain and Japan being the only countries whose expenditure has remained at approximately the same level. And that is a very serious matter, for armaments are the "acid test" as to whether the nations have real confidence in the new machinery for the preservation of peace and the protection of their lawful rights.

### III. THE MENACE OF ARMAMENTS

THE Covenant of the League of Nations contains the following article\* :—

The members of the League recognise that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.

There is no question that a universal agreement to limit and reduce armaments is an indispensable element in a world organised for the settlement of international questions by law and justice and not by war. The essence of "peace" within the national State is that its citizens should renounce violence and be prevented from resorting to it, and that they should settle their disputes by recourse to the law courts or to Parliament. It is the same internationally. The success of the League principle depends upon the nations abandoning the right to take the law into their own hands by resort to war, and that means disarmament. Either the League system will destroy the war system or the war system will destroy the League, for in the long run they are irreconcilable.

The reason is twofold. In the first place, the existence of large armaments implies that every nation means, in the last resort, to be judge in its own cause, and that it does not trust the rest of the world either to be just or to come to its assistance if it is attacked. In the second

\* Article 8.

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place, once a nation begins to rely upon its own armaments, a competition in armaments sets in which leads inevitably to an armed balance of power and war. For the only way in which one nation can obtain security as against another by means of armaments is by having superior armaments; in other words, security for one nation is only obtainable through the insecurity of its neighbours. But these neighbours will, in their turn, inevitably also want security, and they will get it, either by increasing their own armaments or by alliances, until the world becomes hag-ridden by suspicion and rivalry. The old military time-table will then reappear as in 1914, and it will only take a similar accident to plunge mankind into another world war.

The one remedy for this situation, and the only basis for a peaceful international order, as Article 8 recognises, is the reduction by all the nations of their armaments to a level at which they will no longer be a serious menace to one another, so that pacific procedure will be given a real chance and it will cease to be a formidable matter for the nations collectively to restrain an aggressor.

### IV. THE FRENCH VIEW OF EUROPEAN PEACE

THE development of the League of Nations, however, represents only one aspect of the political development of Europe since the war. The second, and in many ways the central, fact has been the absolute military predominance of France and her allies—Poland and the Little Entente—over Germany and the ex-enemy Powers. How complete this predominance is may be seen from the fact that within three months of a declaration of war France and her associates could mobilise over 150 fully armed and equipped divisions as against a German force of not more than twenty divisions, that they possess highly developed air forces equipped either to fight or to bomb at a moment's notice,

## The French View of European Peace

while Germany has no military aviation at all, and that they have besides great reserves in the way of heavy guns and trained conscripts, immense arsenals in full working order, while Germany has no heavy artillery, no conscripts trained since the war and no arsenals in the real sense of the word. The German Reichswehr is no doubt highly efficient and its organisation is well adapted for rapid expansion. There are probably also considerable stocks of small arms and ammunition, and Germany could certainly mobilise large numbers of men partly trained by such voluntary organisations as the Stahlhelm. No soldier, however, doubts that France and her allies could to-day overwhelm all effective military opposition in Germany without the slightest difficulty and occupy every strategic point in the country. The same is equally true of Hungary and Bulgaria.

This alliance system was built up by France as a bulwark for the Treaties of Versailles and Trianon in the early years after the war, and her case for doing so was a strong one. It was unreasonable to suppose that Germany, Hungary and Bulgaria would voluntarily acquiesce in the drastic revision of their frontiers effected by the Treaties, or pay the reparations imposed on them by the victorious allies, unless they were convinced of the necessity of doing so. The League had no force at its disposal, the United States had retired for good across the Atlantic and had rejected the Anglo-American Treaty of Guarantee, Great Britain and the Dominions, though showing a practical interest in the pacific activities of the League, were clearly themselves withdrawing, if not into complete isolation, at all events into a state of military detachment from Europe, in which they could not be relied upon to maintain the vigilant guardianship over the Peace Treaties on which their stability depended. So France, full of bitterness at being deserted by her powerful allies, took the policeman's task upon her own shoulders.

The military hegemony of France has, in fact, been the

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basis upon which the peace of Europe has rested since 1919. In its present form it is the outcome of the events of 1923-25. France, rightly or wrongly, became more and more convinced that Germany did not really mean to fulfil the Treaties and that she intended to whittle away her obligations under them. The result was the occupation of the Ruhr. That occupation convinced Germany that, for the time being at least, she had to fulfil her obligations, and it convinced France that a policy of destroying Germany altogether, either through economic means or by the partition of her territory, would only redound to her own disadvantage. The outcome of the Ruhr occupation was the Locarno Treaties and the Dawes and Young Plans. Germany thereby voluntarily undertook to renounce Alsace-Lorraine, to make no attempt to revise her eastern frontier by force—only by pacific means—and to pay what experts regarded as practicable reparations. France on her side adopted a comparatively conciliatory policy towards Germany, which found expression not only in the Dawes and Young agreements but also in the evacuation of the Rhineland before the date fixed by the Treaty of Versailles. Great Britain became once more a military factor on the Continent of Europe by her undertaking, subject to the supervision of the League, to defend, with Italy, the integrity of the demilitarised Rhineland against both Germany and France, though she made it clear that she assumed no further responsibility for the preservation of the *status quo* in eastern Europe than was imposed upon her by the Covenant of the League.

But despite the "Locarno spirit" and the Locarno Treaties, the military predominance of France and her allies, as the guarantee both for the observance of the Treaties of Peace and for the security of France, Poland and the Little Entente, still remains intact. Just as the police and the army are the ultimate "sanction" for the rule of law and the peaceful functioning of parliamentary institutions in every democratic state, so the armies of France,

## The Root Problem

Poland, Czechoslovakia, Yugoslavia and Rumania are the "sanctions" behind the public law of Europe as embodied in treaties, and behind the pacific and quasi-parliamentary proceedings of the League of Nations. France regards herself, not as the bully, but as the policeman of Europe.

### V. THE ROOT PROBLEM

WE can now see the root problem which underlies the disarmament question. France, as her statesmen have unceasingly declared, is primarily concerned with security, and security means not merely freedom from risk of invasion, but the stability of the settlement of 1919. France is said to be willing to consider the possibility of modifying that settlement by pacific means, by negotiation, conference or arbitration, provided that there is ample security that it cannot be altered by force, for pacific methods mean either that no alteration can be made without her consent and that of her allies, or else that there will be no fundamental change, for arbitral and judicial proceedings alike cannot do otherwise than proceed upon the basis that the treaties of 1919 represent the law. Hence her passionate attachment to the principles of the Geneva Protocol of 1924, which provided for "arbitration, security and disarmament." Europe was to disarm, but only on condition that no alterations should be made in the treaties except by agreement or arbitration, and that every signatory, including Great Britain, should pledge herself to immediate military action against any nation which resorted to war.

The core of France's policy is in fact to maintain or create a military situation in which it is impossible to alter the Peace Treaties by force, and every utterance by her political leaders and in her political press goes to prove that, while she may be willing to make minor concessions in the direction of disarmament, she intends to keep, in association with her military allies, as long as she can, that absolute military preponderance over the ex-enemy Powers which is



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her security, not only against invasion, but against the violent alteration of the treaties. And in this attitude she is whole-heartedly backed by her allies, who support the alliances, not only for reasons of security, but because they are themselves opposed to the revision of the treaties, since any and every revision would, they know, take the direction of giving back to Germany, Hungary and Bulgaria some part of the territories that were allotted to Poland, Czechoslovakia, Yugoslavia and Rumania at the end of the war. France and her allies are still further confirmed in their resolve to maintain their absolute military preponderance just as long as they possibly can, because, in their view, the only real alternative to their own preponderance is the preponderance of Germany and her friends—a situation in which they would be faced by a demand, at the point of the bayonet, for revision far more extensive than they would ever be prepared to concede, and by their own subordination to Germany and her associates.

The standpoint of Germany and of the other European ex-enemy Powers is equally easy to understand. On the one hand they demand equality in armaments; on the other hand they demand a revision of what they regard as unjust terms of peace imposed upon them by force. They say that it is an inherent attribute of a sovereign State to be free to take what measures it thinks necessary for its own security, and that it is now quite intolerable that they should be given no security, while France clamours unceasingly for absolute security for herself. They further claim that general disarmament was promised them at Versailles and that they accepted the military terms of the Treaty of Versailles on that understanding, and that if it is not fulfilled they will be morally free from their disarmament obligations. The relevant words of Part V of the treaty read as follows :

In order to render possible the initiation of a general limitation of the armaments of all nations, Germany undertakes strictly to observe the military, naval and air clauses which follow.

## The Root Problem

The official reply of the Allied and Associated Powers to the observations of the German delegation on June 16, 1919, moreover, states that

The Allied and Associated Powers wish to make it clear that their requirements in regard to German armaments were not made solely with the object of rendering it impossible for Germany to resume her policy of military aggression. They are also the first steps towards that general reduction and limitation of armaments which they seek to bring about as one of the most fruitful preventives of war, and which it will be one of the first duties of the League of Nations to promote.

These pledges, they contend, imply not only all-round disarmament, but equality in armaments as between States of the same international standing and size.

Finally, Germany and her associates have never ceased to protest against what they call the "war-guilt lie," that is, the statement in the Treaty that Germany was solely responsible for starting the war; against the Polish Corridor, the Upper Silesian boundary, and the transfer of territory containing Magyar and Bulgar majorities to form part of the States of the Little Entente; and against excessive reparations. They claim that a revision of the treaties is essential, alike in the interest of justice and of lasting peace, and their more extreme spokesmen declare that, unless revision is effected within a reasonable time by pacific means, they will leave the League of Nations as a dishonest sham, and set to work to secure equality and revision by the only means left open to them—force.

This then is the core of the political problem which underlies the disarmament question. There are other difficulties, the attitude, for instance, of Russia, Italy and the United States, to which a brief reference will be made later on. But the immediate and most serious problem is to find a solution for the fundamental differences that divide France and Germany and their respective friends. These differences have not been lessened during the last few weeks. For the attitude of France to the Hoover

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proposal has been taken in Germany as an attempt to take advantage of her financial difficulties to rivet her once more in a position of subordination, while the pleas of Germany have been taken in France as a dexterous attempt to use these same difficulties as a means of escaping from the financial obligations of the Treaty of Versailles.

### VI. THE ULTIMATE BASIS FOR DISARMAMENT

IF we consider the problem from a dispassionate and neutral standpoint, the only real and final solution is that the defects of the treaty settlement of 1919 should be considered in the pacific manner prescribed by the Covenant, and that a voluntary agreement about revision and a general reduction of armaments to a police level should proceed *pari passu*. If only the settlement of eastern Europe could be submitted to some form of impartial arbitration and revised by consent, the mainspring of armaments would disappear. France and her allies cling to their military supremacy because they are afraid that, if that supremacy were to disappear, the map of Europe would be torn up by force and their countries invaded. Germany and the ex-enemy States demand equality and freedom, partly for reasons of national self-respect, and partly as a preliminary to treaty revision, either by agreement or, failing agreement, by force. It is perfectly clear that the nations of Europe will never cease to look with fear and suspicion on their neighbours and to make difficulties about minorities, and will never reach lasting tranquillity and disarmament, until the eastern frontiers are accepted as final, just as the western and Scandinavian frontiers are to-day accepted as final. "In so far, then, as Europe is concerned, the fundamental political condition upon which the success of the Disarmament Conference depends is a general agreement which will permit of the frontier problems and one or two other

## Favourable Symptoms

matters being settled so wisely and with such a measure of consent that no nation will any longer harbour the design of upsetting them by force or have reason to suspect its neighbours of wanting to do so. Then the main motive for large armaments will have disappeared. This issue may not emerge at the opening session. There are many who believe that to raise it too soon would be to break up the Conference itself. It may, then, be better to wait for it to be forced to the surface by events, as a result of deadlock on the technical matters. But it is certain that the issue will arise and will have to be dealt with, if the Conference itself is to succeed in bringing appeasement and disarmament to Europe.

### VII. FAVOURABLE SYMPTOMS

IT has been held in some quarters that the summoning of the Disarmament Conference for next February was a mistake, and that the time is not ripe for an attempt to induce France and her allies to abandon the system on which they have relied for their security since 1919. On the other hand, people who are in close touch with central Europe usually agree that, unless there is a definite move in the direction of disarmament next year, Germany will make up her mind that the allies do not mean to fulfil their pledges or to act up to the principles of the Covenant, especially Articles 8 and 19, and that she will turn her back once for all upon the League of Nations and pacific methods, and prepare for an attempt to recover her freedom and her place in the sun both in Europe and elsewhere by any means in her power. We take the second view. To attempt to keep Germany in the strait-waistcoat, political, economic and military, in which she has been confined since 1918, is to lay the foundations for another world war. The only course is that Germany and the ex-enemy Powers should be enabled to recover that permanent place in Europe to

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which they are inherently entitled, and to reconsider, in the full light of world publicity, the inequalities and grievances which they believe they suffer under the Treaties of Peace.

Indeed, it may well be that, now that the Disarmament Conference is to take place, France and her associates will be forced to reconsider the system upon which their security is based far more profoundly than they have yet been willing to do. For it is obvious that their present system cannot last indefinitely—it is in truth already beginning to break down. Nobody believes, even among chauvinist circles in France, that it will be possible to keep a great nation like Germany in permanent subjection. Italy, moreover, has ostentatiously detached herself from the French system—she is already in active opposition to it. Finally, Russia is rapidly recovering her military power. In the last four years her expenditure on armaments has risen from 698 million roubles to 1,125 million roubles per annum, and the Five Years Plan has, to a large extent, clearly been designed from a military standpoint. Hungary, and to a less extent Bulgaria, also nurse the hope of revenge.

If this process continues, it is only a question of time until the effectiveness of the French alliance system is neutralised and even out-matched. As Russia recovers her strength, it will become more and more impossible for Poland and Rumania to act against Germany or the other ex-enemy Powers. Neither of them could face war on two such fronts at the same time. They are bound to become increasingly immobilised as military factors in the European situation. Yugoslavia, too, is checkmated by Italy. As this situation develops, and the prospect of an immediate victory, in the event of hostilities, recedes, the readiness of France and her allies to plunge into war for the sake of one another, and therefore the value of the alliance system as a guarantee of security, will inexorably grow less. Indeed, there are many who believe that marching orders would meet with a very lukewarm response to-day.

## Favourable Symptoms

The present policy of France, therefore, successful as she can claim it to have been in preventing war in post-war Europe, and in giving herself and her associates military security, though at an immense price in the hatred and resentment to which it has given rise, is beginning to break down. Every day it is adding to that volume of hatred and resentment which may some day cause a war crisis—a contingency which neither France nor her allies in the least desire. And even assuming that explosions can be prevented, if the French hegemony is continued too long it will certainly bring into being a rival military combination. Suppose, for instance, that Germany, Russia, and Italy should join forces, not for love, but in order to destroy the French hegemony, the French would be the weaker military combination of the two, and Germany would then dispute with Russia the military control of eastern Europe. There are already many people in France who believe that, even from the narrow standpoint of the security of France, Poland, and the Little Entente, no less than from the wider standpoint of the League of Nations, the right policy is to aim at some moderate scheme of revision in so far as the Peace Treaties are concerned, and at the same time to carry all-round disarmament sufficiently far to render it impossible for any nation to invade its neighbours of comparable size with any hope of success, and to make the co-operative machinery of the League of Nations for the settlement of disputes and the prevention of war really effective. This clearly cannot be done so long as Europe is armed to the teeth, for so long as her nations are heavily armed co-operative action against an aggressor, which France has hitherto regarded as the necessary basis for any alternative to her present system, means taking part in a first-class war.

There is therefore more hope of success at the Disarmament Conference than a superficial analysis of present-day facts might suggest. The events of the past few weeks show that Europe is approaching a crisis. France may endeavour to take advantage of the economic situation to

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try to prolong the subordination of Germany. In our judgment, such a policy, even though some advantages could be claimed for it in the past, must lead to war and revolution. On the other hand, France may make up her mind that the time has arrived to find a new basis for security and stability in Europe. She may conclude that the Disarmament Conference affords an opportunity, which may not come again, of coming to terms voluntarily with Germany, Hungary and Bulgaria, and of trying to create that permanently pacified and disarmed Europe which it is the main purpose of the League to bring into being. A change of this kind cannot be expected to spring ready made out of the first meeting, but, if the Conference is wisely handled, it may well come to the fore before its close. It should be the primary object of British policy to bring Paris, Berlin and Warsaw to an agreement about the frontiers of eastern Europe.

### VIII. OTHER ASPECTS

THIS article has so far been entirely directed to the European, indeed to the Franco-German problem, for that problem constitutes the core of the disarmament question at the present time. If it can be solved, Europe will move forward to unity and peace under the League. If the Conference fails to solve it, Europe will inevitably slip back into the old system of the balance of power, which means war, and a greatly weakened League. But there are other aspects which will certainly have to be taken into account.

First of all, there is the United States. The United States is as determined as ever to remain outside European politics, and therefore outside the League, which she regards as a predominantly European concern. Yet with every year that passes she recognises more clearly that her interests are bound up with the preservation of world peace.

## Other Aspects

She has shown it in the Kellogg Pact, though she has proposed no way of making that pact effective if the moral sanction should fail. She has shown it by her insistence upon naval "parity" with Great Britain, and superiority as regards Japan, which means that, whether she wishes it or not, if ever it should fall to the British Navy to enforce Article 16 of the Covenant, she will have to decide whether she will acquiesce in that navy's preventing American goods from reaching an "outlaw" State, or whether she will threaten war—or even go to war—to compel the League to permit American goods to reach such a State. She has shown it more recently in her support of the "Hoover" plan, which has brought into effect a debt moratorium for a year. She is also a member of the Disarmament Conference, and President Hoover has repeatedly shown his active interest in its success.

The United States will certainly press for the limitation and reduction of armaments, and she will endeavour to use her control of war debts as a lever to bring it about. But when France and Europe ask her, as they will, "What action will you take against a violator of the Kellogg Pact, for we cannot abandon our present security unless some international substitute is put in its place," no one knows what her reply will be. There certainly seems to be no movement in American public opinion in the direction of any form of international guarantee at present, although there are a large number of people in the United States who consider that she should at least agree to confer with her co-signatories if any infraction of the Pact occurs or seems likely to occur.

The Italian attitude is complicated by the naval issue in the Mediterranean. Italy is militaristic in sentiment, but she is also economically and financially weak. The failure of the Franco-Italian naval negotiations is in part explained by the desire of France to enter the Disarmament Conference in as strong a position as possible for the purpose of a bargain. Italy is not likely to block any general

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settlement in Europe, for, if Europe could be pacified, her fundamental interests would lie outside it.

Finally, there is Russia. The recovery of Russia in a military sense is causing anxiety in eastern Europe, and, as already explained, is beginning to neutralise the French alliance system. Russia, too, expects war, for she fears attack by the capitalist Powers. But hitherto at any rate she has shown more interest in the development of her own internal communist society than in nationalist aggrandisement, and she was the only Power to propose real disarmament to the Preparatory Commission at Geneva. Whether that proposal was genuine, or, as her neighbours allege, put forward because she believes that world revolution would be easier to bring about in a disarmed world, it is impossible at this stage to decide.

The position of Russia, however, has for the purposes of disarmament a special significance, for she is not only an external, but an internal menace to other nations. Unless the capitalist world can set its own house in order and get rid of unemployment and excessive war debts and reparations, communism may well spread over a considerable part of central Europe, and completely transform the disarmament problem. Of the prospects of such a development no one can speak with any certainty.

#### IX. THE BRITISH POSITION

**I**T is obvious that Great Britain and the British Commonwealth will be confronted with decisions of the most vital importance at the Disarmament Conference. For the whole basis of British policy is at stake. Great Britain's traditional policy has always been to keep outside the internal politics of Europe, and, except when there was a threat to her own existence through the emergence of a European Power strong enough to aim, with good prospects of success, at the military hegemony of Europe, to concern

#### The British Position

herself primarily with the outside world. That policy, for the first time in her history, she deliberately abandoned in 1919. She abandoned it because she had become convinced that the only alternative to war, of an increasingly devastating character and recurring at more and more frequent intervals, was the successful realisation of the ideals of the League of Nations. Since 1920 she has stood whole-heartedly behind the League.

Her primary object will clearly be to do everything possible to bring about such a measure of disarmament as will give reasonable security to every Power alike—to Germany no less than to France—through the limitation and reduction of those weapons of war which are primarily offensive in their character. If every nation felt that successful invasion in the first weeks of a war was out of the question because its neighbours did not possess the means to overthrow its defences by a sudden blow, the tension in Europe would be immeasurably lessened, and the discussions at Geneva of what revisions must be made in the Peace Treaties in order to secure lasting peace would be immensely easier. Great Britain's main object must clearly be to bring about such a measure of all-round disarmament as will give the League ideal a chance of strengthening its hold upon Europe. In doing this she will at least have a strong moral position. As the Prime Minister pointed out on June 29, she has set the example and already reduced her own armaments to a dangerously low level compared with those of other Powers. Between 1914 and 1931 the personnel of the Navy has been reduced by 38 per cent., and the annual expenditure on it, in terms of constant purchasing power, by 31 per cent., compared with an increase in net expenditure of over 80 per cent. in the United States, of over 70 per cent. in Japan, and decreases of 8 per cent. in Italy and 17 per cent. in France. The British Commonwealth has now 74 fewer capital ships than at the outbreak of war, 72 fewer cruisers, about 250 fewer destroyers and torpedo-boats, and 40 fewer

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submarines. The expenditure on the Army has remained approximately the same, in terms of fixed purchasing power, but the man-strength has been reduced by 37,600 to 148,800.

But whatever the outcome of such an initiative may be, Great Britain and the British Commonwealth as a whole are likely to be confronted by alternative proposals, the answer to which may require a good deal of thought. If, for instance, France makes up her mind that the time has come to find a new foundation for her own and for European security, the basis of that alternative is likely to be the Geneva Protocol of 1924—arbitration, disarmament, and security—which means a British guarantee to co-operate militarily against any Power which attempts to alter the treaty settlement by other than peaceful methods. What is to be Great Britain's answer? Hitherto she has refused to associate herself with the French system of hegemony, and she has limited her European commitments to those created by the Locarno treaties and Article 16 of the Covenant. These have not, however, satisfied France. Are we prepared to go further? Our answer in the past has been that we would refuse any further commitment, and it is obvious that we will continue to do so as long as France claims military preponderance, or Europe is armed as she is to-day. Great Britain clearly will not undertake the rôle of policeman in an armed world. Even if she tried to do so she could not keep the peace. She would only be dragged into a war whenever any European Power liked to start one—a war in which she would run the risk of conflict with the United States as well. If Great Britain is to undertake to deal vigorously with an aggressor, the necessary conditions must be that European, including French, armaments are reduced to the police level all round, that the United States will at least acquiesce in action taken under Articles 10 and 16 of the Covenant and the Locarno Treaties, and that the Peace Treaties have been revised by general consent and so form a stable base for European peace.

## The British Position

The other fundamental decision she may be called upon to make if the Conference fails and Europe definitely heads towards a new balance of military power and another war. In that event, unless all history is to be belied, Great Britain will and should divest herself of every kind of military commitment in Europe, though she would continue to co-operate in all the pacific activities of the League of Nations. Europe has to choose between two alternatives. Either she will become a community of disarmed States using the League system as the means of dealing with international problems from the standpoint of reason and justice, or she will split into two great armed combinations, which may use the League as a useful piece of diplomatic machinery, but which will really rely upon their own military strength—*Machtpolitik*—to give them security, and to impose their own solutions of international disputes upon the world, or to prevent the adoption of solutions which do not suit themselves. Of the first system Great Britain, with the Commonwealth, can be an ardent and convinced supporter. Of the second she cannot. If it is adopted she will doubtless continue to do her best to settle disputes peacefully, but she will resume—and she ought to resume—complete freedom to decide whether she will intervene or not in the event of a European war. If the true League system fails, and that is what is really at stake in the Disarmament Conference, the British Commonwealth will do more for its own security and for world peace by standing outside all military commitments in Europe—including those imposed at Locarno—and by acting in unison with the United States as an independent Power doing its utmost to bring any war to an end on reasonable terms by whatever methods may seem best at the time, than by entering into obligations which will force it to participate in every war, however it arises and whatever its purpose.

## SHANGHAI

ON November 29, 1929, General Hertzog was invited by the Municipal Council of Shanghai to lend them the services of Mr. Justice Feetham, of the South African Bench. "Faced by the acute problem of reform in the Settlement," the Municipal Council "urgently needed the immediate aid of an adviser free from previous commitments or bias, who combined judicial with municipal and political experience. . . Your Government," so the cable proceeded, "as the most detached from Far Eastern controversies, is exceptionally situated to render this aid in unravelling the knot at the centre of China's tangled relations with foreign Powers. The Council by unanimous vote, including American, British, Chinese and Japanese members, respectfully invites your immediate aid."\* The italics are ours. With the Judge's report before us we can now see what the Council meant by the words we have thus emphasised.

### I. CHINA AND THE WEST

CHINA is a region segregated from the rest of the Eurasian continent by forests, mountains, deserts and ice, but so fertile and well watered that it is able to support nearly a quarter of the world's population. This quarter is a distinct racial group, with brains of the first order, highly industrious, and excelling in crafts, in literature, and in the arts. Before Europe emerged from barbarism,

\* Vol. I, p. 2, of the Feetham report. Throughout this article references to the report will be given in footnotes, indicating the volume and page.

## China and the West

the Chinese were a civilised people with a social structure based on the family system and conducted in accordance with a recognised code of good manners. When Rome was a republic they were organised as an empire governed by an autocrat through a hierarchy of scholars, a system calculated to perpetuate rather than to advance the level of culture already attained. So vast was this cultured and organised unit that China looked on herself as the civilised world. The strange and remote peoples beyond her limits were thought of as barbarians, who should recognise the Emperor of China as lord of the universe.

On the opposite side of the planet there had developed a civilisation instinct with an idea, first conceived and applied in Greece—the most dynamic idea that has ever dawned on human minds. There, men were conceived as subject, not to some ruler divinely appointed, but only to the collective authority of the local community of which they were members, expressed in the form of ascertainable laws derived from the reasoned experience of the people themselves. For more than two thousand years western civilisation has been slowly translating this basic idea into institutions. Ways have been found of moulding the law in accordance with general experience, of controlling the public purse and of making rulers accountable for their acts and obedient to law. That freedom of public discussion in which alone the rule of law can survive has been firmly established. The principal means to those ends were elected assemblies and also courts in which laws, not executive orders, were supreme.

The rule of law, by reducing the element of uncertainty in human affairs, promotes enterprise. It was no coincidence that the Anglo-Saxon people, who had carried the principle farthest, excelled in commerce. China was brought into touch with a civilisation, the essence of which was strange to her people, largely by British and American traders. The result can be seen in the present tangle of China's relations with the rest of the world.

# Shanghai

## II. THE FOREIGN SETTLEMENTS AT SHANGHAI

LET us now see how Shanghai came to be the knot at the centre of this tangle.

The Court at Peking wanted no commerce with Europe; but European merchants were suffered to trade at Canton under close restraint upon their personal liberty, on the theory that the duties they paid were tribute rendered by subject races to the lord of the world. In 1839, the breakdown of this arrangement led to war between England and China, which was ended on August 29, 1842, by the Treaty of Nanking, a peace dictated on the deck of a battleship lying off that city in the Yangtze river. Under its terms British subjects in China acquired the right to live and trade at five ports, including Canton. They were not to be subject to Chinese law, but only to their own as administered by their consuls. They thus acquired extra-territorial rights, often described as "extrality."

The French and American Governments, and later a number of other Powers, hastened to make treaties with China under which they acquired all rights granted by treaty to "the most favoured nation."

Consuls were appointed to the five treaty ports, the number of which was afterwards increased. In most of these ports the consuls obtained from the Chinese Government areas, known as "concessions", as homes for their nationals and sites for their go-downs. These concessions were leased to the foreign Power, whose local consul then issued titles to his own nationals, established a court to administer their law, and made provision for municipal government. At Canton a French concession as well as an English concession was established. At Hankow five, and at Tientsin eight foreign concessions have existed side by side.\*

\* Vol. I, p. 27.

## The Foreign Settlements at Shanghai

Shanghai was the sole exception, a port at the mouth of the Yangtze which was destined to prove more important than all the others. For the Yangtze drains 750,000 square miles, one half of China proper. More than one-tenth of humanity—some 180,000,000 industrious folk—convey their produce down this artery.\* A thousand miles from its mouth, steamships collect the merchandise brought to its waters in junks and barges down tributaries, creeks and canals. If the Mississippi and St. Lawrence met to discharge their waters through the estuary of the Hudson river, the position of New York would, in point of natural advantages, be comparable with that of Shanghai, which may yet become the greatest city that the world has seen.

The old Chinese city of Shanghai stands on the left bank of the Whangpoo, which flows for sixteen miles through mud flats to the estuary of the Yangtze, and is tidal for a long distance above Shanghai. A channel deep enough for any ships which existed in 1842 is swept by the constant rush of the tide. It is now deepened by dredging, so that vessels of any tonnage can lie in the stream, which at Shanghai is 500 feet wider than the Thames opposite London.†

Captain Balfour, the first British consul at Shanghai, failed to persuade the Taotai, the Chinese official in charge, to grant a concession. As a compromise, 138 acres (marked A on the plan attached to this article) were reserved on the left bank of the river below the Chinese city, where British subjects might purchase land from the peasants, which was not thereafter to be sold or let to Chinese.‡ Titles subject to a quit rent were issued by the Taotai, through the consul, and were registered at the consulate.§

In 1845, Land Regulations were jointly enacted by the consul and the Taotai. "Three upright merchants"

\* Vol. I, pp. 254-5.

† Vol. I, p. 31.

‡ Vol. I, p. 24.

§ Vol. I, p. 27.



## Shanghai

were appointed by the British consul to administer the municipal affairs of the Settlement.\* Later, an American purchased some land in this area. His consul insisted on registering the title, and the British consul accepted the position. Other consuls followed the American example. The area reserved for the British was thus transformed into a settlement in which all nations with extra-territorial rights stood, in law, on a footing of equality.† A separate area (1 on the plan) between the Chinese city and the International Settlement was reserved for the French.‡

### III. CHINESE IN THE SETTLEMENTS

TWO centuries before this time the Manchus had conquered and extinguished the native dynasty of the Mings. When in 1842 the Manchu dynasty accepted defeat at the hands of barbarians its prestige in China was profoundly shaken. One result was the Taiping rebellion, which broke out in 1851 and presently submerged the country south of the Yangtze. For ten years Nanking was the seat of the rebel government; but it never acquired a leader with any political sense, and its troops degenerated into bandits. The Settlements were held inviolate, against rebel and imperial forces alike, by the foreign residents in arms, supported by parties landed from warships which lay in the port.§ In these sanctuaries, protected by foreign arms, some 500,000 Chinese were allowed by the foreigners to take refuge from the general carnage.|| Henceforward the provisions of the Land Regulations which forbid the leasing of land to Chinese were ignored. The revolt was finally quelled by Gordon under the able direction of Li Hung Chang. When peace was restored in 1864, about 90,000 Chinese preferred to remain in the Settlements reserved for foreign residents

\* Vol. I, p. 36.

§ Vol. I, p. 33.

† Vol. I, pp. 27-8.

|| Vol. I, p. 31 and p. 34.

‡ Vol. I, p. 28.

## Chinese in the Settlements

under the treaties.\* These Settlements thus came to include an overwhelming number of Chinese residents for whose government, in Chinese territory, a handful of foreign merchants became responsible. The International Settlement now contains 971,397 Chinese and 26,965 foreigners, and the French Settlement 421,885 Chinese and 12,335 foreigners.†

This explains why the areas of both Settlements have been greatly extended by four successive additions. The International Settlement now includes 8.6 square miles and the French Settlement 3.94 square miles. But even so they cannot contain half the people attracted to the neighbourhood of the port by its growing prosperity. 1,689,100 Chinese are housed in suburbs surrounding the Settlements. For the government of these suburbs, including the old city, "the Chinese Municipality of Greater Shanghai" was created in July, 1927.‡ It covers 320 square miles surrounding the port, an area much larger than that shown on the plan attached to this article. This vast municipal area is ruled by a mayor appointed by the Government at Nanking. The entire community surrounding the port is thus upwards of 3,000,000 people, who are parcelled out between three authorities, two European and one Chinese.

So great was the pressure on space in the Settlements that a number of Europeans have taken to living beyond their limits under rather peculiar conditions. In the Taiping rebellion Gordon had projected military roads from the Settlements, which after the war the Municipal Council took over. In later years the Council began to build roads from the Settlement into the country beyond by purchasing ground for the road-beds and also for parks. The landowners were always glad to sell because the new roads and parks enhanced the value of their unsold property. These roads are shown on the plan to the west

\* Vol. I, p. 34.

† Vol. I, p. 17.

‡ Vol. I, p. 49.

## Shanghai

and north of the Settlements. The number of foreigners living along them is 9,506. The Municipal Council of the International Settlement owns and administers 48 miles of road and several parks, which lie outside its own jurisdiction and in that of the mayor of Greater Shanghai.\* The conflicting claims of the foreign council and the Chinese mayor to police these roads is fraught with danger, and a standing cause of friction.

The flight of Chinese from the rebels into the International Settlement created a problem which could scarcely be handled by "three upright merchants" appointed by the British consul. In allowing the consuls of other nations to exercise in the Settlement a jurisdiction equal to his own, the British consul had lost the right to arrange for its government with the Taotai in a conference of two. So in 1854 a meeting of the land-renters, summoned to meet the British, American and French consuls, framed regulations under which the land-renters were to elect representatives who should organise a police force, provide municipal services and impose the necessary taxation.†

The validity of these regulations was open to question by nationals other than British, American and French.‡ Many other defects were revealed by experience, and in 1866 a revised constitution (in the shape of new Land Regulations) was produced in Shanghai. In this draft the English and French areas were included as one municipal whole.§ A proposal that delegates should be elected by native guilds, for consultation on matters affecting Chinese residents, was discussed, but was dropped for reasons which cannot now be explained. The draft regulations were forwarded by the consuls to the foreign Ministers in Peking, but years were to pass before they all agreed. When in 1869 the Land Regulations had been finally approved by the Ministers, the provisions for Chinese representation had disappeared|| and the French had

\* Vol. III, pp. 1 to 33.

§ Vol. I, p. 57.

† Vol. I, p. 36.

|| Vol. I, p. 115.

‡ Vol. I, p. 54.

## Chinese in the Settlements

decided to keep their Settlement apart in the hands of their own consul.

Under these Regulations, foreign residents owning or renting property of a certain value within the Settlement were entitled to elect a municipal council of nine. This council was entrusted with the task of administering the affairs of the Settlement. Its accounts and its budget had to be submitted for approval to a meeting of the foreign electors. This meeting of electors had exclusive power to impose certain specified taxes, and also to approve bye-laws for the better enforcement of the Land Regulations. But bye-laws passed by the meeting of electors, to become valid, must be sanctioned by the Ministers of Powers in treaty with China.\*

Any constitution is bound to reveal defects when put into actual working, especially when the community for which it is framed is rapidly growing and changing. The council of nine, with a heavy and continuous burden resting upon them, developed a higher sense of responsibility than the voters in their annual meeting. The council could realise the importance of giving the Chinese majority some voice in public affairs, and also a proportionate share of the benefits to the cost of which they had to contribute. But the council's proposals for reform were too often negated by the public meeting, or frustrated by the absence of a quorum. When reforms had received the approval of the public meeting they had then to run the gauntlet of the Ministers at Peking.† The result has been that, apart from a few amendments approved in 1899, the municipal constitution remained rigid and unaltered, as it was drafted in 1866,‡ till changes were forced by the cataclysm of 1925.

From the outbreak of the Taiping rebellion till 1928 the task of maintaining order in the greatest of Chinese cities lay with a handful of foreign merchants. In the area reserved for the British in 1843, the British Government

\* Vol. I, p. 84.

† Vol. I, p. 123.

‡ Vol. I, p. 62.

## Shanghai

stood on exactly the same footing, in international law, as Sweden, Brazil or any other of the Treaty Powers. But in actual fact control for the most part lay with the British, who owned most of the property. From 1890 to 1914 the Council normally consisted of seven British members, one American and one German, who after 1914 was replaced by a Russian. A Japanese member was first elected in 1916. From 1927 to 1930 there were five British, two American and two Japanese members.\* Thus, before Chinese members were included in 1928, the British always had a majority. Through the consuls, the British Minister at Peking had direct control of the British concessions in other Treaty Ports. In the International Settlement at Shanghai he lacked such control. There was no guarantee that measures taken by the British majority and their officers to govern a large and turbulent Chinese community there would harmonise with the aims of policy as seen from the wider standpoint of Peking. Yet Shanghai, not Peking, was the real focus of China's relations with the rest of the world. In the distant legations the problems that confronted the Municipal Council were imperfectly grasped.

Apart from the yield of their normal trade, wealth from all over China seeks the relative security of the Settlements; and where riches collect, criminals gather as wasps to honey. Shanghai is also the principal centre of illicit traffic in opium, which breeds criminal organisations as ruthless and rich as those which exist to frustrate prohibition in America. In no city are the police faced by more baffling problems.

In the minds of the foreign residents, and especially in British and American minds, the authority behind the Municipal Council was law, enforceable through courts. A foreigner was entitled to be sued or tried in his own consular court. In the International Settlement there were 14 such courts. The Municipal Council itself could

\* Vol. II, p. 166.

## Chinese in the Settlements

be sued in a court consisting of the consuls sitting together. But what was to happen when the bulk of the population in the International Settlement was Chinese? In 1863 Sir Frederick Bruce, the British Minister in Peking, contended that the authority of the Municipal Council in Shanghai should "not extend beyond simple municipal matters, roads, police and taxes for municipal objects." He added "that the Chinese not actually in foreign employ shall be wholly under control of Chinese officers as much as in the Chinese city."\* But, as Morse, the American historian, wrote:—

The merchants resident in Shanghai were more clearly conscious than the envoy, on his pinnacle in Peking, of the practical difficulties attendant on a strict interpretation of the letter of the treaties, and the admission of dual and rival jurisdictions, on a footing of independence, within the same area.†

The remarks of Mr. Justice Feetham on this controversy are worth quoting as a permanent contribution to the science of practical politics:—

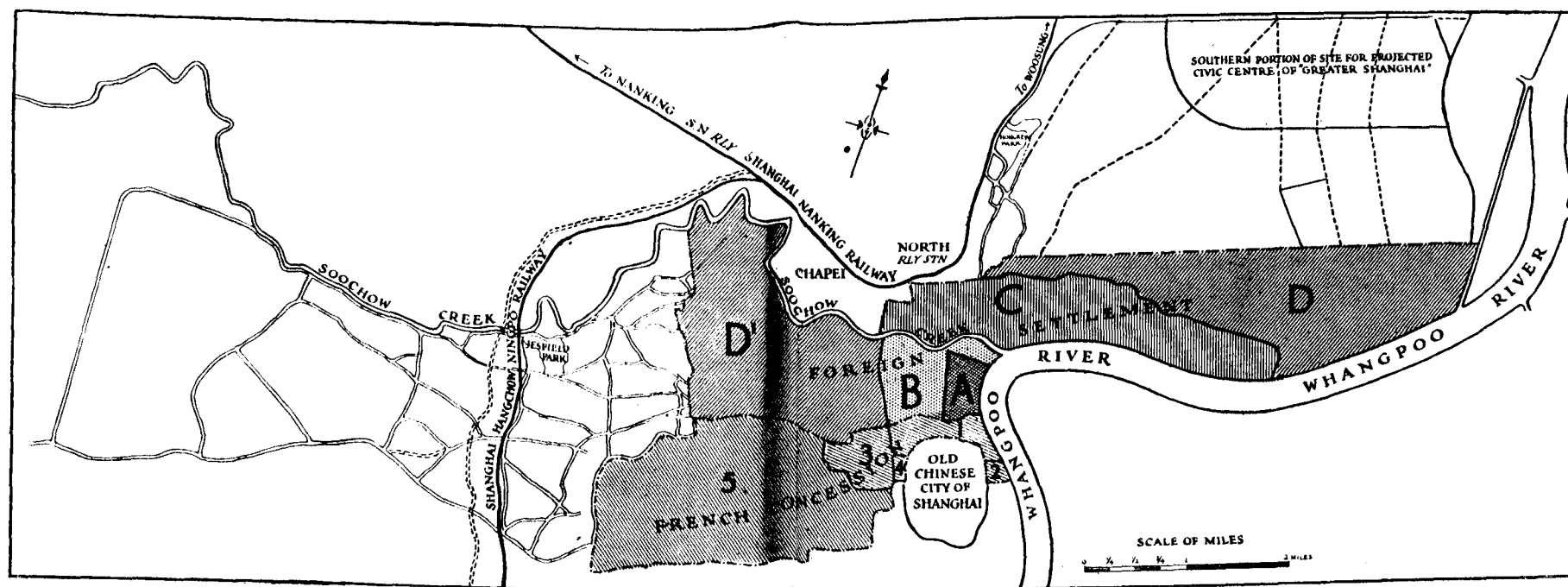
The contrast between the authority of the Council of the Settlement and Chinese official authority, as represented by its local officer, the Taotai, was the contrast between an authority exercising limited powers in accordance with a defined constitution, and subject to the control of independent courts of law, and an authority exercising powers of an arbitrary character, not subject to any defined legal limit, which controlled its own courts and was not controlled by them.

It is impossible for arbitrary and unlimited powers and legal and limited powers to exist side by side, and to be exercised simultaneously by two independent authorities in the same area and in respect to the same persons. The first will inevitably swallow up or destroy the second. The Council of the Settlement, if they were to exercise any effective control over the Chinese residents, and to collect revenue from them, were compelled to insist on restricting the power of the Chinese authorities in respect of the Settlement portion of the Chinese population, and they seem to have recognised at a very early date that this was a question of life or death—that not only the welfare of Chinese residents, and therefore, also, to a

\* Vol. I, p. 95.

† Vol. I, p. 95.

# PLAN SHOWING HISTORICAL DEVELOPMENT OF FOREIGN SETTLEMENT AND FRENCH CONCESSION



## FOREIGN SETTLEMENT.

|                                                                                                                                                                                                                                                                                                 | Acres. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| A First delimitation of boundaries. Agreement dated 20.9.1846. Approx. . . . . .                                                                                                                                                                                                                | 138    |
| B Foreign Settlement. Agreement dated 27.11.1848 . . . . .                                                                                                                                                                                                                                      | 332    |
| C Area roughly defined as included in the "American Settlement" by agreement between the American Consul-General and the Intendant of Circuit, dated 25th June, 1863, incorporated with the Foreign Settlement by agreement of 21st September, 1863, and formally delimited May, 1893 . . . . . | 1,309  |
| D Settlement Extension, delimited 1899 . . . . .                                                                                                                                                                                                                                                | 1,896  |
| D1 Settlement Extension, delimited 1899 . . . . .                                                                                                                                                                                                                                               | 1,908  |
| Total Area Foreign Settlement . . . . .                                                                                                                                                                                                                                                         | 5,583  |

## FRENCH CONCESSION.

|                                                                                                                                             | Acres. |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 1. Original Concession as delimited by Agreement between the French Consul and Taotai Lin, on 6th April, 1849 . . . . .                     | 164    |
| 2. Extension. Proclamation dated 29th October, 1861 . . . . .                                                                               | 23     |
| 3. Extension. Proclamation dated 27th January, 1900 . . . . .                                                                               | 152    |
| 4. Controlled by French prior to 1849, but officially added together with "3," and noted in proclamation dated 27th January, 1900 . . . . . | 19     |
| 5. Extension. Proclamation dated 20th July, 1914 . . . . .                                                                                  | 2,167  |
| Total Area French Concession . . . . .                                                                                                      | 2,525  |

The site of the "projected Civic Centre," marked on the plan, is the site selected for this purpose by the Municipal Government of the Chinese Municipal Area.

----- Lines of projected roads leading from the proposed Civic Centre to the Settlement.

## Shanghai

large extent the prosperity of the Settlement, were involved, but that the very existence of their whole system of government was at stake.\*

The result of this controversy was a compromise in favour of the Municipal Council. Chinese courts were established in the Settlement to try civil and criminal cases in which Chinese were defendants. On various occasions these courts have appeared to give decisions, not on the merits of the case, or in accordance with law, but in deference to political or administrative pressure from outside. But despite these difficulties, which have still to be faced, the rule of law in the Settlement was established in principle.

Such a situation could never have lasted as it has for some eighty years, were it not for a certain good humour and tolerance in the Chinese nature, and the high standard of honesty maintained by the foreign oligarchy in the International Settlement. Shanghai has been happy in the personal integrity of its councillors and is justly proud of their record in the matter.† It is now on the whole the most promising instance of international co-operation which the world has yet produced.

### IV. SECURITY AND ITS CONSEQUENCES

THE enforcement of law in the Settlements depends in the first instance on the municipal police. The majority of constables are stalwart Chinese brought from Shantung, with a certain number of Sikhs imported from India, and some Japanese. The senior officers are mainly British, but there are also a few Chinese and Japanese.‡ Besides the police organised to keep order within the Settlement, the Council maintains a citizen army in which foreigners of military age are expected to serve. This force, which includes companies of Russians and also

\* Vol. I, pp. 98-9. † Vol. II, p. 73. ‡ Vol. I, p. 157.

## Security and Its Consequences

Chinese, is commanded by a regular officer from the British army. It is thoroughly equipped with modern artillery, machine guns and armoured cars.\* A student of ancient city republics might learn a great deal by leaving his Grote and Sismondi to spend a few weeks in the International Settlement. As in ancient Athens, Venice or Genoa he would find a city and its civic authorities always alert to the sense of danger.

The analogy cannot be pressed too far, for the foreigners in Shanghai are not wholly dependent on their own resources. Warships of foreign nations lie moored in the river opposite the principal banks, which store in their vaults the greatest accumulation of treasure in China. Whenever serious danger has threatened, Great Britain has sent forces strong enough to protect the Settlement, and others have followed her example. The Treaty Powers have thus shown their readiness to prevent the Settlements from becoming the battleground of forces contending for mastery in China.

The Government at Nanking keeps its balances in the International Settlement of Shanghai. The largest mint in the world has been built just beyond its boundary. But the only entrance to the mint is by a bridge over the Soochow Creek from the International Settlement, and this bridge is guarded by the Settlement police. The Settlements in fact are the only financial anchorage for a Chinese Government which is trying to establish itself on a permanent and constitutional footing. In times of commotion a Tsuchun who seized the treasure in the Settlements would dominate China so long as the plunder lasted, and would also ruin her foreign trade.

Within these few square miles on the banks of the Whangpoo society is genuinely based on the rule of law.† Neither land nor goods are liable to confiscation, as elsewhere in China. Taxes are collected according to law to

\* Vol. I, p. 155.

† Vol. II, p. 71.

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meet the requirements of a published budget. Expenditure is subject to a regular audit. There are freedom from arbitrary arrest, proper sanitation and efficient police. The press is not liable to censorship or suppression. Public affairs can be and are publicly discussed—the only condition upon which the supremacy of law can ever be maintained. Shanghai and its diplomatic counterpart, the Legation quarter at Peking, are almost the only apertures through which uncensored news about China can be published to the world.

The fact that Shanghai is the economic centre of China is due to something besides its place on the map. The physical conditions required for a port near the mouth of the Yangtze artery could be found at a number of places, notably at Nanking and Pukow.\* Appended to the Feetham report are several memoranda from Chambers of Commerce and Bankers Associations,† which clearly show that the special prosperity of Shanghai is due to the rule of law established in the Settlements. These Settlements are the banking centre of China.‡ Within their limits are 20 branches of foreign banks, 39 Chinese banks of the modern type and 70 “native” banks. In Greater Shanghai there are only 7, and all of them “native” banks. Stored in the Settlements’ banks are silver reserves to the value of £16,000,000 upon which all the foreign and much of the international trade of China depend. An issue of notes to the value of £50,000,000, based on this silver secured in Shanghai, circulates widely throughout China.§ The banks are prepared to lend at far lower rates on the security of goods, building and lands within the Settlements than on similar securities beyond their limits. The value of property outside the Settlements is at least 20 per cent. lower than the value of adjacent property inside them. One curious result may be seen in the fact that in periods of widespread disturbance, while property values sink all

\* Vol. I, p. 268.

† Vol. I, p. 301.

‡ Vol. I, pp. 263 to 291.

§ Vol. I, p. 303.

## The Weakness of the Settlement System

over China, they continue to rise in the Settlements of Shanghai.

The rule of law in these Settlements is in fact the axis upon which the economic relations of China with the other three-quarters of humanity turn. Its removal would work serious injury to foreign trade, but to China herself ruin. The political aspect of the problem is of greater importance. There are those who believe that China is doomed to perpetual anarchy, and those who insist that unity and order can only be restored by another dynasty. These “realists” are men wrapped in the past, whose eyes have never been opened to see the world as it now is—of all dreamers the most futile and no safer as guides than people who walk in their sleep. Dr. Sun Yat-sen was a genuine realist when he told his people that order and unity could only be maintained through a government responsible to themselves. But a government of that nature can never be established till a certain number of the people and their officers grasp what the rule of law means and absorb the idea as a habit of mind.\* The Chinese who live in the Settlement are rapidly doing this. Their progress has been quickened since their own representatives have sat in the Council. The truth that popular government must be founded on law is spreading from them to the rest of China. Ideas are more portable than flags.

### V. THE WEAKNESS OF THE SETTLEMENT SYSTEM

THOUGH the Chinese have now been admitted to a share in the government of the Settlement, they can never forget that the system was forced on China. In spite of all the material advantages they have reaped, it is felt as a standing insult, and therein lies its weakness. The fact that a council, which till lately consisted of nine foreigners elected by some hundreds of foreign renters,

\* Vol. II, p. 180.

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has established a sufficient protection against civil disturbance, crime and disease in a great sea-port which is mainly Chinese is an almost incredible achievement. But the system is too much fraught with dangers and anomalies to last. It costs money, and while the Chinese ratepayers were far more numerous and, in the aggregate, contributed more of the revenue than the foreigners, they had till lately no representation and thus no guarantee that they would receive their fair share of such amenities as hospitals, schools and parks.\* The one factor that unites the whole of China, North and South, including the Chinese in Shanghai, is resentment against the "unequal treaties." It was this resentment which started the Taiping rebellion, led to the Boxer rising in 1900, and in 1911 dethroned the Manchu dynasty, whose weakness and incompetence had exposed China to these and other indignities at the hands of the foreign Powers.

A factor, less obvious but more potent than hatred of foreigners, was the influence of foreign ideas. The educated class, who had studied in missionary schools and foreign universities, lost the beliefs which for ages had supported dynastic government in China. Graduates of a modern university find it hard to believe that the government of a whole nation is divinely entrusted to a single family. In matters like these a few thousand intellectuals wield more influence than millions of illiterate peasants. In China the revolution of 1911 did more than dethrone a particular dynasty. It ended the ancient and traditional system of government.

Sun Yat-sen, the leader who inspired this revolution, was a doctor trained in the medical school of Hongkong. Devoted to China and wholly disinterested, he was classed as a visionary by officials, foreign and native, and also by journalists; so the world at large regarded him as such. His tactical errors supported that view; but in fundamentals the man was a realist. He saw that western ideas had

\* Vol. II, p. 91.

## The Weakness of the Settlement System

destroyed the foundations of monarchy in China, and that popular government was the only durable alternative. But he realised how difficult it is for people long ruled by a despotism to acquire the art of governing themselves, and devised a plan which, as he hoped, would help them through the transition. His organisation, the Kuomintang party, was to take charge of the revolution and unite China under a government strong enough to keep the peace. A period of tutelage was to follow, during which the party, while controlling the government meanwhile, was to train the people in the art of governing themselves. The defect in this project has been ignorance in the tutors of the principles that Sun Yat-sen taught them and expected them to teach. The party too often thinks and acts as though it were the dynasty in commission.

In 1911 when the Manchu dynasty collapsed, Dr. Sun effaced himself and invited Yuan Shi-kai to become president of the Republic. Yuan accepted the invitation, in his heart believing that no system of government was possible for China but a military autocracy. The western Powers, who shared his view, helped him with loans to establish his rule. During the war of 1914-18, when their hands were full, he announced his intention of ascending the throne. But his courage failed him at the last moment, and when he died he left China a prey to the soldiers whom he had trained to support his pretensions. The country is scourged with them still.

Dr. Sun realised the need of foreign help and advice in his formidable task. From England and America he sought it in vain, for his character as a visionary stood in his way. The Powers of Europe had put their money on Yuan Shi-kai. In 1923 Dr. Sun was offered the help he so sorely needed by Soviet Russia, and accepted the offer, though fully alive to the danger that Russia would use China as a pawn in her scheme for world revolution. On March 12, 1925, he died of cancer.

In Russian eyes, England was the champion of capitalism,

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and the arch-oppressor of weaker nations. It suited both Russia and the Kuomintang to have trouble with England, and Shanghai was the likeliest place to have it. To the minds of police officials in the foreign Settlement the task of maintaining order in the streets was more present than the wider political reactions that might follow the measures they took. The catastrophe came on May 30, 1925, when the police of the International Settlement opened fire on a mob of riotous students. The immediate result was a wave of resentment throughout China and a boycott which dealt a staggering blow to British trade. In Shanghai the relations of British and Chinese had never been so tense.

The Municipal Council, taught by their heavy responsibilities, were the first to realise the importance of friendly relations with the Chinese. They had done their best to repair the fatal mistake made when provision for Chinese representation was omitted from the Land Regulations. But their efforts were frustrated by the rigid character of those regulations. Nothing could be done without the consent of the foreign land-renters in public meetings, and these meetings were dominated by men who lacked the experience of those who sat on the Council.

The events of May 30, 1925, led to a grave situation, and wiser counsels began to prevail. At the annual meeting of the ratepayers in April, 1926, Mr. Fessenden, an American lawyer who was chairman of the Council, was authorised to take the steps necessary to add three Chinese representatives to the Council. The Ministers at Peking acquiesced, but the Chinese ratepayers in Shanghai were unwilling to accept so small a representation. The matter was compromised by an offer from the Council to co-opt six other Chinese to their standing committees. The first three Chinese councillors took their seats on April 20, 1928. The experiment was so successful that two more were added in 1930. The refusal of a sparsely-attended meeting of ratepayers to ratify this measure was overcome by a second and larger meeting, which reversed the previous

## Genesis of the Feetham Report

decision by an overwhelming majority. The Council now consists of two American, five British, five Chinese and two Japanese members, in all 14. The change has led to a marked improvement in racial relations, and to general regret that it was not effected years before.

### VI. GENESIS OF THE FEETHAM REPORT.

STEPS had been taken meanwhile to grapple with the problem as a whole. The Institute of Pacific Relations had inaugurated biennial conferences at Honolulu. To the second conference, in 1927, a party from Great Britain was invited, and Shanghai was one of the subjects discussed. In the course of this discussion, Professor Hornbeck, one of the American party, suggested that discussion would be more profitable if a careful survey were made of the whole municipal problem in Shanghai. A seed was thus dropped which was destined to germinate. In 1929 a third conference was held at Kyoto. At the last moment a desire was expressed that some spokesman from the foreign community in Shanghai should be present, and at the suggestion of the chairman of the Council, Mr. Jerome Green, the leader of the American delegation, invited Mr. Fessenden, who now held the position of general administrator to the Municipal Council, to attend as one of the American group. Upon his arrival, Mr. Fessenden announced the intention of his Council to invite some independent person with the necessary municipal, political and judicial experience, but with no previous bias, to survey the problem and advise the Council how it should be solved. Soon after his return to Shanghai, the Council, supported by its Chinese members, appealed to General Hertzog in South Africa to lend them the services of Mr. Justice Feetham. General Hertzog promptly responded, and the Judge arrived in Shanghai at the end of January, 1930. After eighteen months' laborious



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enquiry, three instalments of his report have now been issued and a fourth, dealing with points of detail, is to be published shortly. The first is a survey of the problem, the leading features of which we have tried to outline in this article. A few days before the arrival of Mr. Justice Feetham in China, an Indian Nationalist, Dr. Datta, a close associate of Mr. Gandhi and now a member of the Round Table Conference, set down the impressions he had formed after a tour through the country. His letter is appended to this article in order that the reader may compare the conclusions formed by an Asiatic observer with those subsequently reached by the Judge after eighteen months' intensive enquiry. We now come to the Judge's recommendations contained in the second and third instalments of his report.

### VII. THE RECOMMENDATIONS

AS the Judge points out, the whole intricate problem arises from treaties made between China and a number of Powers. Of these, the most vitally concerned are Great Britain, Japan, France, and the United States. Such a tangle can only be unravelled in conference between them. He advises that the foreign Powers should at the outset recognise that the goal to be aimed at is rendition of the Settlement to the Chinese, "followed by the grant by the Chinese Government of a Charter conferring rights of local self-government on the inhabitants of the Settlement—foreign and Chinese—whether as a separate self-governing unit or as part of a larger whole."\*

The present Settlement regime, as established under the Land Regulations, should be maintained on the basis of increasing co-operation between the foreign and Chinese communities, and such constitutional changes should be introduced as are necessary for the purpose of enabling the Chinese to participate effectively in the

\* Vol. II, p. 139.

## The Recommendations

work of local self-government under some modification of the present system, and of thus paving the way to the eventual establishment of a new system based on a charter granted by the National Government.\*

As steps to this ultimate goal, Mr. Justice Feetham suggests the following practical reforms.†

The Chinese members should be more in number than those of any other single nationality.‡ Alternative enlargements of the Council to effect this purpose are shown in the following table:—§

|                        | Elected by<br>vote of<br>ratepayers. | Elected by<br>chambers of<br>commerce<br>or similar<br>national<br>bodies. | Total. |
|------------------------|--------------------------------------|----------------------------------------------------------------------------|--------|
| Council of 22 members— |                                      |                                                                            |        |
| Foreigners.. ..        | 9                                    | 5                                                                          | 14     |
| Chinese .. ..          | 5                                    | 3                                                                          | 8      |
| Council of 25 members— |                                      |                                                                            |        |
| Foreigners.. ..        | 9                                    | 7                                                                          | 16     |
| Chinese .. ..          | 5                                    | 4                                                                          | 9      |
| Council of 28 members— |                                      |                                                                            |        |
| Foreigners.. ..        | 9                                    | 9                                                                          | 18     |
| Chinese .. ..          | 5                                    | 5                                                                          | 10     |

Councillors in future should hold office for two years instead of one, so that half the Council would be re-elected annually. These elections should take place after the annual meeting of ratepayers. An election law should be introduced, containing the usual safeguards against corruption, etc., and providing for vote by ballot.||

In addition to the annual meeting of foreign ratepayers, there should also be an annual meeting of Chinese ratepayers, chosen in accordance with a scheme approved by the Council on the recommendation of the Chinese

\* Vol. II, p. 140.

† The highly condensed summary which follows is by no means exhaustive of the recommendations contained in Vols. II, III and IV of the report.

‡ Vol. II, p. 181.

§ Vol. II, p. 194.

|| Vol. II, pp. 188-9.

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members. The meeting of foreign ratepayers would continue as at present, until it has approved a scheme for a smaller representative body submitted by the Council. The budget and other resolutions would then be submitted to both meetings. Should they concur, their joint decision would be binding on the Council. In the event of their differing, the resolutions would be advisory only, and the final decision would rest with the Council. The two meetings might elect separate auditors if they could not agree on a single one.\* A special committee representing the various nationalities and standing committees on the Council should be constituted to advise on the engagement or dismissal of senior officials.†

The Council should have power to make bye-laws without submitting them to the approval of the ratepayers in meeting. But proposed bye-laws should first be published for public criticism, and should then be discussed by the Council in a public session held for this legislative purpose.‡ The Council should also have power to make bye-laws for the purpose of applying Chinese laws in the Settlements, subject to such modifications as circumstances might require. A body of six or nine persons should be constituted to confirm bye-laws passed by the Council. At least one-third of its members should be nominated by the Chinese Government, while the rest should represent the group of foreign consuls in Shanghai.§

The general and exclusive character of the Council's administrative powers in the Settlement should be laid down in comprehensive and unambiguous terms.||

Where possible, the Council should make agreements with the Chinese Government for collecting national taxes in the Settlement for that Government.¶ It should aim : (1) at co-ordinating its policy with that of the French concession and the municipality of Greater Shanghai ;\*\*

\* Vol. II, pp. 182-3.

§ Vol. II, pp. 212-219.

\*\* Vol. II, p. 138.

† Vol. II, p. 189.

|| Vol. II, p. 224.

‡ Vol. II, p. 184.

¶ Vol. II, pp. 222-3.

## Method of Revision

(2) at establishing joint institutions with those authorities ;\*  
(3) at creating an authority consisting of representatives of the three areas, to the costs of which it should contribute on the basis of rateable value.† In pursuance of this policy the Municipal Council should seek to obtain from the mayor of Greater Shanghai delegated authority to enable it to exercise effective administrative control over the external roads and the land and properties fronting on such roads, or to which access is obtained from such roads. The Council should have power to tax these properties, and pay part of the proceeds to the municipal government of Greater Shanghai to meet the cost of administering the undeveloped rural regions lying between the roads. These areas should be developed in accordance with town-planning schemes prepared by the two authorities in consultation.

These arrangements should lead on to the creation of a new authority to administer the areas covered by the outside roads, consisting of : (1) nominees of the mayor of Greater Shanghai ; (2) nominees of the Council ; (3) representatives of the residents and property owners, foreign and Chinese, of the areas concerned. A charter might be granted to this body by the National Government, thus opening the way to the formulation of a general charter for Shanghai, when the time for rendition has arrived.

## VIII. METHOD OF REVISION

AS noted above, Mr. Justice Feetham considers that a problem so intricate can only be unravelled in a conference between the governments of China and those of the principal Powers.

The Settlement, when its position and functions are rightly understood, means too much to China and to nations trading with China—

\* Vol. II, p. 225.

† Vol. III, Chapter IV.

## Shanghai

and therefore to the world at large—to have its affairs left to the hazards of piecemeal and makeshift arrangements, or to be permitted to remain indefinitely a subject for irritating and inconclusive international controversy.\*

He adds an impressive warning against any attempt to fix in advance the period within which the goal of rendition can be reached.† Negotiations between the governments concerned would be rendered abortive if extremists knew that the need for negotiations would close automatically on a certain date. The fixture of that date would destroy the sense of security that has made Shanghai the economic centre of China.‡

“Any failure to maintain law and order in Shanghai, which proved sufficiently serious to interfere with the atmosphere of confidence and security essential to the conduct of large business operations” would have far-reaching economic effects in interrupting the flow of international and internal trade, and would cripple the national Government financially by drying up the sources of very nearly one half of its entire customs revenue, a large proportion of other revenue, and the bulk of its domestic loans.

Without going into further details, it is clear that, in questions affecting the future government of the foreign Settlement, the interests at stake are not only the vested interests of firms and individuals, foreign and Chinese, engaged in trade or industry within its limits, and their employees, but general economic interests of a far-reaching character, which include the interests of all those regions in China for which Shanghai serves as a trading or banking centre, the national interests of China as a whole, and the interests of other nations according to the varying degrees in which they share in China's foreign trade.§

On one further point he is equally definite in his view:—

The provisions of the Land Regulations which link the system of municipal government with the system of extra-territoriality constitute to-day essential props, which are necessary for the support of the existing municipal institutions of the Settlement: the Chinese

\* Vol. II, pp. 151-2.

† Vol. II, p. 139.

‡ Vol. II, p. 74.

§ Vol. II, pp. 105-6.

## British Diplomacy in the Far East

courts are not as yet in a position to afford the support which would be necessary to maintain the system if these props were withdrawn. Further, the conditions of personal freedom, and security of life and property, which have made it possible hitherto for individuals to work these institutions by their personal activities, either as councillors, voters or officials, are themselves the product of the extra-territorial system, and, until the rule of law has been established in China in such a way as to safeguard effectively the ordinary citizen in the exercise of his personal rights, and the performance of his civic duties, abolition of extra-territoriality would destroy the vitality of the present municipal institutions.\*

### IX. BRITISH DIPLOMACY IN THE FAR EAST

LORD IRWIN has urged that if England can discover the true interests of India she will, in doing so, discover her own. That statement is founded on the truth that the welfare of India is part and parcel of the welfare of society as a whole, of which England herself is a part. It applies, not only to India, but to the whole field of external affairs. But this certainly does not mean that British diplomacy can do its duty simply by conceding whatever demands are made on it. Lord Irwin, believing that responsible government is best for India, has firmly refused claims which, if granted, would ruin her credit and bankrupt her first responsible government.

It cannot be said too often that foreign Powers, in trying to adjust their relations with China, will find and serve their own interests only by seeing and seeking hers. But genuine friendship must be guided by ideas more constructive than an indolent readiness to gratify popular slogans. Throughout the Anglo-Saxon world public opinion is deeply anxious to help China along the path to responsible government, but needs to be sure that changes proposed do not lead in the opposite direction. As to how this may be, the darkness in which modern diplomacy has shrouded those problems makes it difficult to judge. Parliaments and the peoples they represent

\* Vol. II, p. 149.

## Shanghai

have long been looking in vain for any clear guidance from those on the spot.

Mr. Justice Feetham's Report is the first clear rift in the smokescreen of secret diplomacy which envelops the Far East. If such a report had been published years ago, a series of catastrophes might have been avoided. As it was, the whole atmosphere was clouded by ignorance, and therefore poisoned by prejudice, till the British and Chinese councillors in Shanghai resolved to institute an impartial enquiry. They selected for the purpose a judge who had no previous knowledge of the facts upon which he was called to pronounce, and whose findings could not be affected by any personal interest of his own. His terms of remuneration, fixed at his own request, were that he should receive for his services in China the pay and allowances which he ceased to draw during his absence from South Africa. The detachment from all material influence, which a judge worthy of his calling desires, was thus safeguarded. The respect which he earned from the Chinese community in Shanghai was courageously expressed in a farewell speech by their stalwart leader, Mr. Yu Ya-ching.

*The Times* in a leader published on July 29 raised the question why British diplomacy, long quiescent, became so unusually active at Nanking at the very moment when Mr. Justice Feetham was about to report, and observed significantly, that, before the British Government is committed, public opinion is entitled to expect that his views will be fully considered.

It may also be added that public opinion in a world wider than England will expect no less. The issues at stake, as revealed in this document, are not confined to England and China, but involve the relations of a number of Powers in treaty with China, especially those of America, France and Japan. The tangle can only be unravelled in a conference between the principal governments concerned, such as took place at Washington in 1921. It is in such conferences that foreign statesmen can best find how really

## Appendix

to help the sorely stricken people of China to emerge from chaos and achieve order by learning how to govern themselves.

### APPENDIX

LETTER FROM DR. S. K. DATTA

HONG KONG, *January 3, 1930.*

My mind has been concerned quite recently with the influences at work in Asiatic countries which have had such a profound influence on our outlook as Asiatics—and particularly in the political realm. The time is not yet, but some day an Asiatic historian will arise who will point out that the most powerful influences have not been political dicta whether from the pages of Burke or Macaulay—or even the University of Columbia (U.S.A.)—but those institutions which the Anglo-Saxon trader considered necessary for his well-being and protection. My mind will dwell on these old settlements which girt the south-eastern and eastern coasts of the Asiatic continent. Bombay, Madras, Calcutta, Malacca, the infection turned the coast and Canton cum Hongkong were created, Shanghai, Tientsin, Kobe and Yokohama. Every one of the Chinese and Japanese settlements had a bund, an Indian word which means the water-bank. These settlements needed a few clean streets, a watchman or two, and thus were founded the first municipalities which did not emanate from above, but were the expression of the wishes of the small group of foreigners, who had certain common concerns such as sanitation, pure water, lighting and protection against thieves. In the second place a court made its appearance, to do justice between Englishman and Englishman, but its prerogatives soon included that of protecting the subject from the invasion of his liberties by the executive. Indeed, the Calcutta Supreme Court had to be restrained by British parliamentary legislation from interfering with the executive in the discharge of its legitimate functions.

Now, as we look back, is it not of significance that since 1884 in India nearly 800 municipalities have come into being, and over 1,200 district and taluq boards and union boards? In other words, India has to-day over 2,000 of these self-governing bodies—education, sanitation, roads, traffic. The expenditure which they control amounts to-day in Chinese currency to 500,000,000 Mexican dollars—a sum that Mr. Soong, the Nanking Finance Minister, hopes some day to collect as the national revenues of the Chinese Republic. Is it any wonder that the Congress boycott of legislatures does not include municipalities? My only regret is that “security” has not

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been transferred to these bodies, for I believe that they would have been better able to control Hindus and Moslems in their mutual jealousies and frictions—better than the central government has been able to do. It would also have helped these local bodies to shoulder greater responsibilities. However, let this pass. I think we may say that two great lessons have been learnt, or are in the process of being learnt.

The vote as a method of control—in other words the parliamentary system. Do you remember the Akali controversy in the Punjab which darkened the years 1923-24-26? The Sikhs in the Punjab desired to get control of their sacred shrines, whose endowments had long since passed into the hands of hereditary trustees—the abbots and their descendants. The Government refused to intervene, saying that they had merely recorded these rights when the Punjab was annexed. The Akalis adopted “peaceful” invasion of these properties. Finally, the Government yielded and asked the Sikhs if some 200 new bodies of trustees could be created. The reply was clear: the Sikhs asked that a board of trustees should be created consisting of 150 Sikhs who should be elected by adult suffrage of all Sikhs, both men and women. This proposal was incorporated in the Gurdwaras Act and is to-day law. Every three years elections are held in the Punjab; ballot boxes, electoral rolls, election officers form the apparatus for the creation of a company of spiritual trustees—if you like. The other lesson learnt is that of the necessity for accounts and audits of public monies. Study Indian legislation and notice the frequent reference to Bills introduced by Hindu and Moslem legislators to provide for the accounts and audit of religious endowment funds. I mention these cases particularly because they concern a domain where the British Government has been afraid to initiate anything; if there has been a change it is due to the efforts of non-official members of the legislatures, who have behind them an enlightened public opinion.

In India it is not merely the municipalities and local bodies which have been centres of responsibility and government, but the same principles are being slowly—very slowly it may be—carried into the agricultural co-operative movement. India has to-day 75,000 of these bodies—90,000 if you include the Indian States—with a membership of over three and a half million. Here heads of families have the responsibility of electing their officers, arranging loans, assessing the credit of their fellow members, conferring with the auditor regarding their accounts.

In the municipalities, district boards and co-operative societies there is real responsibility, not the shadow of it. That is within the limits of their responsibilities, hence you never hear of “throwing out the budget” in these institutions.

## Appendix

The Indian political situation, as I see it, is the result of a people's “democratic” movement from below, which is engaging itself with the Government at the top, which, in theory at least, is autocratic. It is just the battle between two principles; they have come into conflict. Dyarchy was one method by which the antinomy was to be adjusted and, as you say, temporarily a passing stage.

But I seem to have overlooked the other institution to which I referred—the law courts. Of all British institutions in India the High Courts have rarely been criticised. They have been used by the people and have been looked upon as the bulwarks of their personal liberties. Sometimes your countrymen twit us as to our litigious practices, but is it not a great tribute to the law courts that they are used to the great extent they are? Sun Yat-sen has said that individual liberty did not matter to us in India; it has become our most prized possession. One hundred and fifty years of British law have done this for us. But these early municipal institutions along the Asiatic coast gave to the East two other institutions. Often to these settlements came Englishmen, quite frequently of shady reputation; drink quite commonly was a weakness from which they suffered. They settled down and established a newspaper and no one, not even the “President in Council,” was exempt from their criticism. Calcutta had some scurrilous journals. Some of the journalists found their way to prison, not for sedition, it is true, but because they would not pay their debts. These gentlemen were the founders of the “freedom of the press” in Asiatic countries. The other institution was the right of public meeting. I do not know whether you will recollect that even to this day the three cities of Calcutta, Madras and Bombay have officers called Sheriffs, nominated not by the executive but by the High Courts—now a purely honorary appointment, but in the old days, if the British traders desired to ventilate a grievance or congratulate a governor they had the right to call upon the Sheriff to summon a meeting at the Town Hall. This right still continues, the request of the citizens is still called a “requisition.” From those municipal rights came the notorious meetings at which Macaulay was attacked when he wished to empower the mofussil (outside the presidency towns) courts to try European British subjects, at which Grant, Lieutenant Governor of Bengal, when he stood out as the protector of the indigo plantation workers against the indigo planters, or later, Ripon and Ilbert were the objects of the scurrilous abuse of the Calcutta box-walla when they proposed an amendment of the Criminal Procedure Code to permit Indian magistrates to try Europeans. However unfortunate these attacks were in their violence, yet the lesson was not thrown away; India, too, awoke to the power of the public meeting. Out of the Ilbert controversy came the Indian National Congress.

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These are but a few sketchy notes. Some day it may be possible to investigate with more care the statements I have made. I wish I had the time and leisure. In the meantime this letter goes to you. I am convinced that in throwing responsibility on larger and larger numbers of people "citizenship" can alone be learnt.

My calculation is that the franchise in India is as follows:— Legislatures, 8,000,000, municipalities, 8,000,000, total, 16,000,000. But I may be wrong—considerably out in my calculations. Municipalities and district boards have over thirty thousand elected members.

### NOTE

According to an announcement in *The Times*, copies of the Feetham Report are obtainable through booksellers from Messrs. John Pook & Co., 68, Fenchurch Street, E.C.3, London agents of the Shanghai Municipal Council.

## THE CRISIS AND ITS BACKGROUND

WITH the remorseless march of a Greek tragedy, the logic of events is working itself out. As the depression has proceeded on its devastating course, its scope has progressively widened. It has become world-embracing, and, more serious still, its origins are now revealed as springing not from the operation of any ordinary trade cycle, but from fundamental defects in the financial, economic and political structure of the post-war world. The point has been reached when it has become evident that no single country by its individual efforts can stem the flood which has burst its banks and is threatening to wash away the foundations of credit and confidence, upon which our modern civilisation is built. By international action alone, by the whole-hearted co-operation at least of the countries with the largest stakes and the heaviest responsibilities in preserving the stability of the society of nations, can the flood be tamed and brought back to safe and ordered channels. Moreover, it has become patent that economic and financial action will no longer suffice to cope with the situation, since the prevailing economic and financial troubles are in a large measure but the symptoms of deep-seated malaise in the field of politics. The crisis of July 1931 is the combined product of the political and economic maladjustments under which the world has been labouring since its old balance was destroyed in July 1914. No new equilibrium has yet been found. Since the war there has

## The Crisis and Its Background

been a series of more or less violent oscillations. Two or three years ago their comparative mildness and the general advance towards recovery created the belief that at last the fresh balance was being struck, that the waters were being peacefully canalised in the new channels. The events of the last two years have finally dispelled that illusion. The climax to which they inexorably led has now demonstrated the need for restating the whole problem and for working out its solution systematically from the beginning.

### I. ECONOMIC INTEGRATION SINCE THE WAR

FOR a proper understanding of the problem it is first of all necessary to realise its setting. The world of to-day is very different from the world of 1914. It has made immense strides in integration. By the rapid improvement of all sorts of communications its economic intercourse has been intensified and internationalised to an unprecedented degree. The economic consequences of radio-telephony alone are incalculable. The rapidity and security of air travel have made international business possible and profitable which would never have been contemplated in pre-war times. The perfection of type-writing and printing machinery and of the ordinary telephone have rendered the exchange and distribution of information enormously easier than in the old days. Even the spread of linguistic knowledge and of international broadcasting has done much to promote commercial intercourse between nations. As a general result, business is conducted at much higher pressure. Not only has the nervous tension of individuals been thereby sensibly increased, but also that of nations. By these mechanical inventions international nerve tissues have been multiplied and rendered highly sensitive. Good tidings or bad tidings fly with tremendous rapidity. The reaction to them all over the globe is not only almost instantaneous,

## Economic Integration since the War

but also far better informed and more far-reaching in its effects, because the web of international relations has become so closely woven and so infinitely complicated. All these things are commonplace enough, but they can hardly be sufficiently emphasised, for their profound economic bearings are still very inadequately appreciated.

In the economic sphere, then, the world has become a highly complex single organism. Damage or weakness in one part quickly sends waves of doubt and depression vibrating through the whole system, which tend to slow down the general rhythm of its commercial circulation. A fresh outbreak of civil war in China, a revival of boycotting activity in India, a threatened bank failure in Austria, a sharp fall in wheat prices in Chicago set nervous currents tingling all through the world, stronger or weaker according to the actual gravity of the specific event, but all of them producing some measure of economic disturbance. Yet although this process of integration is clearly producing extensive modification in the structure of industry and finance, it has gone forward without plan or system. As yet only a few isolated attempts have been made to establish the checks and controls which are necessary to ensure the smooth working of any piece of complicated machinery. Hitherto the haphazard methods of pre-war times have been thought sufficient, but events are now beginning to shake the old faith in the blind operation of "economic laws" as furnishing the best guarantee for universal prosperity. As will be seen, conscious attempts to guide and control economic tendencies are already being undertaken in some cases and advocated in others.

But if there has been a powerful movement in the direction of integration in the economic sphere, it has not been paralleled in the realm of politics. At a time when the currents of trade and finance were beginning to flow more abundantly than at any previous time, they found themselves barred by all kinds of new political obstacles from carving out the new and broader channels which they

## The Crisis and Its Background

needed. The effect of the Peace Treaty was in the direction not of integrating the economic life of Europe, but of further disintegrating it. At a time when international intercourse was inevitably becoming closer, economic nationalism was raising fresh barriers in its path. The new States of central and eastern Europe attempted to foster industries which could not flourish on a purely economic basis, inspired partly by motives of national defence, partly by the belief that industries, however artificial their foundation, were somehow a source of national strength and prestige. Hence they sought to buttress industrial enterprise by tariffs, subsidies and prohibitions, which ran counter to the natural tendency towards closer and more widespread international commerce. This contradictory phenomenon was by no means confined to Europe. Countries like Canada, South Africa and Australia with small populations deriving the greater part of their wealth from the export of raw materials and foodstuffs, proceeded likewise to develop home industries behind tariff walls of increasing elevation on the supposition that they could continue to sell their wheat, fruit, wool and hides on an even larger scale than before the war, while at the same time reserving their home markets to their own manufacturers. A yet more striking example of the same faith was furnished by the United States. In pre-war days she required an excess of exports over imports with which to redeem the capital and pay the interest on her debts to Europe. After the war the situation was practically reversed. The United States had become a creditor instead of a debtor nation; yet from 1922-1930 her excess of exports was about the same as in 1913, an average of \$700,000,000.\* But instead of being balanced by outgoing payments, this surplus was augmented by large receipts in respect of public and private debts abroad. Nevertheless, the tariff was once again revised upwards

\* *Our World Trade in 1930*, p. 3. (United States Department of Commerce, April 1931.)

## The Collapse of Prices

in 1930, and reached a height never previously attained. Without attempting at this stage to estimate the consequences of this general growth of nationalism in economics, it is sufficient to note it as a potent force working in opposition to the inevitable tendency towards closer integration which has developed since the war. It is hardly open to doubt that this conflict has been a powerful factor making for disequilibrium. The truth is that we have constructed a twentieth century economic world which we are still trying to reconcile with eighteenth century political ideas.

It remains now to review the different fields of economic activity and to attempt to apportion the responsibility between this and other factors for the breakdown which has occurred.

### II. THE COLLAPSE OF PRICES

THE extent of the depression is so vast and its various manifestations, agricultural, industrial, commercial and financial, so closely interconnected that it is difficult to treat them in isolation. It would probably be agreed, however, by fairly general consent that its kernel is to be found in the rapid fall in the prices of raw materials and foodstuffs and that no remedy which does not to some extent restore the price-level can be regarded as satisfactory. The first step therefore is to consider the causes of the decline.

By 1925 the first stage of recovery from the effects of the war had been completed. Currency had been restored to a stable basis in nearly every country in Europe by the re-adoption of the gold standard. Reparations had at last been regularised by the Dawes Plan. The index of European production exceeded that of 1913 for the first time, while the other continents had already substantially



## The Crisis and Its Background

surpassed their pre-war output. This general progress continued steadily and satisfactorily during the next four years, as may be seen from the following table of industrial production indices\* :—

| Year    | United Kingdom<br>(1924=100) | Canada<br>(1919-24=100) | United States<br>(1923-5=100) | Germany<br>(1928=100) | France<br>(1913=100) |
|---------|------------------------------|-------------------------|-------------------------------|-----------------------|----------------------|
| 1924 .. | 100                          | 116                     | 95                            | 69                    | 108                  |
| 1929 .. | 112                          | 193                     | 118                           | 102                   | 139                  |

This great increase in productivity, achieved as it was with shorter hours of labour and for the most part with higher real wage-standards than in pre-war times, might reasonably be taken as indicating swift improvement in the world's material well-being and swift replacement of the losses caused by the war. Indeed, such remarkable progress had perhaps never been previously witnessed. In the three years 1925-28, the output of foodstuffs and raw materials increased by 8 per cent. and a similar rate of expansion was to be found in industry, while despite all lets and hindrances the volume of international trade grew by no less than 15 per cent.† On the surface the picture looked bright and the prospects for the future brilliant. It concealed, however, a great and growing discrepancy between production and consumption. Owing to the mechanisation of agriculture and improved methods of cultivation, the output of wheat, coffee, sugar and rubber outran the absorptive power of the market. In the case of wheat the combined average production of the United States, Canada, Australia and the Argentine for the years 1924-28 had increased by 50 per cent. as compared with the years 1909-13. In the interval, the world's population had increased by only 10 per cent., while in addition there

\* Tables relating to British and Foreign Trade and Industry (Cmd. 3737), p. 375.

† *Economic Depression*. League of Nations, C. 284, M. 134, 1931, p. 2.

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was a marked tendency to adopt a lighter and more varied diet to the detriment of bread in countries like Great Britain, France, Germany and the United States, where the standard of living was rising and the reduction of hard physical labour by the use of machinery made life possible on fewer calories. What was true of wheat was true of cotton. The simplification of feminine attire and the growing popularity of artificial silk would have caused an actual shrinkage in the consumption of raw cotton during the years 1927-29, had not an increased demand from the Russian mills and those of some other minor producing countries helped to keep it at least stationary. But production was far from remaining stationary, with the result that stocks continually mounted and prices were bound finally to break. The story of coffee, sugar, rubber, copper, lead, coal and other materials was very similar. By the application of intense mechanical, chemical and other species of scientific ingenuity the world had succeeded in immensely developing its productive capacity, but in spite of a series of prosperous years had failed to develop its consuming power in a corresponding measure. Indeed, its very success in reducing labour costs by substituting mechanical for manual processes weakened the market by making superfluous the labour of millions of persons, who had formerly earned their living by agriculture, and by thus throwing them on the industrial market at a time when in industry too labour was being eliminated in every branch through the introduction of machinery. Of this simultaneous revolution in farming and manufacture, for which there is no precedent, the United States furnishes the most outstanding example. In the ten years 1919-29, the agricultural population shrank to the extent of nearly 4,000,000, while the manufacturing and mining populations had likewise contracted considerably in spite of an enormously enhanced output. Paradoxical as it may appear, it is hardly open to question that an appreciable proportion of the unemployment now so widely prevalent is the

## The Crisis and Its Background

token and the price not of poverty, but of vastly increased wealth.

In the case of raw materials and foodstuffs, therefore, an unstable equilibrium existed by 1929. Prices were only maintained by piling up stocks, which could only be held as long as future prospects seemed good, but which were bound to precipitate a heavy fall in values, as soon as unfavourable signs became discernible. The production of all the staple commodities was so widely distributed over the world that it was beyond the power of any nation or national group to control their output and uphold their prices. The attempt to regulate the production of rubber by the Stevenson scheme failed, because it was not sufficiently comprehensive in its scope. The efforts of the Federal Farm Board in the United States, and of the wheat pools in Canada to sustain the price of wheat failed for a similar reason. Other schemes more international in character broke down on other grounds, and all these failures to secure controlled production and steady prices resulted in a further weakening of the value of the commodity with which they were concerned. Nevertheless, they were groping towards some international system of regulation, which alone could ensure the producer against the disastrous effects of over-production. The spectacle of those effects since the depression has set in, so far from suggesting that such endeavours are futile because they failed, has rather stimulated greater efforts to ensure success. The output and marketing of sugar is now regulated by an international agreement. The agricultural countries of Eastern Europe have established an organisation for selling their cereals in order to prevent mutually destructive competition; but the result of the Wheat Conference at Rome in March 1931 was to show that no attempt to deal with the wheat problem could hope for success, unless it was conceived on an universal basis. The result was the meeting of all the wheat exporting countries in London in May, including both the United States and the U.S.S.R.,

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and the creation of an organisation which may prove a first step towards regulating wheat exports throughout the world. The need for some similar attempt is being increasingly felt in the coal industry in Europe, where again potential output has been raised by technical improvements to a point far in excess of the possible demand in the face of the development of oil and water as sources of power and the great economies effected in the use of coal itself. All these attempts to control output are symptomatic of the needs of a new age, in which international exchange has become so world-wide and production so prolific that its adaptation to consumption is no longer a local problem, but a continental or a world problem. No doubt the technique of such regulation is difficult and will not be acquired without a long period of trial and error. No doubt there are dangers to the consumer in concerted control of output and prices by the producers, against which safeguards may have to be provided. No doubt, too, limitation of output may risk prolonging the existence of inefficient plant and of restricting the development of more up-to-date and economical units. But these dangers are probably much less serious to the community as a whole than the ruin which may overtake the farmer, the planter and the mine-operator, together with their employees, under modern conditions of unrestricted competition. The nature and extent of that ruin is evident enough from the present plight of the countries mainly dependent for their national well-being on the sale of foodstuffs and raw materials, as may be seen by a glance at the distress of the farming and mining populations in the United States, Canada, the Argentine, Australia or Brazil. To prevent the recurrence of such catastrophes some form of international control will probably prove indispensable. It is, after all, only the logical extension of the principles of rationalisation which are being progressively applied within national industries. In many cases it is as yet unnecessary, and in some may never become necessary;

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but in the case of a number of the staple commodities intelligent and comprehensive agreement between groups of national producers may be found to afford the only security against the constant menace of ruinous over-production and permanent instability of prices.

### III. THE EFFECT OF TRADE BARRIERS

**B**UT the fall of commodity prices was not only due to over-production. In spite of the accumulation of stocks the descent would not have been so precipitate, had disequilibrium not existed in other directions. Attention has already been drawn to the obstacles raised by trade barriers to the more intense intercourse between nations which technical progress had rendered possible and natural. Of this tendency some further examples may be given. In the first place the exaggerated protection afforded to the farmer in countries like Germany and France led to the maintenance of wheat lands which were utterly uneconomic judged in the light of their cost of production in comparison with world prices. In April 1931 the price of equivalent grades of wheat was \$7.5 per 100 kilos. in Paris and \$6.85 in Berlin, as compared with \$2.93 in Chicago and \$2.20 in Winnipeg. As a consequence, the price of bread was nearly three times as high in Berlin and considerably higher in Paris than in the free market of London, a serious difference which has its reflex in wage-costs in export industries. While no one would maintain that the French and German Governments would have been wise to dislocate their whole rural economy by exposing their farmers to the full effects of the slump in world prices, prohibitive tariffs in this as in other fields inevitably stand in the way of the full development of the world's resources. Moreover, the protective measures to which these and other countries were driven would not have been necessary, had not more extensive wheat cultivation often been deliberately en-

## The Effect of Trade Barriers

couraged at a time when machinery and more scientific methods had enormously expanded the production of wheat overseas.

What happened in the case of wheat was repeated with manufactured products. The re-division of Europe in itself added thousands of miles of new customs barriers. The partition of economic areas like Upper Silesia, the reversion of Alsace-Lorraine and the attribution of the Saar to France, tended to duplicate productive capacity without duplicating possible consumption. Outside Europe, the British Dominions and India followed the European lead and proceeded to stiffen the protection of their new industries. In the exporting countries, like Germany and Great Britain, which saw their foreign outlets being closed, opinion began to veer towards relying more on the home market and reserving that for domestic industries, though as a rule it was generally tacitly assumed, as it was in the United States, that this process could somehow be carried out in such a way as not to interfere seriously with the ultimate recapture of the export trade. It is true that the World Economic Conference found in 1927 that "the recovery from the effects of the war has been unduly delayed and that the foreign commerce of all nations is in a greater or lesser degree seriously hampered by existing obstacles to trade." They pointed out that production in excess of demand had frequently resulted, with the consequence that capital equipment was not being economically utilised and rates of interest remained unduly high; that excessive protection defeated its own object by reducing national production and purchasing power; that the attempt to attain self-sufficiency usually involved a sacrifice of material prosperity. The Conference accordingly declared that "the time had come to put an end to the increase of tariffs and to move in the opposite direction."

These general truths are just as valid now as they were in 1927, yet in spite of a series of meetings convened by the League of Nations in order to translate them into practice,

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very little progress has been made. Tariffs have tended to rise rather than to subside. The vested interests fostered behind them have waxed stronger rather than weaker. Neither by means of tariff truces nor by means of international cartels has the situation been substantially improved; and as it has not improved, it has inevitably deteriorated. The failure to lighten the shackles on international trade has made everything more difficult. It has hindered the revival of the exporting countries, choked the outlets for the grain-producers, immensely complicated the problem of international payments, and thus aggravated the maldistribution of capital. The immediate benefits of trade barriers are frequently perceptible in reference to particular industries taken in isolation, but because their pernicious influence on the economy of nations, either separately or in the aggregate, is not so easily demonstrable, it is for that reason apt to be discredited or ignored. On a general view, however, it is not open to doubt that they have constituted a baleful disease checking the circulation of the economic system and in the end assisting the collapse of world prices.

### IV. MONETARY FACTORS

IN addition to over-production and trade barriers, there were other causes at work, more obscure in their operation and more drastic in their effects. Owing to the redistribution of capital resulting from the war, to the failure of the creditor countries as a whole to utilise their resources in the general interest, and to the inability of the debtor countries to meet their obligations without heavy borrowing, the international equilibrium which is essential to the proper working of the gold standard has not been maintained. With the intensification of economic relationships, the preservation of balance necessary to ensure the even and healthy flow of gold and credit throughout the

## Monetary Factors

world had become more vital and at the same time more delicate than before the war. But the legacy of the war itself in the shape of international indebtedness, depreciated currencies and disturbed political conditions made the automatic adjustment of the balance, which in former times had generally proved reliable, no longer an adequate or trustworthy method. A state of financial instability was created, which rendered insecure the whole fabric of credit, upon which the economic life of nations reposes.

It is unnecessary to summarise here the brilliant analysis of this monetary insecurity contained in the Macmillan Report, which is dealt with elsewhere in this number.\* It will be sufficient to recall some of its main findings which point to the international origins of the depression and which demonstrate the impossibility of any real recovery until the political troubles, which have now clearly emerged as root causes of the existing financial chaos, have been effectually removed.

The maintenance of financial balance depends on money regularly and constantly irrigating the channels of production and trade everywhere. During the nineteenth century Great Britain as the principal creditor country had thoroughly assimilated the lesson that her own prosperity was bound up with that of the rest of the world, and that, accordingly, her interest lay not in hoarding her surplus receipts in the shape of gold, but in relending them to other countries in need of capital. One effect of the war was to modify profoundly the world distribution of gold. Of the total stock Europe's share was only £741 million, or 35 per cent., in 1925 as against £1,138 million, or 63 per cent., in 1913. North America's share, on the other hand, had risen from £429 million, or 24 per cent., to £950 million, or 45 per cent. The course of subsequent events did little to modify this redistribution until 1930, when gold flowed in exceptionally large quantities to Paris. No less than 78 per cent. of the world's gold was then

\* See page 807.

## The Crisis and Its Background

located in Great Britain, France and the United States, the two latter holding far greater quantities than the former.

As long as these accumulations were used as a basis for credit no serious evil resulted. During the years 1925-28, New York issued long-term loans to the extent of over £1,000 million, more than twice as much as London. American money thus flowing back to Central and South America and to central Europe did much to maintain and to develop the gradually returning prosperity. The boom on the stock market arrested this health-giving process. With the meteoric inflation of stocks, foreign issues lost their attraction. The high interest offered on call-money acted as a further deterrent to foreign investment. As the world hastened to take advantage of these unprecedented opportunities of profit, gold gravitated once more to the United States, but the counterbalancing foreign loans were no longer forthcoming. Simultaneously a like process was taking place in France for different reasons. These two concurrent and complementary drains on the credit system fatally deranged its equilibrium. The latent tendency towards price instability was quickly converted into a disastrous slump. Debtor countries, and in particular Germany, soon began to show signs of financial stringency, as the stream of foreign money began to dry up. The rhythm of German economic production began to slow down; unemployment began to assume alarming proportions. Worst of all, the sense of growing apprehension for the future, working on a public mind always highly nervous since the catastrophic days of the inflation, produced a feeling of despair which found expression in the elections of September, 1930. The rise of the Hitler party and the Communists, avowedly aiming at radical internal transformation and at repudiation of Germany's external obligations, at once aroused the dread of revolution within and of aggression without. The vicious circle was thus complete. The derangement

## The Political Problem

of the international financial balance had produced a political situation which made an exit from the depression no longer possible by the aid of any purely economic or financial measures.

### V. THE POLITICAL PROBLEM

TO anyone familiar with its working it had been obvious for some time past that the settlement of the Peace Treaty was becoming every year more precarious. In the course of a decade both the spirit in which it was dictated and the spirit in which it was accepted had become less and less real. Even in France, where perhaps the least modification had taken place, the recognition was growing that sooner or later some reconciliation with Germany must be worked out. Hence when in 1929 the British Government announced its intention of withdrawing its last remaining brigade from the Rhineland, France felt morally bound to follow suit. But although the period for the occupation was still far from completed, the time when its voluntary termination might have been welcomed in Germany as a friendly act, marking the beginning of an era of better understanding, had been allowed to slip. The interval since the signature of the Locarno Treaties had been too long for German patience, and for reviving German pride. Moreover, the death of Stresemann deprived the policy of rapprochement of its driving force at a critical moment. Without his leadership the country drifted for a while, during which the forces of Hitler, Hugenberg and Stahlhelm made rapid headway. By the time Dr. Brüning had gathered the reins firmly in his hands, the political atmosphere had undergone a significant change. The Social-Democratic party had lost much of its hold on the masses. Their moderate social policy was too extreme for the bourgeois elements and too timid for the millions of all classes who could find neither

## The Crisis and Its Background.

jobs nor bread. Their moderate foreign policy was distasteful to the prevalent reasoning of despair which saw the source of all the miseries of Germany in the crushing terms of the Peace Treaty.\*

The demagoguery of Hitler was much better attuned to the popular mood. He openly preached the repudiation of reparations as an unjust and intolerable burden. He exhorted Germany to abandon the League, which had done nothing to alleviate Germany's sufferings, and to trust to her own strength, since the Allies had not carried out the intention to disarm, solemnly proclaimed in Part V of the Treaty. So far as unemployment and poverty were not due to foreign oppression, he traced them to the malign influence of international financiers and profiteers and pointed to the destruction of the Jews, the nationalisation of the banks and department stores, and similar drastic measures as the true remedies. At this point he came near to the Communist programme, which was not widely separated from his, except that its inspiration was derived not from nationalism but from Leninism. Though Hitlerites and Communists fought each other fiercely in their weekly brawls in the suburbs of Berlin, their temperamental approach to the problem of national salvation did not greatly differ. Both were fundamentalists, who saw no hope in the existing order. In a Germany which was feeling the warming influences of returning industrial activity as in 1927-28, when foreign money was flowing in freely, or in a Germany still stunned by defeat as during the inflation of 1923, the great masses would probably have paid little attention to such doctrines. But in 1930 they made a strong appeal to large sections of the people, particularly to the youth of the middle classes, who knew nothing of the war but its privations, and who had been disillusioned of the belief that it would be succeeded by a new spirit of international amity. On the contrary, they found that they were called upon to pay until the end of their lives for a war, for which

\* See THE ROUND TABLE, No. 83, June 1931, p. 499.

## The Political Problem

they at least had no responsibility, that their families had often lost all their savings in the collapse of the mark, and that for many of them the shrinkage of the national wealth had wiped out all hope of an honourable professional career. Highly trained engineers were glad to stoke the boilers of pleasure-steamers or to run a tractor on some remote farm. Emigration overseas was no longer possible, as the doors were practically closed in the United States, Canada and Australia, and even in South America openings were not numerous. All the safety valves were clamped down, with the result that the spirit of revolt against existing conditions spread rapidly, not only among the working class, but also in the ranks of the bourgeoisie.

So remarkable was the progress of this spirit that it created serious doubts as to the political stability of Germany, both at home and abroad. Just at the time when the effects of the depression were being most severely felt, the financial position of the Reich, which had never been too sound, was being sapped by a discreet flight from the mark. Germans with capital felt that it would lie more safely in foreign banks. British and American financiers with short-term holdings in Germany felt more and more disinclined to renew them. During the period of reconstruction after the inflation there had been a great deal of unwise borrowing and extravagant expenditure, particularly by some of the big municipalities and industrial enterprises. There had not been time to restore the country's finances to a sound footing, so that when the crisis of confidence was superimposed on the depression, they could not stand the strain. By June the position had become so serious that President Hoover felt that the time had come to make a heroic effort to save the situation. He proposed a general moratorium for a year for both war debts and reparations.

But such a proposal inevitably raised political questions of the first magnitude. The French had already been profoundly disturbed by the proposed Austro-German Customs

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Union and the construction of the "pocket-battleships." The economic importance of the one and the military importance of the other were probably greatly exaggerated, both in France and Germany, but their political importance was undoubtedly immense. To the French they were the symbol of a nascent Pan-Germanism, to the Germans the symbol of restored national independence and self-respect. Hence Frenchmen were inclined to make their acceptance of the Hoover offer conditional on Germany's renouncing these two projects. The two Chambers were angry and alarmed. They felt that if once a breach were made in the Young Plan, it would never be restored. What was to prevent Germany from using the money for re-armament? Why should France suffer from the consequences of German recklessness in finance and politics? For a fortnight haggling went on in Paris over guarantees and conditions. By the time France had finally agreed to the Hoover plan, which had been hailed by the rest of the world with joy and relief, the potency of its charm had been lost. During the interval of uncertainty money continued to drain away from the Reichsbank by millions a day. The American offer was no longer sufficient to plug the leak, as, if promptly accepted, it might very possibly have been.

The first unmistakable sign of financial collapse came on July 13, when the Darmstädter Bank closed its doors. A crisis of unexampled gravity loomed in sight. Bank failures were reported all over central Europe. The Board of the Bank for International Settlements met to consider the situation; but in the face of the political circumstances which now overshadowed the economic problem they felt themselves helpless and turned over the task of preventing a general collapse to the governments. Confidence in the future was gone. The investor could no longer be induced to risk his money, as long as the possibility of social upheavals and bitter international disputes clouded the skies. The only hope lay with the statesmen and politi-

## Prospects of Recovery

cians, who alone could conjure the smouldering fears and passions, which, fanned by the depression, now threatened to burst into flame. In these momentous circumstances the Conference of London met with the task of opening the political door which now apparently offered the only exit from the economic impasse.

### VI. PROSPECTS OF RECOVERY

**W**ITHIN a few days of its close, no one can say whether the Conference has succeeded or failed. It may be hoped and perhaps expected that the financial measures which it recommended will prove adequate to tide over the immediate danger, and to allow breathing space in which the work of devising lasting measures can be undertaken. But nobody supposes that the sickness of Germany, which is now spreading contagion to the rest of Europe and thence to the rest of the world, can be cured without the application of much more radical remedies. Temporary palliatives have been applied, but a major operation seems unavoidable. The question is how deep must the knife cut in order to excise the plague spot.

A reconsideration of the various sources of economic evil briefly summarised in this article will suggest at once that a permanent cure can only be effected by an extensive programme of international reconstruction, comprising co-operative action in the commercial, financial and political fields. An encouraging feature of the situation is the obvious soundness of the patient's constitution. The world has never been equipped to produce so much wealth so easily as at the present time. There is no question of impoverishment. If only the machinery of international credit and exchange can be so organised and controlled as to ensure its smooth and steady running, there is every reason to suppose that an era of unexampled prosperity might easily be launched. Even now there are signs that

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the seeds of a recovery are present, if uneconomic influences were not hindering their germination. What then are the main requisites for casting off the present depression, and for preventing other such calamities in the future?

Unfortunately, the beginning must now be made with the political problems. These are not difficult to define in their main outlines, but their scope and ramifications are extensive. The first problem is the restoration of Germany, not only to financial soundness, but also to a sense of self-respect and international citizenship. For both these purposes some readjustment of international relations is necessary; but how much is necessary and how much is politically possible? A few months ago a further revision of war debts and reparations, towards which Mr. Hoover's offer was a first move, might have sufficed to meet the situation, at any rate for the moment. To-day it is no longer enough. The plebiscite in the Saar is nearly due. Its restoration to Germany would remove another sore spot. But there remain three other major bones of contention—the Customs Union, the eastern frontier and disarmament. If any of these questions were taken separately, they would probably prove completely insoluble. If they are made the subject of a general negotiation, some progress at any rate may be made towards changing the *status quo*, which has plainly become untenable. For this reason the establishment of friendly personal contact between the French and German leaders is perhaps the most important result of the London Conference. But both of them have a task of enormous difficulty. It may perhaps be suspected that the French people are much more disposed to seek reconciliation with Germany than the Parisian Press would seem to suggest. But they can hardly be expected to make all the concessions—to agree to a large measure of disarmament, to forgo a large part of reparations and to see the balance in central Europe drastically shifted without any countervailing security. In itself,

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the suggestion that Germany should in her present financial straits abandon battleship construction was not unreasonable, but, however much the German leaders may have been inclined to agree, especially in view of the insistence on disarmament in England and America, could they accept such a proposal without risking overthrow by Hitler and his wild men? Similarly, the Customs Union has become a symbol in domestic politics. In so far as it has an economic justification, it is as a first step towards removing the tariff walls which are a source of division and weakness to all Europe. In its economic studies the Committee on European Co-ordination appointed by the Assembly of the League a year ago has been painfully seeking some method of commencing their demolition. Perhaps the sentiment in favour of the attempt is gradually gaining a little headway; but, unless it can be merged in some wider scheme of economic rapprochement, it is difficult to see how the Customs Union problem can be satisfactorily solved. Finally, the Eastern frontier is the most thorny question of all. Generally speaking, there have been unwarranted provocations and grievances on both sides, but few people unaffected by the violent propaganda current in Germany would suppose that all the demands of the Nationalists were reasonable. A settlement should not be impossible, if there is a general disposition to seek agreement at the Conference. That will not be easy, however, in the present state of public feeling in Germany and elsewhere, and unless agreement is reached, the prospects of disarmament will be seriously compromised.

To British and American minds, disarmament has become one of the keys to renewed prosperity. It is realised in the City, in Wall Street, by big business and even dimly by the farmer of the middle-west, that as long as rumours of war are prevalent, there is little hope of quiet and profitable business; and that rumours of war will persist as long as Europe is an armed camp. But the will to



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disarm depends on an absence of fear, and fear is unhappily far more prevalent on the Continent than in Great Britain and the United States. For a beginning of disarmament, a relaxation of political tension is therefore necessary. There are some factors in the situation, which are not without encouragement. First, there is probably no country in Europe where there is a real desire to fight. In spite of all the nationalist bombast which may be found in certain countries, there is no such general readiness to accept the hazards of war as there was in 1914. In the last resort it may be seriously doubted if the masses anywhere would march beyond their own frontiers. Secondly, the very gravity of the financial crisis has brought pressures to bear, which are bound to exercise a very powerful influence on events. The re-entry of the United States into world politics is a portent of great significance. It only occurred because American interests made it imperative, and after all, no nation acts from purely altruistic motives. Moreover, the harmony of interest between the British Empire and the United States makes combined action possible, which can perhaps do more than anything else to restore political stability. Neither can afford to see Germany go to the wall and Europe relapse into chaos. Both, through their comparative aloofness from European political affairs, are in a position to act effectively as mediators. Thirdly, the faint signs of a desire for understanding between France and Germany may develop into a thorough attempt to sink differences and establish collaboration. There are obviously some considerations pointing to the wisdom of such a course to which neither party is likely to be altogether blind. The question is whether there is sufficiently resolute leadership on both sides to swing public opinion into the path of conciliation.

The political outlook, therefore, though sombre, is by no means hopeless. If the political heavens began to clear, a revival of confidence would set in which would

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have an immediate reaction on the economic position. Technical symptoms of recovery are already beginning to be discernible in the United States and elsewhere. But, just as the depression did not originate in purely political causes, so it cannot be finally cured by political measures alone. The maintenance of financial balance has now become an international problem of first importance. It is no longer sufficient to rely on the automatic interplay of economic forces. Skilled and conscious management of the currency system has now become a necessity, and efficient machinery for the purpose must be created. As the Macmillan Report very clearly shows, no Central Bank can hope to shape a successful policy in isolation. There must be commonly accepted principles of management, some of which have already been outlined by the Gold Delegation of the League, applied through closely co-ordinated action by the Central Banks themselves. There are many obstacles to the creation of such machinery; but none of them is insuperable. In the Bank for International Settlements, the germ of a system of international control already exists.

Finally, in the fields of commerce and production, international rationalisation has likewise become indispensable. In the former, the world has got to free the avenues of trade from artificial obstacles, if it is to utilise its productive powers to the maximum. Here again the efforts towards a more unified Europe, which are being laboriously pursued under the auspices of the League, are first beginnings. Though the goal is still far distant, it is at least being consciously sought. The more successful the endeavours to maintain the fertilising flow of credit and to clear the channels of commercial intercourse, the less necessary will restrictive measures for the regulation of production and prices become; but it seems probable that international agreements between producers will be found to be unavoidable in the case of many commodities for a considerable time to come. In fact, the need for

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intelligent and organised international co-operation has become imperative in the spheres of politics, finance, commerce and production alike. Without it the whole elaborate social and economic fabric which has built itself up may crumble and collapse. As Sir Basil Blackett said the other day, "if the machine which mankind has created is to remain his servant and not wreck itself and its creator," we must henceforth rely on planned direction instead of on *laissez-faire* and the unordered competition of individual enterprise. "Political and economic planning and co-operation form the task of the twentieth century." It cannot be accomplished, however, merely by nice calculations of immediate self-interest, either individual or national. It will need something more than enlightened egoism to ensure that at this "turning point of history," as the Prime Minister without exaggeration described it, the road to collective recovery is chosen in preference to the road to disintegration and disaster. The new order which the world now calls for cannot be planned and built without faith and vision. Is it possible to kindle to-day a spirit of constructive enthusiasm such as more than once has swept humanity forward on its way? Is the present generation too steeped in the cynicism of disillusionment to be incapable of the moral effort needed for its own salvation? Those are after all perhaps the ultimate questions.

## AMERICAN POLITICS AND THE HOOVER PLAN

MONTESQUIEU is credited with having exclaimed: "Happy is the nation which has no history." The maxim may now be amplified. Thrice and four times happy is the nation which has no economics. Next in happiness to the nation without economics is the nation with no economics but its own. Whatever nations may be qualified to enter into either of these latter categories of felicity, the United States of America is not one of them. We are afflicted with our own economics and everybody else's. The humblest residents of Main Street are moved by the coffee situation in São Paulo; they study affidavits about the production of lumber on the Murmansk coast, and scan the records bearing on the production of copper in the High Katanga. Not a municipal budget in the Rhineland but may shake the plains of Kansas. One should perhaps apologize for the triteness of such observations. Yet it is not so long ago that they were considered rather daring, almost fanciful. As a creditor nation, we are cutting our eye teeth. And teething is painful.

The winter of our discontent—the second and far the worse winter of our discontent—sloped downward into the deepened despair of May. On June 2 the average of industrial stock prices was less than 80 per cent. of the low levels achieved on December 16; the average of railway stocks was less than 75 per cent. The utilities which proved the most resistant of the major groups were 10 per cent. below the December "lows." And the December lows had been hailed for months thereafter as the almost

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irreducible minimum of American economics. On June 3, aided by a relaxation of margin requirements by the leading New York bankers, the tide turned momentarily upward. In the lingo of the financial journals, the June lows "have not been violated."

### I. THE HOOVER PLAN : THE FIRST REACTION

CURRENT events have an extraordinary capacity to turn upon the most cautious of writers. On May 5, 1931, the author of *President Hoover at Mid-Term* in THE ROUND TABLE for June employed with perfect accuracy the following language :—

In general, the attitude of the Hoover Administration toward European questions has been the traditional one of American aloofness. In his pronouncement on Armistice Day, 1929, in favor of the immunity of food ships from seizure in time of war, Mr. Hoover showed a flash of that talent for world leadership which many of his countrymen had been looking for, but on the whole he has shown little inclination to make the United States exercise its potential influence in world affairs.

It would be difficult to find an example of an accurate generalization more swiftly or dramatically superseded. On June 20, less than seven short weeks after the writing of these sentences, Mr. Hoover stepped decisively into the international arena and showed a most striking inclination to make the United States exercise a marked influence in world affairs. In his statement he observed :—

The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including obligations of governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign governments to the American Government payable during the fiscal year beginning July 1 next, conditional on a like postponement for one year of all payments on inter-governmental debts owing the important creditor Powers.

## The Hoover Plan : The First Reaction

These two pithy sentences were followed by a list of Senators and Representatives who had approved of the proposal. General Dawes and Mr. Owen Young, authors of the respective "plans" for Germany, were also cited as approving. It was apparent that the President's proposal was at least not entirely a personal foible. The purpose of his action, he declared, was :—

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 from abroad.

He spoke of the fall in commodity prices, the impaired confidence in economic and political stability abroad, the abnormal movement of gold into the United States. Then with caution and faithful consistency he warned his readers that :—

reparations is necessarily wholly a European problem with which we have no relation.

I do not approve (he said) in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action.

This course of action is entirely consistent with the policy which we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which the payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest.

And while the President conceived of his action as having no bearing on the conference for limitation of land armaments to be held next February, he said :—

inasmuch as the burden of competitive armaments has contributed to bring about this depression, we trust that by this evidence of our desire to assist we shall have contributed to the good will which is so necessary to the solution of this major question.

The immediate reaction to the President's proposal will be vivid in the mind of everyone. There was scarcely a stock or commodity market in the whole world that did not

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leap upward like a balloon untethered. Within a week after the message stocks had recovered to the levels of mid-December. There are few precedents in America for so swift a recovery in Wall Street. While it is too early by perhaps a century to offer any very exact estimate of the ultimate significance of Mr. Hoover's proposal, it is of immense interest to political philosophers and those who moisten their fingers to feel the winds of public opinion.

It is reported that Mr. Hoover was extremely doubtful of the reception that his statement would receive from press and people. The enthusiastic response in this country seems in many ways highly anomalous. It is safe to say that at least until very lately the great bulk of American opinion has opposed anything like cancellation of the debts. Mr. Hoover takes pains in his statement to placate this sentiment by denying such a purpose. Mr. Castle, the acting Secretary of State, denied it. Mr. Borah, chairman of the Senate Committee on Foreign Affairs, expressed his fears of cancellation. Yet it is recognized even now that at least a partial cancellation of the debts is likely to ensue. Cancellation would cost about eleven billion dollars in principal, on which annual interest at three per cent. comes to about a third of a billion. This is a substantial burden to cast upon the American taxpayer, who at the best, and quite apart from any shifting of the European debt burden, is faced by the prospect of increased taxes for the next few years. Then why should he hail with enthusiasm the slightest step or the least gesture toward cancellation? A year ago he certainly would not have done so. Even a few weeks ago the stock market declined upon the rumour that Germany would seek a moratorium under the provisions of the Young plan. Superficially at least there seems to have been a reversal of American sentiment for which we must go back some fifteen years to find a precedent, in a nation which elected a President who had kept it out of war and then in less than six months followed him unitedly

## Second Thoughts

and enthusiastically into war—a war for “such a concert of free people as would make the world itself at last free.”

The reversal of public sentiment, if there has been a genuine reversal, springs from desperation. Into a hopeless economic situation there comes a ray of hope, and we leap to acclaim it. Mr. Keynes, who wrote that very brilliant and entertaining book, *The Economic Consequences of the Peace*, which we all read in 1919 and 1920, may have been right as well as readable. We will brush the dust off it and take another look. It is certainly more impressive now than it used to be. The 1931 edition might appropriately bear a simple preface consisting of one sentence, “Now will you believe me?” At any rate, quantities of people are persuaded that the financial burdens on Germany are too heavy to be borne. It may not matter so much whether Germany cannot pay or whether she can and won't. In neither case is the item, “accounts receivable,” in our balance sheet a quick asset or even a good asset. We must all now recognize the weaknesses inherent in a long-term indemnity credit. It seems rather a pity that the indemnity classes at Paris and Versailles in 1919 did not have Bismarck as their teacher.

## II. SECOND THOUGHTS

ANOTHER thing seems plain, even on a month's perspective. The momentary reaction to the President's statement was unwarrantably enthusiastic. People assumed that central Europe was to be rehabilitated by a stroke of the presidential pen. A few days later it became apparent that conditions in Germany could not be relieved by the mere postponement of reparation payments for the next twelve months. Her difficulties proved more and more critical, and the efficacy of the arrangements reached at the seven-Power London Conference a few days ago leave the issue still in doubt. The results of this conference have not been acclaimed with any

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enthusiasm in the United States. Indeed Wall Street received them gloomily.

A few days after Mr. Hoover's moratorium statement some political critics observed that no stock had risen more rapidly than Mr. Hoover's own. It is certainly safe to say that nothing in the President's political career has ever been more immediately popular than this announcement. But as to long-term popularity the question is a more difficult one. It seems unlikely that any contact of Mr. Hoover's with international affairs can impart the momentum necessary to ensure his re-election unless it is accompanied by a sharp improvement in business in this country. In previous elections, "issues" have had more or less painfully to be fabricated or else there have been practically no issues at all, as in the Coolidge-Davis campaign of 1924. In 1932 the single issue is pretty certain to be prosperity. Men are likely to vote not according to abstract opinions, but according to the state of their dinner pails, their pay envelopes or their dividend cheques. It is unlikely that other topics will very seriously cut athwart the absorbing topic of American prosperity or the want of it. To be sure, this is not very just. Politicians and political parties cannot fairly be blamed for the operation of economic or indeed of any other natural laws. Supply and demand, like gravitation, play nasty tricks, no matter who lives in a white house or sits under a dome. However, there have been Republicans in the past willing to identify their party with prosperity, and it is scarcely to be expected that the Democrats will abstain from all attempts to make political capital out of economic distress. The perennial question of prohibition, which at one time threatened to confound party organizations, is likely to be thrown into the background for another four years. Questions of the tariff, of farm relief, of international relations will doubtless be discussed, but they will be discussed in their relation to stock prices, commodity prices and the indices of unemployment.

## The Presidential Election

### III. THE PRESIDENTIAL ELECTION : PROGRAMMES AND PERSONALITIES

AS to presidential candidates it seems certain that Mr. Hoover will be the nominee of his party, though there are doubtless many who would prefer another leader. Any party in power is necessarily faced with a logical dilemma if it fails to renominate a President serving his first term. It cannot "point with pride" to its administration unless it is pointing with pride to its chief administrator. When we come to the Democratic party, however, the candidates are unlimited and prediction is as futile as it is diverting. Al Smith's renomination seems now unlikely. His successor in the governorship of New York, Mr. Franklin D. Roosevelt, is going through the process known as "grooming." He has many qualities which make him conspicuously eligible as a candidate. His long years of political service and the prestige of his high office are noteworthy. Of all the Democratic candidates he is perhaps the most often "mentioned." This, however, by no means ensures his nomination. Other men have intellectual claims to the leadership of the Democratic party as good as Mr. Roosevelt's or better. There is, for example, Mr. Owen D. Young, whose eminent contribution in connection with the problem of German reparations is recognized. He is a lawyer and not a politician. He never held a public office, or if he did it has been forgotten. But his capacity to occupy the highest public office is conceded. Nor would his lack of political experience handicap him as severely as it would many men. For years he has been at the head of one of America's greatest corporations and in this position he has been known above everything else as a negotiator and peacemaker. In public affairs he stands pre-eminently for an abandonment of isolation in our politics and of exclusion in our tariff. On business and

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industrial questions he is a conservative and would be recognized by thoughtful and independent voters as "safe."

Then there is Mr. Newton D. Baker of Cleveland, who was Secretary of War in President Wilson's Cabinet and who is principally known for his espousal of the League of Nations cause. He would also be an opponent of isolation in American politics. He favors repeal of the Eighteenth Amendment and would remit the whole question of policy and enforcement to the States. He is one of the best lawyers in the country but has played no leading part in politics since 1920.

Governor Ritchie of Maryland is principally known to his countrymen as an opponent of the Eighteenth Amendment and an advocate of State rights in so far as the question of prohibition is concerned. He has inveighed against our present tariff on the ground that it is "bringing retaliations from other nations whose trade we ought to have and whose goodwill should be an American asset." He is not a national figure but is the sort of individual often fixed upon in those compromise arrangements which so frequently characterize political choices.

It is safe to say that any Democratic candidate will attempt to make capital out of the Republican policy of protection, and in doing so he will have the support of plenty of economists both in this country and abroad. Undoubtedly if a Democrat were to succeed Mr. Hoover there would be an attempt to change the existing tariff legislation in this country, but it is by no means certain that any sweeping change would result. In the first place, the Democratic majority in Congress might not be large enough to be very effective even if a Democratic President were to be elected by a substantial margin. In the second place, it is unlikely that all Democrats would readily agree upon the terms of a tariff Bill. Tariff making in 1933 or later would probably be very much like tariff making in the past, a scramble of federal legislators on

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behalf of their constituents' industries. Although there are plenty of arguments against the theory of protection, it must be conceded that this country can scarcely renounce the policy of a century without internal economic readjustments which would be very disturbing and doubtless very harsh in their effect on many American industries. Tariffs, like armaments, are hard to get rid of, and when economists like Sir George Paish tell us that the world must get immediately on to a free trade basis they are giving us something very like counsels of perfection. Furthermore, if America should be prepared to remit a substantial part of her European indebtedness, then one of the most intelligible popular arguments for free trade would largely vanish.

### IV. THE RUSSIAN BOGEY

WHEN one is discussing tariffs the subject of Russia comes naturally to the fore. The Russian economic experiment, which is doubtless as noble in its motive as any moral experiment in this country, has been going on for nearly fourteen years. There has never been a time when American students of political and social affairs were not intensely interested in everything that happens in the former empire of the Czar; but now that the Russian bear is walking more like a man than he has done for a score of years, Americans are becoming increasingly Soviet-conscious. Some of the reasons for this attitude have already been suggested in these pages.\* Undoubtedly the popular idea of the Soviet economy is crude and inaccurate in America. The American imagines an unprecedented volume of exports being dumped on these shores by Russia, partly in order to enable her to purchase American-manufactured goods for use at home, but more particularly to disrupt American markets and

\* THE ROUND TABLE, No. 83, June 1931, pp. 521 and 522.

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foment social discontent and political disorder. The sale of Russian commodities abroad is, he reasons, just as truly a liquidation in distress as the sale of stocks in Wall Street by weak marginal holders. The actual amount of dumping by Russia in this country has not been very great up to date. Though there was a good deal of talk about Russian "bear" sales in the Chicago wheat market, they were probably not sufficient to influence prices materially. However, with wagon wheat selling in Kansas at 25 cents a bushel, and the two hundred million bushels of the 1930 crop in the hands of the Federal Farm Board hanging over the market, it is no wonder that the nerves of the American wheat grower are a little jumpy. In this, the year of the largest carry-over in American history, he is more ready to listen to his fears than he is to hunt up reliable statistics—and reliable statistics about Soviet Russia are hard for the average man to come by.

With Russian pulpwood the story is somewhat similar. While it is cheaper than American pulpwood it has not been cheap enough to keep out Canadian and Scandinavian imports. Russian coal has come in but not in great quantities. It is contended with regard to many Russian goods that their production is the result of convict or forced labor and that they may be excluded under an Act of Congress which forbids the importation of the product of such labor. But how to prove the facts about Russian production is another story. Undoubtedly American sentiment will countenance any reasonable effort to protect this country from Soviet dumping. On the other hand, there is nothing which can be done in this country to prevent Russia from regaining her pre-war wheat markets abroad. Indeed the whole wheat situation presents one of the darkest pictures on our economic screen.

Those who fear the threat to our markets from Russian economic methods are also afraid of the effects of Communism upon our institutions, and such fears are apt to become hysterical. Unless the basis of capitalism is

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undermined by years of depression we are scarcely likely to scrap the economic system which underlies western civilization. Its admitted defects afford no logical argument for completely discrediting it. On the other hand, many minds have been captivated by the Russian five years plan. Mr. Stuart Chase, one of the most articulate and persuasive of American economists, has said that "the choice of a machine age lies between chaos and planning, with the logic of the latter utterly unescapable." Mr. Mathew Woll, of the American Federation of Labor, has challenged the President to produce for this country a ten-year plan which will be our means of salvation. To this President Hoover replied at Indianapolis that America's "plan" was to take care of a twenty million increase in her population in the next two decades,

to build for them 4,000,000 new and better homes, thousands of new and still more beautiful city buildings, thousands of factories; to increase the capacity of our railways; to add thousands of miles of highways and waterways; to install 25,000,000 electrical horsepower; to grow 20 per cent. more farm products. We plan (he continued) to provide new parks, schools, colleges and churches for this 20,000,000 people. We plan more leisure for men and women and better opportunities for its enjoyment. We not only plan to provide for all the new generation, but we shall, by scientific research and invention, lift the standard of living and security of life to the whole people. We plan to secure a greater diffusion of wealth, a decrease in poverty, and a great reduction in crime. And this plan will be carried out if we just keep on giving the American people a chance. Its impulsive force is in the character and spirit of our people. They have already done a better job for 120,000,000 people than any other nation in all history.

In short the President meets the cry for economic revolution by a few words of glowing praise for the traditional American individualism. It is obvious that the President's prophecy is based upon an assumption regarding our population which may prove to be unwarranted.

Mr. Chase objects that Mr. Hoover's is a plan without planning. He points out that in years of so-called prosperity we may release for investment as much as ten billion

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dollars which goes anywhere on a hit or miss basis. He pleads for "master planning" which will bring purchasing power into alignment with the growth of the technical arts and give citizens enough income to enable them to buy the goods which other citizens make. This is all very well, but who under the American, or for that matter under the British, political system is to do the planning? Is the master planner or the master planning board to be appointed by the President or elected by manhood suffrage, or are they to be chosen by representatives of industry upon some basis not yet determined? There seem to be two practical difficulties. The first is that the American citizen may refuse to agree to the plan. He may plant more acres (or desiatins) of rye than he is allowed to by the plan, or he may reap too many bushels (or poods) to the acre. He may be guilty of contempt in the event of an order for investment. In that case what is the planner or the planning board going to do about it? Will the excess be confiscated? It will be hard to treat the American farmer like a kulak. Yet an economic system of governmental or quasi-governmental planning would require well-nigh dictatorial political powers which are highly alien to American and British traditions. In the second place, even if we could imagine a national system of planning, scientific in its method, adequate in its scope, and administered with sufficient legal sanction, of what good would it be if there were no correlative system of planning in other countries? If we "planned" our wheat production down to a point at which wheat would fetch what was deemed a satisfactory price in the American market, who would hold in check wheat production in other countries? In the absence of international planning on a world-wide scale it would seem that any American plan would have to be operated behind a tariff wall which would exclude outsiders from our market to an even greater degree than has ever been done in the past, and this is scarcely within the realm of practical economics. It is certainly contrary to the whole school of

## Illusions and the Future

anti-protectionist teaching. Until these problems of planning can be solved we shall probably go on under a system in which the suppliers are recurrently tortured by inadequate demands and the demanders recurrently tortured by inadequate supplies. But it is undoubtedly true that the terrific economic hardships of the time are making international co-operation in a thousand ways more and more indispensable. And inevitably so, for only last month two Americans went to Blagovestschensk and back in eight days. No wonder we are worried about Blagovestschensk. If this depression can make us think more internationally, its effects will not be wholly destructive.

## V. ILLUSIONS AND THE FUTURE

TO the writer, one of the most tedious things about the depression is the grip which it has given to our moralists. We are now being told that the present evils are a judgment upon us for our sins of greed and avarice and the lust in 1928 and 1929 for getting rich quick. As a matter of fact, while there were doubtless greed, avarice and lust for getting rich quick in those years of prosperity or pseudo-prosperity, it is very doubtful if there is any less to-day. We are more than ever in need of the Gilbertian doctrine that hearts just as pure and fair may beat in a house with seven bathrooms, two radios and a three-car garage as in a hut in the wilderness. What thoughtful people hoped that we had attained in 1928 and 1929 was some degree of stabilized prosperity. Many people, even thoughtful ones, believed we had attained it. Why is there anything illegitimate or ignoble in such an aspiration? People who talked in those years of a "new era" are being ridiculed by students of the economic cycle. Yet the idea of a new era should scarcely seem ridiculous even to-day. Though the old economic laws are still in force, the increasing use and efficiency of machinery, the facility of mass



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production, the ease and quickness of transportation, the heightened interdependence of all peoples and their heightened demands as consumers, have actually produced changes so drastic as to warrant the term "new era." We shall make our best progress not by ridiculing this conception but by recognizing it and by seeking a technique both in politics and economics adequate to its occasions. Here is a problem great enough to exercise the best mentalities of our world, to exercise indeed such a concert of the best mentalities as will make the world itself at last free.

"In the next ten years," says Mr. Walter Lippmann, "we shall have to liquidate the delusions of the last ten years." Just so. This is the destiny of all the decades. Already the curtain has risen upon the drama of the 'thirties and Disillusionment, that realistic and convincing performer, is playing the leading part. But who are those attractive little girls in the wings, so young, so agile, so beguiling? In the half darkness we strain our eyes to read the programme. Is it possible? Yes they are the Delusion sisters, who even now are destined for a *succès fou*. And jaded as we are we shall acclaim them too for their little day. For history is the story of our new amours.

United States of America.

July 31, 1931.

## THE MACMILLAN REPORT

**D**URING the Deluge, an inventor designed a new and more serviceable kind of umbrella. That is not a true story; but it is true that on the day on which the reichsmark depreciated for a time to less than two-thirds of its par value, dragging down the pound sterling and threatening the whole structure of the gold standard, the Macmillan Committee on Finance and Industry presented their report\* containing proposals for monetary reform, and basing their recommendations on the assumption "that the next phase of monetary policy must consist of a whole-hearted attempt to make the existing international standard work more satisfactorily." This conjunction of circumstances led some commentators to write off the report as an umbrella in a flood, a back number before it was printed. But it was only by an agitated press that the Committee were invited to provide a solution for immediate difficulties. Their terms of reference directed them to report on the permanent relations between finance and industry and not on a critical international situation which developed long after they were appointed.

Their report is, in fact, a remarkable treatise on monetary theory and practice and contains extremely valuable lessons, not merely for Great Britain but for governments and monetary authorities all over the world. Many of the reforms proposed for London might profitably be applied in any other financial centre. The Committee,

\* Cmd. 3897.

## The Macmillan Report

which was appointed in November 1929, under the chairmanship of Lord Macmillan,

to inquire into banking, finance and credit, paying regard to the factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour.

comprised some strange bedfellows—an ex-communist and an ex-Treasury official, a trade unionist and business men, theoretical economists and practical bankers. Yet only one, the Treasury expert, Lord Bradbury, dissents from the main report, though five others make reservations and though certain immediate non-monetary measures, which are discussed in addenda, rouse acute differences of opinion.

### I. THE INTERNATIONAL GOLD STANDARD

A BOOK might be written upon the new interpretation that the Committee give to monetary theory. But their concrete proposals are sufficiently numerous and complicated in themselves without any rattling of the dry bones of academic controversy. First come those which concern the monetary system of the world as a whole; and here the preliminary question to be answered is clearly, what should be the purpose, now and in the future, of that system. The Committee have no doubt—and there will be very few to quarrel with them—that at all normal times stability of prices must be the first consideration. But with regard to the immediate situation they utter a stern warning. They write:

We are emphatically of the opinion that, even if a further fall of wholesale prices be avoided, their stabilisation at approximately the present level would be a serious disaster for all countries of the world alike; and that the avoidance of such an event should be a prime object of international statesmanship.

## The International Gold Standard

The Committee address themselves to the problem of how to bring about such a rise of prices. In a cogent analysis of the causes of the world slump, which forms part of the descriptive section of the Report, much stress is laid on the part played by international capital movements. From 1925–28 they were on an enormous scale, especially from the United States to Europe and to Latin America. Then, with the Wall Street boom, they were suddenly diminished, and when the crash once more released funds for overseas investment, confidence was gone and the financial position of debtor countries was already desperate. Their system of prices, wages and balance of trade had all been built on the foundation of the import of capital and the wealth that it entailed. When the flow suddenly ceased, they were forced to make desperate efforts to adjust their trade balance, by restricting imports and by stimulating exports with the aid of price cuts; sometimes these efforts (as with wheat) were worse than nugatory because prices were driven down in far greater measure than demand would expand. The economy of the creditor nations was equally seriously disturbed by the sudden curtailment of the debtors' purchasing power. All this explains why a revival of international lending plays as large a part as it does in the Committee's proposals for an escape from the slump. The central banks and treasuries of the creditor countries are urged to do all that lies in their power both to remove hindrances to the flotation of foreign loans, and to maintain an abundance of cheap credit in their domestic money markets, available for lending as soon as sound borrowers apply for loans. The Committee admit that "the most difficult task is likely to be to find borrowers of sufficient standing to give confidence to investors," and while some of them "think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle," they would all regard with favour any action which might lead to some form of internationally guaranteed credit or to the creation of an international

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investment corporation. The new loans need not be made to the weakest debtor countries, nor indeed abroad at all, provided that they are allowed to have their full effect upon international purchasing power. "It is the simultaneous reluctance of creditor countries *either* to lend *or* to buy which is the cause of the crisis."

All this part of the Report is rather vague and general, as indeed it must be, coming from a national committee with no mandate to advise monetary authorities elsewhere. Assuming that the rise in prices can be brought about—and it is undeniable that, notwithstanding the great improvement in the international situation which may result from the Hoover plan, events since the Report was drafted have gravely diminished the chances of any substantial rise in the near future—the Committee go on to describe the main objective of the central banks acting in co-operation as "to maintain the stability of international prices both over long periods and over short periods." One asks at once, is this feasible within the bounds of the gold standard? That the general maintenance of that standard and the development of an international monetary system depend essentially upon a reversal of present tendencies is plainly recognised. "In two years the creditor countries have increased their proportion of the monetary gold in the world from two-thirds to three-quarters. . . . It is unlikely that the debtor countries can continue much longer to square their international position by parting with gold at the rate of £70,000,000 a year, as they have been forced to do in the last two years."

Even if the necessary revival of international lending takes place and prices rise—indeed even if that were not to come about—there would remain the problem of securing stability, that is to say, of basing upon the available gold resources a sufficient volume of credit to maintain prices at the higher level that is desired. The inadequacy, under present circumstances, of the supply of new gold

## The International Gold Standard

and the evils resulting from the mal-distribution of existing stocks are fully dealt with in the descriptive chapters of the Report. The remedies for these troubles are to be found only through international co-operation, and little or nothing can be done without the assent of the present hoarders, but the Committee endorse the recommendation of the Gold Delegation of the Financial Committee of the League of Nations, and express a hope that central banks will in future abandon the circulation of gold coins, discuss together the relaxation (or in other circumstances possibly the tightening up) of reserve requirements, be permitted to reckon balances with central banks of other gold standard countries, or with the Bank for International Settlements, as part of their legal reserves, and not be unduly limited, as the Bank of France is now, in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or its equivalent. There is no one way of making the world's gold supply sufficient for its monetary needs. Various adaptations of the gold standard may be necessary before success is achieved, but at least it is clear that under a rational system there would be quite enough gold to secure both safety and stability.

In future, if we are to be saved from the waste and misery attendant upon long-period variations in international prices, and from the disorders wrought by the business cycle, the domestic monetary systems of the world must severally be based upon the realisation that, as gold has disappeared from circulation, the contingency of what the Victorian theorists called an "internal drain" has been banished as a factor to which gold reserves should be related, leaving only the possibility of an "external drain." The Committee point out—and it is not the least of their services to the public—that under present circumstances it is altogether inappropriate to maintain some standard proportion between gold reserves and the note issue; and that "the sole use of a gold reserve to-day is, therefore, to

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enable a country to meet deficits in its international balance of payments, until the appropriate measures can be taken, to bring it again to equilibrium." One might add another use, which the Committee implicitly recognise, though they do not name; that is, to give the public, it may be without justification, an assurance of the stability of the monetary system and so to prevent sudden panicky flights from the currency. That is not the only change in our traditional ideas of monetary affairs which the Committee would have us make; it is as well that the imprimatur of a blue-book should be given to the once revolutionary proposition, that "the sense in which the gold standard can be said to be automatic is very limited; it is automatic only as an indicator of the need for action and of the end to be achieved." In other words, we already possess, in some measure, a managed currency.

## II. A MANAGED CURRENCY

THE aim of the Committee's recommendations concerning the domestic monetary system is, in brief, to provide a more powerful, more flexible and more effective instrument for managing the currency, within the limits of an international system, itself manipulating the currency and credit of the world according to a definite preconceived plan. The Committee emphatically reject proposals both for devaluating the pound sterling and for abandoning the gold standard altogether. Great Britain's prosperity turns upon her relations with an international system of finance and trade; no attempt of hers at isolation could defend her from the repercussions of instability elsewhere. The Committee add:

If, therefore, this country were to cut adrift from the international system with the object of setting up a local standard with a sole regard to our domestic situation, we should be abandoning the larger problem—the solution of which is certainly necessary to a satis-

## A Managed Currency

factory solution of the purely domestic problem—just at the moment, maybe, when, if we were able to look a little further forward, the beginnings of general progress would be becoming visible.

Within the limits set by the gold standard, and after the present extreme depression of prices has been deliberately corrected, "the endeavour of domestic management" is described as "to promote the stability of output and of employment at a high level by influencing the regular flow of savings into investment at home and abroad so far as is compatible with the international situation." It is proposals such as that which make Lord Bradbury's flesh creep. "Honesty," he writes, "even if stupid, is a better foundation for credit than the most adroit finesse." But the majority of the Committee consider that the present acute industrial and financial *malaise*, and the prospect of a growing shortage of gold, together provide more than sufficient justification for an experiment in managing the currency system.

The managing authority should be the Bank of England—"independent of political influences, yet functioning solely in the public interest . . . entrenched in the centre of the struggle for profit and with access to the arcana of the market, yet itself aloof and untinged by the motives of private gain." Where is the attack on the Bank of England that the Labour press prophesied? Save for a reservation by the retired communist, Mr. Walton Newbold, it is almost entirely confined to lukewarm criticism of the Bank's failure to expand credit sufficiently between 1927 and 1929.

But the Bank cannot act alone; it requires the loyal co-operation of the joint-stock banks, the discount houses and the private money market, and there is little doubt that it will be able to rely on them in the future as in the past. Indeed, the illuminating description, in one of the early chapters, of the working of the City of London brings out the loyalty that already exists and that has

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been one of the chief instruments whereby the Bank of England has maintained far greater control over the credit structure than has the Federal Reserve Board in America. It is significant that, whenever the Committee ask for the publication of such statistics as the volume of acceptances, or of foreign balances and foreign liquid assets held in sterling, they propose that they should be furnished in confidence to the Bank of England, which would publish aggregates only. This trust would be lost were the independence of the Bank from political influence to disappear, and we shall do well to heed Lord Bradbury's warning that the grant of great and arbitrary powers of currency management to the Bank may sooner or later involve its subordination to Parliament. It is not too much to say that if that were to come about the whole fabric of the system that the Committee envisage would be destroyed.

The Committee recommend such changes in the legal restrictions upon the Bank as would provide it with a far more flexible instrument of management than it possesses at the moment. The changes relate mainly to the gold reserve requirements. At present there is a fixed fiduciary issue of currency of £260,000,000; against the remainder (commonly about £150,000,000) the Bank must hold pound for pound in gold, the Treasury taking the profits on the securities held against the £260,000,000 fiduciary issue. So much for the Issue Department. The amount of notes not in circulation is carried down into the account of the Banking Department, where they form its reserve and in effect measure "the maximum amount of gold which the Bank could part with in the absence of a change in the volume of notes in circulation, unless the powers of extending the fiduciary issue are used." The Committee first of all recommend that the two departments should be amalgamated, and that the Treasury should receive the profits not on the securities held against the fiduciary issue, whatever it may be, but on securities varying in amount

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according to the excess of the Bank's notes and deposits over its gold and silver holdings. The object the Committee had in mind was that the Bank should not be deflected in its policy, as it might conceivably be now, by the fact that any increase in the fiduciary issue would reduce its profits and increase those of the Government, and in fact should be guarded against large variations in profits which might arise out of fluctuations, due to considerations of public policy, in the respective proportions of its gold and its earning assets. It is, of course, true that the Treasury's profits, instead of being fixed, would fluctuate in future. But in this matter it is obviously more important to protect the Bank than the Government.

That, however, is only an incidental proposal. The Committee regard the principle of the fixed fiduciary issue as antique because it falsely relates the immobile gold reserve to the amount of the active note circulation, and serves to "forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used." What is the sense in having a gold reserve which you are not prepared under any circumstances to part with? The Bank of France may know the answer, but the Macmillan Committee do not. So they recommend that there should be a fixed maximum note circulation (they suggest £400,000,000) and a fixed minimum gold reserve of, say, £75,000,000, both variable temporarily under exceptional circumstances. It is not, however, suggested that the Bank would ever, except in war time or equal emergency, allow its gold reserve to fall to anything like £75,000,000. Indeed an essential part of the Committee's proposals is that as soon as possible the Bank's reserve of gold and foreign exchange should be actually enlarged. These proposals taken as a whole are far more rational than the present system, but it follows, of course, that the greater freedom granted to the Bank of England involves greater responsibilities. There is danger that restriction would not be undertaken soon enough, that therefore the

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conditions necessitating it would be prolonged, and that the Bank might find itself deprived of its mobilisable gold reserve while yet the international balance had not been improved. That risk cannot be obviated, but it is worth taking when we consider the absurdity of a system under which the power of the Bank to make up what may be a passing deficit in the balance of international payments, including short-term loans, is made to depend upon a fixed and somewhat arbitrary maximum for the internal note circulation. The circumstances justify the experiment, though again a condition must be that the Bank of England continues to stand outside political influence.

The necessary complement of the grant of these new liberties to the Bank of England is that it should be given greater strength. After an analysis of our international financial position, based on certain figures of short-term obligations which were badly needed by economists, but which have never been published before, and which are even yet incomplete, the Committee conclude "that the Bank of England's liquid assets ought to be increased at the first opportunity to a substantially higher figure, and maintained thereafter at this higher figure as the normal." At the same time, they think "that in the modern world, having regard to the scale of international operations and the size of other money markets, the Bank of England should feel itself free to see, without anxiety, very large fluctuations in its own liquid assets between their minimum and their maximum."

The Committee have several suggestions for providing the Bank with sufficient assets to enable it to strengthen its position in the way indicated. They propose, first, that the Bank should increase its capital. Second, in order to increase the deposits of the joint-stock banks with the Bank of England, the Committee further recommend that the London clearing banks should aim at maintaining a daily average cash ratio of not less than 10 per cent., which would be rather higher than at present; they do not, how-

## The Balance of Trade

ever, propose that this should be a legal obligation upon the banks. This would increase bankers' deposits with the Bank of England by something under £20,000,000. This proposal is linked with one for the abolition by the banks of the practice of "window-dressing"—that is to say, making a special display of strength on the days on which they publish their accounts. The Committee suggest that, if the Bank of England were to maintain reserves of notes at various centres about the country, the joint-stock banks could safely turn, say, £40,000,000 of their present cash reserves into balances at the Bank of England. In return for a relaxation of the traditional secrecy as to its own policy and actions, the Committee recommend that the Bank of England should be furnished with certain hitherto unavailable statistics, most of them to be provided by the banks and finance houses, but some by public departments, especially the Board of Trade, whose vagueness regarding the balance of payments and dilatoriness with the census of production have long been the despair of economic workers. A particularly interesting chapter contains proposals for closer co-operation between the capital market and industry, along the lines of the present relations between overseas borrowers and the merchant banking houses which sponsor their issues.

### III. THE BALANCE OF TRADE

VALUABLE as many of these proposals are, the efficacy of every single one of them in restoring and maintaining trade prosperity depends upon an improvement of Great Britain's international commercial position. As long as the demands upon us so far exceed the payments we receive that our gold resources are in constant danger of depletion, it would be idle for us to attempt to restore internal prosperity by an expansion of credit, with its attendant reactions on the balance of trade, and equally

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idle to encourage fresh overseas lending. There are two conditions which must be fulfilled before we can expect a return of foreign balances and a relief from the pressure upon our gold reserves; the first is confidence in the security of our national finances and the second is an improvement in our international trading position. To the problems presented by the latter condition, various members of the Committee address themselves in addenda to the report. Half a dozen, who include Mr. Keynes, Mr. McKenna and Mr. Bevin, while "pinning all their hopes" on a recovery of world prices as an alternative to wage reductions, support the control of imports either by a tariff, with compensation for exports, or by import boards, and the launching of big government schemes of capital development. Professor Gregory trenchantly attacks these proposals, supporting a reduction of wages and salaries, not necessarily in the export industries, but in "the ancillary and sheltered trades whose wage rates and standards have been maintained at the expense of the standard in industries less able to protect themselves." The policy of protection is dismissed by Lord Bradbury as "merely enlarging the list of sheltered trades at the expense of the export trades." Mr. Brand, postulating that, as a condition not merely of immediate recovery, but likewise of the satisfactory management of the currency in future years, the surplus on our balance of trade must be increased, examines in order the alternatives of greater efficiency, wage reductions and tariffs. He concludes that "there are still very big opportunities to reduce costs by greater efficiency in the widest sense of modernising both production and selling and limiting harmful competition"; that reductions of salaries and wages (particularly in the sheltered industries) are necessary, in view of the probable tendency of costs to fall elsewhere even while prices are rising; and that the strengthening of our balance of trade by means of a tariff, while it may become necessary if the nation refuses to put its house in order, is not likely to be as satisfactory for

## The Balance of Trade

our export industries as a reduction of costs under the two other heads.

While we are not prepared to pronounce here upon the merits of these various arguments, we believe that some such eclectic view is the right one. There is no absolute and universal right or wrong about tariffs or wage adjustments. But for those who are inclined to favour import duties, we would call attention to another passage in which the Committee declare their belief "that the first measure towards the restoration of the international price level must necessarily be taken on the initiative of the creditor countries, and that it must consist partly in a greater willingness to buy and partly in a greater willingness to lend." One of the conditions of recovery is a reduction of tariffs in creditor countries, and if Great Britain is to move on the opposite course she must beware lest other countries imitate her. We are in a peculiarly difficult position. As a great creditor country we cannot escape the obligations that are laid upon us by any attempt to hoist the world from the slough that it is in, while at the same time the weakness of our international trading and financial position forbids us to take action for the relief of debtors. Thus the immediate and perhaps most important lessons of the Macmillan Report are addressed to those great creditor countries who are far more secure than ourselves.

But meanwhile we cannot escape the urgent task of setting our own house in order. Those who looked to the Macmillan Committee to provide a ready-made solution for our industrial problem and a happy issue out of all our economic afflictions were doomed to disappointment, because no reform of the monetary system, no amendment of the relations between the banks and industry, can cure ills which go far deeper. A man in the throes of pneumonia may well seek advice regarding the clothes he should wear in order to render himself less liable to catch cold in the future, but he would not expect the prescription to cure his disease or even to prevent its recurrence if he

### The Macmillan Report

goes on inhabiting a bog. It is not a condemnation of the Macmillan Report to say that, until sacrifices are made all round to meet the desperate situation we are in at the moment, its recommendations will help little to restore our economic health. The Committee were not asked to provide a means of escape from the immediate economic crisis. Fortunately we do not need an expert committee to tell us what, in general, we must do. Our budget is unbalanced and our industrial costs are too high. Those are facts beyond question, and they must be turned into the past tense if our monetary system, even amended as the Committee urge, is to withstand the strain that our improvident policies have placed upon it.

### DOUBTS AND DIFFICULTIES IN INDIA

TO describe, as we did in our last article from India, the logical series of events which led direct from Lord Reading's speech at the Round Table Conference on January 5 to the conclusion of the Irwin-Gandhi agreement and its ratification by the Congress at Karachi on March 30, was a comparatively simple task. The tale to be told was important, straightforward and dramatic, and the period under examination constituted a natural historical whole, with a clean beginning and ending; the ending, moreover, could be interpreted as a happy one. But on this occasion the problem before us is very different; indeed, to construct a coherent story out of the multitude of discordant and inconclusive occurrences which have taken place here during the last three and a half months is impossible.\* All we can pretend to do is to direct the reader's attention to the outstanding changes, tendencies and problems which have arisen, to indicate their probable significance—which is in the majority of instances unpleasant—and to postpone any attempt to gather up the loose threads and knit them into a harmonious narrative unit until three months hence, when our next article will be written in circumstances which, it is to be hoped, will be less confused and ambiguous.

#### I. THE SECOND ROUND TABLE CONFERENCE

TO start with, the great constitutional conundrum, which for years has dominated the whole intellectual life of India, where political disputations probably absorb more of the mental energies of the educated classes than anywhere

\* This article is dated July 26.



## Doubts and Difficulties in India

else in the world, appears to the general public to have been brought little if at all nearer solution since the Round Table Conference was adjourned over six months ago. During the first half of that period, that is to say, between the Prime Minister's speech to the Conference on January 19 and the end of Lord Irwin's Viceroyalty in April, the negotiations between the Government of India and the Congress diverted attention from the main issue, since for the time being everything was subordinated to the enthralling question whether the working committee would really be willing or able to discontinue the civil disobedience movement and co-operate with the authorities in restoring the country to normal conditions. But as soon as the agreement was put into effect, and the excitement engendered by the release of the political prisoners had subsided, the constitutional problem resumed its normal place in the popular mind as the most urgent and interesting matter of the moment ; and the seemingly complete failure, during the next three months, of the British and Indian Governments and the Indian political leaders to devise, between them, any means of settling the many extremely complex questions which were left unsolved in January, has caused widespread irritation and disillusionment, and destroyed much of that remarkable "atmosphere" which was perhaps the original Conference's most valuable product.

To every intelligent observer of the ordinary movements of Indian political thought, it was clear that a psychological reaction such as this, which may have serious consequences, would occur unless arrangements could be made, within at the latest three or four months of the adjournment of the Conference, for its resumption at a definite date, and with a known programme and personnel. For an enthusiastic emotional response to any big and hopeful change of policy is as difficult to maintain here as it is easy to evoke ; and so fervent is the desire of the majority of educated Indians that the ideal of a united self-governing India should be realised with the minimum of delay, that they

## The Second Round Table Conference

find it difficult to watch without impatience the cumbrous mechanism whereby the change is gradually being effected, or to refrain from blaming the operator for the innumerable bits of grit which necessarily get into the works and prevent their functioning smoothly. Nevertheless, although the importance of this emotional factor was well understood, so many practical difficulties have stood in the way of a speedy resumption of the constitutional negotiations that serious delay has been unavoidable.

The first setback originated in England, within a few days of the conclusion of the Irwin-Gandhi agreement. On March 11 the news was received here that Mr. Baldwin, at a meeting of the India Committee of the Conservative party in the House of Commons, had declared that the Conservatives would not be represented at the contemplated sittings of the Round Table Conference in India. What exactly this announcement should have been interpreted to mean was revealed two days later, when the Conservative leader made it clear, during the debate on Indian affairs in Parliament, that much of the alarm which his statement had immediately aroused was unjustified. His party was not in fact embarking on a policy of non-co-operation, and thereby repudiating the statement of policy he had made on its behalf on January 26 ; all that they had decided was that the project conceived at the end of the Conference for resuming its sittings in India during the summer was unsound, and that if a British delegation were indeed to go to India, it should not be an all-party delegation, but consist of representatives of the Government only. The Cabinet, as is known, was forced to the conclusion that no useful purpose would be served by despatching a British delegation to India at all, and that such discussions as were required out here before the Conference was resumed in London must be held between members of the Government of India and Indian political leaders. Some confusion was undoubtedly caused by this change of plan, but it did not amount to very much nor last for long ; and the reasons

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for the difficulties that have subsequently arisen must be sought in this country only.

At the outset, a certain amount of delay was inevitable owing to the change of Viceroys ; for Lord Willingdon, despite his experience of Indian affairs, naturally required, before making any important decisions, to spend a few weeks in examining the new situation which had developed since he left the country in 1924, and in acquainting himself with important officials and political leaders. But before the month of April was out it was more than ever obvious that the greatest and most enduring impediment to progress was the communal problem, and that while there remained any chance of its being settled on Indian soil, within the six weeks or so that might legitimately be allotted to the purpose, it would be undesirable to make precise arrangements for resuming the Conference in London, where the Hindu-Moslem differences had defied all attempts at solution. For it is generally agreed that a settlement between the Hindu leaders and the representatives of the Moslems, Sikhs, and other minority communities should, if possible, be spontaneously effected in India rather than imposed from without ; from the British point of view, this policy is obviously the best, and it has the whole-hearted support of every self-respecting Indian nationalist, who would naturally consider it humiliating that in these days the domestic difficulties of his compatriots should still have to be settled by aliens. Moreover, Mr. Gandhi, as usual in the forefront of nationalist opinion, had publicly stated, not long after his release from gaol, that it would be futile for the Congress to be represented at the second Conference unless the communal disputes had been composed beforehand ; and since one of the chief merits of the Irwin-Gandhi agreement had been that it made possible the participation of the most powerful political organisation in this country in the forthcoming constitutional negotiations, it was obviously necessary that this potential asset should not be

## The Moslems and the Princes

jeopardised by any precipitate action on the part of the Government.

### II. THE MOSLEMS AND THE PRINCES

AS time passed without any progress being achieved it became clear that some constructive effort was required if the authorities were not to be blamed for inactivity ; and on May 20 it was officially announced that, if suitable arrangements could be made in India, the meetings of the Federal Structure Sub-Committee would be resumed in London on June 29. The moment chosen seemed not inauspicious ; for the discussions between the rival schools of Moslem political thought in Bhopal earlier in the month had not ended in deadlock, and Mr. Gandhi's visit to Simla during the previous week had been considered tolerably successful. However, during the next fortnight or so a fresh crop of difficulties sprouted, and it was soon evident that there was no chance of a meeting of the Federal Structure Sub-Committee before September at the earliest. A preliminary obstacle was that many of the prospective delegates indicated that they would find it very difficult, for personal reasons, to leave India at such short notice. But much more serious than this was the fact that prospects of a communal settlement, which had seemed, for a moment, not absolutely unattainable, were now fast receding. The Sikhs had already shown indications of resenting Mr. Gandhi's suggestion that they and the Moslems must reach mutual agreement on the Punjab question before the Congress could let them fill in the " blank cheque " which they had been promised some months previously, and the Moslems were even more suspicious. As far back as May 18 a meeting of the Calcutta Moslem Youth Conference had reaffirmed the decision, made during January by the All-India Moslem Conference in Delhi, that separate electorates for minorities should be retained ; and thenceforward signs multiplied that the Nationalist Moslem

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group, which has the support of the Congress party in favouring joint electorates, was losing ground not only in Bengal, but in other parts of the country. On June 1 its seemingly pro-Hindu policy was strongly denounced at the All-India Moslem Volunteers Conference in Bombay, and two other important meetings in the city during the next fortnight, namely the All-India Khilafat Conference and the All-India Moslem League Conference, adopted a similar attitude. And when on June 22 the so-called Bhopal conversations between representatives of the Nationalist Moslem group and their more conventional co-religionists, which had been transferred, after some embarrassing postponements, to Simla, completely broke down, all hope of the Hindu-Moslem question being settled on Indian soil during the next few months had to be abandoned. Moreover, towards the end of May there were indications of trouble of an entirely different kind. Ever since the return of the Princes and their representatives from London, it had been suggested that objections to the idea of an all-India federation were likely to be raised in certain quarters, and for a week or two after June 12, when the Maharajah of Patiala actually published his remarkable denunciation of the scheme formulated at the Conference, it was difficult to estimate how far the opposition would extend. In point of fact, the Maharajah's action seems to have had the contrary effect to what he presumably desired, for at the important series of meetings held in Bombay between June 28 and July 4 the support which the opponents of the federal scheme secured from the Princes and ministers of the States who were present was surprisingly small, and opinion, on the whole, definitely consolidated in favour of the policy originally adopted at the Conference. But while so crucial an issue remained in suspense, to arrange a resumption of the sittings of the Federal Structure Sub-Committee was obviously inexpedient if not impossible.

Until the first week in July, therefore, the progress made

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towards the solution of India's constitutional difficulties appeared to be negligible, and great uncertainty and disillusion prevailed. But during the last fortnight the issues have clarified, at least in so far as the Princes and the Moslems are concerned. As regards the former, the great majority now appear to be effectively committed to the policy outlined at the first Round Table Conference, and although the detailed arrangements for an all-India federation will doubtless take some time to put into effect, and may not be approved by certain rulers, the major Princes with few exceptions have evidently decided that their future interests will be served best if they come into direct constitutional relations with British India now, rather than remaining in a state of autocratic isolation which the tendencies of the modern world may render increasingly precarious. To enter a political system which is bound to be predominantly democratic in tone is, for them, a step by no means unattended with danger, as the practically communistic programme adopted by the Indian States Peoples Conference in Bombay during the second week in June clearly showed; but on the other hand it may be expected to prove popular, owing to its patriotic flavour, and will probably secure for the Princes greater control over the affairs of their country than they could otherwise obtain, and thus enable them to apply the brake to any reformist movements, either in their own territories or in British India, which they consider precipitate or undesirable, and incidentally also to escape much of the somewhat irksome control of the Foreign and Political Department.

Doubts as to how far the Princes were really likely to agree to a federal constitution having therefore been practically set at rest, it proved possible, six days ago, for the Government of India to publish a final list of prospective members of the reconstituted Federal Structure Sub-Committee, and it may now be taken as settled that this body will resume its sittings in London during the first week in September. A point which has evoked some

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comment is that no members of the Nationalist Moslem group have been invited to join it; and if the Minorities Sub-Committee is found, when the invitations are issued a few days hence, to contain no representatives of this school of thought either, it will be held to prove the truth of the rumours now current, that representatives of the All-India Moslem League recently announced to the Government their refusal to participate at all if their Nationalist co-religionists were asked to attend the Conference.\* In any case it is certainly a fact that conventional Moslem opinion has hardened still further since the latter part of June. The speeches made at the meeting of the Nationalist Moslem Conference at Faridpur on the 27th and 28th were distinctly less favourable to the ordinary Congress point of view than had been expected, and a strongly communal attitude was adopted by the All-Bengal Moslem Conference at Dacca on July 11. Moreover, the fact that the Congress Working Committee, after strenuous attempts in Bombay between July 9 and 18 to bring round Mr. Shaukat Ali and other representatives of the All-India Moslem League to its own point of view, has now definitely plumped for joint electorates, is generally considered to show that Mr. Gandhi and his followers have abandoned all hope of effecting any agreement in the near future with that large section of Moslems whom they consider to be intransigent communalists. On the other hand, some satisfaction can be derived from the fact that the working committee, at its previous sessions in Bombay between June 8 and 11, enabled Mr. Gandhi to withdraw from the position he had previously adopted on the Hindu-Moslem question, and authorised him to proceed to London, "other conditions being favourable," even if no communal settlement were achieved. What exactly the qualifying clause may prove to mean remains at the moment obscure.

The discussions in Simla during the course of the last

\* The list of members of the Minorities Sub-Committee, published on August 5, includes one Nationalist Moslem, Sir Saiyid Ali Imam.

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week were by no means easy, but on the other hand the rupture that was at one time feared did not occur, and Mr. Gandhi's name is among those which have been added to the list of people invited to serve on the Federal Structure Sub-Committee. On the whole it seems probable that, whether the Congress is really in earnest about the Conference or not, the Mahatma will attend it, if only for the sound strategic reason that Simla or Delhi would be a far less effective place in which to stage a final breakdown than London. In other respects, too, the prospects for the Conference now seem somewhat brighter. The report of the special committee appointed to work out the practical details of the reforms proposed at the Conference for the North-West Frontier Province has just been published, and seems to have been well received, and two experts have recently been deputed to investigate the probable financial consequences of separating Sind from the Bombay Presidency. The Indian Sandhurst Committee, which was set up at the suggestion of the Defence Sub-Committee of the Conference, completed its investigations some weeks ago, and its recommendations will be available during the discussions in London in the autumn. In addition, as was indicated by the *communiqué* issued by the Reforms office on June 12, a great deal of useful spade-work has been undertaken by the Government of India in other directions. Preliminary investigations into the possibility of establishing Orissa as a separate province are in progress, and a committee is shortly to be appointed to enquire into the detailed implications of this problem; government departments have been busy classifying administrative subjects under the headings of federal, central, and provincial; and a mass of statistical data has been accumulated on matters of finance. Thus, by the time the Conference resumes its sittings, it will at least have plenty of material to work upon, and unless some major political difficulty is encountered, its conclusions should be much more definite than those provisionally reached in January.

## Doubts and Difficulties in India

### III. AGRARIAN DISCONTENT

WERE it not for the fact that, when this article is read, the constitutional aspect of Indian affairs will probably be engaging public attention in England, we would have devoted far more space to discussing the many other topics which have been troubling thoughtful observers here, and which will now have to be treated somewhat perfunctorily. To the resident in this country, by far the most conspicuous and unnerving phenomenon of the last three months has been the increasing difficulty of the administrative problems with which the Government has been confronted, and the multiplicity of their immediate causes. Some are directly attributable to the working of the detailed provisions of the Irwin-Gandhi agreement, others to agrarian disturbances, or communal tension, or labour disputes. In Burma, what was thought last December to be a brief and unimportant rebellion has proved extraordinarily intractable, and assumed such dimensions as to bring about the collapse of the ordinary administrative machine in at least two districts; while the activities of terrorists throughout the country, despite the success of the police in effecting arrests, have become increasingly frequent and alarming. Those who endeavour to look below the surface for the ultimate origin of these various disorders will probably trace them to two sources, the one socio-political, and the other economic. Because the civil disobedience movement last year, and the confusion which it brought in its wake, were no more than symptoms of an increasing malaise from which India has been suffering for years as a result of the impact of Western ideas upon a static Oriental civilisation, and because it happened to coincide with the onset of an unprecedented economic depression which is still increasing in severity, it is impossible to contemplate the future without foreboding.

## Agrarian Discontent

To turn now to details, Mr. Gandhi has undoubtedly been sincere in his endeavours to implement the terms of the agreement, but the same cannot be said of many of his followers, and the fact that the truce still holds is about the best that can be said of it. As was to be expected, the release during a period of about a month of thousands of political prisoners throughout the country, many of them in a state of great mental excitement, caused considerable anxiety and confusion, and incidentally led to serious dissensions within the Congress ranks in many places, particularly the Punjab and Bengal. At the outset a tendency was apparent among the younger and more exuberant Congressmen, which was undoubtedly encouraged by some of the leaders, to treat the agreement as no more than a convenient means whereby the Congress might regain its strength and prepare for further strife; and the district authorities were much exercised as to how far they could allow these activities to develop without incurring responsibility for the disturbances to which they were liable to give rise. During May and June the situation was particularly difficult; speeches were made throughout the country, frequently by responsible Congress leaders, on the necessity for maintaining the "war mentality," the police were boycotted and obstructed, as for instance at Manbhum and Bhagalpur in Bihar during May; and attempts were made to set up parallel courts in many places, the most conspicuous being at Midnapore in Bengal. From practically every province reports were received of a growing difficulty in securing routine information, and of the decline in the morale of minor officials and government servants owing to the inactivity of the authorities. The criminal statistics were also becoming very disquieting, the number of reported cases of dacoity in Bengal, for example, being far higher during the first five months of 1931 than the average for whole years in the past.

But perhaps the most sinister feature of the whole business has been the agrarian agitation fostered by the

## Doubts and Difficulties in India

Congress in various parts of the country. The plight of the peasantry at present is very distressing, for although the harvests of 1930 were fairly good, the extraordinary fall in commodity prices rendered a great deal of the produce unsaleable, and in consequence many of the cultivators have no money with which to pay their rents; and in the United Provinces, which, with Gujerat, has been the most conspicuous centre for disturbance, the situation is particularly serious, since for several seasons prior to 1930 the rainfall was markedly defective. But that the Congress should exploit these rural difficulties for political purposes is deplorable, even though to some degree they may be inspired by sympathy and altruism. For the perils of such activities are impossible to exaggerate. About 90 per cent. of the inhabitants of India are poverty-stricken peasants, not quite so ignorant and superstitious now as they were ten years ago; the amount of uncultivated land available for agricultural purposes, despite the development of irrigation, is extremely limited; and the total population of the country has increased by no less than 36 millions in the last ten years, the increase having been greatest in the rural districts. The facts speak for themselves; the traditional apathetic contentment of the ryot may strike the reformer as deplorable, but once it is destroyed a catastrophe would appear to be inevitable. And if the present acute economic depression is accentuated by a failure of the monsoon, as seems by no means unlikely, since the rainfall for the month of June was 23 per cent. in defect throughout the whole of India, the consequences, even without the assistance of the Congress, would be extremely serious. Already there have been sporadic agrarian disorders in many parts of the country. A zemindar and his assistants were murdered near Allahabad during the second week of June, chaukidars\* and police officials have been assaulted, and alarming demonstrations have been

\* Watchmen.

## Terrorism

frequent; and in the circumstances there seems every probability that the trouble will extend.

### IV. TERRORISM

SO far as communal riots are concerned, their number, despite the continued political tension between the two major communities, has been substantially less than during the first three months of the year, and the big religious festivals have passed off comparatively peacefully. The most serious outbreak took place not in British India, but in Kashmir, where nine people were killed and many injured on July 13, and communal disturbances occurred in two other States, namely Pudukotta and Janagadh, about a week later. The only noteworthy clash in British India was a minor riot in Cawnpore on May 30, during which the police had to fire and two people were killed. The number of terrorist outrages, however, has been very great, and that this has been so, despite the successful *coups* brought off by the police in the United Provinces and the Punjab, the strict application of the special ordinances in Bengal and Burma, and the incarceration of several presumed terrorists in connection with the Delhi conspiracy case, clearly shows how widespread the tendency to violence has now become. In the last week of April bombs were thrown at Europeans sitting in the pavilion of the Royal Calcutta Golf Club. During May, an alarming plot was discovered in Chittagong, electrically-wired canisters containing powerful explosive having been found near several important buildings; a plan for murdering Europeans was believed to have reached an advanced stage in the Bakarganj district of Bengal; bombs were thrown at Mainpuri in the United Provinces and near Tippera in Bengal; a constable was shot dead and two police officials injured in a train near Suchetgarh in the Punjab; and an explosion occurred in the Sanatan Dharam school at Cawnpore. Early in June

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Cawnpore was the scene of a couple of further outrages, two constables having been shot when attempting to effect arrests, and a bomb having gone off in the railway station. In the same month bombs were flung and shots discharged at a Moslem cloth dealer in Lucknow, and a policeman was killed by a bomb in Patna. During July there was yet another murderous assault at Cawnpore, and within the last week there has been the deplorable revolver attack on the acting Governor of Bombay, in a college at Poona, and the even more deplorable demonstration made against him by the students afterwards, followed by the stabbing of two British officers in a first-class compartment of the Bombay express.\* In some quarters there has been a tendency to attribute most of these outrages to the extraordinary emotional reaction evoked throughout the country by the execution of the notorious terrorist Bhagat Singh in March ; but that this is not the true explanation, and that the real causes lie deeper, is indicated by the fact that despite the attempts of the extremist press to belaud Dinesh Gupta, the murderer of Colonel Simpson, and Hari Kishen, the assailant of the Governor of the Punjab, as national heroes, no particular excitement occurred when they went to the scaffold.

### V. FINANCE

WE may conclude this article with a paragraph on the lugubrious subject of finance. For the last eighteen months or more the revenues of the central government have shown an extensive and persistent decline ; receipts from income tax have fallen off sharply ; customs during the second three months of the year, despite the increase in the duties, have yielded only Rs. 10.42 lakhs as against Rs. 12.33 lakhs during the corresponding period of 1930 ; and the gross earnings of State-owned railways during

\* Since this article was written, Mr. Garlick, a Calcutta Sessions Judge, has been shot dead by a young Bengali in his court.

## Finance

April, May and June this year are estimated at Rs. 22.19 lakhs, as compared with Rs. 25.34 lakhs in 1930 and Rs. 26.04 lakhs in 1929. Most of the provincial governments are in a similar plight, and numerous committees have now been set up to suggest means of reducing expenditure. The general effect of this depression and uncertainty on the propertied classes has been extremely unsettling, and particularly so on the British residents in India. Their prevalent attitude is one of helpless and cynical pessimism. The commercial community is in grave financial straits ; profits as a rule have steadily declined since the autumn of 1929, and as yet there seems no sign of improvement. Moreover, numbers of British merchants are convinced that many of their troubles are directly attributable to the civil disobedience movement, which, they believe, need never have occurred but for the weakness of the Government ; and they have grave apprehensions of the exercise of commercial discrimination against them under the new constitution. As regards Europeans in government employ, the retrenchment campaign, coming on top of the decision that the ultimate responsibility for the administration of this country shall henceforward be transferred to Indians, has caused very serious unrest. Many have good reason to doubt the safety of their jobs or their prospects ; and those whose position is more secure, but who are still some way from earning their pensions, are asking themselves whether existence in India will be tolerable for an Englishman when he is exposed to the irritations and perhaps injustices which he may expect at the hands of nationalists rejoicing in the exercise of their new powers.

India. July 26, 1931.

NOTE : On August 13 the Congress announced that, as the Government of India refused arbitration upon alleged breaches of the Delhi Pact by provincial governments, Congress would not be represented at the Round Table Conference, and Mr. Gandhi cancelled his passage. The Congress, however, apparently regards the Pact as still in force.—EDITOR.

## GREAT BRITAIN: THE NARROW WAY?

### I. THE ECONOMY PROBLEM

EVENTS have moved rapidly in this country during the past three months, and the country finds itself faced with a situation which, although it merely reflects an intensification of previously existing factors, is new in the sense that it has been freshly and dramatically brought within the knowledge of the public. For a long time Parliament, under the lead of the Government for the time being, has proceeded on the assumption that the national resources could stand moderate and progressive increases of the strain to which they have been continually subjected during the past decade. Those who have proclaimed the existence of a great and growing emergency have more than once received the assent of Mr. Snowden, but no action on the scale required has yet followed these warnings. Mr. Snowden has, no doubt, effectively resisted many extravagant suggestions, but it is obvious that concessions have had to be allowed here and there, few of them very expensive in themselves, but collectively sufficient to require a large increase in the national liabilities and a considerable increase in actual taxation. The policy of the Government has apparently remained based on the assumption that, although the state of trade and of the national finances was disquieting, there was time for the postponement of decisions pending inquiry, that there was some hope of matters righting themselves, and that meanwhile the nation could afford a modest

### The Economy Problem

programme of expansion in the social services and a large programme of palliative relief works. If these assumptions existed, they have been subjected to three severe shocks.

An early blow to complacency was administered by the Treasury evidence before the Royal Commission on Unemployment Insurance,\* and by the interim report of that body. The second shock was the doubt thrown, in the course of the mid-European financial crisis, upon the capacity of the Bank of England to maintain the pound sterling at its full international value without crippling losses of gold, and upon British credit generally. The third shock came with the calculations and suggestions of the Economy Committee, appointed last March at the instance of the House of Commons—Mr. Snowden's remark that he could write its report himself in advance will be within the recollection of our readers. The situation can best be described by a brief analysis of these three events.

#### *The Unemployment Insurance Commission*

The appointment of the Royal Commission arose out of the Government's recognition of the need for putting the Unemployment Insurance Fund on an insurance basis. The easiest course was to go on paying benefit from the Fund as long as its resources held out, borrowing the balance required to pay claimants on it, and using the proceeds of national taxation to pay benefit to those unemployed who could not qualify to draw it from the fund. Miss Bondfield had admitted that to go on borrowing would be dishonest, but the alternative of confining the insurance system to the proportion of the unemployed that the fund would support, and dealing with the rest by some new form of poor law, raised a prospect which it was extraordinarily difficult for any Government, and particularly for a Labour Government, to face. A Royal Commission, however, was appointed to face it and pressed

\* See THE ROUND TABLE, No. 82, March 1931, p. 381.



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to issue an interim report. This report\* was published on June 5. The Commission calculated, on the basis of 2,500,000 unemployed, that the total cost of the unemployment benefit scheme this year would be about £119,000,000 (of which £89,300,000 must be met by the Exchequer); the Treasury witness had shown that borrowing to meet the deficit on the fund now practically cancelled out the Sinking Fund, and that the national accounts were beginning to present "the ordinary and well-recognised signs of an unbalanced budget." The majority report† recommended an increase of contributions, a reduction of benefits, a limit of the insurance benefit period to 26 weeks in any one year, and the application of special tests to claimants belonging to certain classes. These recommendations were expected to reduce the cost (including debt) falling on the Exchequer by £30,000,000 a year. As a whole they were at once widely denounced in Labour circles, and the Trades Union Council prepared to launch a campaign against the report. The Government, however, decided to wait for the final report of the Commission, which may be expected towards the end of the year; and took no action, except to produce a Bill dealing with certain anomalies in the insurance system. This Bill proposed to allow the minister to draw up regulations governing the grant of benefit to certain classes of claimants, namely short-time, seasonal and intermittent workers, and married women, the broad effect of which would be that no person within the classes affected should draw benefit if at the same time he were earning substantial wages for broken periods of work or, in the case of married women, unless sufficient contributions had been paid after marriage to show that the claimant was really in the labour market. The Bill did not pretend to be a general reform, and concessions made to the Labour left

\* Cmd. 3872.

† Two members signed a minority report, objecting to the increase in workers' and employers' contributions, the reduction of benefits, and some of the other recommendations of the majority.

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wing during its passage much reduced its scope. At the very most, it will affect a few hundred thousand people out of the 2,700,000 on the register, and effect a saving of a few million pounds on a cost of over £100,000,000. It contained, however, an interesting administrative innovation whereby employers and employed, as being directly interested in unemployment insurance, are brought in to serve upon a new advisory committee which is to help the minister in framing regulations. This piece of machinery, although restricted by the Bill to so small a field, may well prove to be an essential part of the general reform of the system. But meanwhile Labour opinion has left no room for doubt that general reform on the lines laid down by the Committee is unacceptable to them, even though its absence involves an unbalanced budget.

### *The Mid-European Crisis*

Another and still more unmistakable warning of the supreme importance of maintaining British credit was given by the precipitation of a financial crisis in central Europe. The crisis began with the revelation that the biggest financial institution in Austria, the Credit-Anstalt, was in serious difficulties, and it had to be tided over by prompt assistance from the Central Banks, including the Bank of England. Meanwhile signs of even greater difficulties were becoming apparent in Germany. Directly he was convinced of the imminence of the danger, President Hoover suggested that all inter-governmental payments arising out of the war should be suspended for a year. The British Government at once accepted the suggestion, though it involved an extra burden upon the British taxpayer of about £11,000,000. The announcement of the President produced a distinct improvement in the situation, though its general acceptance was delayed for some time, and its psychological benefits were gravely diminished, by the reluctance of the French Government to grant so great a measure of relief to Germany

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unconditionally. Meanwhile a general financial collapse in Germany was only averted by the closing of the stock exchange and the banks. These events are dealt with more fully elsewhere, and it is only necessary to say here that the effect of these disturbances was to incline holders of liquid international assets, many of which take the form of balances in London, to call in their money. The pound sterling was unsupported by any improvement in the trade balance or by any attempt to restore budgetary equilibrium. The Bank of England lost £30,000,000 of gold in a fortnight. The bank rate was raised in two stages from  $2\frac{1}{2}$  per cent. to  $4\frac{1}{2}$  per cent., and this effectually diminished the outflow of gold. But to give Germany a breathing space it was clearly necessary that foreign balances, including British balances, should not be withdrawn from that country, and obviously British balances might have to be withdrawn unless the pound were supported. On August 1 it was announced that the Federal Reserve Bank of New York and the Bank of France had opened a credit of £50,000,000 in dollars and francs for the Bank of England. At the same time the Bank obtained permission to make a small increase in the fiduciary issue. Mr. Snowden confessed in the House of Commons that the difficulties with which the City was struggling, involving as they had a rise in the bank rate and in the rate of Treasury Bills, had prevented the launching of a huge debt conversion operation which would have resulted in a large saving of interest. Only an improvement in British credit can make possible a profitable conversion on a large scale, and even before the crisis British credit was weak. The rate at which the Government could borrow for a short term was really no criterion, since it reflected the insecurity of other forms of investment and the general downward trend of interest rates during a slump. In the debate during which Mr. Snowden made his announcement the situation was summed up in very similar terms by himself and Mr. Chamberlain, both of whom pointed out that British

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resources were still enormous, but that British credit must be maintained by a balanced budget.

### *The Economy Report*

It is still too early to say whether identity of expression means identity of views upon what is a balanced budget and how the budget is to be balanced. All that is certain at the moment is that the budget presented last April has been wholly belied by present circumstances, and that the budget for 1932-33 will present a very difficult problem. These facts were brought home by the report of the Economy Committee, issued on the very day that Parliament adjourned. The majority estimate that next year the gap between revenue and expenditure (including normal provision for debt redemption) will be £120,000,000. This figure allows nothing for the anticipated deficit on this year's budget, which other authorities have put at £50,000,000, and which ought, according to the generally accepted principles of British public finance, to be carried forward and made good next year. On the principle that sufficient unto next year is the evil thereof, the report proposes to fill most of the gap of £120,000,000 with economies totalling £96,578,000, a figure which would balance the current items of the budget and leave some £30,000,000 for the sinking fund. It should be noted that specific sinking funds attached to the terms of different loans total considerably more than this figure, and that on the estimate of the majority report the Government would have to borrow to pay off debt even if the proposed economies were effected. The report observes that although the cost of national defence has been cut to the bone, about £4,000,000 more can be pared off, chiefly from the pay of the personnel of the fighting services. It declares that, broadly speaking, the pay of civil servants is not too high for what they have to do—a timely answer to those who imagine that our troubles are due to the cost of the bureaucracy and not to the policy which the bureaucracy has to carry out. But it relies

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mainly upon cuts in the social services, its largest recommendations involving a reduction of the Exchequer contributions by £66,500,000 for unemployment insurance\* and £14,000,000 for education. The only other suggestion which would mean any large financial change was that the Road Fund should cease to be a separate account, and that expenditure upon the schemes which it finances should be reduced by nearly £8,000,000. There are, in addition, a large number of suggestions designed to prevent expansion of the cost of existing services in future years.

The scheme of economy thus outlined is admittedly distasteful; but the signatories of the majority report may ask with reason whether there is any less distasteful alternative to the prospect of continued budgetary deficits. Their own scheme has not escaped criticism. One of their proposals—in which the minority concur—is to abolish the Empire Marketing Board. That body, which cost some £600,000 last year, was set up in accordance with an agreement with the Dominions, and its work has been much appreciated by them; it is the only piece of inter-imperial machinery devoted to constructive economic purposes. Again, the £66,500,000—more than two-thirds of the total economies suggested—to be saved on Unemployment Insurance is not all genuine economy. About £17,000,000 is merely transferred from the general taxpayer to industry in the form of increased contributions and of contributions from industries previously exempt from compulsory insurance. The main criticism, however, of the scheme is that it fails to include the principle that the amount of contributions should have an actuarial relation to the amount of

\* The recommendations of the Economy Committee on this point differ substantially from those of the Unemployment Insurance Commission. Larger increases of contributions and larger decreases of benefits are proposed than the Commission thought fit, and other proposals differ widely. It should be pointed out, however, that two members of the Royal Commission thought the changes designed to relieve the burden on the national finances might reasonably have been carried further, and that the Commission's report was not a final one.

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benefit obtainable. But in support of their proposals the Committee are able to adduce three principles which it is difficult to question, namely, that the rise in the value of money provides a strong *prima facie* case for the revision of money obligations fixed under other conditions, that existing financial difficulties make it necessary for the nation to consider seriously what it can afford and not merely what is desirable, and that only by the strictest regard to economy and efficiency can trade be restored to prosperity and unemployment substantially diminished.

The signatories of the minority report, the two Labour members of the Committee, contend that a contraction of the social services is false economy. They consent to some reductions in the salaries of teachers, but they refuse to ask for any sacrifice from the recipients of public bounty; at least until a corresponding sacrifice is exacted from the holders of government loans. The minority report does not view the prospect of an unbalanced budget with indifference, but it thinks that, failing economy in the service of the debt, the gap can and should be filled by fresh taxation, and it selects the "holders of fixed incomes" as the proper persons to bear the new burden, because they have profited by deflation. The minority report does not give figures showing what the results of its proposals would be, but so far as can be calculated such incomes would have to bear an extra charge of over three shillings in the pound, and although it would not be true to assume that the capital value of fixed interest-bearing securities would fall in corresponding measure, yet it would probably suffer a sufficient depreciation to react seriously on the yield of death duties and on the value of company reserves. The minority report likewise admits, though it proposes no method of avoiding, the injustice of treating all the holders of such securities alike, no matter when the purchase was effected. The injustice may nevertheless be very striking. A person who bought 2½ per cent. Consols thirty years ago has suffered a capital depreciation of about 40 per cent., while there are other

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holders who have bought government stock at the top of the market this year.

The issue of these reports has once again brought to the front the old suggestion of a National Government. Its adherents are rightly convinced that there is very little prospect of substantial economies being effected except upon the responsibility of Parliament as a whole ; but they have hardly thought out their case. The reports do not increase the chance of an agreed policy. On the contrary, they throw into sharper relief the contrast between the Labour and the anti-Labour schools of thought. The minority report not only repudiates the idea of balancing the budget by lowering expenditure, but also, by implication, repudiates the raising of more revenue by indirect taxation such as a revenue tariff. All talk therefore of the formation of a National Government, or even of an economy bloc, is premature until the Labour party and the Labour Government declare whether they mean to stand by the principles of the majority report or by the principles of the minority report. The Government have appointed a Cabinet Committee to consider the report ; and they will have to show their hand, before Parliament reassembles, at the party conference in September.

### *Party Alignments*

Our financial and economic dangers may produce a new alignment of parties ; but at the moment there has been no substantial change. Three Liberal members of Parliament—Sir John Simon, Mr. Ernest Brown and Sir Robert Hutchison—have openly broken away from the official Liberal policy of supporting the Government, and some twenty more are believed to be restive. But enough of the party remain definitely more attached to the radicalism of the Government than to conservatism, and it looks as if the Government would be kept by them in office so long as it can keep its own followers in order. The threat from Sir Oswald Mosley's New party appears to be

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diminishing, and two of its six original members have already abandoned it. The Independent Labour party shows even more reluctance to turn the Government out than to endorse its policy. A Parliament whose continuance depends on a nice balance of political interests has naturally proved rather ineffective. The Government during the financial crisis lost none of the prestige which it has gained in the sphere of foreign affairs, but its record on the domestic side during the past three months is certainly not impressive. Most of Parliament's time has been spent on the land tax clauses of the Finance Bill. That proposal finally emerged with its scheme for the valuation of land practically unimpaired, but with the tax itself reduced to negligible proportions, at least for the first year of its incidence (1933-34). Mr. Snowden agreed to further large exemptions—notably to exemption of the property of educational institutions, and of most playing fields and open spaces—and he further consented to reduce the tax on developed property in response to a Liberal agitation which threatened at one time to prove dangerous. He retained, however, the principle of taxing all privately owned land. Other legislation which has reached the Statute Book includes the Land Utilisation Bill, over which the Government had to compromise with the House of Lords by dropping the provision for large-scale State farming ; and the Agricultural Marketing Bill, which lends statutory powers of compulsion to marketing schemes which are approved by a substantial majority of the interests concerned, has also been passed. The Rural Housing Bill sets up a committee to provide some 40,000 labourers' cottages by offering an extra subsidy of a capital value of £2,000,000 and is the fruit of the Government's acceptance of Liberal pressure to adopt an intensive housing programme. The Electoral Reform Bill, which provides for the "alternative" voting system and the abolition of plural voting, has not yet been passed, having been practically destroyed by the Lords. The Government will

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have to decide whether to negotiate a compromise or to introduce it again under the Parliament Act, but the Bill has lost much of its political relevance. If it was brought forward by Labour in the hope of securing a reversion of Liberal votes in the constituencies, recent by-elections seem to show that the vote has become smaller and that it is not very readily transferable to Labour candidates.

The quarter under review has been remarkable for the development of a supreme financial and economic crisis. It needed no committee's report to emphasise the urgent necessity of decision, and the return to London from their holiday of the Prime Minister and several of his colleagues, and also the visit of Mr. Baldwin, Mr. Chamberlain and Sir Herbert Samuel to Downing Street, indicate as we go to press that the necessity is realised. The Prime Minister has declared that the budget is to be balanced ; but he did not say to what extent it is to be done by economies and to what extent by means of fresh taxation, and at the moment of writing it is impossible to tell.

## II. INDUSTRIAL RELATIONS

NO light has come to dispel the industrial darkness. The outlook in the summer months was almost uniformly unfavourable. The seasonal improvement was short-lived, and the indices of industrial activity gave little ground for hope of early revival. But the deepening of the depression has, so far at any rate, been accompanied by no serious rupture of industrial relations. From the clear cut views expressed by such bodies as the National Confederation of Employers' Organisations earlier in the year, it might have been supposed that the reduction of manufacturing costs by drastic wage reductions was the first thought of organised employers. But in actual negotiations their policy has proved by no means so ruthless or consistent. The pace of the wage reduction movement

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has not been rapid, and the disposition towards conciliation has markedly affected the character of the compromises that have been reached.

The extent to which wage reduction has gone is not easy to measure. The Ministry of Labour's statistics show a reduction of £222,000 in the weekly wage bill in the first six months of this year ; some 2,000,000 workpeople, it is computed, have lost on an average 2s. 3d. a week, or about 3 per cent. In most of the trades affected reductions appear to have been of the order of 2 to 5 per cent. ; the largest cuts have been in the pottery trade (10 per cent.) and in the textile trades. The general average for all workpeople was, however, little changed by the movements of the first half of the year. Professor Bowley's index number, based on a number of selected industries, shows a fall of  $1\frac{1}{4}$  per cent. in the six months, which agrees closely with the  $1\frac{1}{2}$  per cent. fall in the index of the Trades Union Congress Research Department. The Ministry of Labour's estimates, based on a wider range, give the average of weekly full time rates in June as 70 per cent. over 1914 (compared with 70-74 per cent. in 1930), and of hourly rates at 90-95 per cent. (compared with 90-100 per cent.). From December 1924, to June 1931, there was, according to Professor Bowley's index, a fall of 3 per cent. in the level of wages, while the cost-of-living index number fell during the period by 16 per cent.

The gravest crisis of the last few months was in the coal industry, and it was not the direct consequence of the depression. Its date was settled by Parliament in 1926 when a five years' term was set to the Eight Hours Act. The Labour Government's Act of 1930, which reduced hours to  $7\frac{1}{2}$ , still left the alternatives of a reversion to the 7-hour day on July 8 or fresh suspensory legislation. In spite of three months of negotiation between owners and miners, there was the inevitable breakdown at the last minute and the inevitable government intervention. The owners were prepared, as the price of the indefinite

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continuance of the 7½-hour day, to guarantee present wages for twelve months. The miners wished for an assurance that at the end of this period wages would be protected by some form of national joint authority. After much delay the owners screwed themselves up to offer that a joint committee should meet periodically. This certainly marked an advance on their earlier attitude towards national negotiations, but there were strong forces among the miners against such a compromise. South Wales, smarting under the wage reductions of the Schiller award in March, demanded legislation to secure a cost-of-living wage; Yorkshire insisted that, whatever the consequences, the Government must implement its pledge to restore the 7-hour day. The Government cut the knot by rushing through legislation, which had the reluctant consent of all parties, to continue the 7½-hour day at current wage rates for twelve months. The Act was recognised to be a makeshift which settles nothing. If things go badly it merely sets the stage for a new crisis, with all its hampering effects on export trade, next July. But there are grounds for hoping that for once the industry may be able to avert a crisis by its own efforts. The Convention adopted by the International Labour Conference in June lays down a 7¼-hour day (British reckoning, or 7¾ hours, Continental reckoning), and the British miners are prepared to wait until it can be brought into force by the principal coal-producing countries; the political demand for the 7-hour day is dead. Then there is a notable advance towards conciliation on the part of the leaders of the Miners' Federation, of which encouraging evidence was given by the speeches of Mr. E. Edwards, the new president, and Mr. A. J. Cook, the secretary, at the Blackpool conference in July. A third point of importance is that hours are now, for the first time since the stoppage of 1926, the same in all districts. The adjustment was made at the cost of some loss of wages where the "spreadover" was abandoned, but the path is smoothed for future negotiations.

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Of the larger movements for wage reduction, that in the engineering industry followed an uneasy course until, faced by a virtual ultimatum, the unions accepted modified terms. The new agreement, which operates from July 6, reduces piece rates by 6½ per cent., reduces overtime and nightshift rates, and adds to the employer's incentive to work a shift system. The proposals of the shipbuilding employers were devised with some ingenuity to obtain greater uniformity of rates among time workers and to scale down piece rates and lessen the long-existing disparity between time rate and piece work earnings. The unions rejected the proposals but reconsidered them under threat of their enforcement. The industry is in a desperate state. The orders received by British yards in the first six months of 1931 were the least ever known, both in numbers and tonnage.

At the time of writing, negotiations about dockers' wages continue, and it is doubtful how far Mr. Bevin is prepared to carry his view that resistance to wage reductions is the workers' means of bringing pressure to bear on monetary policy. In this, as in other industries, heroic courses are hardly, perhaps, to be looked for. In general the events of the last few months have reflected the strength of collective bargaining, but the Yorkshire woollen and worsted industry forms an exception. The operatives' refusal last year of Lord Macmillan's award of reductions of about 9 per cent. led to the collapse of the Joint Industrial Council and of general agreements. A large section of the employers has now imposed a further reduction of 11·7 per cent. The unions found only slight support for a proposal to strike, and have fallen back on the demand that the Minister of Labour shall set up a trade board. This raises an interesting point, for although the wages of some operatives may now be below trade board rates, they may still, in terms of the cost of living, be above those of 1914. But, wages apart, it is to be noted that the industry has made no progress towards the rationalisation that it appears to need.

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The cotton industry, on the other hand, is moving slowly, but not altogether unhelpfully, towards important measures of internal reorganisation. The weavers' opposition to the "more looms" system—under which the operative runs more looms than the customary four—has become greatly modified in the six months that have passed since the lock-out.\* They were able to prevent the general adoption of the system; they were not able to prevent its operation here and there by non-union labour. Now, in sheer self-defence, the unions are being compelled to recognise that if they do not make their peace with the system, the unemployed operatives will work it in spite of them. But educational influences have also been potent. The operatives' leaders who visited the Far East and saw the ruins of Lancashire's great trade have brought home the truth that there are worse things than a disturbance of tradition and habit. Meanwhile, the sectional organisations of the industry, acting through the Joint Committee of Cotton Trade Organisations, have agreed in principle on a scheme for the reduction of capacity by the scrapping of surplus plant. This will require statutory sanction for the raising of a compulsory levy to be used for the extinction or sterilisation of redundant machinery in all sections of the trade. Should the scheme go through—on that it is too early to speculate—it should help to strengthen the other efforts at reorganisation which are necessary if costs are to be reduced and markets regained. The regulated contraction of the industry to a more economical size is put forward as the first step in a common effort, which includes the creation of more large-scale units, better organisation of distribution, co-operation in the revision of wages lists and trade customs, improvement of technique and efficiency through the application of scientific method, better statistics, propaganda and so on. Whatever else may be said, the cotton industry does not suffer from lack of good intentions.

\* THE ROUND TABLE, No. 82, March 1931, pp. 392-396.

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There has been a further acquisition of eight shipyards on the north-east coast, which are to be scrapped under the shipbuilders' scheme for the reduction of capacity. The Coal Mines Reorganisation Commission has completed its preliminary survey of the coalfields and strongly advocates the concentration of production by means of large-scale amalgamations. It suggests that amalgamations of entire districts should be aimed at, although the first tasks that it sets the coalowners are more modest. A strong criticism is made of the effects of the quota system (set up under the Act of 1930) in maintaining weak pits in production. The reception of the report has been mixed; the Secretary for Mines has expressed misgivings about the social consequences of shutting down mines, and the familiar objections to amalgamations on the part of some coalowners have been revived.

It is, however, suggestive that in these three industries the weight of opinion lies in favour of radical surgical operations to reduce them to a scale consonant with their lessened importance in international trade. In each there is the idea of conscious planning on a large scale. The same thought runs through the reorganisation proposals of the trade unions in the iron and steel industry; it is implied in the Macmillan Report; and it is to be developed by the Trades Union Congress in September. The items on the credit side of our economic balance sheet are slender, but this trend of thought can certainly be put among them.

## IRELAND : EVENTS IN THE FREE STATE

### I. POLITICAL

A SUPERFICIAL observer of the present political situation in the Free State might be pardoned for believing that events were pursuing a normal course and that complete stability had been reached. Such a conclusion would not, however, be entirely accurate. It is true that Mr. Cosgrave's Government has now been in office for nearly nine years, and that during this period it has established law and order, immensely improved our economic condition, completed land purchase, developed our agricultural industry and our natural resources, and placed our national finances upon a firm and stable basis. Recent events, however, prove that the old demon of political unrest is still alive and that there are still disgruntled elements who would revive the rule of the gun if opportunity offered. It is notorious that in some parts of the country there has lately been a renewal of drilling, a reorganisation of the so-called Irish Republican Army, and that arms have been imported along our south-west coast. Quite recently two students were fired on and wounded in the Dublin mountains, and, as a result, an armed post of the detective force was established at Killakea House above Rathfarnham. Whilst searching the vicinity they discovered a carefully concealed cave containing many hundreds of rifles, two Lewis guns, thousands of

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rounds of ammunition, automatic pistols, fuses, detonators, and military literature. *An Poblacht*, the extremist weekly, boasts that this is only one of a hundred similar dumps scattered over the country. Nor are these manifestations confined to hidden munitions of war and secret conspiracy.

The annual commemoration ceremonies at the grave of Wolfe Tone have furnished occasion for a display of a more public nature. This Protestant leader of the United Irishmen, although an anti-clerical freethinker inspired by the French Revolution, has during recent years become the patron saint of our extreme nationalists. Since the Treaty of 1921 the Government has commemorated his death by a military march past the graveyard in Bodinstown, County Kildare, where he is buried, and Mr. de Valera's party by a political meeting held at a different hour in the same place on the same day. The remarkable feature of this year's demonstration was that Mr. de Valera's followers apparently arranged to hold a joint procession with the more extreme Republican Army. Military orders were published in the papers, special trains were arranged to convey the various commandos from different parts of the country at reduced fares, and a march past worthy of the occasion would no doubt have taken place. Unfortunately for this well-planned scheme, the Government, late on the previous night, ordered the railway company to cancel the special trains, and the demonstration, thereby reduced to attenuated proportions, was prohibited by the Civic Guard from indulging in military evolutions. The organisers have since been prosecuted and returned for trial under the Treason Felony Act. One would have thought that Mr. de Valera had already suffered sufficiently from association with military conspiracies over which he has no control, but, like the Bourbons, he apparently learns nothing and forgets nothing. His action on this occasion illustrates only too well his fatal weakness in dealing with the threats of armed men no matter how small or impossible the element they represent.



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The demonstration at Bodinstown was of course also useful as a side-show in the Kildare by-election, which has just taken place owing to the death of one of the Labour deputies representing that constituency, and resulted in the election of Mr. Harris, the Fianna Fail candidate, by a majority of 509 votes over Mr. Conlon, the Government nominee, the Labour candidate being a bad third. Kildare is one of the few eastern constituencies in which Mr. de Valera's party have a firm hold, and in the two last general elections the Republican candidates were at the top of the poll. The result was therefore expected, as the Government candidate was attacking a definitely hostile position, and Irish voters do not quickly change their opinions. Moreover the prevalent agricultural depression, the partial nature of the Government's de-rating scheme, the removal of the large English garrison from the Curragh and the existing dispute between the beet-growing farmers and the Carlow sugar factory, both of which seriously affect the district, all handicapped the Government candidate. By-elections in a relatively poor country like Ireland are really a serious waste of time, energy and money, and Mr. Cosgrave suggested at an early stage in the life of the present Dail that casual vacancies might be filled by allowing the party to which the outgoing member belonged to nominate a successor without opposition, but the other parties would not agree to this course. A possible solution of the difficulty would be to fill casual vacancies between general elections in accordance with the Tasmanian practice. In Tasmania the ballot papers are preserved, and, in the event of a vacancy, the vacating member's quota of ballot papers is re-examined and the candidate who polls a majority of the next choices thereon is elected to fill the vacancy. This system has now been in operation for some years, and seems to give complete satisfaction.

Another occurrence which indicates the condition of the country is the fact that the Government has found it necessary to re-enact for another two years the Jurors

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Protection Act of 1929,\* which in the ordinary course of events would have expired in September next. The necessity for this Act arose from the fact that jurymen had been intimidated, and that one jurymen had actually been fired at in an attempt to murder him. There is little doubt that the revival of violent methods is designed rather to intimidate voters at the next general election than to promote armed rebellion. If the voters had sufficient pluck such threats might easily have the opposite effect to that intended, but unfortunately moral courage is not one of our national virtues.

It is understood that the Government also intend to introduce a Bill which will give the police larger powers of dealing with conspiracy against the State, and this is sure to be strongly opposed by the Fianna Fail party. There are of course many other things which will operate against the Government when the election takes place. For instance, under English rule the income tax code in Ireland was administered in an extremely lax and generous manner, and evasion was an easy matter. Since the Treaty the Irish income tax officials, with a more extensive knowledge of our national characteristics, have left no stone unturned to make the taxpayer pay up, often to the extent of compelling repayment of arrears which our present Government, in its pre-treaty existence, had ordered him not to pay. Nor has open and honest confession of past misdeeds always led to speedy absolution. It is even rumoured that a leading member of the Government had to pay the arrears of income tax due from a distinguished member of the Catholic hierarchy upon whom the revenue bailiffs were about to descend. This procedure, whilst no doubt entirely legal, has led to considerable bitterness and inspired many voters of neutral views with a dislike of the Government sufficiently strong to destroy their sense of values. They may no doubt have time to repent at leisure if they

\* See THE ROUND TABLE, No. 76, September 1929, p. 823.

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have to suffer the numerous imposts which will be necessary to finance Mr. de Valera's policy.

Another source of irritation has been the administration of the old age pensions scheme, which is now enforced according to the strict letter of the law. No longer can aged farmers, as in the old days, assign their farms to their sons, and thereafter enjoy the old age pension. Having regard to the slender majority that the Government now commands, and the undoubted fact that Irish voters do not easily change their opinions or parties, it is almost certain that the result of the next general election—which is not likely to take place before its allotted time in September 1932—will depend on whether these official activities have alienated a sufficient number of voters to wipe out the present Government majority. It is a question very difficult to answer at present.

Another serious cause of annoyance is the activities of the Local Appointments Commission,\* and of the Minister for Local Government, General Richard Mulcahy. This Commission, which is an impartial and efficient central body, has virtually, except in cases of promotion, complete control over local government appointments, and has discharged its duties admirably. Its creation was one of the Government's best and most courageous acts, but its methods clash with one of the oldest Irish institutions—the clan system—by which appointments of this nature in the past went to the candidate with the greatest local influence, often entirely regardless of his merits. The new system, under which a clever son of a Donegal labourer may easily be appointed a dispensary doctor in the County Cork if he is the best qualified candidate for the position, has effected something approaching a social revolution—a revolution which will, if it is not upset, eventually give us a first class local government civil service. The most recent disturbance it has caused is due to the appointment

\* See THE ROUND TABLE, No. 64, September 1926, p. 820; No. 69, December 1927, p. 152; and No. 72, September 1928, p. 821.

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of Miss Dunbar-Harrison,\* a Trinity College graduate, as librarian in County Mayo, an appointment which led to the dissolution of the Mayo County Council. The latest repercussion of this event has been the moving of a vote of censure on the Government in the Dail, and the fact that this motion was moved by Mr. Davis, T.D., the chairman of the Cumann na nGaedheal, or Government party, who is also chairman of the dissolved Mayo County Council, indicates the strength of the forces arrayed against the Government on this question. The vote was moved on the second stage of a Local Government Bill designed to validate the result of certain actions taken by the Minister when the Dublin Borough Council was dissolved in 1929, and, although it was defeated by a majority of eleven, it gave the opponents of the Government policy an excellent opportunity of making a protest. It transpired during the debate that, owing to the political and religious boycott of the library service in Mayo since Miss Dunbar-Harrison's appointment, four centres are in operation as compared with 112 last December. Mr. de Valera stated that the policy of his party was that the Catholic majority was entitled to have Catholic librarians and Catholic doctors, and that this was a fundamental teaching and a fundamental matter for Catholics. There is no reason why this doctrine should not be extended to cover all other occupations, and as regards public appointments it might be more honest to state openly that no Protestant need apply. No charitable or honest Catholic can subscribe to such an unchristian doctrine, nor will any responsible Catholic authority proclaim it as fundamental. It is regrettable that Mr. de Valera, who is at least acquainted with the tolerant traditions of Irish nationalism, should seek to catch votes by playing to the gallery in this way. The whole Mayo agitation is inspired by purely local interests, and it is noticeable that the Irish Catholic hierarchy has taken no action in support of the local bishop and clergy, who have

\* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*

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been most vociferous in the matter. General Mulcahy, when replying for the Government, pointed out that it was strange that a Protestant librarian was a danger to the faith in Mayo and not in other counties where similar appointments have apparently given complete satisfaction, and that he intended to administer the law without fear or favour.

The Town Tenants Bill\* is still under consideration by the Dail, and its provisions seem to be disliked by both tenants and landlords, which may be an indication that it is both just and reasonable. Senator Sir John Keane, who is the town landlords' spokesman, speaking at their annual meeting, denounced the measure as taking away from free men the right to act as they wished in open contract regarding their property, bringing the fixing of rents and contracts within the purview of the courts, and so destroying that flexibility in relation to property dealings which, he believed, was the essence of all progress. No doubt he will have more to say when the Bill reaches the Senate.

The status of the Free State still continues to exercise the minds of our politicians. Speaking recently in Dublin, Mr. McGilligan, Minister for External Affairs, pointed out that our task was two-fold—to cultivate good relations, in the first place with the members of the Commonwealth, and in the second place with the principal States of the world. Our past history and our urgent national needs necessitated the early adjustment of our relations with Great Britain and the other States of the British Commonwealth. We could not, and we never should, be satisfied with any form of subordination to an external authority. Co-equality was our aim, and he thought that we could say with truth that co-equality has been our achievement. The treaty with Great Britain achieved one great object, the right to develop and evolve on constitutional lines, until every shadow and trace of external rule had been

See THE ROUND TABLE, No. 83, June 1931, p. 620.

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eliminated. Every evil died hard, and there were still those in obscure places who desired to perpetuate the old discords and to retain—for sinister purposes—some elements of the old control. Such people had no care for the interests of this country, nor for those of Great Britain. Every element of continuing control became a festering sore, and the people of these two countries had every right to regard as enemies those who were blind enough to advocate the continuance of any institution whose authority was derived from sources external to the Irish people. This obvious reference to the question of the right of appeal to the Judicial Committee of the Privy Council was emphasised more bluntly by Mr. Cosgrave when speaking at the annual convention of the Government party on May 5. We had, he said, made it clear that the growth of friendly relations between us and Great Britain depended upon the complete elimination, in form as well as in substance, of any appearance of inequality. The process of eliminating these difficulties had been going on steadily since 1922. It had not been without difficulty. The main question still outstanding between us and Great Britain was the Judicial Committee of the Privy Council. Appeals to that body from our Supreme Court were an anomaly and an anachronism. Their continuance was incompatible with our status and an insult to our dignity and our sense of fair play. In the interests of both countries, and of their better friendship, this appeal must disappear, and soon.

Mr. de Valera's latest excursion into foreign affairs has been an abortive and ingenuous question in the Dail as to whether, in view of the likelihood of President Hoover's proposal for a moratorium in connection with international payments being accepted, the Government is taking steps to see that proper representations are made to secure that the land annuities and other sums totalling over £5 million, sent by us annually to England, are included in the category of payments to which the moratorium will apply.

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With his usual unconscious humour he added the saving clause : "without prejudice to our conviction that these payments are not justly due." What the payment of land annuities, most of which are due since 1903, has to do with war debts no one but a person of Mr. de Valera's mentality can conceive. It is pleasant, however, to record that the Dail was for once unanimous in approving the adherence of the Free State to the General Act for the Pacific Settlement of International Disputes, which Mr. McGilligan brought before that assembly on June 26. He was even able to satisfy the Fianna Fail party that the delay in doing so was not due to any occult trickery for the purpose of securing the support of Great Britain and the other Dominions for the election of the Free State to the Council of the League.

During June a Treaty of Commerce and Navigation was signed in Dublin between France and the Free State. On this occasion Mr. McGilligan emphasised the fact that France was our oldest friend among the nations and that French soldiers shed their blood here fighting with us against England, who was then our common enemy and has since become our common friend. Many thousands of Irish soldiers had also fought and died in the armies of France on the continent. This treaty was a further step towards renewed co-operation and friendship in a new and better sphere of action. He also paid a warm tribute to M. Alphand, the French Minister in Dublin, who in a short time has become one of the most popular members of the new diplomatic corps. The treaty gives certain concessions to French products, principally wine, in return for similar concessions to us, one of which will facilitate the export of Ford tractors from Cork. To counter-balance these manifestations of affection for France, Mr. McGilligan, after the meeting of the League Council at Geneva, also paid a visit to Berlin, where he received a warm welcome. All these interchanges of international courtesies are excellent. They help both to establish our

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self-respect and to bring us once more into direct touch with European affairs.

A recent article in *An tOglac*, the Irish army quarterly, which is obviously written by a member of the Government, probably Mr. Blythe, Minister for Finance, discusses the problem of our external defence in a clear and interesting manner, and has been referred to in the Dail debates on the estimates. The writer believes that we shall be faced with a war situation here only if and when Great Britain is engaged in a conflict with a European State or States. He points out that Great Britain will not willingly participate in any future European struggle, unless her most vital interests are endangered, that the piratical phase of British history is at an end, and that trouble will not be brought upon us by British aggression, but that if we had no adequate defence force a very serious situation would arise should Great Britain fail to hold the effective command of the seas. We cannot afford to maintain a standing army of adequate size, but the writer believes that a mixed militia and territorial force can be provided cheaply enough to enable us, in the event of war, to mobilise a very considerable force trained to undertake effectively the duties of home defence. In no circumstances should we prepare a force for use outside the country. This article indicates that the military policy of our present Government, which is clearly dictated both by political expediency and financial necessity, is one of defence not defiance. At the present time the standing army of the Free State numbers only about 5,300 men with 500 officers. There are in addition about 4,000 men in the A reserve, 3,600 men in the B reserve, and about 900 men in the newly formed volunteer reserve. The whole form of the army has been completely changed during the last three years, and the Minister for Defence, Mr. Desmond Fitzgerald, has recently stated in the Dail that he does not intend to bring in a permanent army Bill until the ultimate form of the army is settled. It is pleasant to record that this year, for the first time,

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cadets from Trinity College and the National University marched shoulder to shoulder in the St. Patrick's day parade through the streets of Dublin—a fine symbol of the new Ireland. The controversy about what national anthem should be played when the Governor-General attends the Trinity College sports\* has also been happily settled by the playing of the "Soldiers' Song" when he arrives and "God Save the King" after he departs. Ireland being what it is, this will probably need the employment of different bands to do justice to the respective tunes; but if political harmony is established by this expedient it is no doubt worth the price.

The Dail has now adjourned until October. A recent return shows that its activities during 1930 comprised 59 days' work, the passage of 35 Acts, and the putting of 826 questions, which, everything considered, is quite a creditable record.

## II. ECONOMIC AND GENERAL

THE revenue returns for the first quarter of the present financial year clearly show that the Free State is beginning to feel the effect of the world-wide economic depression. They disclose a deficit of £1,212,618—revenue having fallen by £734,282, and expenditure increased by £379,293. The trade returns to the end of April also show a big fall in both exports and imports. The detailed revenue figures disclose a fall of approximately 40 per cent. in income tax, and 50 per cent. in excise. In spite of, or perhaps because of, our tariffs the customs revenue has substantially increased. Our exports for the current quarter will be much reduced by the restriction on the export of cattle, due to an outbreak of foot and mouth disease in County Down in Northern Ireland. All movement of cattle from Northern Ireland into the Free State

\* See THE ROUND TABLE, No. 76, September 1929, p. 828.

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had to be prohibited, and it is calculated that the resulting financial loss to all concerned will be well over half a million pounds. Fortunately there are now abattoirs at Cork and Waterford where animals can be killed, and it is also not so costly to hold over stock at this time of year when there is plenty of grass. Because of malicious rumours to the contrary, it is well to emphasise the fact that no foot and mouth disease exists at present in the Free State.

For the first time since the terrible famine year of 1847 the population of the Free State area shows a tendency to increase. The estimated figures for 1930 show an increase of 6,000. This result is undoubtedly due to the considerable reduction of emigration to the United States of America. Intending emigrants under the existing regulations are required to carry a substantial sum of money so that they will not have to join the unemployed on their arrival in America, and this has acted as an effective barrier. It is interesting to note that this restriction of emigration, which naturally increases the number of idle young men in the Free State, has, as already mentioned, coincided with a revival of illegal conspiracy and illicit drilling. In the past a similar cause has had similar results. The population figures also show that the Free State is one of the few countries where the male population substantially exceeds the female. The excess is estimated at 72,000 in a total population of 2,950,000.

The reorganisation of our dairy industry is not yet complete, and has received a rather serious set-back through the dissolution of the Irish Associated Creameries Company, which was formed for the purpose of combined marketing operations on behalf of the co-operative creameries. There is, however, a movement towards consolidation among these creameries, and if and when Mr. Hogan, Minister for Agriculture, can purchase the few remaining proprietary creameries a further effort no doubt will be made to deal collectively with the large buyers, and thus maintain a stable and uniform export price. The importance of this

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industry is shown by the fact that there were over 1,200,000 milch cows in the Free State on June 1, 1930. Over half of these are found in the province of Munster, a district equal in population and area to only one-third of the whole State. Of the milk obtained from these cows three-fourths is converted into butter, valued at over £12,000,000 per annum. About one-third of the butter produced is exported to Great Britain, in which market the Free State supplies 9 per cent. of the total supply. It may be added that the Free State stands fifth amongst the butter producing countries of the world. More than half of the butter produced is made by farmers. Some of it is sold to a few butter factory merchants around Cork, who blend and then sell it as factory butter. The remainder is made by some 300 creameries, whose employees number 3,500, and whose annual wage bill is about £400,000. Fresh cream and condensed milk are also exported, but the output of cheese is insignificant, because the by-product of cheese is not suitable for calf raising, whereas 85 per cent. of the milk used in the manufacture of butter is returned directly to the farmers for use as calf food, thus assisting the greatest single business of the country—cattle exporting.

Another important business, the Hospitals Sweepstake,\* continues its triumphant progress, in spite of all external opposition. The prize fund, which was £400,000 in the first sweep, rose to over a million for the Grand National, and two millions for the Derby. Five millions is talked of for the next sweep on the November Handicap. The hospitals have already benefited to the extent of over a million and a quarter pounds, and future gains are to be shared in by the country public health hospitals, which are supported by the rates. There is of course another side to the story, as there is little doubt that the withdrawal of even the Free State's share of this great sum of money from business circulation has injuriously affected general

\* See THE ROUND TABLE, No. 80, September 1930, p. 835; No. 82, March 1931, p. 412; and No. 83, June 1931, p. 633.

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trade, and that the large individual prizes awarded have stimulated gambling and dishonesty among the poorer classes. Moreover an attempt was made to initiate a rival and illegal sweepstake, alleged to be in aid of the Gaeltacht or Irish-speaking districts, which was promptly terminated by a Government prosecution. The motives of its promoters may not have been entirely altruistic.

A considerable amount of electricity, not altogether of a positive kind, has been generated by the recent disclosures concerning the financial management of the Electricity Supply Board\* which controls the Shannon power plant and the national supply of electricity. It has been obvious for some time that things were not going smoothly, and the resignation of the chairman, Mr. J. J. Murphy, formerly Town Clerk of Dublin, and of Dr. T. A. MacLaughlin, the managing director, led to much speculation. Mr. McGilligan, Minister for Industry and Commerce, when introducing an amending Electricity Supply Bill in the Dail on July 8, explained what had taken place. The Board, as originally set up, was independent of the Government, but subject to removal. It was bound to publicity, especially in regard to its finances, and to produce certain specified accounts, reports and returns. It was obliged to take over all undischarged liabilities of existing statutory undertakings, and to set aside a sum equal to the fair value, as assessed, of the privately owned authorised undertakings. It had no borrowing powers, and its initial capital expenditure was limited to a sum of £2,500,000 voted by the Dail. All other expenses, sinking fund, renewals, depreciation and so forth, were to be met out of revenue. The Board, according to Mr. McGilligan, has overspent this loan by £600,000, and has committed itself to further expenditure amounting to £250,000. Repeated attempts to obtain information as to the Board's finances had failed, and Mr. McGilligan

\* See THE ROUND TABLE, No. 67, June 1927, p. 590; and No. 69, December 1927, p. 153.

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stated that if all the members of the Board had resigned he would have accepted their resignations. If the chairman had not resigned he would have asked for his dismissal. The Government cannot be considered blameless in the matter, because after all the Board was composed of its nominees. It is unfortunately another case of sending a boy on a man's errand. Few business men in Ireland have the experience or capacity to deal with a concern of this kind, and those who were nominated to do so were apparently quite unequal to the task. It would have been far better if the Government had employed the best outside expert assistance available, at least during the early stages of the scheme, and placed it in complete control of administration. Unless this course is now taken and a full inquiry held into the causes of the present situation, our last condition may easily be worse than our first. The Bill now introduced provides for a further advance of £2,000,000 to be paid to the Board at the Minister's discretion. The one bright spot, for which they deserve great credit, is the fact that Mr. de Valera and his party, in criticising the situation, have never lost sight of the fact that the Shannon scheme is a great national undertaking and have avoided the natural temptation to make party capital out of the affair.

The Irish Free State.

August 1931.

## CANADA

### I. PARLIAMENT AND THE DEPRESSION

THE first regular session of the present Federal Parliament of Canada opened abnormally late, on March 12, and as a consequence the prorogation, which in recent years has usually occurred before the end of June, may not be possible now before the last week of July.\* The crop of legislation was not by itself large enough to justify a four months' session, since the only measure of major importance was the Bill for the establishment of a new tariff board. But the economic problems in which the Dominion is involved provided ample material for discussion, and from the start of the session the Liberals, who had a band of indefatigable guerrilla warriors on their back benches, manifested a disposition to bait and harass the Ministry. Even the humid midsummer heat of the Ottawa valley, which in the past has been a notable accelerator of public business, failed to damp the Opposition's ardour for contentious argument, persistent interrogation and skilful obstruction of estimates; the name of Rivière du Loup is graven on ministerial hearts, for Mr. Jean François Pouliot, Liberal member for Temiscouata, aggrieved that a station voted for that town had never been built, addressed 200 questions to ministers on the subject and in addition secured 75 orders for documents concerning it. At

\* The Canadian Parliament was prorogued on August 3.—ED.

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intervals the Liberals received assistance from the Progressives, Labourites and Independents, but the Progressives evinced a continuous anxiety to demonstrate their untainted independence and a number of them voted with the Government on different issues. At times when nerves became frayed in the uncomfortable sultriness of the Commons Chamber there were some bitter exchanges, and the management of the House proved no easy task for Mr. George Black, the new Speaker. Mr. Bennett continued to carry on his own shoulders the main burden and heat of debate to an extent which no previous premier has ever attempted, and by the end of the session the effects of the strain which he imposed upon himself were plainly visible. They prevented the manifestation of the serene and conciliatory temper which would have facilitated the smooth transaction of business, and to a considerable degree nullified the advantage which the Premier's experienced mastery of so many problems and resourceful versatility in debate conferred upon the Ministry. Naturally Mr. Bennett's monopolisation of the conduct of parliamentary business provoked from the Opposition benches recurring taunts that he was constituting himself a dictator and treating his colleagues as helpless nonentities who could not be safely trusted with the exposition of problems connected with their own departments, but these gibes left Mr. Bennett completely unmoved. However, Mr. Gordon, the Minister of Immigration, and Mr. Weir, the Minister of Agriculture, have justified their speedy promotion to Cabinet rank immediately after their first election to Parliament, and on the Conservative back benches two Quebec lawyers, Mr. John Hackett of Montreal and Mr. Onesiphore Gagnon of Quebec, have shewn promise of real parliamentary gifts. On the Liberal side Mr. Mackenzie King, Mr. Lapointe and Colonel Ralston provided the heavy artillery and the last has by a series of excellent speeches materially increased his prestige as a debater of the first rank. Captain Ian Mackenzie and Mr. Hanbury

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of Vancouver, two new recruits, and Mr. Ilsley of Nova Scotia, who sat in the last House, have also given evidence that they possess sound parliamentary talents. The Progressive group are now all political veterans, and as usual they spent a good deal of time expounding their pet panaceas, such as currency inflation, for the country's troubles, while the Labourites assiduously kept the unemployment issue in the foreground. Mr. Bourassa continued to enjoy himself immensely in the rôle of the candid friend and critic of both major parties, and during the session he developed what was for him a new vein of advanced radicalism, directing bitter criticisms against the existing social and economic order and pleading the cause of the classes who were suffering from its flaws and disabilities.

The real climacteric of the session was the budget, the submission of which was delayed for a variety of reasons until June 1. Mr. Bennett is still acting as his own Minister of Finance, although he has now announced his intention of finding an occupant for the Treasury as soon as possible, and it is to his credit that in his budget speech he gave the Canadian people the most thorough and comprehensive statement of their financial position that has been offered them for many years. He estimated the total revenues for the fiscal year 1930-31 at \$356,215,000 as compared with \$446,182,000 in the previous year, and, expenditure having been \$440,060,657 as compared with \$398,442,247, he showed a deficit of roughly 84 million dollars. He stated that the national debt on March 31, 1931, was \$2,610,788,917 from which active assets valued at \$349,180,601 had to be deducted, leaving the net national debt at \$2,261,608,316, but he pointed out that account must also be taken of indirect obligations aggregating \$1,269,000,000, for all of which except some 31 million dollars the Canadian National Railway account was responsible. He indulged in a somewhat pessimistic and decidedly critical view of the financial situation of the



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Canadian National Railway, and adduced statistics to show that since it had become a unified system in 1923 its aggregate losses had reached the ominous total of 346 million dollars. While he admitted that of this sum 253 millions was a book debit, on account of unpaid interest on cash advances aggregating \$604,000,000 which had been made by the Federal Treasury, he drew attention to what he regarded as the most serious feature of the position, that the revenues in eight years had fallen short by \$86,000,000 of operating expenses and fixed charges due to the public; he also said that he found another disturbing aspect in the fact that despite an increase since 1923 of \$400,000,000 in the capital investment in the railway, the gross earnings in 1930 were actually less than in 1923. He directed severe criticisms against the King Government for permitting the president and directors of the Canadian National Railway to spend money without any serious check, and he declared that, while his criticisms must not be construed as indicating hostility to the State-owned system, he desired to impress the country with the seriousness of the problems involved in what are now admittedly the embarrassed fortunes of the Canadian National system.

For the current fiscal year Mr. Bennett estimated that the revenues on the basis of existing taxation would yield only \$325,000,000, and as the estimates had called for \$430,000,000 a gap of \$105,000,000 had to be bridged. Of this sum, he proposed to raise \$20,000,000 by borrowing for capital expenditures and about \$78,000,000 by fresh taxation. He claimed that this would leave a prospective deficit for the current year of approximately \$7,000,000, which might disappear if trade improved and revenues increased. However, all his calculations seem now to have been upset by the calamity that has befallen western Canada owing to the ravages of drought in the wheat fields.

For raising new revenue Mr. Bennett proposed a variety of additional taxes. He increased the general rate of the sales tax from 1 per cent. to 4 per cent. and in addition

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added a special excise sales tax on all imported goods, which will have to be 5 per cent.; in his original proposals he also abolished most of the exemptions from the sales tax, but later, under pressure from business interests, restored practically every one of them. He further increased the corporation tax from 8 per cent. to 10 per cent. and restored the three-cent postage rate by an increase of one cent on all existing rates, and made some other minor changes calculated to produce more revenue.

It was, however, the tariff proposals of the budget which were awaited with the keenest interest, and although Mr. Bennett expressed his regret that he had found it impossible to undertake the general revision of the tariff that he had planned, the changes proposed covered approximately 200 items of the customs tariff and meant taking a second long step towards rounding off the "Canada First" policy of higher protection. It is estimated that they will affect some 200 million dollars worth of import trade, and as a similar volume was affected by the tariff revision of the emergency session, at least half of Canada's total imports are now experiencing the full impact of the "Canada First" policy. The changes hit practically every country which trades with Canada, but the United States will be the chief victim and cannot fail to suffer another serious curtailment of its exports to Canada. If, for instance, the plans embodied in the budget for the stimulation of what is called a "national fuel policy" are successful, a substantial volume of business should be diverted from American to British and Canadian mining interests. For the first time in history American anthracite coal is subjected to a levy of 40 cents per ton, while British anthracite is left upon the free list. The duty on American bituminous coal is also raised from 50 to 75 cents per ton and on coke to \$1 per ton. There are also provisions for generous freight rate subventions devised to give the mines of the maritime provinces more favourable access to the market of Ontario and to confer a similar advantage upon the mines of Alberta

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and British Columbia in the prairie market. There are also important changes in the motor schedules, intended to transform Canadian motor factories—many of which have been merely assembling plants—into complete manufacturers of cars; the entry of used motor vehicles is completely banned. In the iron and steel schedules, which were left untouched at the emergency session, there is a series of increases and adjustments chiefly for the benefit of the domestic industry. Despite the assurances given in the Speech from the Throne that the changes in the British preference would only be in the nature of incidental adjustments, increased duties on iron and steel products, leather goods, pickles, furniture and some other commodities are calculated to diminish British exports of these products to Canada, although there should be a gain in coal exports. For purely revenue purposes a duty on tea, which the Liberals had wiped out, has been reimposed and there are additional imposts upon certain fruits and vegetables. One interesting innovation of the budget is a heavy tax upon American magazines and periodicals entering Canada, and another is a provision for a freight rate subsidy of five cents per bushel on all wheat exported, for the purpose of helping the prairie farmer. Critics of this proposal, who include the Canadian millers, contend that, if the subvention is paid to transportation interests, it will operate mainly to the benefit of European importers, and the western press is urging that, if the bonus is intended to assist the producer, it should be paid direct to him.

Apart from the actual alterations in the customs schedules, the budget aims at a general tightening of the protectionist system. The Customs Act has long contained a section which empowered the Government to impose a surtax upon the goods of any country which failed to give Canada equitable tariff treatment, but it was low and has rarely been imposed; now, however, the budget provides that the rate of this surtax shall be fixed at  $33\frac{1}{3}$  per cent., which will constitute a virtual embargo.

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Power is also taken by order-in-council to withdraw the privileges of the British preference from any country which is deemed to have forfeited them by its fiscal policy towards Canada. Again, only a small duty has been hitherto levied upon articles not specifically enumerated in the customs tariff, but it has now been fixed at the flat rate of 25 per cent. which means that all new inventions, new articles, new fruits, etc., will have to pay this rate. For the protection of the consumer, more effective measures are devised to prevent manufacturers from exploiting the tariff by increasing their prices. An amendment passed at the emergency session empowered the Government to withdraw their protection from manufacturers who raised their prices, but it was found ineffective and now the Government is taking to itself power to levy upon any manufacturer who raises his prices an excise tax equivalent to the tariff upon his products.

The budget was subjected to very severe criticism by the Liberals and other Opposition groups, but their chief attack was directed against the tariff increases. Mr. Mackenzie King gave a lead which was generally followed in arguing that high protection was completely unsuited to the special circumstances of Canada, and that the Government's policy, as exemplified by the budget tariff proposals, could not fail to produce disastrous stagnation in Canadian trade. The western members on the Opposition benches inveighed with special ferocity against the tariff changes and maintained that they would not only increase the farmers' cost of production, but would also provoke fiscal reprisals which would accentuate the difficulty of finding profitable markets for Canada's agricultural produce. In reply, Mr. Bennett argued that special tariff measures were required to meet the situation confronting Canada, which he went so far as to describe as the "most serious industrial crisis in her history." He said that if steps were not taken to prevent the dumping in the Canadian market of certain classes of goods of which

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other countries had a large surplus, it might mean the complete extinction of Canadian industries engaged in the manufacture of these commodities, and he cited instances of the dumping practices which some of the tariff changes sought to prohibit. He also claimed that the tariff increases of the emergency session had already justified themselves inasmuch as, since they were decreed, 87 new industrial plants had been established in Canada, mostly by American interests. But the Liberals challenged the validity of this claim, alleging that the rate of industrial expansion had been greater in previous years under a Liberal administration. Liberal and Progressive amendments to the budget were easily defeated, and in the end the Government had a comfortable majority of 102-72 on the main motion. During the committee stage, the Opposition continued their criticism of individual items, but could only compel the Government to agree to some minor adjustments.

By far the most controversial measure of the session was the Government's Bill for creating a new type of tariff board as a substitute for the board which the King Ministry had established and which Mr. Bennett immediately after assuming office had abolished, on the ground that it lacked proper statutory authority and had manipulated its inquiries for political ends. The projected new board was modelled on the lines of the tariff commission which was designed in 1912 by Sir Thomas White, but was killed by the Liberal majority in the Senate. Mr. Bennett explained that it would be a non-partisan body with a judicial outlook and fact-finding powers, and that one of its main duties would be to ascertain the relative costs of production in Canada and foreign countries as a basis for tariff making, but that the actual power of finally fixing the rates would remain with the Government. It was provided that the chairman should have a salary of \$15,000, and the other members \$10,000, and that they should hold office for a period of ten years and be eligible

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for re-appointment. The Liberals, who were naturally aggrieved at the elimination of their own board, took strong objection to many features of the Bill, and after unsuccessfully moving on the second reading an amendment for its postponement, they fought it clause by clause in committee. They criticised the powers conferred upon the board to say what was a proper rate of duty, but they directed their chief fire against the provision for a ten-year tenure of office for the members of the board; they contended that, in view of the political implications of the tariff, if the board was to function efficiently it must enjoy the confidence of and be sympathetic to the Government of the day, and that the Bennett Ministry was trying to rivet a high protectionist system indefinitely upon the country. When the Government, which claimed that the experience secured in a long term of office would conduce to the administrative efficiency of the board, would not recede from its position, Mr. Mackenzie King bluntly threatened that if the Liberals came into power they would rid themselves of appointees of the Conservative Government by the simple device of refusing to vote monies for their salaries. The battle on this measure was maintained for several days, but some of the Progressives were disposed to give the new board a fair trial, and the Government was always able to command comfortable majorities to defeat the different amendments that were proposed in committee. It remains, however, to be seen how the measure will fare in the Senate, where the Liberals at full strength still command a majority of one.

On June 30 there was a brief and wholly friendly debate on the resolution seeking the approval of the Canadian Parliament for the proposed "Statute of Westminster." In moving it, Premier Bennett gave a detailed explanation of its provisions, the steps which had led up to them and the reasons for them. Mr. Lapointe for the Liberals cordially supported the resolution, but took the opportunity to claim for the previous Liberal administration credit

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for most of the spade work that had made the passage of the "Statute" possible. He also advocated that Canadian appeals to the Privy Council should be abolished and that steps should be taken for Canada to secure the power to amend her constitution by her own act. Mr. Bourassa supported the resolution and also the bulk of Mr. Lapointe's additional suggestions, and it is evident that, although Premier Taschereau remains unconverted, there has been a notable change of sentiment in Quebec about the desirability of Canada's acquiring full control of her own constitution. Mr. Bennett was non-committal about Privy Council appeals, but he promised to call at some convenient date an inter-provincial conference to discuss ways and means whereby Canada should secure for herself the power of constitutional amendment.

Before the close of the session, Mr. Bennett was able to announce the terms of a new commercial treaty concluded with Australia to replace the old pact made by the King Government. It was the result of protracted negotiations lasting nearly a year, and the result is a comprehensive exchange of mutual preference instead of the very narrow list covered by the former treaty. Canada secures by it the benefit of the British preferential rates on 415 out of the 433 schedules of the Australian tariff and in addition the intermediate rates on six items or parts of items. Furthermore, on lumber, newsprint and canned salmon, which are of great importance to Canada's export trade, Australia has adjusted her tariff in order to give Canadian producers a greater margin of preference. By way of return, Canada accords to Australia either her British preferential tariff rates or greater margins of preference on some 28 items or parts of items; the chief benefits to Australian producers should accrue from the very substantial preference now given on raisins, apricots and other fruits and wines. The terms of the agreement have been enthusiastically received in British Columbia, where a variety of interests will profit by them, but they have

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received a chilly welcome from the grape-growers and wine-makers of the Niagara peninsula, who have protested to the Government that their industry will be adversely affected by the competition of Australian wines. One novel and interesting feature of the treaty is a clause providing that abrogation need not necessarily follow the emergence of difficulties arising out of one or two items. It is agreed that, if one country discovers the importation of some product under the terms of the treaty to be prejudicial to one of its own domestic industries, it can give notice of the fact to the other, and if within three months after receiving the notice the latter country has not removed the difficulty, then automatically the product concerned will bear the general tariff rate applicable to it until the notice is withdrawn.

During the last month of the session, interest on Parliament Hill was centred in the proceedings of a special committee of the Commons which investigated the activities of a company called the Beauharnois Light, Heat and Power Corporation. This company had organised a huge power project east of Montreal which involved the construction of a canal between Lake St. Francis and Lake St. Louis and the diversion of the waters of the St. Lawrence into it; as the river at this point was within the domain of Quebec, a lease of the water powers was secured from the provincial government of Quebec, but a permit for the diversion of water from the main channel of the St. Lawrence had to be secured from the Federal Ministry, which has jurisdiction over navigation rights. After granting this permit, the King Government was subjected a year ago to strong criticism by the Progressive group, who alleged that valuable water powers belonging to the nation had been handed over to private exploiters for a mere song, and that the public interest had been inadequately protected. Then, about the middle of this session, Mr. Gardiner, the Progressive leader, again raised the issue and demanded an investigation of the operations of the corpora-

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tion by a parliamentary committee on the ground that the order-in-council which had authorised the permit for diversion of water was illegal, and that the company had violated the terms of its agreement with the Government; he also made very direct allegations against Senator W. L. McDougald, a prominent Liberal politician who is now president of the Beauharnois Company, and claimed that he had deliberately misled Parliament about his relations with the company. Premier Bennett, who when in opposition a year ago had supported Progressive criticisms of the company, agreed that a parliamentary investigation was desirable in the public interest, and a committee representative of all parties, of which the Hon. Wesley Gordon, Minister of Immigration, was chairman, was forthwith constituted. Eminent counsel were briefed by all the interested parties, and at a series of hearings which have been in progress since June 15, a huge volume of testimony has been submitted by different witnesses. Much of it has been of a technical character, and it has been demonstrated that the corporation has departed from some of the terms of the agreement under which it secured authority for the diversion of water. The committee is to report to Parliament before the end of the present session, and there is a widespread demand that a Royal Commission should be appointed to conduct a thorough judicial inquiry.

From the beginning of June onwards a cloud hung over Parliament in the shape of depressing news about the fortunes of the all-important western wheat crop, and the crop bulletins, which grew more pessimistic each week, were scanned with deepening anxiety. Confirmation of the worst fears came on Dominion Day, July 1, when Mr. Bennett made a very grave statement in the House of Commons and solicited the co-operation of the other parties in coping with the situation, which he described as "probably the most serious national calamity that has ever befallen Canada." He estimated that about 5,000,000 acres of

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what has been regarded as the best wheat-growing section of the prairie provinces had been almost completely devastated by the protracted drought of June and the dust storms and soil-drifting which were its concomitants, and said that, since the provincial and municipal treasuries of this region were bare of funds, the main burden of furnishing relief during the winter to 100,000 farming people would fall upon the shoulders of the Federal Government. He pledged himself that before the end of the session special measures would be introduced for dealing with this situation and with the unemployment problem, which it will aggravate. The *Toronto Globe* estimates that at least \$50,000,000, and possibly \$100,000,000, will be required to meet the demands which will be made upon the Federal Treasury. The Opposition parties promised their cordial co-operation, but Mr. King contended that the work of relief should be entrusted to a non-partisan national relief commission.

Meanwhile it is obvious that the western wheat pools are now *in extremis*, and while it is possible that the Alberta pool may continue to function, plans are afoot for winding up the other two pools in Manitoba and Saskatchewan. The Governments of these provinces will take over their obligations and properties, and for the conservation of the farmers' interests in Saskatchewan, co-operative elevator companies will be organised on the lines of the old Saskatchewan Co-operative Elevator Company, which the provincial pools abolished some years ago. The premiers of the prairie provinces made strong representations to the Bennett Ministry that in view of the collapse of the wheat pools the revival of the government wheat marketing system which was in operation during the later war years was necessary, but the Bennett Government could not see its way to accede to their request, and suggested as an alternative that the three prairie provinces should combine to set up an inter-provincial wheat board.

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### II. THE WEST

**W**ESTERN CANADA is at war—fighting against drought and low prices and world-wide economic nationalism. It has even its devastated areas.

The drought—though happily broken in July—was in May and June the most extreme that has been experienced for years; in fact there has probably never been such a drought since any substantial area of land first came under the plough in the western provinces. The high winds which accompanied the dry weather have caused the soil to drift to an unprecedented extent. In many places, particularly in southern Saskatchewan, one can see five-foot fences covered as though with snow, so that the cattle can walk over the top. Where the soil is shallow it has in certain places been blown away right down to the “hard-pan,” leaving only pebbles and stones, some of them as large as one’s head. This condition was indeed so bad in certain parts of southern Saskatchewan towards the end of June that they looked like the Sahara, and there were often dust storms in which one could not see ten feet ahead. This utter desolation is not, however, very widespread. In a drive of 800 miles in Saskatchewan, taken towards the end of June with the express intention of seeing the worst areas, not more than forty or fifty miles were through absolutely devastated country, and even there the recent rains were beginning to produce signs of green, although in many cases the growth mainly consisted of the ever-ready weed. Further, soil-drifting is to a large extent the result of over-intensive cultivation, and it is a difficulty which has in years gone by been successfully dealt with in the west of the United States, so that it need not be regarded as in any sense an inherent and inescapable handicap to western farming, especially as, except in a few districts, the soil is so deep that the drifting does no permanent injury.

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A visit to a farm in the worst district left one with mixed feelings. We found the farmer puzzled, nonplussed and uncertain what to do. His wheat crop had been ruined and his only hope for the current year was to endeavour to grow fodder for his animals; and he had to consider how he should treat his soil in order to get a binder which would lessen the chance of the drifting starting again. Notwithstanding his plight, however, one felt that his future was by no means hopeless. The locality usually produces good crops and, as a farmer whose crop has been spoilt this year put it: “My average crop for the last twenty years has been 22 bushels an acre. I am all right.” Another thing which struck one on this particular farm was that the children were as healthy and well-fed as one could wish. They had sufficient animals to provide for their immediate wants, and one felt that, however sharply the winds of economic distress might blow, these people were free from the two worst ills—unemployment and starvation. Anyhow, the Government will see to it that this farmer gets grain for seed and fodder for his cattle, and with these he can struggle along until the next harvest, which by all the laws of averages, and according to the well-attested cycles of moisture in the west, should be a good one. A year hence, with anything like a reasonable improvement in prices, his position may be vastly different from what it is to-day.

Meanwhile adversity, as usual, is teaching useful lessons. Much has been learnt in the last two years about how to live off the farm. A loan company agent, endeavouring to reckon the cost of growing wheat, took into account an amount for the subsistence of the family. “They are learning,” he said, “to live off the farm. There are families near here whose cash outlay in groceries for a whole week would not be \$1.50. All that they buy is tea and sugar.” This tells a story which is for the moment serious from the point of view of the merchant and manufacturer, but it certainly brings down the cost of growing wheat. What this

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cost actually is, it seems, however, almost idle to conjecture. In the first place, all calculations based on an assumed yield would be knocked on the head if the yield were to prove higher or lower. In the second place, there is so little agreement about the cost of the different elements which enter into any estimate of wheat growing that completely different figures are given by different authorities who are all presumably competent. This, however, may be said. Dollar wheat, which two years ago would have been regarded as a calamity, would now be looked upon as a bonanza price, and even 75 to 80 cents would to-day be considered to give the farmer a chance. Incidentally it should always be remembered that the price quoted for wheat is the price at the head of the Great Lakes, and that the price to the farmer is that amount less freight and elevator charges, which sometimes run to nearly 20 cents.

One naturally tries to gauge the temper of the western farmer in his present difficulties, and it is necessary to generalise from a few instances. A foreign farmer near Leduc, south of Edmonton, had leased land in addition to his own farm and put in two or three times as much wheat as he did a year ago. When asked the reason for this, the answer was that prices were bad and that in order to earn as much as he did the year before he would have to produce three times the quantity of wheat. This is not mentioned as a typical instance—it is not one—but as an outstanding symptom of a morale which seems on the whole to be keeping high. No doubt, as in the army, morale is the result of a variety of causes, and one of the most important at the present moment is that there is no opportunity of running away to southern California or anywhere else in the United States, as there used to be ten years ago.

A farmer, fifty years old, comes to his banker in the autumn of 1930 saying that his crop has yielded him nothing and that he wants money to carry him over the winter—otherwise he will throw in his hand. The banker points

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out that if he gives up he will have no other way of “improving” himself and urges him to reconsider his decision. The result is that after a family council the farmer comes back and tells the banker that if he is given time by the bank, the family has come to the conclusion that in one way or another—by one of the daughters teaching at school, and by buying milch cows, poultry, etc.—they can maintain themselves. The banker has no doubt that they will win through.

A man from Saskatoon, at a country point nearby, is assailed by a number of farmers in distress. What, they ask, is going to be done for them? He rounds on them, tells them that their troubles are their own fault and that if they had exercised a reasonable amount of prudence in the last ten years instead of squandering their money on motor cars, radios, unnecessary farm machinery, etc., they would be quite able to “paddle their own canoes” at this moment. He tells them of a French-Canadian, from the province of Quebec, and not long in Saskatchewan, who was getting on all right. French-Canadian English is difficult to reproduce, but when the Saskatoon man asked him how he had managed it, he gave the following reply:

Before I became a farmer I was in a factory in the province of Quebec. We once had to go to see the manager and I heard him several times mention “the sinking fund.” I did not know what that meant, but when I come to the province of Saskatchewan to be a farmer I say to myself—“Albert, you are now in business on your own. You are now just like a manufacturer. You must have a sinking fund.” I go to the priest and I ask him: “Father, what is this sinking fund that the manager in the factory talked about?” The priest, he tells me what is this sinking fund, and I have made me a sinking fund—hay and oats in the barn, horses, cows, pigs and chickens—and my children have three meals a day and wear good clothes.

Albert's sermon apparently struck home, angry and irritated though the farmers were.

The bad prices have, of course, produced a strong

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demand in various quarters for further resort to price-fixing devices. Some of our farmers would like not merely a hair but the whole hide of the dog that bit them. In the present circumstances it is not surprising that men's judgments should be upset by the urgent anxieties of the moment. In this connection it is interesting to note a leading article in the *Manitoba Free Press*, whose editorial policy is in the hands of the able and patriotic Mr. J. W. Dafoe, who has on the whole been a supporter of the aims of the Pool. This leading article says:—

The arguments being advanced in support of the creation of a wheat board, or in favour of some method of federal control of the wheat crop, are merely the most recent expressions of a perfectly consistent theory of grain selling.

Requests for government control of the wheat are supported by the assertions that, failing such control this season, prices will drop to calamity levels with disastrous consequences for the growers and for the country generally. It was on this assertion, stated in slightly different terms, that the wheat pools justified their existence when they were first incorporated; and on this assertion half the grain trade of Canada has been conducted for some seven years. Despite the failure of the wheat pools to weather the economic storms in which international business is plunged, the soundness of the theory, or belief, on which they were formed continues to be urged. The Federal Government is being requested to step in now that the pools have collapsed and do what the pools set out to accomplish. . . .

The two systems of selling are posed against each other pretty clearly, and the public intelligence will have to size them up. Open trading may be subject to many serious criticisms, but it is still operating as a commercial system. Controlled selling has broken down, or gone out of existence, accompanied by loss and wreckage; but its advocates still have arguments to demonstrate its necessity. And the important fact about the arguments is their insistence on wider application of control. A federal grain board would be the last control of all; the entire crop would go under government supervision, and Canada would find itself in the grain business. . . . If the world's economic trend is such that the production and sale of staple commodities is to pass into government control in the national interest, that is another story altogether, and one that opens up new prospects for public consideration.

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While this editorial does not reach any definite conclusion, having regard to the paper's past editorial policy the writer of this article considers it a fair inference that the editor believes that co-operative selling, as it is understood in western Canada, has for the moment failed. It is certainly unlikely that a convinced individualist like Mr. Bennett will want to see it re-established on its old basis.

There is one experiment, born of our existing difficult conditions, which may have far-reaching results. Some of the lending institutions have formed a farm management group and secured as its head a man who has achieved considerable success as a farm manager in the United States. The manager points out that every individual farmer is running a business in which he has to be an expert in many different lines; that this is not the case in other businesses which have a special expert for each particular line; that a farm manager with tact and judgment can, however, gain the confidence of the farmers under his care, and by doing something to meet the need of expert assistance obtain important results. A day spent with one of the farm managers in this enterprise was full of interest and hope. The farms were not far from Winnipeg. The farmers were in difficulties and their demeanour showed that they were glad to have someone with whom to talk things over. One of the incidental advantages of farm management, of which we saw an instance, is the protection that it gives to farmers against the high pressure salesman of machinery. Another of the farm manager's aims is to persuade the farmer not to abandon a particular line as soon as it becomes unprofitable, but, as the manufacturer so often has to do, to keep it going even though it means a loss for the time being, in full confidence that it will again become profitable.

One of the incidental advantages which the farm manager hopes will result from this system is that the western farmer will no longer regard farming as a thing at which he works for a month or two in the spring and a month or so in the autumn but as a whole-time job—in other words,



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that he will come to look upon farming as a calling which, like every other calling in the world, demands attention the whole year round. In this connection it is interesting to know that more than one shrewd observer in the West remarked that they had far more well-grounded prosperity with dollar wheat than with \$1.50 wheat. With dollar wheat a farmer would have a profit, but not a large enough one to enable him to abandon every other form of production, which was the tendency in the past when the price was high.

There has been a good deal of talk about the corporation farm of ten, twenty, thirty and forty thousand acres. Statements about the success of these farms should be received with reserve in so far as results up to date are concerned, and with still more reserve as regards the future in view of the necessity of adopting more intensive forms of cultivation in order to maintain the fertility of the land. The best view in western Canada appears to be that the large family farm, somewhere in the neighbourhood of a section—640 acres—is the unit which ought to offer the best chance of success, yielding, as it does, a sufficient volume to enable costs to be kept down, and yet being sufficiently small to render possible at least a minimum of personal attention and a rotation of crops. One must at least hope that this is what the future has in store. The corporation farm, the “Kolhoz,” seems to offer little in the way of a life to our western people.

This section opened with the statement that western Canada is at war. The surest guarantee of the success of the campaign is the quality of our western people. They have fought periodic campaigns before and the result has always been that the country has come out stronger, broader based and better equipped for future campaigns. After all, none of the problems of to-day is new—merely greater in extent. Those who have known the West from the beginning and who have seen it progress—perhaps not always from year to year but from decade to decade—have

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no fear that its progress will be arrested or that the western farmer, with the strong incentive which owning his own land supplies, will fail to fight his way through the embarrassments of the moment and come out stronger and better than ever.

Canada.

July, 1931.

## AUSTRALIA: MONETARY POLICY AND FINANCIAL RECONSTRUCTION

### I. THE POLITICAL BACKGROUND

IN the last issue of *THE ROUND TABLE* Mr. Theodore's policy of "controlled" inflation was described. That policy was the Commonwealth Government's answer to the February committee of economists and under-treasurers, to the premiers of five States and to the bankers, all of whom insisted upon budget economies as the first step towards financial reform. The policy was embodied in three Bills—a Bank Interest Bill (now dropped), a Fiduciary Notes Bill, and a Bill to amend the Commonwealth Bank Act in respect of the note issue (commonly known as the Gold Export Bill). The first provided for the appointment of a board to make recommendations to the Treasurer concerning bank interest, which could then be altered by order of the Treasurer. The second empowered the Treasurer to issue £18,000,000 of fiduciary notes for the relief of farmers and unemployment. By the third the legal minimum gold reserve of 25 per cent. against notes was to be abolished, notes were no longer to be convertible into gold on demand, and a limit of £60,000,000 was fixed for the note issue. Further, it was provided that the Government might acquire gold from the Bank "for the discharge of the indebtedness of the Commonwealth in London." The Senate rejected both the second and third Bills on the ground that they did not provide any means

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for dealing effectively with the financial position either at home or abroad.

The ultimate control of the currency lies with Parliament, and the Opposition has a majority in the Senate. It thus became clear that as parties now stand the Government's monetary policy could not be carried into effect. On the rejection of the Fiduciary Notes Bill, however, Mr. Scullin announced that the Government intended to proceed with its plan, and that, if the Senate again rejected the Bill after the statutory interval of three months, he would seek a double dissolution. Meanwhile, late in April, Mr. Theodore had presided over a stormy meeting of the Loan Council, at which an important decision was made "that the Loan Council is of opinion that Australia must aim at securing a balanced budget at the end of June 1934." A sub-committee of three was appointed to report to the Council, and was empowered to co-opt the services of "economists and such other advisers as it may deem fit."

Meanwhile the Government of New South Wales, with important consequences for the whole of Australia, was moving in quite a different direction. The influence of New South Wales outside its own territory is felt partly through its representation in the Federal Parliament, partly through its expenditure on the public services and partly through its share in the public debt, for which the Commonwealth has now taken over responsibility. The victory of Labour at the New South Wales elections involved the defeat of the policy of financial rehabilitation agreed upon by the State and Federal Governments in the preceding August. It meant that New South Wales would not voluntarily economise, and would strain its own credit and that of the Commonwealth to the utmost attainable limits. It meant also that the representatives of the State in the Federal Parliament would try to prevent the Government of the Commonwealth from carrying out a policy found to be unpopular in New South Wales.

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At the Conference convened by Mr. Theodore in February after his reinstatement, Mr. Lang, who at the State elections had declared himself in favour of high expenditure but no repudiation, announced that his Government intended to default in its payment of overseas interest at least temporarily, and invited the Conference to adopt a similar policy for Australia. The Lang plan, which included radical changes in the currency, was advocated then and subsequently as an alternative to the Theodore plan of inflation with payment of interest overseas in full. It gained four adherents from among the New South Wales representatives in the Federal Parliament, who formed a group of their own which will oppose all government measures except to the extent of bringing about a general election, and it was advocated by emissaries from New South Wales in other States. It may be that personal and political differences between Mr. Lang and Mr. Theodore will split the party organisation in New South Wales, and even lead to the appearance of rival Labour candidates at the next Federal election. In the other States Mr. Lang and his emissaries were coldly treated by the party officials, and, notwithstanding some enthusiastic meetings, appear to have made little headway. The Lang plan was, however, adopted by the party in the State Parliament and by the State organisation. The plan was put into execution by the failure of the Government to pay interest to overseas bond-holders, which was followed by the issue of writs on behalf of the Commonwealth and the States claiming to be indemnified for the extra burden which this default placed upon the Commonwealth revenue.

Mr. Theodore's reinstatement and the resignation of Mr. Lyons were followed by the formation of a United Australia party, which included the Nationalists and some former supporters of Mr. Scullin, with Mr. Lyons as Leader of the Opposition; Mr. Latham, who had filled that office with conspicuous ability and authority, consented,

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with characteristic public spirit, to become deputy leader. It was thought that Mr. Lyons, who had been warmly applauded for his conduct during Mr. Scullin's absence, was admirably fitted to advocate a policy of orthodox finance at a general election. The inflation policy, which may now be regarded as abandoned, was made the main issue at the State elections in Tasmania shortly after Mr. Lyons' appointment, where it was championed by the Leader of the State Opposition with the personal support of Mr. Theodore. The result was a decisive victory for the Government, the sole instance of a government which has gone to the country during the present depression being returned to power.

Such was the position in the middle of May. The Commonwealth Government was still committed to a policy of inflation and to an election on that policy. New South Wales had publicly defaulted on payments of overseas interest, and the Commonwealth, under the Financial Agreement of 1927, had assumed responsibility for these payments. The directorate of the Commonwealth Bank had set a limit of £25 million to the overdraft in Australia. This limit would be exceeded on June 30, and default was inevitable. July to December are lean months for the treasuries, and it is doubtful whether, in the absence of further central bank credit, governments would have had sufficient funds to meet their commitments. The situation was critical. Eight months after the August (1930) agreement the country was faced with a stoppage of payment because the two most important governments had quite flagrantly refused to carry out the policy implied in that agreement, and the steps taken by other governments were not adequate. Confidence in governments was rapidly waning, and the closing of the Government Savings Bank of New South Wales on April 23 was a stern reminder of the evils that would accompany a further decline in confidence. Open discussion of the effects of a Labour victory at the New South Wales election in November had

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weakened the position of the savings bank in that State. The announcement of the "Lang plan" of repudiation in February, and the acute division between the Commonwealth and State Labour parties caused additional difficulties. The closing of the bank had a marked effect on the political situation. To this must be added the unfavourable reception of Mr. Theodore in the southern States, the imminence of default and the overwhelming victory of the Nationalist party in Tasmania on May 9. Mr. Scullin was forced to reconsider his financial policy.

### II. THE EXPERTS COMMITTEE

THE sub-committee of the Loan Council commenced its deliberations on May 20. Having obtained the budgetary information which it sought, it had already secured the assistance of four economists and the under-treasurers of all the States but New South Wales. This committee of nine, referred to below as the experts, presented its report on May 23. The report set out the main facts of the budgetary position of the Australian governments and outlined the results of certain steps that might be taken to balance budgets. The estimated deficit for the current year (1930-31) was found to be £31 million and that for next year, after allowing for proposed economies, to be £39 million, or £41 million if revenue fell short of the estimates. Three main questions were then considered: (a) What further economies were possible? (b) What increases in revenue could be got from taxation or any other source? (c) If these failed to meet the probable deficit, what further measures were necessary?

With regard to (a), the experts took as a standard for economy the fall in the Federal basic wage since 1928. This was 20 per cent. Applying this standard to all departmental expenditure and public utilities, amounting in 1929-30 to £98 million, there was a possible economy

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in 1931-32 of £20 million. The estimates submitted provided for economies of £11 million. There was consequently a further possible saving on this standard of £9 million. From pensions (old age, invalid and war), a saving of £4 million could be made, raising the total of new economies to £13 million. From taxation, it was thought that £12 million might be raised by increasing the sales tax and primage duty and from income taxes. The only remaining means of reducing the deficit was a reduction of the internal interest burden, which on June 30, 1930, amounted to £27·8 million. In common with other property incomes, this interest, except, of course, interest on tax-free bonds, had been subjected in November last to a surtax of 1s. 6d. in the pound (7½ per cent.). Additional taxation would have to be imposed upon those incomes, and that was contemplated in a Bill already before the House of Representatives. The surtax was to be raised to 3s. 6d. in the pound. The experts held that such taxation would keep up the rate of interest and render conversion operations difficult. They therefore suggested an alternative method of meeting the position. The present surtax could remain, but a reduction of 15 per cent. in the interest payable could be arranged by "an immediate conversion of government securities at a new rate of interest." Such a conversion "could only be achieved by a great patriotic movement backed by a large volume of consent on the part of bond-holders." It would be necessary for the loan to be underwritten by the banks so that bond-holders not consenting might be paid off. The experts were aware that such a transaction was technically a breach of contract, but they justified this procedure on the ground that insistence on the fulfilment of contracts to the letter, in present circumstances, "might force the debtor governments into a policy that would surely destroy the value of the bond." Only in so far as bond-holders preferred to take cash rather than to accept a lower rate of interest would there be any interference with contract. This would have been a minor

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breach compared with the strong element of compulsion that was proposed later at the Premiers' Conference. A 15 per cent. reduction in the interest burden would produce a net saving of £3,000,000. The gross saving would be £4,170,000, but governments would pass on to their own debtors the reduction in rates of interest and there would be some loss of income tax. The deficit in 1931-32 would then be from £11 million to £13 million, an amount that could be met by borrowing "from current savings rather than from new bank credits." As trade improved revenue would increase and expenditure on unemployment fall until the deficit disappeared.

The experts added that borrowing to bridge the gap "will be over and above the funding of the existing short-term indebtedness, both in Australia and in London, which is so necessary to the restoration of Australian credit." But such borrowing would not be possible "until we have made honest and determined efforts to meet the interest on our existing liabilities." The plan was indeed designed to place Australia in the position of making the maximum effort to discharge her external obligations. The adjustment of internal finance, though burdensome and difficult, was a national task from which no class should be relieved. The experts had exposed the facts, enunciated a plan for restoring national finance and created an atmosphere in which very drastic, but necessary, measures could be taken.

In a brief report to the Loan Council the sub-committee recommended that the main features of the Experts' Plan should be carried out. This report, together with the experts' report, was considered by the Loan Council on May 23 and referred to a Premiers' Conference convened for May 25. Political differences were quickly submerged, and with one important exception the Conference reached an agreement upon the main issues involved. After the first two days it became clear that a complete plan might be worked out on the following basis :

## The Question of Compulsory Conversion

1. A cut of 20 per cent. in all adjustable government expenditure as compared with the year 1929-30.
2. A reduction of  $22\frac{1}{2}$  per cent. in the internal interest burden through a huge conversion operation.
3. A reduction in bank interest rates, including those of trading banks and savings banks.
4. Increased Commonwealth taxation to the extent of about £7.5 millions.
5. Some measure for the reduction of interest on private mortgages.

### III. THE QUESTION OF COMPULSORY CONVERSION

THE Commonwealth Treasurer on the first day of the Conference recommended the conversion of the outstanding public debt in Australia to a new stock with an average rate of interest of 4 per cent. The average rate of interest on the internal public debt at June 30 was £5. 5s. 5d. per cent., and a reduction to £4 per cent. would amount to nearly 23 per cent. This figure was arrived at by including the 15 per cent. proposed by the experts, and taking in an additional  $7\frac{1}{2}$  per cent. in lieu of the surtax of  $7\frac{1}{2}$  per cent. imposed in November. This conversion loan was to be underwritten by the banks, and "holders of existing stocks and bonds not wishing to convert were to be paid off." This proposal was considered by a sub-committee of the Conference and representatives of the banks. At that meeting the bankers indicated their general approval of the conversion of the debt to a lower rate of interest, but declared that it was impossible for them to underwrite such a conversion loan. Without the co-operation of the banks it would be impossible to pay off the bond-holders who did not convert, so the Conference altered the proposal of the experts. It was decided to ask bond-holders to accept a reduction of  $22\frac{1}{2}$  per cent. in the rate of interest, and to exempt those who were willing to convert from the present surtax of  $7\frac{1}{2}$  per cent. and from any fresh taxation. An additional income tax of 25 per cent.

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was to be imposed on all securities not converted into the new loan.

This decision roused considerable controversy outside the Conference, and there were strong protests against the element of compulsion. This point of view was embodied in a letter sent to the Conference late on the afternoon of May 29 by the Leaders of the Opposition—Messrs. Lyons and Latham. They expressed general approval of the original proposal for a voluntary conversion, but remarked that “the proposals now being discussed are radically different. They are proposals for a compulsory, not a voluntary, reduction of interest on government loans. This is repudiation and default. The effect of this change of policy is already obvious upon the stock exchanges of Australia and abroad.” Over the week-end there was much private discussion of the letter, and the Conference received it on the Monday without discussion. Important developments followed. To have produced a plan which the Federal Opposition could not support might have led to its rejection by the Senate. It was, therefore, necessary to endeavour to secure the co-operation of the Opposition. The Commonwealth Government was prepared to return to the original proposal of a voluntary conversion if provision could be made for paying off the bond-holders who did not convert, or, alternatively, if measures could be taken later to force them to make the same sacrifice as those who did convert. Since the banks were unable to underwrite the loan the first alternative was out of the question. It now became a matter of securing an agreement upon the second alternative, and during the week efforts were made to devise a formula upon which the Leaders of the Opposition would co-operate with the Government in carrying out the plan for a voluntary conversion. By the end of the week sufficient progress had been made to justify an invitation being sent to the Leaders of the Opposition to attend the Conference on Monday, June 8.

At this meeting Mr. Lyons sought an assurance from

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the Prime Minister that the policy of inflation would be abandoned. To this Mr. Scullin replied: “If a satisfactory plan can be secured, it should be the financial policy of every government.” Mr. Lyons then sought a further assurance that any agreement entered into at the Conference would be acted upon and not treated like the August agreement. To this Mr. Scullin replied: “The agreement of the Government on that point is that the action taken must be on a complete plan, and all action must be simultaneous and, if possible, that all the Acts be proclaimed on the same date.” Having received these answers Mr. Lyons then proceeded to offer the full co-operation of the Opposition in bringing into operation the whole plan, including a voluntary conversion of the public debt. He was supported by Mr. Latham, who dramatically summed up the position as follows:

We are met and confronted with an unprecedented position, and unprecedented steps must be taken to deal with it. We now make an unprecedented offer. We, as an Opposition to a Government, offer to come in with the Government wholeheartedly, *bona fide*, with all our energy, enthusiasm, and ability, to try to make a particular proposal a success.

Whilst the Leaders of the Opposition would not commit themselves to a compulsory conversion of the internal debt, they made it clear that special action would be necessary to secure a sacrifice from bond-holders if any were unwilling to convert their holdings. At a meeting between the Government and the Opposition on the following morning, an agreement was reached in the following terms:

The Conference, including the Leaders of the Opposition in the Federal Parliament, having most carefully considered the financial position of the Commonwealth and the States, is unanimously of the opinion that, to prevent national default in the immediate future and a general failure to meet government payments, all expenditure, including that upon governmental salaries and wages, pensions and other social services, and interest on government securities and other interest, must be substantially reduced.

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These measures, drastic as they may appear, are the first essentials to the restoration of prosperity and the re-employment of our workless people.

The necessary sacrifice is due to national inability to pay, and it must, therefore, be shared by all.

The Conference has accordingly provided a conversion plan under which bond-holders may make their contribution to the general sacrifice by themselves accepting the lower rate of interest which the existing position makes unavoidable.

The Conference, therefore, appeals to all sections of the people to recognise the position, and in the interests of the nation to accept the sacrifices which are involved.

A National Appeal Executive, consisting of the Prime Minister, the Leader of the Opposition, and the Chairman of the Commonwealth Bank Board, is appointed by the Conference to direct the conversion campaign.

To this Mr. Lang objected, on the grounds that it did not contain a specific pledge that definite action would be taken against the bond-holders failing to convert their holdings. He supported the voluntary conversion, with the following qualification :

The Government of New South Wales is prepared to subscribe to the resolution now before the Conference, subject to the following distinct limitation : That the Government of New South Wales shall not be obliged to take the necessary steps towards the reduction of 20 per cent. in all adjustable government expenditure as compared with the year ended June 30, 1930, including all emoluments, wages, and salaries by the governments whether fixed by statute or otherwise, unless and until the conversion loan shall have been successfully and effectively carried out.

Having reached agreement on this point, the Conference quickly completed its work. The Commonwealth Government had submitted its budget proposals to the Conference during the discussions with the Leaders of the Opposition. They embraced an average cut of 20 per cent. in salaries and wages on the 1929-30 standard. To achieve this, low incomes were to be cut 18 per cent., middle incomes 20 per cent., and higher incomes 25 per cent. Old age pensions were to be reduced from £1 to 17s. 6d

## The Question of Compulsory Conversion

for destitute persons, and to 16s. for others. Soldiers' pensions were to come down the full 20 per cent. except in the case of soldiers out of employment. The Government's taxation proposals were equally drastic. By raising the sales tax to 5 per cent. it would secure additional revenue of £4 million, by increasing the primage duty to 10 per cent. £2.4 million, and by increased income tax £1.5 million, giving a total new taxation of £7.9 million. From this must be deducted the yield of the special tax of 1s. 6d. in the £ on property income, amounting to £400,000. The net increase in taxation was, therefore, £7.5 million.

For the States, with the exception of New South Wales, the full 20 per cent. cut in expenditure according to the experts' proposals was agreed upon. In some cases, owing to the reduction of services, the estimated decline in expenditure in 1931-32, compared with 1929-30, will be over 30 per cent. For New South Wales Mr. Lang declared that he must look to the higher incomes for almost all the additional savings on salaries and wages. He proposed to appeal to the higher salaried officers to reduce their incomes to £500 a year. "Should they fail to respond to the Government's appeal to their patriotism, we would then have to introduce legislation similar to that which the Conference proposes should be brought in to compel the tax-free bond-holders to convert." It would be of no avail to attempt to persuade Mr. Lang that there were substantial differences in the two cases.

According to the estimates placed before the Conference, the deficits of the Governments in 1931-32 will be as follows : Commonwealth, £4.38 million ; New South Wales, £5.41 million ; Victoria, £1.31 million ; Queensland, £.76 million ; South Australia, £1.50 million ; Western Australia, £1.20 million ; and Tasmania, £.09 million, making a total of £14.65 million.

Before the Conference disbanded, the following resolution was passed : "The representatives of each govern-

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ment present at this Conference pledge themselves to give effect promptly to the whole of the resolutions agreed to at this Conference." It was proposed to embody these proposals in a Commonwealth Act for a conversion loan, a Debt Conversion Agreement Act signed by all the States and ratified by the Federal Parliament and the State Parliaments, a Financial Emergency Act embodying the cuts in expenditure, a Bill empowering trustees to convert their holdings of Commonwealth stock, and a Mortgage Relief Bill by the States. The last mentioned is designed to provide machinery whereby mortgagors could appeal to have their rates of interest reduced by  $22\frac{1}{2}$  per cent.

### IV. A RECORD OF ACHIEVEMENT

**T**HE Conference thus achieved three important things.

1. It has taken the problem of financial rehabilitation out of the arena of acute party controversy. This result is perhaps the most striking. It should go far to make the whole plan a success, and in particular to bring about a conversion of a very large proportion of the internal debt. About 40 per cent. of the debt is held by financial institutions—banks, savings banks, trustee companies, insurance companies—and most of this will be converted. If 60 per cent. of the remainder is converted there will be a balance of 25 per cent. outstanding, a result which should convince the outside world that Australia is prepared to make the necessary sacrifices to restore her finances and meet her external obligations. With the sanction of the holders of 75 per cent. of the debt there could be little objection to the application of compulsion to the remainder. The circumstances are exceptional and the operation is possible only because the seven governments of Australia have agreed to it. This agreement is embodied in a measure

## A Record of Achievement

similar to the financial agreement of 1927 made under section 105A of the constitution.

The plan has been assailed by two main classes of critics. In the Labour ranks there is opposition to the reductions in pensions and salaries; in Nationalist circles criticism has been directed rather to the blow struck at the institution of contract by the conversion proposals even in the modified form in which they were adopted. Critics fear not only that this agreement may serve as a precedent for like raids upon the public creditors whenever future Governments find themselves in difficulties, but also that the immediate result of the plan will be widespread refusal throughout the community to honour legitimate obligations. To the first of these fears it is some answer to urge that only a national emergency like the present could secure the consent of every government and parliament in Australia, without which such action would be impossible. So far as the second fear is concerned, a great deal will depend on the good faith with which the plan is carried through in the community at large. The risk attending default, the only alternative, would certainly be much greater and far more grave. It is useless to ignore the situation in which the plan was promulgated. The experts found that national income had fallen from £650 million before the crisis to £485 million in the current year. They estimate a further fall to £450 million next year. Loss of income from exports, unemployment at home, and a sudden fall in domestic prices, are the main causes of this decline in income. At this lower level of income the burden of fixed money claims would be intolerable, and the reduction in interest on the internal public debt appears to be the forerunner of an all-round reduction in these fixed money claims. More than half of the fall in the rate of interest is a mere adjustment of money payments to a lower level of prices, and involves no loss of real income. The rest is a contribution from the bondholder to the loss of national income. To those who reject the plan on grounds of unwarranted



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interference with contracts, its advocates reply that there is strong economic justice in the plan, and that what is economically sound and just should not be considered morally wrong.

2. The second achievement of the Conference is the abandonment of the policy of inflation, which had become a leading political issue. It is a remarkable change of front for the Commonwealth Government. To finance the remaining deficit some creation of additional bank credit may be necessary, and to this extent there will be a continuance of inflation. Such inflation will, however, be carried out under the strict control of the Commonwealth Bank, and with the prospect of balancing all budgets in the near future.

3. Finally, the Conference has definitely set Australia on the road to deflation, to an adjustment of her internal prices and costs in conformity with the fall in overseas prices. It has been objected that such a policy will reduce the spending power of the people and increase unemployment. This is a short-sighted view. A serious illness may be cured by surgical treatment, and the patient is naturally debilitated by the treatment, but the end justifies the means. The process of deflation in Australia is necessary to reduce costs and restore the margin of profit in private industry. With a moderate adjustment in industrial costs some secondary industries will be able to enter the export market, and new industries will be established to compete with imports. It is only in this way that Australia will be able ultimately to absorb her present unemployed. If the process of adjustment involves an immediate increase in unemployment it should soon be followed by an expansion of industry and the absorption of the displaced workers.

As an indication of the readiness of political parties to agree upon the necessary measures to implement the Conference plan, the quick passage of the modified Gold Export Bill by the Federal Parliament may be mentioned. This Bill provided for a reduction of the gold reserve against

## Party Reactions

notes from 25 per cent. to 15 per cent., for the restoration of the former ratio by 1934, and for the export of £5,000,000 in gold to meet Treasury Bills falling due on June 30. No objection was raised to this measure in the Senate.

The Commonwealth Savings Bank has reduced rates of interest on deposits by 1 per cent., and other savings banks will follow its example shortly. Trading banks have reduced their deposit rates by 1 per cent., and rates on advances are in general being reduced by the same amount.

### V. PARTY REACTIONS

**I**N the Federal Parliament and in those States where Labour governments are in office, *i.e.*, New South Wales, Victoria, and South Australia, it was expected that the Conference proposals would be received with some opposition by the rank and file of the Labour party. The Federal executive\* of the Australian Labour party met at Canberra on June 18 and 19, and after much controversy passed the following resolution by a narrow majority:

The executive of the Australian Labour party is opposed to that part of the plan which involves reductions of wages, pensions, and social services. The executive recognises that the Scullin Ministry's monetary policy has been thwarted by the banks and the reactionary Senate, and that widespread industrial stagnation and unemployment have been created and have led to a collapse of national finances. The executive is convinced that a Nationalist Ministry as an alternative to the present Labour Ministry would be abhorrent to the workers and disastrous to the country. It is of the greatest importance that the Labour Ministry should remain in office during this time of crisis to prevent the enemies of Labour from enforcing a ruthless policy of aggression against the hard-won rights of the workers. The restoration of the workers' conditions will depend upon the return of Labour at the poll with a majority in both Houses of the Commonwealth Parliament.

\* The executive of the party is the body appointed at the annual conference of branches and affiliated unions. It is naturally more radical than the caucus composed of the Labour members of both Houses of Parliament.

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Meanwhile, Mr. Scullin had pushed on the preparation of the necessary legislation, and had on June 18 introduced the Debt Conversion Agreement Bill. On the same day Mr. Theodore announced the budget changes involved in the plan. Approval by the party executive was thus anticipated, but Mr. Scullin could not have expected such a large minority in both the executive and the parliamentary caucus. Two ministers resigned, and when a vote was taken on the Debt Conversion Agreement Bill no less than 15 Labour members voted against it, and five others were "paired" among the "Noes." In South Australia Mr. Hill proceeded with his legislation despite opposition from the State executive of the party. In Victoria Mr. Hogan was confronted by a hostile party executive, which declared its complete opposition to the plan, and threatened Labour members who voted for it with a refusal of endorsement at the polls in the next election. Mr. Hogan ignored this decision, and proceeded with his legislation, though against much latent opposition in his party, which agreed to the plan by 22 votes to 11. The decisions of the State executives of the party in South Australia and Victoria, supported by the strong minority in the Federal executive, may yet lead to a serious split in the Labour party. In New South Wales Mr. Lang's first act was consistent with his proposal to secure all his economies in salaries from the higher salaried officers. On June 22 he had conferred with the Prime Minister and the Premier of South Australia, who with him had been appointed a sub-committee at the Premiers' Conference to consider: (a) the withdrawal of the Commonwealth writ against New South Wales; (b) the opening of the Government Savings Bank; and (c) the return of New South Wales to the Loan Council. Little has been made public concerning these conversations, but there were difficulties in restoring all the departments of the Savings Bank, and it must be assumed that the Conference failed. Thrown on his own resources, Mr. Lang submitted to Parliament a Bill for emergency taxation

## Party Reactions

commencing with 1s. in the £ on wages and incomes from £200 to £260, and rising to a flat rate of 5s. on incomes of £520 or over. The Bill passed the Lower House on June 26 and was rejected by the Legislative Council on June 29 by a large majority.\*

All the States except New South Wales have now passed the Debt Conversion Agreement Bill, and the other measures will shortly be submitted to the Parliaments. The Commonwealth has passed the Debt Conversion Bill providing for the reduction of 22½ per cent. in the interest on the internal debt. Bond-holders are to be given 14 days from the proclamation date in which to record their dissent. A successful conversion, as agreed upon at the Conference, will restore the finances of the Commonwealth and five States, and no difficulty is anticipated in financing deficits from loans or bank credit. The Commonwealth budget will be beneficially affected to the extent of approximately £4,000,000 by the remission of interest on the war debt under "the Hoover announcement." The deficit will then be only £1,400,000 for 1931-32, as compared with an estimated deficit of £20,400,000 in the figures submitted to the experts in May. Such is the result of bold measures applied without regard to political consequences, and supported by the generous help of the British Government in agreeing to forgo temporarily both principal and interest on the war debt.

## Australia.

July 2, 1931.

\* At the time of writing (July 2) Mr. Lang has reverted to the legislation in force last year for the relief of unemployment and economy. The tax of 1s. in the £ for relief of unemployment has been re-enacted by the House of Assembly together with the Bavin Administration's Act reducing public service salaries by 8½ per cent.

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### POSTSCRIPT.

The Financial Emergency Act, giving effect to the agreed proposals for economy, came into force on July 20. On July 10 the Treasurer introduced the budget. He showed an accumulated deficit on June 30 of £21,050,000, of which £10,757,000 was incurred in 1930-31, including £3,834,000 of interest on New South Wales loans which had been paid by the Commonwealth. For 1931-32 he budgeted for a deficit of £5,176,300, but this would be reduced to £1,148,300 by the remission of war debt service under the Hoover plan. Increased income tax, super tax and sales tax, and new primage duties, would together yield £9,800,000, but total revenue from taxation would be about the same as in 1930-31. Prospective savings totalled £8,500,000. An attempt by the Opposition to grant only three months' supply was defeated by 34 votes to 19.

The New South Wales Government was forced to appeal to the Loan Council, on July 20, for an advance of £500,000 to meet civil service salaries and wages for July. The Council made its help dependent on the following conditions: (1) the State to assume responsibility for the payment of interest on the public debt; (2) the State to rejoin the Loan Council; and (3) legislative effect to be given in New South Wales to the decisions of the Premiers' Conference. On July 28 Mr. Scullin announced that Mr. Lang had accepted the conditions, but the Loan Council refused to advance the money until the rehabilitation plan had actually been given the force of law in New South Wales, and on August 6 salaries totalling £270,000 were withheld from State servants, including teachers and police. Meanwhile interest on the State's overseas debt amounting to £632,000 due on July 31 had been paid by the Commonwealth. On July 30 Mr. Lang introduced a Bill to reduce all public salaries to a maximum of £500 a year. The Legislative Council substituted a sliding scale of reductions, and on August 7 a compromise Bill with a sliding scale ranging from 8½ per cent. on salaries of £200 a year to 33½ per cent. on salaries exceeding £1,500 passed both Houses. Thereupon the Loan Council agreed to authorise the advance of £500,000, Mr. Lang's request for £2,000,000 for August and £1,000,000 for September being held over.

By the end of July all the parliaments had passed the Loan Conversion Bill, and on August 10 the conversion campaign opened under a National Appeal Executive consisting of Mr. Scullin, Mr. Lyons and Sir Robert Gibson. A period of 21 days was allowed for notification of dissent, extended to six weeks for holders absent from Australia. The conversion does not apply to loans raised outside the Commonwealth. The Commonwealth Bank immediately converted its holdings, which amounted to £57,000,000. On the second day of the campaign the Prime Minister announced that £150,000,000 had already been converted.—EDITOR.

## SOUTH AFRICA

### I. THE SESSION

IN an earlier article\* an account was given of the position of parties in the Union, of the chief features of the first part of the 1931 parliamentary session, and of the main points in the general and the railway budgets. The prediction was hazarded that the session would end early in June. The prorogation, in fact, took place on June 6.

The last part of the session was, naturally enough, taken up mainly with the discussion of the budget and of the Government's financial measures. The clouds driven up by the economic blizzard hung heavily over the scene. Before the session ended the Opposition were able to adduce evidence in support of their contention, which in fact the Government's spokesmen at that stage did not deny, that the revenue estimates would prove to be over-optimistic, and that on both the general and the railway accounts the year would probably end with deficits a great deal larger than had been originally foreshadowed. The financial gloom still remains unrelieved, and in speeches made since the prorogation ministers have been hinting at further economies and railway "cuts." The presentation of next year's budgets promises to present most unenviable tasks.

At the root of the country's troubles is, of course, the effect of toppling world prices on the position of its primary producers, and during the last fortnight of the session the

\* THE ROUND TABLE, No. 83, June 1931, p. 672.

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Government came forward with yet another proposal designed to assist a section of the farming community—in this case the maize growers, whose industry is of fundamental importance for most of the Orange Free State and for much of the Transvaal. This proposal, which has passed into law as the Mealie Control Act, is an interesting experiment in agricultural economics. In essence it is an attempt to secure for the producers a price above the world price, despite the existence of a surplus of production which has to be sold on the world market. South Africa's internal consumption of maize may be estimated to be, roughly, 12 million 200-lb. bags annually. In good years the production is anything up to 25 million bags; last year it was certainly not far short of that. This year, owing to drought conditions, it will probably be about 15 million bags, leaving 3 million bags for export. Now, at current world prices the export price of maize for the South African producer works out at about 3s. a bag—for him an entirely unremunerative sum—and it is this figure which would, in an uncontrolled market, determine the price that he would receive. The aim of the Government's policy is to secure for the farmer a price of about 7s. 6d. a bag. To this end they have arranged, by means of a limited government guarantee, that the Land Bank should give an advance of 7s. 6d. a bag in respect of maize sold through co-operative societies. This, however, in itself would not be sufficient to secure the object intended, for the majority of the producers, and especially the large producers, have hitherto fought shy of the obligations of membership of the co-operative societies, and have preferred to sell through private traders. There is the danger that the co-operative societies might be left with the whole burden of the exportable surplus, and with the loss contingent on the low world prices prevailing. This the Mealie Control Act is designed to prevent. It lays it down that all purchasers of one hundred or more bags of mealies a

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month in the course of trade must hold for export a certain proportion of their purchases, in accordance with a quota to be fixed by the Minister of Agriculture before the end of August. Thus, it is contemplated, the burden of the surplus will be shared, and producers generally will be assured a price approximating to that of the Land Bank advance, with no danger of loss through the inability of the co-operative societies to realise the amount of that advance. The home consumer is of course deprived of the benefit of the low world price, but in such matters he is the last to be considered.

This legislation is admittedly experimental, and almost certainly temporary. It was hastily drafted, and was rushed through a weary House. Various flaws have already been exposed. Pending the fixing of the quota, the market is disorganised, and the possible effects of an error of judgment in that determination give cause for much anxiety. If the quota figure is placed too low, the purpose of the Act will be partially defeated; if it is placed too high internal prices will rise, and far-reaching repercussions may result. The minister has taken on himself no easy task.

So much for economic questions. For the rest, the most important issues that occupied the attention of members were hardly, if at all, debated on the floor of the House. The Joint Select Committee of Senate and Assembly continued its examination of the Prime Minister's Native Bills\*—its report was merely to the effect that it had not completed its labours. It will probably be given the opportunity of doing so as a commission during the recess. If so, the Native issue will loom large during the 1932 session, perhaps entailing an early general election.

The provincial problem† has also been casting a shadow of fluctuating intensity over the parliamentary scene.

\* THE ROUND TABLE, No. 78, March 1930, pp. 418-19; and No. 79, June 1930, pp. 644-5.

† THE ROUND TABLE, No. 73, December 1928, pp. 206-210.

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It is finance that is bringing this issue to a head. The Provincial Councils, notably those of the Free State and the Transvaal, are again in difficulty. They cannot pay their way. Some revision, at least of the financial relations, is imperative. It is clear, however, that the Government would like to seize the opportunity of dealing with the problem in its wider aspects as well. The provincial system is, of course, a constitutional makeshift, based on a compromise, which was, perhaps, inevitable at the time of union, but which has not been able to secure for itself the roots of permanence. It is significant that while the Nationalist party, when in opposition, stoutly championed provincial rights, Nationalist ministers have veered increasingly towards abolition of the system. It is clear that to-day the Cabinet as a whole is ready to follow that course; it is not so clear that it envisages the necessity of developing an adequate system of local self-government, more especially in the rural areas, to take the place of the Provincial Councils when they disappear. Its general tendencies are, in fact, rather towards centralisation and bureaucracy and "administrative lawlessness."

But the Nationalist party as such is still far from being abolitionist, and it is probably because of this fact that early in the session the Government approached General Smuts with the request that the Opposition should participate in a conference for the formulation of an agreed provincial policy. The South African party has in the past been much more inclined to favour provincial reform than the Nationalists—for that reason it might have been expected to welcome such an invitation. After long consideration, however, it decided to reject it. The chief opposition to acceptance came from the Natal members, who, with one exception, belong to the South African party, and constitute a solid and somewhat distinctive bloc within the party. Natal favoured federation rather than unification at the National Convention; it has remained sturdily federationist throughout. It still prides itself

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on its specifically Natal point of view. It is predominantly British; it is geographically isolated; it is acutely sensitive to any impairment of its individuality. Throughout it has clung to its Provincial Council, hoping that it might yet grow to be a State parliament in a federal South Africa. And when, a few years ago, these feelings showed signs of weakening under pressure of the unpopularity of provincial taxation, the flag controversy came along to confirm and strengthen them. For a time Natal became far more British than Great Britain; its determination not to be swamped by the rising tide of what it regarded as anti-British secessionist nationalism was intensified, and the Provincial Council stood out more than ever as the palladium of its distinctiveness.

It is, therefore, not to be wondered at that Natal should have taken fright at the sinister intent which seemed to lurk in the Government's invitation to a provincial conference. But it was not Natal alone that took fright. For the proposal came at a time when the country as a whole was having its attention directed to those centralising tendencies of the Government's policy, to which reference has been made above. Several of its measures, both of minor and of major importance, during the last two sessions of Parliament, have indicated those tendencies. Many people, who had been critical of the provincial system in the past, became apprehensive of the prospect of a further restriction of local liberty. It was clear that a revision of the provincial system meant, as far as the present Government is concerned, merely centralisation and not a new and better system of local government—and, in the outcome, the whole of General Smuts's parliamentary party supported him in declining the invitation to any conference in which abolition would figure on the agenda. The Government has, therefore, been left to deal with the problem by itself. The indications are that it will tackle merely the financial aspects, leaving the constitutional position substantially unaltered.

## South Africa

More effective than anything else in hardening the opposition to any change in the provincial system which would lead to centralisation was the Higher Education Control Bill referred to in a previous article.\* In that Bill, it will be remembered, the minister sought to increase his powers of financial control over universities and technical colleges. It was drafted in such a way that it would have been open to him to use those financial powers in order to force upon the institutions otherwise unacceptable policies in regard to bilingualism and the barring of oversea appointments. The Bill was vigorously attacked in Parliament, notably by General Smuts and J. H. Hofmeyr. The fight which the Opposition put up attracted much more attention outside than educational questions usually do. Certainly also the minister's desire to increase his authority in relation to institutions of higher education, with the prospect of that authority's being used in a manner unacceptable to a considerable section, had the effect of strengthening the feeling in favour of retaining through the Provincial Councils some measure of local control over other branches of education. As for the Bill itself, the fight put up by the Opposition was not without effect. Amendments were secured which bring under parliamentary control powers which would otherwise have been exercisable at the minister's arbitrary whim. Partly for that reason, partly, also, because of the vigour of the criticism evoked during the discussion, it is improbable that, for some time at least, the enactment as finally passed will be used for purposes other than of a specifically financial character. But even so it trenches far too drastically on the sound principles of university autonomy, and the universities will doubtless look to the Opposition to carry out their pledges to repeal it, as soon as they are in a position to do so.

\* THE ROUND TABLE, No. 83, June 1931, pp. 677-8.

## Statute of Westminster and Privy Council

### II. THE STATUTE OF WESTMINSTER AND THE PRIVY COUNCIL

ON April 14 the Prime Minister introduced a motion into the House of Assembly approving the draft clauses and recitals adopted by the 1930 Imperial Conference for inclusion in the Statute of Westminster. The Assembly, which had already discussed the contents of these clauses on a previous occasion, confined itself in the short debate that followed to one main issue. There was, indeed, some reference on the part of Nationalist speakers to the so-called "right of secession," but the Opposition did not allow itself to be drawn. The issue referred to was raised by General Smuts, who moved as an amendment that the words "on the understanding that the proposed legislation will in no way derogate from the entrenched provisions of the South Africa Act" be inserted in General Hertzog's motion.

Those not conversant with South African politics will probably fail to understand the significance of this amendment. It obviously has no legal force, since it is not to be included in the Statute of Westminster itself. It is, in fact, the retort of the House of Assembly to an agitation for the power to get rid, by a bare majority, of clauses 35 and 152 of the Act of Union entrenching the native franchise of the Cape Province. Those clauses, as well as clause 137, which safeguards the rights of our two official languages, can only be repealed or altered by a two-thirds majority of both Houses sitting together.

Some time before the Prime Minister left for the last Imperial Conference, a prominent Nationalist wrote a series of articles designed to prove that the Parliament of the Union, having become a "sovereign body" as a result of the declaration of the 1926 Imperial Conference, could be bound by no instrument limiting its powers, and that it could, therefore, repeal the constitution given it

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by the British Parliament and substitute one nearer its heart's desire, with the "entrenching" stipulations omitted. The matter was taken up by the Cape Nationalist Congress, which asked the Government to appoint a committee of experts to report upon the subject. General Hertzog categorically repudiated, at the time, this ingenious method of depriving the Cape native of his vote. Now, in his reply to General Smuts' amendment, he argued the point more fully. The gist of his argument was that our Parliament cannot destroy the instrument which created it and by virtue of which it performs its functions. He did not, therefore, appreciate the utility of General Smuts's amendment, but in order to achieve unanimity he accepted it, whereupon the House of Assembly passed the amended motion without a dissentient voice, grateful, in the Prime Minister's words, that we have now come "to finality with regard to our constitutional freedom."

During the course of the debate one of General Hertzog's followers also raised the question of the Judicial Committee of the Privy Council and its position in our judicial system. The Prime Minister replied as follows :—

With regard to our relation to the Privy Council we can do exactly what we like. It is merely a question of what we want or do not want. . . . I want, however, to say again that we must be careful with regard to such matters. It is a matter which I would like to be considered first of all, and it can do no harm, when we are doing anything final, first to consult the Bench in connection with it.

During the second week of this month the Judicial Committee caused a considerable stir in legal and political circles in South Africa by announcing that it had given a native leave to appeal in a test case which involves the validity of the Native Administration Act of 1927 as far as the Cape Province is concerned.

The origin of the case in question lies far back in the history of native landholding in the old Cape Colony. Natives were first settled in "locations" on individual

## Statute of Westminster and Privy Council

tenure in the 1840's, and after that time the Cape Government systematically encouraged the conversion of communal into individual tenure among natives. Since 1854 individual ownership of real property of a specified value has been one of the qualifications of the Cape franchise.

As the years passed, native title-deeds fell into confusion. To quote the words of the permanent head of the Native Affairs Department :—

Since the natives were unable to afford the European system of conveyance and transfer with its fairly heavy dues, allotments have passed from one to another without legal sanction or record of the transactions. I do not suppose that to-day 10 per cent. of the people on the land correspond with the title-deeds. We decided to make a clean sweep and to appoint a commissioner . . . to hold a court of enquiry. He will require every man sitting on a piece of land to show reasonable proof of ownership. If the court finds he is the owner it will give him a new title-deed in his own name . . . which he can transfer by going before a magistrate and paying only half-a-crown for a revenue stamp.

The Commissioner's instructions were framed in accordance with the provisions of the Native Administration Act. It seems that large numbers of natives were summoned to appear before the Commissioner with their title-deeds in order to prove their rights to their land and receive new titles. These natives live in that portion of old Kaffirland (the so-called Cis-Kei) which for a long time has been administered as an integral part of the Cape Province and where individual landownership has made most headway among the natives. Sixteen thousand of them refused to hand in their title-deeds, among whom was the Reverend H. K. Ndobe. Ndobe was sentenced by the Commissioner to pay a fine of half-a-crown for contempt of court. He appealed to the Eastern Districts Division of the Supreme Court and thence to the Appellate Division.

The case made on his behalf was that the Native Administration Act (under which the Commissioner was acting) on five points interfered, or might interfere, with the safeguarded rights of native registered voters in the Cape

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Province, and that, as it was not passed by a two-thirds majority, it was *ultra vires* the powers of the Union Parliament.

The Eastern Districts Court decided against Ndobe on the ground that the Native Administration Act did not directly affect native voters' rights. But the Court of Appeal based its decision on different grounds. It held that the necessity of a two-thirds majority applied not merely to an Act directly affecting native voters' rights, but to any Act which even indirectly affected native voters. It found that the Act, as it stood, might affect native voters' rights, but assumed that Parliament could not have intended this and therefore read into the Act a protective reserving clause, and thereupon dismissed the appeal.

Such are the issues involved in the case of Rex versus Ndobe. Whatever the outcome of the appeal to the Privy Council may be—but especially if it succeeds—the question of “our relation to the Privy Council” is almost bound to become a practical political issue and to be seriously raised in Parliament when it meets next January. Already prominent Nationalists have declared that it is “intolerable” that an external court should thus interfere in our affairs, and especially in our Native affairs. It may, however, be found that the abolition of the right of the Privy Council to intervene is not such a simple matter as at first sight it appears to be.

## III. THE UNION CENSUS

AT midnight on May 5-6, 1931, there was a numbering of the people throughout South Africa. In the terms of the South Africa Act of 1909, a European census has to be taken every five years to supply the data for the quinquennial reallocation of seats in the House of Assembly

## The Union Census

among the four provinces. A census of all, Europeans and non-Europeans, falls due every ten years. One such complete enumeration was made in 1911 and another in 1921; the third fell due this year.

It was very desirable that this complete census should be made, even though non-Europeans do not enter into the calculations of the Commissioners entrusted with the reallocation of seats. Many South Africans realise that their country is an unrivalled human laboratory of first-class interest to all who are anxious to know what happens when various nationalities, races and cultures essay to live side by side in a given territory. They felt that this census would give information of the highest importance to all whose task it is to order aright a crowded and rapidly shrinking *orbis terrarum*.

Further, for some years past, the Nationalist-Labour Ministry has been attempting to carry a comprehensive body of laws, notably the repeal of the Cape colour-blind franchise, which shall safeguard “White South Africa” against the rising tide of colour. Part of the justification pleaded for a policy which savours much more of those of the two ex-republics and Natal than of the old liberal Cape Colony, is the belief that the decade 1911-21 saw an alarmingly rapid increase of non-Europeans, especially of the already greatly preponderant natives (Bantu), an increase which threatened to swamp the Europeans. Calculations built up on this very short base-line of ten years created something of a panic as men looked twenty or thirty and forty years on, a panic which underlies much of the actual and proposed Native legislation. These calculations have been subjected to most damaging criticism by competent men who hold that the apparent increase is in the main due to the much more complete numbering of the Bantu in 1921 than ever before, and not to natural increase. These men looked for the confirmation or the disproof of their reassuring arguments to the census of 1931.



## South Africa

The census authorities set to work in a fashion which bade fair to meet these demands.

The first object of the Census (they told us) is to obtain reliable figures of the population of the country, showing how the population is made up, that is to say, the racial classification . . . including persons of mixed race ; and further, how the population is distributed throughout the provinces, towns, villages, etc. . . . The habits, customs and condition of the people are always gradually changing, and the direction and extent of these changes can only be measured by the comparison of the results of successive censuses.

Unfortunately, on the heels of this unimpeachable statement came an eleventh-hour decree of the Government. "The Census of 1931 is now to apply to Europeans only. All references in this pamphlet to the enumeration of non-Europeans are therefore cancelled." And to avoid the risk of confusion, many thousands of non-European census forms which had already been printed had to be destroyed. Avowedly, the cancellation was due to the need of economy. Times are admittedly bad, though not so bad in gold-producing South Africa as in many other parts of the world. But surely they are not so bad as to warrant the withdrawal of a comparatively small expenditure which would have given the world, and above all the Union, information which they sorely need. However, there it is. The Union held merely a semi-census, a numbering of the People instead of a counting of the population.

As regards the dominant 25 per cent. of that population, we shall, allowing a margin for unsuspected Europeans who were not given census forms, learn how many are South African born and how many not, how many are married or otherwise, how many are bilingual, how many are clerks or bricklayers, how many are Christians, Jews, agnostics or unclassified ; we shall even know how many dwell under slate roofs and how many under the humbler corrugated iron. But of the darker-skinned 75 per cent. we shall learn nothing. The cry goes up that this great

## The Union Census

majority is invading every walk of life except membership of Parliament and certain skilled occupations from which they are debarred by law ; yet the major factors of that problem are all to remain *x*. Presumably, till the next real census falls due in 1941, we shall have to do the best we can with figures which are already ten years old. In this vital matter, the Union Government stands alongside poor Jim Jay "who got stuck fast in yesterday." But they will have to legislate for to-day—and to-morrow.

Some of the preliminary results of the census are none the less interesting, always bearing in mind that they refer to Europeans only. That section of the population has increased during the past five years (1926-31) from 1,677,322 to 1,825,527, an increase of 8·84 per cent. as compared with 10·34 per cent. between 1921-26. Our males still out-number females considerably : 929,516 against 896,010, though the women are slowly gaining in numbers on the men. Three tides can be traced : one from the Cape and Free State to the more highly industrialised Transvaal and Natal ; another from the rural areas to the towns ; the last, hardly perceptible, into the Union from outside. A short table will best illustrate the first tendency :—

|                   |    |    |    | Expected natural<br>increases | Enumerated<br>increases |
|-------------------|----|----|----|-------------------------------|-------------------------|
|                   |    |    |    | (in percentages).             |                         |
| Cape              | .. | .. | .. | 7·88                          | 5·67                    |
| Natal             | .. | .. | .. | 6·10                          | 11·65                   |
| Transvaal         | .. | .. | .. | 8·93                          | 14·34                   |
| Orange Free State | .. |    |    | 8·78                          | 1·16                    |
|                   |    |    |    | <hr/>                         | <hr/>                   |
| Union             | .. | .. | .. | 8·20                          | 8·84                    |

\*As for the flow from the countryside to the towns, it is going on fast. Nine large urban areas accounted for 74·1 per cent. of the total increase ; the rest of the Union for the remaining 25·9 ; and it should be borne in mind that in the rural areas families still rule large. For sheer size,

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Johannesburg takes pride of place (201,784 as against 170,741 in 1926) with Cape Town next (146,249 as against 130,568) and Durban third (86,296 as against 70,883). But it is worth noting that one of the Cape coast towns, Port Elizabeth, shows the greatest proportionate increase. In most districts the small towns have also gained at the expense of the farms.

Thirdly, immigration by land and sea, including our happily increasing number of visitors as well as the considerable number of those who pass through the Union to and from States further north, shows a slight balance over emigration: 202,721 arrivals as against 190,226 departures, a modest gain of 12,495 in five years.

The census with all its shortcomings does give us the basis for a reallocation of seats in the Lower House. At the time of union in 1910, these totalled 121. Of these the Cape held 51, since it had been deprived of at least six seats for the benefit of the two smaller provinces, which were given specially high representation; the Transvaal held 36, Natal 17, and the Orange Free State 17. To-day the figures are 58, 55, 17 and 18 respectively in a House of 148. All that can be said at the moment is that the coming delimitation will probably give the Union an Assembly of 150, which is the maximum that the South Africa Act contemplated "unless and until Parliament otherwise determines," and which also sees the end of the special treatment of Natal and the Free State. In the new House, the Cape should have 61, the Transvaal 57, and the two smaller provinces 16 each.

South Africa.

July 1931.

## NEW ZEALAND

### I. ECONOMIC AND FINANCIAL LEGISLATION

ON March 17 the Prime Minister moved the second reading of the Finance Bill, which (*inter alia*) made a 10 per cent. cut in civil service salaries and gave power to the Arbitration Court to revise wages payable under awards. A wrecking amendment moved on behalf of the Labour party having been defeated by 46 to 21 and the Bill read a second time, the Labour party organised its forces for a stubborn stand on the committee stage. In opening the debate the Prime Minister had declared that "every attempt should be made to see that the cost of living is brought down so that in the end the real wages will not be different." So Mr. Fraser, member for Wellington (Central), opened the attack in the committee with a cleverly devised instruction to the committee of the whole House "That it hath power to make provision in the Bill for ensuring that the cost of living, including food, clothing, and rent, be lowered simultaneously with, and in proportion to, the amount of reduction in the salaries of the Public Service employees as specified in Part I of the Bill; and simultaneously with, and in proportion to, the amount of reduction in wages as ordered from time to time by the Arbitration Court under Part II of the Bill." The Speaker ruled that the instruction was in order, but it was defeated. The Labour party stubbornly continued their stone-wall tactics. Hitherto, there had been no provision for any

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form of closure in the Standing Orders of the House of Representatives, which had relied upon a time limit and the sweet reasonableness of members to keep down the length of speeches, and so from March 23 to 27 the Opposition were able to waste the time and money of the country in obstruction that obviously could achieve nothing. A new standing order, to operate during the currency of the twenty-third parliament, has, however, now been passed, which, subject to certain conditions, enables a question to be put and a motion to be carried without further debate.

After numerous amendments had been made and the closure applied on three separate occasions, the Finance Bill was read a third time with two alterations suggested by the Leader of the Reform party. The first enabled railway servants to arrange with the general manager for the manner in which their wages were to be reduced and for their exclusion from the operation of the Act, provided that the reduction was not less than that prescribed in the Act, while the second enabled the Governor-General to make regulations for the relief of cases of hardship, and thus to give effect to the Prime Minister's promise to set up a hardship tribunal to deal with the cuts in the civil service. The Bill came into force on April 1.

Two emergency Acts had smooth and rapid passages. The first, the Mortgagors' Relief Act, applies to mortgages and other secured loans and to agreements for the sale of land. It entitles the mortgagor or purchaser to receive notice before powers of sale or other rights are exercised against him by the vendor or mortgagee (even if it is the Crown), and empowers the courts in certain cases to grant him a respite.

The second, the Immigration Restriction Act, which was called for by the Unemployment Board owing to the influx of unemployed from Australia and elsewhere, was generally considered to be a necessary measure, but it was subjected to a certain amount of criticism on account of the unrestricted power which it gives to the Government, for any economic

## Economic and Financial Legislation

or financial reason, to issue Orders-in-Council prohibiting persons of any specified nationality or race, or of any specified class of occupation, from landing in New Zealand. No such person may land without a permit granted by the Minister of Customs. The Act is to continue in force until December 31, 1933.

On April 8 the Prime Minister moved the second reading of the Bill to provide relief in connection with the Hawkes Bay disaster. Shortly after the earthquake he had announced that the State Fire Insurance Office would make *ex gratia* payments to people insured by it against the risk of ordinary fires only, if their property had been destroyed or damaged by fires arising out of the earthquake. The total amount of such payments was stated to be about £50,000. The other insurance companies, whose policies also exclude the risk of fire damage as a result of earthquakes, have not, however, followed the lead of the State Fire Office.

The original idea of the Government and of the business community in the earthquake area was to raise a special loan on the London market, but, on making enquiries, the Prime Minister considered that the sensitive condition of that market made it unwise to seek a loan there. In the Bill, therefore, he proposed as a first instalment to make available a sum of £1,500,000 to be borrowed from the Reserve Fund, a nest egg of liquid securities kept in London for realisation in case of emergency. Of this sum £1,250,000 will be used to assist, either by grant or loan, persons who have suffered loss by reason of the earthquake, and £250,000 will be available for loans to local bodies. The Bill proposed that the loan from the Reserve Fund should be recovered by means of a special insurance tax of 1s. 6d. per cent. on the value of insured property to be paid by insurance companies, which would then add the amount to the insurance premiums payable by their clients, and by means of an insurable property tax of 1s. 6d. per cent. on the value of uninsured buildings and their contents

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When the loan from the Reserve Fund was repaid, say in five or seven years, the proceeds of the tax were to be devoted to building up a fund to meet similar emergencies in the future.

The Bill also set up (a) an adjustment court consisting of the Chief Justice and two nominated members to deal with rights and obligations affected by the destruction of documents, etc., and with applications for relief from obligations and encumbrances which as the result of the earthquake have caused hardship—a court clothed with “extraordinary powers,” to use the Prime Minister’s own words, of interference with the law of contract, and with the right to accept any evidence it thinks fit, to hear proceedings in camera, and to make such orders as it deems just and equitable, and (b) a rehabilitation committee of five persons appointed by the Minister of Finance to consider applications for assistance.

An amendment moved by Mr. Barnard, member for Napier, was a fair indication of the views of the Hawkes Bay people. It suggested the following steps: a loan of four millions, further negotiations with the Fire Underwriters Association to obtain the co-operation of the fire insurance companies in ascertaining losses and making financial assistance available, the immediate completion by the Public Works Department of the demolition of ruins and the removal of débris in Napier—the cost to be found out of the fund—and the acceptance of the general rule that houses and household goods destroyed or damaged should be restored as a free grant to the full extent of the loss sustained. Mr. Barnard said that estimates of the number of applications for relief ranged from 8,000 to 40,000. Other members from Hawkes Bay constituencies insisted that from 4½ to 5 millions would be required. The criticism of the Bill in the House was sympathetic, non-partisan and constructive. Eventually it was referred to a Select Committee, which suggested an amended basis for the insurance tax and commended to the Government a

## Economic and Financial Legislation

series of resolutions framed mainly with the object of giving relief in cases outside the provisions of the Bill. But the hostility to the insurance taxes was so strong that Mr. Forbes decided to hold that part of the Bill over until next session. With this obstacle out of the way the Bill rapidly passed into law.

In the course of the final debate Mr. E. A. Ransom, the Minister of Lands, gave the House the following information:—

|                                                                                                                                  |            |
|----------------------------------------------------------------------------------------------------------------------------------|------------|
| Total insurance cover on buildings and contents in earthquake area .. .. .                                                       | £4,131,377 |
| Approximate estimate of losses caused by the earthquake:                                                                         |            |
| Government losses .. .. .                                                                                                        | 580,000    |
| Local body losses (including Napier Hospital) ..                                                                                 | 500,000    |
| Private and business losses .. .. .                                                                                              | 2,200,000  |
| Total losses .. .. .                                                                                                             | £3,280,000 |
| Total financial assistance available or in sight, including £225,000 earthquake insurance payable by insurance companies .. .. . | £2,226,000 |

The Adjustment Court and the Rehabilitation Committee have been formed on non-party lines and have started on their work.

In introducing the second Finance Bill on April 16, the Prime Minister stated that the estimated deficit for the current year was £5,500,000, and that the following economies were provided for:

|                                          |            |
|------------------------------------------|------------|
| Reductions in salaries and wages .. .. . | £1,390,000 |
| Other economies .. .. .                  | 700,000    |
| Use of reparation moneys .. .. .         | 330,000    |
| Additional postal revenue .. .. .        | 900,000    |
|                                          | £3,320,000 |

leaving a gap of £2,180,000, to meet which proposals would be made in June.

The No. 2 Bill provided for a number of economies,

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including the payment to the Consolidated Fund of the amounts saved by the "cut" effected by the Finance Act, No. 1, in the salaries of employees in the trustee and insurance departments. Considerable opposition was raised both inside and outside Parliament to the transfer from the government Life Insurance Department, on the ground that it had been widely advertised that all the profits of that department belonged to the policy holders. Other economies consisted of the reduction of the family allowances from £4 to £3 12s., and of the maternity allowance paid under the National Provident Fund, popularly called the "Baby Bonus," from £6 to £4, the abolition of certain educational bodies, the combining of secondary and technical schools for purposes of control, and the abolition of certain scholarships. Power was also given to the Governor-General to regulate the import and export of coined silver. Certain clauses of the Bill met with opposition from the Labour party, but it was eventually passed practically unaltered.

The legislation promised for the "depoliticalisation" of the railways took the form of the Government Railways Amendment Act 1931, which met with a good deal of hostility. Mr. Coates, the Leader of the Opposition, agreed that the railways should be freed from political control, but he argued that the Bill fell short of its objective. Mr. Holland, the leader of the Labour party, urged that co-ordination of transport was required rather than depoliticalisation. Other members suggested that the Bill should have come up at the same time as the Transport Bill. In its original form it set up a government railway board of three, but made no provision for the investigation by the board of the position of new railways now in process of construction, notably the South Island Main Trunk line, about which there has been much controversy. The inclusion of this power, suggested by the Opposition, was agreed to. The membership of the board was eventually increased to five; the Chairman to receive £1,000, and

## The Position of Parties

each of the other members £500 a year and travelling allowances.

The general functions of the board, which has already been constituted and has begun to function, are to manage the railways on the most economical lines as a public service in the interests of the people of New Zealand and as an essential factor in the development of trade and industry, with a view to obtaining the maximum of efficiency and maintaining a proper standard of comfort and convenience. The functions (with certain exceptions) of the minister, the general manager and the permanent head of the Railway Department are transferred to the board, which is to appoint and control the staff—the general manager, however, being appointed by the Government on the recommendation of the board. The board may not purchase land for more than £1,000 without the approval of the Government, nor without the approval of the minister purchase stores where the total amount under any contract exceeds £10,000.

New lines are not to be constructed until a report has been laid before both Houses of Parliament and a resolution approving the work has been passed by them, similar provision being made for the curtailment of work upon any railway under construction.

The board may close unprofitable lines, and, with the approval of the Government, dispose of land and other property in respect of such lines. The minister may order inspections and direct inquiries into accidents.

## II. THE POSITION OF PARTIES

THE session ended on April 27, having lasted nearly seven weeks in lieu of the three that Mr. Forbes anticipated. The Prime Minister bore the burden of the work practically single-handed, for he piloted through all the Bills himself, showing himself as strong in determination as in physique, and his almost phlegmatic

## New Zealand

imperturbability proved a valuable asset throughout the strain of the Labour obstruction.

During the session, petitions were presented to the Prime Minister and the Leader of the Opposition from commercial circles, in identical terms, urging the necessity for the establishment of a national government comprising the United and Reform parties. The day after the session closed, the Prime Minister, in a dignified statement to the press, called attention to "the necessity of having a strong government to control affairs while the Dominion is passing through the present serious economic crisis," the issues being "too serious to allow of personal or party considerations standing in the way of securing the strongest possible government to control the affairs of the Dominion," and he expressed his feeling that the time had arrived for the formation of a national party, which would go a long way toward the restoration of confidence both in the Dominion and in the Old Land. On behalf of the members of his party, who were unanimously behind him, he therefore invited Mr. Coates and his party, and all others who had the best interests of the Dominion at heart, to co-operate in the formation of such a party.

To effect this (he said) my colleagues have intimated to me their willingness to place their resignations in my hands, so that the leader of the new party, when selected, will not be hampered in any way in his choice of a cabinet. And to provide that the question of leadership shall not be an obstacle in the way, I am prepared to abide by any decision of the new party in regard to this matter.

The Reform leader made his reply on May 6. He declined to join in what he stigmatised as an attempt to remove from the electors the right to determine whether the United party was entitled to change its declared policy. The Reform party's policy had not changed, and the United party's alliance with the Labour party, based on a common animosity against the Reform party, had come to an end, not because the United party was converted to the

## The Position of Parties

Reform policy, but because Labour was dissatisfied with the latest policy of the United party—a policy, by the way, which is in the main identical with the one suggested by Mr. Coates himself and recognised by the bulk of the community as necessary to weather the storm. Reform declined to become part of a party influenced by fear of the accession of Labour to power, for fusion in a national party would, in his opinion, set up class government. The Reform party claimed to represent the whole people, was proud of its record of service, and declined to be torn up by the roots at a moment's notice. He considered that the proposed new party would contain none of the elements of stability or harmony and all the seeds of inefficiency. Comparative absence of criticism in matters of administration did not mean that the Reform party possessed any substantial degree of confidence in the administrative ability of United ministers. Mr. Coates closed his statement with the suggestion that the present Government should carry on "with the Reform party supporting such measures of economy and finance as the present crisis demands," and that he was prepared to furnish a small committee of Reform members to confer with ministers before legislation was introduced.

The contrast between the statements of the two leaders seemed at the moment to have raised the *mana* of Mr. Forbes and depressed the stock of Mr. Coates. Negotiations were closed by Mr. Forbes on May 13 with an "appeal to every one in the community for co-operation and support in facing this grave national crisis." In view of Mr. Coates' rejection of his offer, he said, "it remains for me and the Government over which I preside to do our best under the circumstances. Measures covering the postponed portion of the financial policy will be submitted to Parliament early next session, and the Government will stand or fall by their acceptance or rejection."

The result of the Hauraki by-election, held on May 26, following the death of Mr. A. W. Hall (Reform), caused

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jubilation in the ranks of the Reform party. It seemed to have justified Mr. Coates' refusal to fuse, and he had an enthusiastic reception on his subsequent visit to the South Island. The leaders of all three parties took part in the campaign. The result, as compared with 1928, was as follows :

|         |                     | 1931. |            | 1928. |
|---------|---------------------|-------|------------|-------|
| Reform  | .. Mr. W. W. Massey | 4,023 | Mr. Hall   | 3,826 |
| Labour  | .. Mr. C. R. Petrie | 2,599 | Mr. Petrie | 2,411 |
| United  | .. Mr. E. Allan     | 997   | Mr. Allan  | 2,935 |
| Country | .. Mr. A. A. Ross   | 513   |            | —     |

The drop in the United vote is probably accounted for by the transference of some United votes to Reform and Labour. Mr. Massey is 49, a farmer, son of the late Prime Minister, and has been identified all his life with the district. His personal popularity, his disagreement with the 10 per cent. cut in wages, his advocacy of a cut on a sliding scale, and his promise to give the civil service equal treatment with other sections of the community doubtless account for the substantial number of United votes that he received, which otherwise would have gone to Labour.

### III. UNEMPLOYMENT

THE schemes of the Unemployment Board in operation during the past quarter have been Nos. 4 and 5. The former was to assist farmers to employ men in ordinary development work; the latter, which has been operating since February 9, provides for free labour on a rationed basis, the work to be found by local bodies, and the Unemployment Board to be responsible for wages. The scheme provides work at relief rates (9/- a week for single and 12/6 for married men), two days a week for a single man, three for a married man with a wife and/or two children under 16, four for a married man with a wife

## Unemployment

and/or three or more children. On the coming into operation of these schemes the number of unemployed bounded up; this was accounted for by heavier registration, by the dismissal of employees in consequence of the relief provided by the State, by the registration of farmers and their sons whose income had vanished, and of many persons with means of their own. All this meant stricter supervision and increased work in eliminating the ineligible.

From the end of February the bulk of the unemployed have been working the number of days contemplated by the scheme, which varies with their status. On June 1 42,523 were registered as unemployed, of whom 35,077 were placed, leaving 7,446 without work. The drain on the funds of the board was so great that at the end of March the amount paid weekly in wages was almost double the receipts from the levy plus the 50 per cent. subsidy received from the Consolidated Fund. In consequence, the scheme had to be suspended altogether from April 11 to April 27 inclusive. And as a result of the drain on the funds, the rules relating to the granting of relief were tightened up, and several classes previously eligible were made ineligible. During the suspension, doubtful cases were investigated to make sure that work was provided only for genuinely unemployed wage-earners. Relief was also granted for three weeks only out of four, and a rule made that no work should be provided for any man who had not paid his 30s. annual levy. The following grants testify to the efforts of the board to encourage development work :—

£5,000 to the Native Trustee, to be followed by a loan of £15,000 for development work on sheep stations administered by him, whereby 500 men will be employed for four months.

£2,000 to the Mines Department to give employment to 100 married men on prospecting.

Subsidies of £15,588 for a loan raised by the Auckland City Council for work on the new water front road; of £3,000 for a land drainage scheme on the Hauraki plains, estimated to cost £12,000; and a loan of £650 to Kauri Gum Control Board.

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Schemes are now in preparation for the absorption of the unemployed in clearing and developing crown lands, rehabilitating abandoned farms, in drainage work, in reclamation for the purpose of afforestation, and clearing away noxious weeds; attempts are also being made to encourage the pig industry, to increase production by farmers, to develop existing and to establish new secondary industries and to give preference to articles of New Zealand manufacture wherever possible.

The difficulty of carrying out schemes on a large scale is the lack of funds, as the following figures show:—

|                                                                                                 |    |    |    |    |    |    |          |
|-------------------------------------------------------------------------------------------------|----|----|----|----|----|----|----------|
| The receipts from the unemployment levy to April 30 were .. .. .                                |    |    |    |    |    |    | £306,069 |
| The commitments (covering various periods not yet completed) to May 16, 1931, were as follows:— |    |    |    |    |    |    |          |
| Scheme No. 1                                                                                    | .. | .. | .. | .. | .. | .. | £32,576  |
| „ „ 2                                                                                           | .. | .. | .. | .. | .. | .. | 34,953   |
| „ „ 3                                                                                           | .. | .. | .. | .. | .. | .. | 8,789    |
| „ „ 4 A and B                                                                                   | .. | .. | .. | .. | .. | .. | 56,725   |
| „ „ 5                                                                                           | .. | .. | .. | .. | .. | .. | 371,302  |
| „ „ 5 (revised)                                                                                 | .. | .. | .. | .. | .. | .. | 150,000  |
| Miscellaneous subsidies, grants and loans                                                       | .. | .. | .. | .. | .. | .. | 60,583   |
| Total Commitments .. .. .                                                                       |    |    |    |    |    |    | £714,928 |

There has also been a great deal of unemployment among women, and the women's societies have been opening bureaux, keeping registers and appealing to housewives to help by giving a home and wages, even if they are only nominal, to those out of work.

On April 16 Mr. H. E. Holland, leader of the Labour party, moved the adjournment of the House, and a discussion took place on the question of suspending No. 5 scheme, on reducing the wage rate, and on the "no levy no relief" decision. He saw no reason why the Government and the board in co-operation should not put the men to work on undertakings of economic value. After a vigorous defence by the Minister of Labour, in which he

## Wage Reductions

appealed for more assistance and less criticism, the motion was talked out.

On June 11 the Prime Minister announced that as the board had been spending over £2,000,000 a year on unemployment relief, whereas the amount available is less than £1,000,000 a year, the No. 5 relief scheme would be suspended as from June 20. He appealed to local bodies and unemployment organisations to use every endeavour to minimise distress until Parliament was able to deal with the position. In response, however, to appeals from all sections and all parties, he agreed to allow the scheme to continue and to ask Parliament to ratify his action.

### IV. WAGE REDUCTIONS

THE Court of Arbitration consists of a judge, of a representative of the employers and a representative of the workers. On May 12 it commenced its sitting with the hearing of an application from the New Zealand Employers Federation for a general order varying all awards under section 16 of the Finance Act, 1931, according to which the court has to take into consideration the economic and financial conditions affecting trade and industry in New Zealand, and all other conditions that it deems necessary. The Act also empowers it to vary rates of pay as it thinks just and equitable. On the one side the leading employers associations were represented, on the other the New Zealand Trades and Labour Councils Federation and numerous unions.

The case for both sides was put with ability and restraint. Mr. T. O. Bishop, the representative of the employers, thanked the advocates on the workers' side for their courtesy and moderation, while Mr. Justice Frazer, at the conclusion of the hearing, expressed his appreciation of the thoughtful and able manner in which the arguments had been presented and the feeling of good fellowship and the desire to understand the other man's point of view that had been exhibited.



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The arguments, briefly, were as follows. The employers contended that there was a precedent for existing legislation in that wages had previously been adjusted both upwards and downwards during the currency of awards, that awards did not constitute contracts, that there had been an all-round fall in values of produce, and as the price which the farmer gets is generally governed by the export price, and as he has to meet the world's most efficient and economical producers in open competition, his costs have to be kept at the lowest possible point. Otherwise he would be unable to carry on. Hence the necessity for adjusting the cost of labour both in production and distribution. The employers asked for a reduction of 20 per cent. in the money rate of wages, and predicted that if it were made all internal costs would be reduced, output improved, and confidence renewed throughout the whole industrial field.

This demand was met by Mr. J. Roberts, for the unions represented at the recent national conference, with a counter-demand for an increase of 15 to 20 per cent. in wages which, he said, was necessary on the supposition that the number of hours worked on an average during the past year by workers receiving an hourly wage had been taken as the basis on which the present wage was fixed, provided that the workers were to retain their accustomed standard of life. A large number of witnesses, including some Labour Members of Parliament, were called on behalf of different unions. The workers' case was that rationalisation of industry and the introduction of the machine had turned the mechanic into a casual labourer in his particular line, and made the unskilled worker's job even more casual. If wages were fixed only according to the time that the worker was actually engaged, he should receive a sustenance wage when not in employment. A large amount of rationing was going on in the different trades. Award wages were only a minor factor in farm costs. The farmer's economic difficulties were due to the

## Wage Reductions

high price of land, the high rate of interest, and the deterioration in the quality of cheese. Acting on the 1922 judgment of the court, the workmen had incurred responsibilities on the basis of their then incomes in borrowing to build their houses, in respect of which they had to pay interest and other irreducible charges. Reduced wages meant reduced purchasing power, which meant reduced output. A reduction in wages would not be passed on to the consumer. A reduction in the standard of living of the wage-earner meant an impairment of his efficiency. For several years there had been a progressive increase in the volume of production per head of the population, and with better methods this increase could be extended. Such an advance in output justified raising the standard of living of the wage-earner. The 1914 standard of living was a fair one in 1931, and any reduction of wages would plunge the workers far below the 1914 standard, because of the periods of unemployment.

The decision of the Arbitration Court was published on June 1. With certain exceptions, it made the following order :

Reduction of 10 per cent. in all money rates of wages, including overtime and other special payments. The order applies to all awards of the Court, industrial agreements, and agreements registered under the Labour Disputes Investigation Act, 1913. The order comes into force on June 8, except in the case of workers whose wages are calculated on a monthly basis. In their case, the order operates as from June 1. The Finance Act makes provision for any union to apply to the Court on special grounds for exemption of all or certain classes of its workers from the provisions of the order.

The Judge, in a memorandum, pointed out that the Finance Act of 1931, unlike the Act of 1921-22, omitted all direct reference to the cost of living and a living wage, and made the economic and financial conditions affecting trade and industry the paramount consideration. He considered it clear that an award or industrial agreement was not a contract, but merely a document setting out the minimum

## New Zealand

terms and conditions upon which a contract of service might be entered into. The national income had been substantially reduced and with that reduction there must come a general readjustment of the distribution of that income. Wages are, in the ultimate analysis, paid out of the proceeds of production, and the proceeds of production are barely two-thirds of what they were a year or two ago. The capital losses on representative industrial and commercial stocks during the past 18 months had been from 20 to 50 per cent. While a reduction in the rate of wages would not materially benefit the farmer as a direct employer of labour, he would derive considerable indirect benefit from such a reduction. Neither Parliament nor the Court could control rates of interest, which depend on the relative supply of and demand for loanable capital. It had been contended that a reduction in rates of remuneration would detrimentally affect internal trade by lowering the purchasing power of the community. But the reductions in award rates of wages in New Zealand necessitated by the depression of 1921-22 were followed within two years by an increase of 7,345 in the number of workers employed in manufacturing industries and an increase of £896,065 in the amount of wages paid. The position of the bond-holder could not be assailed without repudiating the bond, and repudiation would deal a more serious blow to our national credit than any temporary gain would compensate. If the March, 1931, cost-of-living index were taken, a reduction of 10 per cent. from the average rate of wages would leave the same purchasing power as in July, 1914. During the past two years there had been a drastic contraction in capital values and profits. It was probable that an adjustment of prices and wages to meet world conditions would give an impetus to industry, in which there is at present a distinct hesitation to make any forward move. Real wages, as distinguished from nominal or money wages, would tend to increase. It is economically impossible to maintain money wages at their present level.

## Defence

While the economic and financial conditions affecting trade and industry, taken alone, would justify a reduction of 15 or 20 per cent. in award rates, an allowance should be made for the admitted, though unascertained, drop that had already taken place. A reduction of 20 per cent. would involve a considerable reduction in the standard of living below what was indicated by the cost-of-living statistics. The position should also be considered of those workers who were paying off the purchase money for their homes. Though the houses were not all bought when prices were at their peak, housing costs are fixed charges and represent the largest single item in household expenditure. A reduction of 20 or even 15 per cent. would discourage thrift. Hence one of 10 per cent. would, in his opinion, give relief to producers and consumers by lowering the costs of production and distribution and yet would not inflict undue hardship on the workers. Manufacturers and traders should pass on the benefit of reduced costs to their customers.

### V. DEFENCE

ON May 19 Mr. Cobbe, the Minister of Defence, announced the reorganisation of our defence forces on a basis of voluntary enlistment. The following are the essential features of the scheme :

- (a) The rapid mobilisation of a force of 9,982 men for home defence or for service overseas.
- (b) The maintenance of the divisional organisation which has existed ever since the great war.
- (c) The retention of the present Territorial units with their identity and traditions.
- (d) The maintenance of a small but highly trained permanent force for the instruction of the Territorial Force and Cadets and for peace administration.

Each of New Zealand's three commands will, as heretofore, be required to provide : one brigade of mounted rifles ; one brigade of infantry ; one field artillery brigade and other artillery units ;

## New Zealand

an engineer field company; a signal depot; an army service corps company; and a field ambulance.

Every encouragement in instruction and equipment is to be given to secondary school cadet corps, estimated to number 16,300 boys.

Enlistment in the Territorial Force will be accepted from men between the ages of 18 and 25 for a period of three years, and provision made for extending service up to the age of 30.

For the present, training throughout the year will be limited to six evening parades, two half-day parades, six days' continuous training in camp, additional training to be arranged whenever possible. Courses of instruction will be held from time to time at the training depot, Trentham Camp, and in commands.

Pay and allowances will be the same as those at present laid down by regulations for the Territorial Force.

Criticising the scheme, the *Dominion* (Reform) of Wellington pointed out on May 20 that a volunteer force was not in the past and will not in the future be regarded as a serious preparation for national defence, that the voluntary system, man for man, will cost more than the present compulsory scheme—a prediction which Australian experience has already verified—and will mean a greatly reduced strength, and that by abandoning its principle of universal service “the State is relaxing its control of thousands of youths who are in need of disciplinary influence at an impressionable age, thus weakening their sense of civic responsibility.”

## VI. THE TARIFF WAR WITH CANADA

IN an earlier number,\* an incident in the negotiations between Australia and New Zealand was described as showing “that where trade is concerned Imperial sentiment weighs very little in the scales as against business interests.” The same remark might be made to-day of trade relations between New Zealand and Canada. Despite all the talk at Imperial Conferences about imperial preferences Canada

\* THE ROUND TABLE, No. 54, March 1924, p. 426.

## The Tariff War With Canada

and New Zealand are indulging in “a policy of mutual boycott.”

The high rate of duty imposed upon New Zealand butter has brought the export of that article to Canada almost completely to an end. On August 21, 1930, our Government retaliated by placing Canadian motor vehicles on the general tariff, thus increasing the duty from 26 per cent. to 50 per cent. Mr. Forbes hoped that his visit to Canada might result in more harmonious relations, but at last the New Zealand Government has been forced to the conclusion that there is no immediate prospect of detailed negotiations or of any effective mitigation of the unsatisfactory treatment of New Zealand butter. Hence the tariff was amended as from June 2. The British preferential treatment accorded to many classes of Canadian goods was withdrawn and they have been placed on the general tariff list. The rates on Canadian rubber tyres, motor vehicles and engines for motor vehicles fixed in August, 1930, have not been altered and all Canadian goods exported from Canada before June 2, 1931, will be admitted at the rates of duty in force immediately prior to that date.

On June 2 the Prime Minister published the text of a telegram addressed by him on May 26 to the Prime Minister of Canada, in which, after describing the position and the failure of the negotiations, he stated that the New Zealand Government, on the ground that mutual sacrifices were necessary to develop inter-Imperial trade, had refused to yield to strong pressure to increase the duties on Canadian goods which could be produced in New Zealand or to impose dumping duties on specific Canadian imports.

But now (he continued) when economic conditions in New Zealand are particularly difficult, the Government is faced with the position that substantial remissions of duty are granted here to Canadian goods without corresponding advantages to New Zealand. It is obliged to consider increased taxation to balance the budget and therefore it intends on June 1 to increase duties on many lines of Canadian goods . . . The Government, however, would still

## New Zealand

welcome early negotiations to end the present unsatisfactory position, and as already advised would be happy to receive a Canadian minister here for that purpose at the earliest possible date.

The following figures give some idea of the trade between New Zealand and Canada before the tariff war. The importations of New Zealand butter into Canada in the year 1929-30 amounted to over \$13,500,000. The total value of the exports from New Zealand to Canada in 1929 was £3,353,975. The value of goods imported into New Zealand from Canada in 1929 was £4,774,493 or 9.81 per cent. of the Dominion's total imports. Imports from Canada into New Zealand ranked third after those from Great Britain and the United States. The result of the new tariff is that Canada's trade with New Zealand in motor vehicles and parts and New Zealand's exports of butter to Canada have both fallen away to practically nothing.

New Zealand.  
June 27, 1931.

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